

ECONOMIC COMMISSION FOR LATIN AMERICA

**ECONOMIC SURVEY
OF LATIN AMERICA
1970**



UNITED NATIONS
New York, 1972

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

*
* *

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

E/CN.12/868/Rev.1

October 1971

UNITED NATIONS PUBLICATION

Sales No.: E.72.II.G.1

Price: \$U.S. 6.00
(or equivalent in other currencies)

CONTENTS

Part One

LATIN AMERICA AND THE SECOND DEVELOPMENT DECADE

<i>Chapter</i>	<i>Page</i>
I. THE INTERNATIONAL DEVELOPMENT STRATEGY AND THE ROLE OF ECLA	3
1. The international strategy	3
2. Latin America and the international development strategy: the role of ECLA	5
II. THE ECONOMIC GROWTH TARGETS FOR LATIN AMERICA IN RELATION TO THE INTERNATIONAL DEVELOPMENT STRATEGY	9
1. The over-all growth targets	9
2. Structure and social impact of the development process	13
3. Rapid growth or gradual expansion?	15
4. Targets for agricultural and industrial production	15
5. Speeding up the economic growth rate and the problem of domestic and external financing	17

Part Two

TRENDS AND STRUCTURES OF THE LATIN AMERICAN ECONOMY IN THE 1960s

Introduction	25
I. BIRD'S-EYE VIEW OF TRENDS IN THE 1960s	29
1. Dynamism and stability of growth	29
2. Structural changes	29
3. The social impact of development	30
4. The external sector	31
II. DYNAMISM AND STABILITY	33
1. The gross product	33
2. Population	34
3. The per capita product	36
4. Production in the industrial and basic services sectors	37
5. Agricultural production	38
6. Internal and external demand	39
7. Price trends	40
III. STRUCTURAL CHANGE	42
1. Evolution of the structure of the product	42
2. The composition of employment and its trends during the 1960s	44
3. Sectoral productivity	46
4. Composition of the manufacturing sector	48
5. General government trends	49

SPECIAL STUDIES

I. THE EXPANSION OF INTERNATIONAL ENTERPRISES AND THEIR INFLUENCE ON DEVELOPMENT IN LATIN AMERICA	265
A. Expansion of United States enterprises in other countries	268
1. Sectoral and regional distribution	268
2. Rate of return and growth rate of investment	270
3. The financing of the growth of United States foreign investment	274
B. International enterprises belonging to the United States and the United States economy	276
1. Introduction	276
2. Level of activity of the subsidiary firms and of the United States economy	279
3. Flow of goods	283
4. Flow of technology	284
5. Capital flows	287
C. United States enterprises and the countries in which they operate	289
1. Introduction	289
2. Comparison between the level of activity of the subsidiary companies and the industrial growth of the countries in which they operate	291
3. Behaviour of United States firms in the field of exports of manufactures	294
D. The expansion of United States enterprises abroad and its implications for Latin America: an interpretation	300
1. The expansion of United States enterprises abroad	300
2. Implications for Latin America	304
II. RELATIONS BETWEEN LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY	309
A. Recent trends in trade between Latin America and the European Economic Community	309
B. Review of relations between Latin America and the Community from 1958 to 1968	314
C. New prospects: The Martino Report and the Declaration of Buenos Aires	317
D. The need for a new approach and for new methods in co-operation between Latin America and the Community	319
E. The common commercial policy and the spread of preferential agreements with third parties	320
1. The recent proliferation of agreements of association	320
2. Preferential trade agreements	323
3. Economic and institutional implications of the Community's commercial policy	325

6. Trends in the investment coefficients	50
7. Internal saving and net external financing	52
8. Composition of investment	52
9. Share of public and private sectors in investment	53
10. Export and import coefficients	54
IV. THE SOCIAL IMPLICATIONS OF DEVELOPMENT	55
1. The social situation in the region	55
2. Urban-rural differences	59
3. Regional differences	61
4. Influence of income distribution	63
5. Final comments	69
V. THE EXTERNAL SECTOR	73
1. Exports and the terms of trade	73
2. Structural changes	85
3. External vulnerability and dependence	93

Part Three

THE LATIN AMERICAN ECONOMY IN 1970

I. RECENT ECONOMIC TRENDS	109
1. Over-all appraisal	109
2. Outstanding features of the main sectors of production	111
3. The external sector	113
4. Recent developments in Latin American integration	123
5. Integration in the Caribbean Free Trade Association (CARIFTA)	136
II. THE ECONOMIC SITUATION IN SELECTED COUNTRIES	138
Argentina	138
Barbados	144
Bolivia	146
Brazil	152
Colombia	158
Costa Rica	163
Chile	169
Ecuador	174
El Salvador	178
West Indies Associated States	185
Guatemala	188
Guyana	194
Haiti	198
Honduras	201
Jamaica	207
Mexico	211
Nicaragua	220
Panama	226
Paraguay	233
Peru	238
Dominican Republic	243
Trinidad and Tobago	247
Uruguay	252
Venezuela	258

NOTES AND EXPLANATION OF SYMBOLS

The following symbols have been used throughout this Survey:

Three dots (...) in the tables indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (–) before a figure in a table indicates a deficit or decrease, unless otherwise indicated.

A plus sign (+) indicates an increase.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g. 1969/70.

Use of a hyphen (-) between dates representing years, e.g., 1960–1970, normally signifies an annual average for the calendar years involved, including the beginning and the end years; growth rates refer to the cumulative annual rates for the whole period, including the beginning and the end years.

References to “tons” indicates metric tons, and to “dollars” United States dollars, unless otherwise stated.

Figures and percentages in tables do not necessarily add up to the totals, because of rounding.

F. Common agricultural policy and its effects on Latin America's exports	328
1. General characteristics of the common agricultural policy	328
2. Effects of the common agricultural policy	331
III. RELATIONS BETWEEN LATIN AMERICA AND JAPAN	336
A. Trends in Latin America's exports to Japan	336
1. Over-all analysis	336
2. Export trends by products	338
B. Prospects for Latin America's exports to Japan	339
1. Japanese market prospects	339
2. Japan's trade policy	342
3. Expansion of financial and technical co-operation connected with imports	343
C. Trends in exports of Latin America's principal products, and future prospects	344
1. Foodstuffs	344
2. Raw materials	348
3. Manufactures	350

Part One

LATIN AMERICA AND THE SECOND
DEVELOPMENT DECADE

Chapter I

THE INTERNATIONAL DEVELOPMENT STRATEGY AND THE ROLE OF ECLA

1. THE INTERNATIONAL STRATEGY

(a) *Conceptual aspects*

The International Development Strategy adopted by the General Assembly in its resolution 2626 (XXV) is the basic instrument of the action programme for the Second United Nations Development Decade.¹ This document is of special significance because it represents an agreement between Governments, at the highest political level of the United Nations, concerning action to be initiated and measures to be systematically applied with the immediate aim of promoting the economic and social progress of the developing countries during the present decade.

The document makes it clear that, although the developing countries have primary responsibility in this undertaking, they require effective international co-operation in the fields of trade, finance and technology in order to give the development process the dynamism it must have to overcome the poverty and insecurity in which so many people live.

The Strategy points to goals and objectives to be achieved in the course of this decade and related measures and policies to be applied on the international and the national planes. The former are specified in greater detail, while the latter are outlined more in the form of basic principles and approaches, which is only logical, seeing that it is the exclusive responsibility of the developing countries to define their national development policies and determine their own growth targets. But there is another feature which gives the International Strategy its special character: this is the emphasis on coherence between national and international policy measures if development is to be effectively promoted.

Basically, the Strategy represents a programme of international co-operation that has

the great merit of being geared to the achievement of specific goals and objectives. It incorporates the well-known ideas that have been so much discussed in international forums, and in general, the measures and recommendations adopted by UNCTAD and other international agencies, such as GATT. In this respect, the document is a restatement of the commitments accepted by the international community, particularly the developed countries, to take practical action on much-discussed subjects that are of key importance for the developing countries.

(b) *Goals and objectives for the developing countries*

The Strategy lays down quantitative targets for the rate of growth of the product, expansion of foreign trade, external financing and the mobilization of national resources, for the developing countries as a whole. An average annual growth rate in the gross domestic product of at least 6 per cent is set, and the possibility of attaining a higher rate in the second half of the decade is envisaged. The corresponding growth rate per head is fixed at 3.5 per cent, on the assumption that population growth will be somewhat less than the rate at present forecast for the 1970s. It is assumed that the countries will adopt measures to achieve these aims, but it is specifically stated that population policy is to be decided by Governments, and that each one should formulate its own demographic objectives within the framework of its national plan.

It is emphasized that economic growth must go hand in hand with qualitative and structural changes which will substantially reduce existing regional, sectoral and social disparities in the national context of each country, and that each should formulate its objectives and policies on employment, education, health, nutrition, housing, child welfare, and the participation of youth and women in the development process.

In the economic sphere, the Strategy lays

¹ See United Nations, *International Development Strategy* (United Nations publication, Sales No.: E.71.11.A.2).

down a relatively flexible external growth pattern: exports should grow at a faster pace than the gross domestic product (by somewhat more than 7 per cent), as should imports (by somewhat less than 7 per cent). The logical counterpart of the above rates is an average annual expansion of 0.5 per cent in the ratio of domestic saving to the product.

(c) *Policy measures*

Three types of measures are laid down for achieving the above and other objectives, namely: (i) international co-operation; (ii) regional co-operation; and (iii), general national policy and measures.

The last group relates to: the social aspects of development, referred to as "human development"; expansion and diversification of production; and plan formulation and implementation in developing countries.

International co-operation measures relate to: international trade; financial resources for development; shipping and other invisibles on the balance of payments; and external co-operation in science and technology. In addition, special measures are to be taken in favour of the least developed among the developing countries and of the land-locked countries.

In the field of regional co-operation, it is specified that the developing countries will intensify their efforts to institute the schemes for regional and subregional integration and to expand their reciprocal trade.

Generally speaking, these provisions reflect the ideas that have already been put forward in UNCTAD and GATT; the degree of the commitment varies, but in nearly all cases, deadlines are set for taking decisions or completing stages specified in previous studies.

The provisions on international trade in the Strategy are especially important, since they should be interpreted as a blue-print for action to enable the developing countries to achieve a growth rate for their exports of more than 7 per cent during the decade. Special consideration is given to basic commodities (access to and expansion of the market, international prices and commodity agreements); synthetics and substitutes; surplus disposal; and promotion of exports of manufactures and semi-manufactures.

Under the head of financial resources for development, the Strategy establishes the general principle that the countries must bear the responsibility for financing their development. The measures proposed are a clear indication of the need for concomitant national

and international action. For instance, it is pointed out that the developing countries must adopt vigorous measures for the full mobilization of available internal and external resources, and various tax, monetary and administrative measures are listed, and mention is made of the role of public enterprises as agents which should make increasing contribution to the investment resources, and of that of financial institutions in the mobilization of domestic savings.

As to the flow of financial resources to the developing countries, the Strategy takes up several well-known provisions, such as that: the financial co-operation should be continuing and long-term; the terms and conditions of loans should be improved, and the assistance should in principle be untied. As regards the amount of this co-operation, it endorses the figure of 1 per cent as a minimum, and that of 0.7 per cent for official development assistance.

It also contains provisions in respect of the treatment of foreign private capital and refers to the need to give further consideration to the question of supplementary financing, and to consider the possibility of linking the allocation of new international reserves with the creation of additional financing for the developing countries.

Another point of particular interest is that of co-operation in science and technology. The Strategy contains various provisions relating to the co-operation that the industrialized countries should provide in order to promote research in the developing countries and the application of technology in accordance with their particular conditions. It refers to the possibility of setting a specified aid and technical assistance target in terms of the gross national product of the developed countries, and includes provisions on facilitating the developing countries' access to technology and on the transfer to and use of technology in those countries. Another important point concerns the effort that the developing countries should make to increase their expenditure on research to a minimum average of 0.5 per cent of their gross product.

(d) *Review and appraisal of objectives and policies*

Over-all progress in the programme for the Second Development Decade and in the implementation of the International Strategy will be subjected to systematic review. The Strategy states (paragraph 79): "Appropriate arrangements are necessary to keep under systematic scrutiny the progress towards

achieving the goals and objectives of the Decade—to identify shortfalls in their achievement and the factors which account for them and to recommend positive measures, including new goals and policies as needed”. In addition, it states (paragraph 20): “The policy measures should be viewed in a dynamic context, involving continuing review to ensure their effective implementation and adaptation in the light of new developments . . .”. These reviews and appraisals are to be carried on at various levels, involving both developing and developed countries.

At the national level, each developing country will carry out its own review and appraisal. At the regional level, the regional commissions of the United Nations, in co-operation with regional development banks and subregional groupings and with the assistance of other organizations of the United Nations system, will assume the main responsibility. At the sector and operational level, this will be done by UNCTAD, UNIDO and the United Nations specialized agencies. Finally, an over-all appraisal will be made by the General Assembly, through the Economic and Social Council, on the basis of the above-mentioned reviews and of comments and recommendations by the Committee for Development Planning.

The over-all appraisal by the Assembly will be made biennially, the second biennial appraisal being in the nature of a mid-term review.

2. LATIN AMERICA AND THE INTERNATIONAL DEVELOPMENT STRATEGY: THE ROLE OF ECLA

(a) *The need for a Latin American interpretation of the International Strategy*

It is obvious that a Latin American action programme must be formulated to further the objectives of the Second United Nations Development Decade as they relate to the countries of the region.

It would therefore be useful to analyse the significance of the International Strategy for Latin America, the practical action to be taken by the countries and by the Commission itself, and, above all, to consider how the system of periodic appraisal provided for in the General Assembly's resolution is to be organized.

As has been seen, the Strategy's references to growth targets, international co-operation and policies are of an over-all and general nature, relating as they do to groups: the developing countries, the developed countries, the international financial institutions, and the international community. Though the provisions re-

lating to international co-operation are somewhat more specific, those concerning growth targets and national policies are either expressed only in terms of an over-all average or are meant to cover the whole of the developing world.

Since, for practical, technical and conceptual reasons, this is the only possible approach, the countries themselves must fix their own growth targets, just as it is for them alone to determine their national policies; the Strategy that the Governments have agreed upon provides a frame of reference specifying minimum or desirable objectives and giving a number of pointers to those policies that should be more directly geared to international action for the promotion of development.

The Latin American countries should, as soon as possible, decide upon certain fundamental aspects of their development programmes for the 1970s, especially inasmuch as they relate to the International Strategy. The ECLA secretariat might set about systematically compiling technical data and studying the countries' interpretation of the Strategy so as to evolve a Latin American version of it which could be fitted, with slight changes, to the varying requirements of the different parts of the region. This regional interpretation will be of capital importance. In the first place, it will help to define a position and attitude for Latin America that show greater understanding than in the past of the problems of its development and external relations. Secondly, it will be a source of valuable information which will enable countries to reach decisions, particularly as regards targets and objectives, with a better grasp of the situation and with the broad technical approach that is essential in such a task. Thirdly, it will serve as a more effective instrument for guiding practical action during the Second Development Decade; and fourthly, it will establish a frame of reference for carrying out the appraisal in the Latin American region.

There is really no need to stress the importance of this discussion on the regional plane of the interpretation and practical implementation of the International Strategy. Obviously, Latin America's political and economic position in the world picture, the nature of its problems, the way it has developed economically, the stages of development the various countries have reached, and their capacity to speed up the process differ in many fundamental respects from those obtaining in other regions. Consequently, it is only natural that the development targets and objectives that the region sets itself should also differ, both in

magnitude and in character, from the very general ones laid down for the developing countries as a whole.

Enough is known in general terms for it to be possible to assess the impact that certain proposals in the Strategy will have on Latin America, and, above all, to single out the fundamentals that will have to be taken into account in formulating the Latin American interpretation of it.

The technical analysis, for example, shows clearly enough that Latin America should aim at a higher average growth rate than 6 per cent, and that it should therefore set itself more ambitious development targets for agriculture, industry and other economic and social sectors.

The scale of the problems of unemployment, population growth and the hand-to-mouth existence of the bulk of the population is such that the highest possible economic growth rate is obviously a must. Technically speaking, however, this alone would not justify suggesting a higher growth target. There are other factors, too, to which much of the following chapter is devoted. This aspect of the question has, moreover, been dealt with frequently in ECLA documents, especially in the study on the fundamentals of development,² and it is the main theme of the recent study by Raúl Prebisch.³

A higher target is, of course, a matter of necessity, and the suggestion it should be raised is justified by the fact that there are conditions and future prospects in Latin America which make a faster growth rate feasible. The average income and the domestic savings ratio, for example, are higher in Latin America than in the other regions on the periphery and, as recent experience has shown, it has a development capacity that can be rapidly expanded. The external sector, with its increasing indebtedness and slow growth of exports, has undoubtedly been a cause of serious bottlenecks; and this is precisely where the Strategy is especially relevant to Latin America seeing that the measures and policies it contains are designed to boost export income by more than 7 per cent annually. The implications of this fact for any stepping up of the growth rate are discussed in the next chapter.

Latin America definitely has to take a close look at the social objectives of development, which the Strategy sees as inextricably bound

up with economic growth; especially since, in the present development process of both Latin America and other developing areas, examples can be found of relatively rapid economic growth rates that have almost no social repercussions.

The historic structural relationship between economic growth and foreign trade in Latin America is known to be different from that assumed in the corresponding model in the International Strategy. Even in those countries that come closest to the pattern described, exports have failed to keep pace with imports with the result that external indebtedness has risen, and it has proved impossible to raise the domestic savings ratio, which is an essential condition of growth according to the Strategy.

What the countries have to consider then, are basic aspects of development policy relating to the efficient utilization of external resources. The region has a wide range of experience and studies in this sphere that will be of assistance to the countries in formulating their own policies and in working out the Latin American interpretation of the Strategy.

With the same end in view, the countries will have to examine the Strategy's proposals regarding national and international measures and policies. As to trade and external financing, the General Assembly document at least mentions most of the proposals that have already been put forward by the Latin American countries. It would nonetheless appear necessary to look into the current situation and future prospects of international economic policy so as to decide what practical action should be taken by the Latin American countries, especially as regards the machinery and the concrete decisions that are needed at the international and national levels in order to carry out the proposals contained in the Strategy. The forthcoming session of UNCTAD is therefore particularly important. These points are dealt with in a special secretariat document.⁴

There is no need to stress the importance of the provisions regarding the flow of external resources for the countries of the region, or the necessity of considering very carefully how external resources may be used most efficiently for the mobilization of domestic resources, in accordance with the structure and objectives of the process of development and of the expansion and diversification of exports.

The same could be said of other points

² ECLA, "Basic aspects of Latin American development strategy" (E/CN.12/836/Rev.1).

³ Raúl Prebisch, "Change and development: Latin America's great task", report submitted to the Inter-American Development Bank (Washington, D.C., July 1970).

⁴ See ECLA, "International economic co-operation and the third session of UNCTAD" (E/CN.12/889).

covered by the General Assembly document. All these considerations, finally suggest that this year, which will see the initial phase of the implementation of the programme for the Second Development Decade, is an appropriate time to discuss its implications for Latin America.

(b) *Promotion of the International Development Strategy*

It is evident that the implementation of the Strategy will in the final analysis depend on the decisions taken in the developed and the developing countries, and in the corresponding regional and international agencies. But the United Nations also has to take steps to promote and direct its implementation. In this respect, the decision of Governments to establish a system for periodic review and appraisal marks a notable step forward and assigns precise responsibilities to the United Nations system and to ECLA in particular. Moreover, paragraph 20 of the Strategy provides that organizations of the United Nations system will appropriately assist in the implementation of policy measures and in the search for new avenues of international co-operation.

It falls to ECLA to decide upon a programme of work covering these various issues, one of the most urgent of which is to promote activities in the countries of the region relating to the formulation of development plans, or at least to the identification of the basic components of the goals, objectives and policies mentioned in the International Strategy. The secretariat, for its part, will arrange to collect and organize such information as part of the regional interpretation of the Strategy mentioned earlier.

It may not be out of place here to add that the ECLA secretariat is planning to distribute special studies of economic projections covering a large number of countries which have been prepared in collaboration with the Latin American Institute for Economic and Social Planning (ILPES). A regional technical meeting might be convened to discuss these studies with a view to clarifying the methodological and conceptual instruments required for the immediate task of implementing the International Strategy.

(c) *Review of progress and periodic appraisal of the objectives and policies of the Second Development Decade*

Under the procedures established in the Strategy, ECLA is to assume the main responsibility for appraisals at the regional level, in co-operation with regional development banks

and subregional groupings and with the assistance of other organizations of the United Nations system. ECLA, then, will have to undertake a regional appraisal in early 1973 for submission, in good time, to the Economic and Social Council, which is responsible for preparing the over-all biennial appraisal for the consideration of the General Assembly.

The secretariat is examining a number of the technical and practical aspects of the studies and reports it will be called upon to prepare to enable the Commission to carry out its responsibility for the regional appraisal. Some of the most important relate to the nature and scope of the appraisal to be undertaken by ECLA, the methodology and framework to be used, the procedures to be instituted with Governments in order to obtain the national appraisals they undertake, and co-ordination with other organizations of the United Nations system and the financial and economic institutions of the region.

Since there may be a number of different approaches to the question of the nature and scope of the appraisal to be undertaken by ECLA, it is important to develop fairly detailed guidelines to prevent unnecessary duplication of effort.

First, the appraisal as such will, as provided in the Strategy, be regional in scope, but it will nevertheless consider individual sectors, problems and situations and refer to countries or groups of countries, for otherwise it would be too general to be of any use. Secondly, it will refer directly to the specific points contained in the Strategy in examining the progress achieved with respect to the over-all goals and objectives of the Strategy and those set by the countries of the region themselves. It will, of course, examine the implementation of measures and policies and the progress made in their adoption with a view to identifying the factors hampering the development process and providing technical data for suggesting new measures and such adjustments as may prove necessary.

Reviewing the progress achieved in relation to the goals and objectives is conceptually a much easier task than appraising policy measures. ECLA has always made reviews of this kind; it will merely have to make them more methodically now. The main stumbling-block here is the shortage of technical and statistical information.

But this will not be enough for its appraisal of policy measures; it will have to study those taken by both the developed and the developing countries in much greater depth, particularly

the impact of those policies on economic growth and social development. This will be rather a difficult task because of the varying degrees of commitment to take measures assumed by Governments when they adopted the Strategy. Here, one of the most useful things that the developed countries and the financial agencies could do would be to prepare programmes or give some other indication of what steps they propose to take to fulfil their commitments with regard to the objectives and measures agreed upon.

Part Two of this survey contains a brief summary of the conclusions of a more comprehensive study on the trends and development of the Latin American economy in the 1960s. The study looks at the Latin American development process from three standpoints: the dynamism or stability of economic growth, structural change, and the social implications of growth. This study, which was not intended to be an appraisal of the scope required under the International Strategy, has nevertheless been extremely useful, for it has yielded a great deal of valuable experience in this kind of work. It has provided an inventory of the data available and an introduction to the conceptual problems of what the various indicators represent and how their meaning is to be interpreted.

The ECLA secretariat will continue to study the conceptual and methodological aspects of the appraisal with a view to identifying the topics to be covered, the most significant indicators, the methodology and the sources of in-

formation to be used. It is planning to convene a technical meeting to discuss these problems with Latin American government officials with a view to developing general guidelines which, besides assisting countries to formulate their own national appraisals, will help to facilitate the work for the regional appraisal.

It cannot be forgotten that the shortage of statistical information is a serious obstacle to such work, and it will therefore be necessary to take appropriate action at the national and the regional level to improve statistical services.

All due attention is being given to co-ordinating the work on the appraisal with United Nations Headquarters and the specialized agencies; the regional commissions must be the central hub of activity as regards the regional appraisals.

Another point of special importance is the question of co-ordination with regional organizations. The secretariat will endeavour to prevent duplication of effort by taking full advantage of all the work done by the Committee on the Alliance for Progress (CIAP), the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD). Talks have been held with these institutions and the secretariat is convinced that it is of mutual interest to continue and intensify co-ordination so as to spare Governments unnecessary work and make greater use of the studies and data prepared by the different institutions.

Chapter II

THE ECONOMIC GROWTH TARGETS FOR LATIN AMERICA IN RELATION TO THE INTERNATIONAL DEVELOPMENT STRATEGY

1. THE OVER-ALL GROWTH TARGETS

The International Development Strategy provides that the average annual rate of growth in the gross product of the developing countries should be at least 6 per cent, with the possibility of attaining a higher rate in the second half of the Decade.

Although the Latin American countries will decide upon their own targets, which will determine the average rate for the region as a whole, it is worth considering the over-all significance for Latin America of a minimum target of 6 per cent, Latin America's capacity to accelerate its growth rate in the 1970s, and the prospects of its doing so.

These and other matters relating to the Second Development Decade are dealt with in the basic documents presented to the Commission at its fourteenth session, especially the revised study on basic aspects of development strategy⁵ and the study containing macroeconomic projections.⁶ The report by Raúl Prebisch⁷ delves more deeply into these issues and specifically tackles the problem of speeding up the growth rate using a quantitative approach based on macroeconomic projections.

There is available, therefore, a stock of research and information that can help, at least considering the region as a whole, to shed light on the essential components of the growth targets and their internal and external requirements.

The research leads to the conclusion that a target of 6 per cent is not high enough if Latin America is to make progress in overcoming the serious economic and social problems faced by the countries of the region. It is not just a question of raising the growth rate, but of laying the basic institutional foundations of a structure

that will increase the social impact of development by absorbing labour in productive activities, ensuring a more equitable distribution of property and income, and resolving the problems of sectoral imbalances and backward regions within countries.

It is interesting to consider past and recent trends in Latin America's growth rate. The region's total gross domestic product has grown over the past twenty years at an average annual rate of close to 5.3 per cent.⁸ Out of the group of nineteen countries studied, six had a growth rate of 6 per cent or more, only two were between 5 and 6 per cent, and the remaining eleven were below the regional average (see table 1).

The countries with the highest growth rates include two of the largest countries which together contain slightly more than 60 per cent of Latin America's population. During the 1960s the region as a whole roughly maintained the growth rate of the 1950s, but a number of countries improved their relative positions, as can be seen in table 2.

Over the past three years, growth has quickened in Latin America and the relatively high rate of 6.6 per cent has been attained, although with notable differences between countries. The provisional estimates available on Brazil's rapid growth carry a great deal of weight in the regional total. But, even excluding Brazil, the region's growth rate improved (see table 1).

International comparisons show that the growth rates achieved in the past by the region as a whole are above the average achieved in other developing areas, especially if the oil-producing countries are left out of account. They are close to the rates achieved by the industrialized countries, and higher than those recorded in the early days of their development.

⁵ See ECLA, "Basic aspects of Latin American development strategy", *op. cit.*

⁶ ECLA, "Latin America: Macroeconomic projections for the 1970s" (E/CN.12/865).

⁷ "Change and development . . .", *op. cit.*

⁸ During most of the period the growth rate was only a little over 5 per cent but its acceleration over the last three years raised the rate for the period as a whole.

Table 1. Latin America: trend of the gross domestic product at market prices, 1950-1970
(Percentage average annual growth rate)

Country	Over-all growth rate			Per capita growth rate		
	1950-1960	1960-1970	1967-1970 ^a	1950-1960	1960-1970	1967-1970 ^a
Argentina	3.1	3.7	5.4	1.0	2.1	3.8
Bolivia	0.4	5.6	5.6	-1.6	3.2	3.1
Brazil	6.8	5.8	8.6	3.7	2.9	5.6
Central America	4.6	5.8	5.2	1.6	2.5	1.9
Costa Rica	7.1	6.8	7.3	3.2	2.9	3.3
El Salvador	4.7	5.8	3.7	1.9	2.5	0.3
Guatemala	3.8	5.2	5.5	0.9	2.2	2.5
Honduras	3.5	5.2	4.7	0.5	1.7	1.2
Nicaragua	5.2	6.7	4.5	2.3	3.6	1.5
Colombia	4.6	5.2	6.4	1.4	1.8	2.8
Chile	4.0	4.3	2.8	1.5	1.8	0.5
Ecuador	5.0	4.7 ^b	5.2 ^b	1.8	1.2 ^b	1.7 ^b
Haiti	1.9	0.5	3.6	-1.2	-1.8	1.1
Mexico	5.8	7.2	7.6	2.7	3.6	3.9
Panama	4.9	8.0	7.6	1.9	4.6	4.2
Paraguay	2.7	4.7	4.8	0.1	1.1	1.2
Peru	5.3	4.9	3.0	2.9	1.7	-0.1
Dominican Republic	5.7	3.7	5.8	2.5	0.4	2.3
Uruguay	2.1	1.3	3.6	0.7	-0.1	2.5
Venezuela	7.7	5.8	5.0	3.6	2.4	1.5
TOTAL	5.1	5.5	6.6	2.2	2.5	3.7
TOTAL, excluding Brazil	4.6	5.3	5.9	1.8	2.3	3.0

SOURCE: ECLA, on the basis of official statistics.

^a Provisional estimates.

^b The figures for Ecuador do not include 1970 when, judging from partial information, there was a substantial increase in the product.

Nevertheless, the rate is much lower than that achieved in the socialist countries, in Japan, and even in some developing countries.

If account is taken of population growth, however, Latin America is no longer in such a favourable position, and the difference between

it and the more rapidly growing areas is considerably greater.

The figures for per capita growth show how much ground Latin America still has to cover to catch up with the economic and technological expansion of the world at large, and they

Table 2. Latin America: breakdown of countries according to growth rate^a

Percentage average annual growth rate of the gross domestic product				
0 to 3.4	3.5 to 4.4	4.5 to 5.4	5.5 to 6.4	6.5 and over
<i>1950-1959</i>				
Bolivia	Chile	Colombia	Dominican Republic	Brazil
Haiti	Honduras	El Salvador	Mexico	Costa Rica
Uruguay	Guatemala	Panama		Venezuela
Paraguay		Ecuador		
Argentina		Nicaragua		
(5)	(3)	Peru	(2)	(3)
<i>1960-1969</i>				
Haiti	Argentina	Ecuador	Bolivia	Costa Rica
Uruguay	Dominican Republic	Paraguay	Brazil	Nicaragua
	Chile	Peru	El Salvador	Mexico
		Colombia	Venezuela	Panama
		Guatemala		
		Honduras		
(2)	(3)	(6)	(4)	(4)

SOURCE: ECLA, on the basis of official statistics.

^a The countries are listed in ascending order of growth rate.

point up all too clearly how in terms of levels of living it is lagging further and further behind the high-income countries.

These superficial comparisons, however, must not be allowed to lead to over-simplified conclusions like the all-too-frequently quoted argument that Latin America's basic problem is not so much the difficulty of raising the economic growth rate as the high rate of population increase in most countries of the region. Nor can it be said that the 6 per cent target established in the Strategy is a satisfactory rate simply because it is somewhat above the rate Latin America has achieved over the past twenty years.

A brief word is in order here regarding estimates for national accounts statistics, and although it may seem trivial it raises an issue that can no longer be ignored. It is quite possible that if stricter criteria were applied, the actual rates of economic growth would be found to be somewhat lower than those shown in conventional statistics. The disproportionate amount of labour employed in some services, the incompleteness of the statistics for measuring the modern sector, the use of indirect estimates because of lack of statistical data, the weighting of the indexes, which is distorted by the high costs of substitution or by inflationary trends—all these factors in varying degrees make the time series less meaningful.

To take an example, if international comparisons were made on the basis of prevailing prices in the developed countries or on the world market, the weight of large components of the domestic product might change significantly, and if other appropriate adjustments were made, comparisons of growth rates might yield less favourable results.

Be that as it may, it is essential, even at this general level of comparison, to make an in-depth analysis in order to avoid jumping to conclusions.

Thus, Latin America's growth rate might be expected to be much higher than that of other developing regions because it is in a better position in some respects, the average level of income, and saving capacity, for instance. There is no reason why developing countries, particularly in Latin America, should have to go through the same stages as did the countries which now have higher income levels; and in fact they are not doing so. Thanks to training and more knowledge in every field, combined with the potential or actual availability of scientific and technological advances they should be able to push ahead more rapidly to-

day than the present developed countries did in the past.

Moreover, it should be remembered that because of the enormous gap between the average economic performance of the countries at the centre and those at the periphery, the growth rates of developing countries must be higher. If these rates are not substantially stepped up, any contribution they may make towards narrowing the gap will be minimal. This is one of the precise reasons why the Strategy points to the need for a rapid acceleration of the growth rates of developing countries. For the same reason, the United Nations Committee for Development Planning set minimum targets of 6 to 7 per cent in its technical report.

It is interesting to note that thinking and practice regarding growth rates have been gradually changing both at the international level and in the developing countries; there is more readiness to accept the fact that it is feasible for developing countries to attain higher growth rates, and the industrialized countries have pledged their help in actually attaining higher rates. The proposals of the United Nations Committee for Development Planning are an indication of this new attitude, which is in sharp contrast with that sustained at the beginning of the 1950s, when the modest annual growth rate of 5 per cent was established as a target for the end of that decade.

These changes of attitude are probably influenced by many different factors; the International Strategy is imaginative when it states that the countries' development plans should be both realistic and ambitious enough to have an impact on the imagination of the people (paragraph 78).

There are some objective developments which have triggered off this change in technical approach, e.g., the economic expansion achieved by socialist countries, Japan, and some developing countries, including a few of the Latin American States and particularly the careful assessment of the potential economic and technological development capacity of the Latin American countries, which holds out possibilities of more dynamic and far-reaching progress.

The first conclusion that may be drawn from past and recent economic trends in Latin America is that a 6 per cent growth target for the region as a whole does not represent a radical change in its rate of growth, in over-all terms, although this is not in any way intended to diminish the importance of such a growth rate.

The fact is that, of the nineteen countries considered in table 2, at least eight have recorded an average growth during the past decade that has been close to or above that target, and it has been attained by the region as a whole in the last three years. This brings into focus a subject of particular interest from the technical and practical angle: an appraisal of the prospects of this dynamic growth process continuing steadily within the context of existing situations and policies.

This analysis will not be attempted here; it would be necessary to study other factors in depth, to consider the specific situation of each of the countries and to venture into hypotheses involving important contingent variables.

To sum up, it should be borne in mind that this improvement has not spread to all countries, and that in Latin America in particular very irregular trends and tremendous ups and downs have been frequent owing to external factors. At present, the favourable trend is accompanied by an increase in export earnings and heavy external borrowing. If these factors do not persist, as has frequently been the case in the absence of stable external conditions that would guarantee the expansion of export earnings and adequate financial co-operation, the growth rate will decline again, as is already happening in some countries, unless new factors intervene, such as the changes in policy suggested in the International Strategy.

One thing that is being demonstrated by Latin America's experience is that the economies of the countries of the region are capable of attaining high growth rates; this is most propitious and should encourage them to persevere in their efforts to reach more ambitious targets.

Thus far, the question that has been discussed is the necessity and the possibility of attaining higher growth targets in the light of present trends in Latin America. Stress must now be laid on another angle: the need for higher growth rates if the all-too-well-known social problems are to be overcome.

In his study, Raúl Prebisch analyses development strategy setting specific targets with a view to remedying the distortions in the distribution of the labour force and overcoming open and disguised unemployment.⁹ He maintains that the annual growth rate must be raised to 8 per cent by the end of the 1970s and sustained at that level in the 1980s. This implies an average

growth rate of about 7 per cent for the region as a whole in the present decade.

In the secretariat document on basic aspects of development strategy,¹⁰ an examination of the growth targets indicates that Latin America should double its gross domestic product by the end of the 1970s, which means an average annual increase of just over 7 per cent. The report then goes on to consider what internal and external resources would be required to reach a target of this magnitude.

Lastly, it should be pointed out that most of the national development plans prepared in Latin America in recent years envisage growth targets of from 6 to over 7 per cent for the domestic product (see table 3).

Table 3. Latin America: planning office targets for the growth rate of the gross domestic product

Country	Period	Percentage average annual growth rate
Argentina	1970-1974	5.6
Brazil	1969-1973	7.0 to 9.0
<i>Central America</i>		
Costa Rica	1969-1972	7.7
El Salvador	1968-1972	6.0
Honduras	1968-1971	7.2
Nicaragua	1965-1969	7.0
Colombia	1969-1977	7.5
Chile	1970-1980	5.1 to 6.4
Mexico	1970-1976	6.5
Peru	1971-1975	7.5
Dominican Republic	1968-1985	7.0 to 7.3
Uruguay	1965-1974	4.0
Venezuela	1970-1974	6.3

SOURCE: ECLA, on the basis of official country data.

The International Strategy also fixes economic growth targets in terms of population, indicating that the average annual rate of growth of the gross product per head in developing countries should be about 3.5 per cent, with the possibility of accelerating it during the second half of the decade. It is explained in the document that this figure was calculated on the assumption of a 2.5 per cent annual population increase, which is less than at present forecast in demographic surveys. It is therefore assumed that population policies during the 1970s will have some effect on demographic growth.

The Strategy makes it quite clear that each developing country must formulate its own demographic objectives within the framework of its national development plan.

Latin America at present has the highest

⁹ "Change and development . . .", op. cit.

¹⁰ ECLA, "Basic aspects of Latin American development strategy", op. cit.

regional population growth rates, far in excess of those of higher-income countries. The annual increase for the region as a whole is 2.86 per cent, compared with 1.37 for the United States and Canada, 1.24 for the Soviet Union, 1.05 for Japan, a mere 0.89 for Western Europe and even less (0.72 per cent) for Eastern Europe.

The secretariat document on the basic aspects of development strategy looks into population trends and projections for Latin America and discusses in general terms the place that population policy should occupy in development policy. The subject is dealt with in somewhat greater detail in another special document submitted to this session.¹¹

It is worth noting that population growth in Latin America seems to have reached a transitional stage, for, though still high, growth rates are tending to level off. Table 4 illustrates this trend in the region as a whole and in a large number of countries.

During the 1960s, the annual population in-

crease was 2.86 per cent. It is difficult to judge how this might be affected by the spread of birth control, which is going to be the dominant factor in future trends. Projections for the region as a whole suggest that the population growth rate might range from a minimum of 2.7 to 2.8 per cent up to a maximum of 3.1 to 3.2 per cent. Table 4 takes a rate lying between these two extremes.

On this basis, the over-all economic growth rate laid down in the Strategy (6 per cent) would drop to 3 per cent in per capita terms, which is rather lower than the figure it sets for the developing countries. Latin America might make better progress if the actual population increase turned out to be lower than current projections give reason to expect. Moreover, the average per capita economic growth rate would be better than that indicated in the Strategy if the region set itself a higher over-all target rate.

2. STRUCTURE AND SOCIAL IMPACT OF THE DEVELOPMENT PROCESS

From a long-term standpoint, the most striking feature of the development process in Latin America is the improvement in conditions in

¹¹ ECLA, "Population trends and policy alternatives in Latin America" (E/CN.12/874).

Table 4. Latin America: population growth, by country
(Percentage average annual growth rate)

	1970 population (in thousands)	1940-1950	1950-1960	1960-1970	1970-1980	1980-1985
Argentina	24,352	1.89	2.01	1.56	1.48	1.30
Bolivia	4,658	1.85	2.06	2.34	2.58	2.61
Brazil	93,245	2.42	3.00	2.86	2.89	2.88
Colombia	22,160	2.51	3.16	3.39	3.54	3.34
Chile	9,780	1.64	2.41	2.44	2.25	2.19
Cuba	8,341	1.92	2.14	2.04	1.91	1.80
Uruguay	2,889	1.22	1.46	1.29	1.19	1.18
Mexico	50,718	3.00	3.07	3.47	3.48	3.42
Peru	13,586	1.78	2.32	3.09	3.15	3.13
Venezuela	10,755	3.69	3.30	3.34	3.37	2.98
Costa Rica	1,798	3.21	3.80	3.84	3.95	3.82
Ecuador	6,028	2.18	3.03	3.38	3.42	3.41
El Salvador	3,441	1.64	2.71	3.20	3.61	3.79
Guatemala	5,179	2.82	2.90	2.96	2.93	3.01
Honduras	2,583	2.18	2.90	3.40	3.55	3.58
Nicaragua	2,021	2.41	2.85	3.02	3.38	3.50
Panama	1,406	2.55	2.93	3.25	3.26	3.27
Paraguay	2,419	1.87	2.67	3.35	3.63	3.58
Dominican Republic	4,348	2.73	3.11	3.34	3.61	3.66
Haiti	5,229	1.81	2.04	2.37	2.72	2.92
Barbados	256	1.66	1.00	0.95	0.23	-0.86
Guyana	744	2.09	2.92	2.81	2.93	2.89
Jamaica	1,996	1.34	1.64	2.05	1.78	1.52
Trinidad and Tobago	1,070	2.17	2.77	2.56	1.59	1.27
Other countries	5,149	1.53	1.31	2.12	1.62	1.51
TOTAL for the region	284,151	2.34	2.76	2.86	2.92	2.88

SOURCE: *Boletín Demográfico del CELADE, Año III*, No. 6, July 1970. The growth rates beyond 1960 are based on the average of the projections.

the countries where economic growth has been most rapid and economic and social change most marked. Even in these cases, however, the social impact of economic growth—measured in terms of the absorption of manpower in productive activities, a more equitable distribution of income and a better life for most of the rural population and many city-dwellers—has been small or slower in making itself felt than it should have been.

It is therefore particularly important to find out more about the form and structure of the Latin American economies and how their operation affects the attainment of these social objectives and is affected by political and national factors that must be taken into account in any development strategy.

Indeed, the first step in considering development policy must be to identify the social aims and objectives which really determine the form of the society, and then, keeping them constantly and clearly in mind, to consider the economic, technological, sectoral and regional policy options for production and distribution and hence for the allocation of resources. Seen in this light, the growth rate is an outcome of the development process rather than a postulate more or less unrelated to it. The two approaches should obviously be complementary at the technical level but in practice they give rise to two quite different conceptions of development strategy.

The fact that economic activity, property ownership and income are still concentrated in a few hands, that there is still as much of the same type of unemployment and that there are still very marked sectoral and regional disparities and imbalances, added to the fact that all these problems may be getting worse instead of better despite over-all economic growth, is a matter of grave concern to the developing countries, particularly in Latin America. Hence, the view is gaining ground that a strategy that meets certain social and national objectives may be preferable to a strategy which will raise the growth rate but be less effective in achieving social and national targets.

This is of course an over-simplification and not at all the whole story; but it points up a problem to which serious thought must be given in national planning.

The International Strategy pays some attention to it, noting that qualitative and structural changes in society must go hand in hand with rapid economic growth and offering some general guidance on the policy objectives that the countries will have to set themselves with regard to a more equitable distribution of in-

come and wealth and on such issues as employment, nutrition, education, health, housing and social welfare.

It will be necessary to take a closer look at this approach, which to some extent involves a choice between two alternatives: speeding up economic growth or ensuring its social impact.

On the other hand, as everyone knows, the attainment of specific social objectives within definite time-limits may well prevent any rapid acceleration of the growth of the whole economy, or of productivity, at a later date. These remarks are not intended to imply that there are no favourable situations where some production capacity may be available to facilitate the attainment of social objectives without there being any conflict between this and the stepping up of the growth rate. This is a question of development policy about which there has been a great deal of theoretical argument and of which the region has some practical experience also. It is worth recalling that some attempts to achieve social goals have come to nothing because of a failure to provide against inflation or because the measures that were taken did not go to the structural heart of the problem.

On a general plane, it is useful to consider the region's potential capacity for attaining a more dynamic growth rate, and why this rapid expansion is a must if those social objectives—employment being one of the most important—are to be more fully achieved.

Looking at the problem in this context, instead of adopting an approach which presents a choice between the acceleration of growth and the attainment of social objectives, what is needed is to consider the feasibility of a strategy of which both these goals would be complementary aims, e.g., a strategy that would take full advantage of the economic growth potential and promote, within that dynamic context, the structural changes that must be made and the new orientation that must be given to development in order to achieve both a higher growth rate and social improvements.

To put it in a nutshell, what is required is maximum growth with a new structure and economic and social development with a different slant.

Of course, as stated in the International Strategy, each country must formulate its own policy to deal with this problem; there will probably be many different solutions, depending on the conditions prevailing and the decisions adopted in each country.

3. RAPID GROWTH OR GRADUAL EXPANSION?

It is generally thought that, because of the magnitude and the structural character of the internal and external obstacles to development, only gradual progress can be made towards accelerating growth, the results of which will be slow to permeate the social fabric. This seems to be the predominant feature of many of the proposals in the International Strategy, those relating to the raising of the domestic savings coefficient and to the changes to be made in international economic co-operation, for instance.

It is understandable that, inasmuch as raising the growth rate depends on the intensive mobilization of domestic resources and the introduction of institutional reforms, it may not be easy to increase investment and expand production immediately. But one fact must be taken into account: a programme with gradual and relatively modest goals may in time be self-defeating since lasting results cannot be achieved without fundamental changes and reforms, which are necessarily slow. It is not the intention here to question the need for a programme for rapidly accelerating economic growth; the aim is rather to take a critical look at proposals that seem rather weak because they are small in scope and aim at only gradual improvement.

In view of the favourable factors described above in regard to the actual and potential capacity for expanding production and the immediate possibilities of improving productivity and efficiency, and also the flexibility with which the Latin American economies have responded to circumstances and stepped up their growth rates, there is no escaping the conclusion that more ambitious and shorter-term proposals are warranted, in principle at least; but, of course, if a solution of this kind were adopted, a larger volume of external financial resources would probably be required in the first stages of development programmes.

In this, as in other fields, which of the different solutions is technically and practically feasible will depend on the conditions prevailing in each country. Be that as it may, it has been worth making this general statement because it points up the fact that if the introduction of the policy measures on trade and financing laid down in the Strategy is too slow and gradual, this will prevent the developing countries from realizing their potential for more rapid growth; the same thing is true of national policies.

4. TARGETS FOR AGRICULTURAL AND INDUSTRIAL PRODUCTION

(a) *Agricultural production*

The growth of agricultural production in Latin America as a whole has been somewhat slower than the target rate established in the International Strategy. An annual rate of 4 per cent is set in the Strategy, while, judging by the national accounts estimates, the average increase in the region has been 3.7 per cent over the last decade.¹²

In fact these estimates are not strictly comparable. The rate prescribed in the Strategy is the rate required to expand agricultural production enough to satisfy the domestic demand linked with the over-all 6 per cent target growth rate; but the rate for Latin America has been determined not only by the domestic demand produced by a much smaller growth of income than that, but also by the trend of exports, into which a relatively large share of production still flows.

Many countries are developing faster than the regional index implies, as can be seen in table 5; and production to meet domestic demand has also grown more rapidly (see table 6).

Naturally the production target for Latin America during this decade will depend on the

¹² Other statistical estimates give lower growth rates.

Table 5. Latin America: trend of agricultural production
(Percentages)

Country	Average annual growth rate		
	1951-1953	1959-1961	1966-1968
	to 1959-1961	to 1966-1968	to 1969
Argentina . . .	1.8	2.3	2.2
Bolivia . . .	0.3	2.7	3.6
Brazil . . .	4.8	4.1	4.4
<i>Central America</i>			
Costa Rica . . .	3.6	4.8	7.4
El Salvador . . .	3.9	2.7	1.6
Guatemala . . .	3.4	3.9	3.9
Honduras . . .	2.4	4.6	1.0
Nicaragua . . .	2.8	5.7	1.0
Colombia . . .	3.3	3.1	5.5
Chile . . .	3.1	2.9	0.2
Ecuador . . .	3.3	3.0	2.3
Mexico . . .	4.9	4.3	2.6
Panama . . .	4.1	5.6	5.6
Paraguay . . .	2.3	2.7	2.7
Peru . . .	3.7	2.4	-0.1
Dominican Republic . . .	4.6	1.1	5.0
Uruguay . . .	-0.3	0.7	3.0
Venezuela . . .	4.7	6.1	4.2
TOTAL . . .	3.7	3.7	3.5

SOURCE: ECLA, on the basis of national accounts estimates.

Table 6. Latin America (eleven countries): agricultural production, foreign trade and apparent consumption, 1955-1965^a

(Annual percentage growth rates)

Sector	Production	Exports	Extra-regional imports	Apparent consumption
Crop-growing	4.5	3.5	4.3	4.8
Livestock	3.1	—	3.0	3.1
TOTAL	4.1	3.4	4.0	4.2

SOURCE: Joint ECLA/FAO Agricultural Division estimates.

^a Excluding Argentina, Uruguay and the Caribbean countries.

development of domestic demand for consumer goods and certain industrial goods, on export trends, and on the proportion of agricultural products imported.

Under present conditions, domestic demand is the most important factor in determining the growth rate of agriculture, because, as recent technical studies have shown, the prospects for speeding up the growth of traditional agricultural exports are definitely gloomy, and the proportion of extra-regional imports is small—less than 10 per cent.

This is an over-all evaluation for the region as a whole and it does not necessarily reflect the situation and prospects in individual countries.

Exports are decisive for certain items and will become increasingly important as the aims and policy measures of the International Strategy are put into effect.

The studies that have been carried out provide a certain amount of information that gives some idea of the principal factors involved in achieving the agricultural production targets in the conditions prevailing in Latin America as a whole. For instance, it may be estimated that if the product were to grow at an annual rate of 6 to 7 per cent, domestic demand for agricultural products would grow at a rate of 4 to 4.5 per cent; and if exports were to continue at the same rate as in the past, total agricultural production would increase at a rate of just over 4 per cent.

However, if this growth in domestic demand is to be achieved, the economic growth rate proposed would have to lead to a greater increase in real income for the great bulk of the population whose incomes are now very low. This is because, as is well known, the elasticity of demand for foodstuffs is not very great in the higher and middle income groups, but quite considerable in the low income groups.

If the economic growth rate were to rise more rapidly—for example, if it were to reach 8 per

cent by the end of this decade—and if greater strides were made towards attaining the social goals already mentioned, agricultural production would have to grow faster; its growth rate might rise as high as 5 per cent but it would subsequently drop to 4.5 per cent, because the higher the income, the greater the inelasticity of demand for foodstuffs.

Studies carried out in the Joint ECLA/FAO Agriculture Division for a group of sixteen countries provide additional data to support this analysis which are more representative of the prevailing trends in Latin America as a whole, since Argentina and Uruguay are excluded.

Agricultural production did better in this group of countries than in the others (see table 6). Production and apparent consumption increased by over 4 per cent, with sharply diverging trends in crop and livestock production; estimates for the latter, on a per capita basis, show that growth was comparatively sluggish.

Assuming a growth rate of 6 to 7 per cent a year for this group of countries, domestic demand for agricultural products might expand by 4.5 to 5 per cent a year, depending on whether consumption by the low income groups grew much or only a little faster than consumption by the high income groups.

In short, if the economic growth rate of Latin America were to reach 7 per cent a year in this decade and employment and income distribution were to follow more dynamic and equitable trends, domestic demand for agricultural products would exceed the 4 per cent growth target set in the International Strategy; but if export performance continued to be as poor as in the past, agricultural output would not expand by much more than the target 4 per cent.

The likelihood of a relatively slow growth in agricultural output poses serious development policy problems. Slow growth here makes it more difficult to speed up the growth of productivity and of agricultural income, and also to solve the unemployment problem; consequently, there is less prospect of a rapid rise in the level of living of the rural population.

Hence, the speeding up of the over-all growth rate of the economy and agrarian, institutional and social reforms in the rural economy are essentially interdependent factors in a single development process; and hence also, the growth of traditional exports and of exports of processed agricultural products, as provided for in the policy measures of the International Strategy, will be a great help in solving the problems mentioned above, quite apart from

helping to achieve a balance-of-payments equilibrium.

Two further points should be mentioned, despite the general nature of these comments. One is the changes that will have to be made in the structure of demand and agricultural output; the other, the evaluation of the region's capacity to achieve production targets under the institutional and technological conditions required by a suitable policy.

As regards the first point, important changes should be anticipated: with the target growth rate of 4.5 to 5 per cent in domestic demand, it is estimated that demand for agricultural products will grow by 3.7 per cent a year, while demand for livestock products will grow faster, by about 4.8 per cent. As regards the second point an over-all evaluation shows that it is in the livestock sector that there would be some difficulty in satisfying demand and a greater effort would have to be made to introduce new techniques and raise the level of productivity.

(b) *Manufacturing*

The stage reached by industrial development in many countries and the extent of import substitution might give the impression that there has been a rapid growth of manufacturing in the region. This is undoubtedly true for several countries, as is shown in table 7.

However, the data for the region as a whole show that development has been relatively

slow—no more than 6.5 per cent a year; only in the last few years has the rate risen to 7.5 per cent, and the renewed dynamism of industry in Brazil is mainly responsible for that.

The International Strategy fixes a growth target of 8 per cent, linked to the 6 per cent target for the gross product. It is worthy of note that Latin America is coming close to the 8 per cent target, while its over-all growth rate is more than 6 per cent.

If Latin America sets itself higher over-all growth targets than the Strategy does, manufacturing will have to grow proportionately faster.

Analyses of sectoral projections would appear to show that to achieve an over-all growth of 7 per cent, the total combined output of manufacturing, construction and mining would have to grow by somewhat more than 8 per cent, and manufacturing by around 9 per cent. For the over-all economic growth rate to be higher, say 8 per cent, the above three sectors would have to expand by 9.7 per cent and manufacturing by even more.

5. SPEEDING UP THE ECONOMIC GROWTH RATE AND THE PROBLEM OF DOMESTIC AND EXTERNAL FINANCING

(a) *Analysis of projections*

Earlier in this document, it was argued that it is necessary to set higher targets for the growth rate of Latin America than those laid down in the International Strategy for the developing countries as a whole. It is now time to take a look at the implications of these higher targets in terms of investment, domestic saving, external financing and foreign trade.

It should be emphasized that all that is being attempted here is to give a rough outline for the region as a whole, without trying to decide what growth target Latin America should set itself for the Second Development Decade, for this target will be the result of the decisions made by the individual countries, as is provided in the Strategy. The basic idea is to clarify the nature of the structural changes and the domestic and external policy measures that are needed in order to step up economic growth, and to identify the factors that are common denominators of the problems of most of the Latin American countries.

In the basic technical analysis several hypotheses are discussed for each of the eighteen countries considered.¹³ At this stage,

Table 7. Latin America: trend of manufacturing production

Country	Percentage average annual growth rate		
	1951-1953	1959-1961	1966-1968
	to 1959-1961	to 1966-1968	to 1969
Argentina	5.0	4.1	6.2
Bolivia	-1.3	7.9	7.0
Brazil	9.9	5.2	10.0
<i>Central America</i>			
Costa Rica	7.2	9.3	8.7
El Salvador	5.7	10.1	4.8
Guatemala	5.1	7.7	8.0
Honduras	6.0	8.5	7.7
Nicaragua	6.7	10.7	9.9
Colombia	6.8	5.5	6.3
Chile	4.8	5.9	2.9
Ecuador	4.5	6.0	4.8
Mexico	6.3	8.8	7.8
Panama	8.6	11.8	11.3
Paraguay	2.0	5.0	5.6
Peru	6.9	8.7	3.6
Dominican Republic	5.4	2.9	4.5
Uruguay ^a	2.5	1.1	3.4
Venezuela	10.1	6.9	5.1
TOTAL	7.0	5.9	7.4

SOURCE: ECLA, on the basis of national accounts estimates.

¹³ See ECLA, "Latin America: Macroeconomic projections for the 1970s", op. cit.

comments will be confined to the aggregate results of two basic hypotheses regarding the growth of the gross domestic product: one of a low growth rate (5.5 per cent), which means that past trends would continue during the 1970s; and the other of an accelerated growth rate, at an annual average of approximately 7 per cent over the decade. Three hypotheses were used with respect to exports: a low growth rate, a medium rate and a relatively high rate. Given existing conditions, even the low growth hypothesis—an annual increment in the purchasing power of exports of slightly more than 4 per cent—assumes an improvement over past trends, although it tends to project into the 1970s the rather more favourable trends recorded in the 1960s.

The high growth hypothesis for exports (6 per cent) was arbitrarily chosen merely to demonstrate the effect of exports on the acceleration of the growth rate of the product and to show the tremendous impact on Latin America that achieving the Strategy's growth target for the exports of the developing countries as a whole (7 per cent) would be likely to have.

Import requirements were estimated on the basis of past trends in the ratios between imports, the product and investment. The projections hence take account of the trends of import substitution in some countries, and the tendency for imports to grow more rapidly than the product in others. The estimates can be taken as a rough guide to minimum requirements for the group of countries as a whole.

The last point is that the servicing—remittances of interest and profits—of foreign loans and investment has been calculated on the basis of existing terms and conditions, but adding in the service payments that will have to be made in respect of the additional indebtedness that is expected to be contracted to cover the projected deficits on the balance of payments.

With these clarifications in mind—the details of which can be found in the document referred to above—it is now appropriate to look at the most important conclusions that can be drawn from the analysis of the projections.

(b) Projections on the low growth rate hypothesis (5.5 per cent) for the product

Tables 8 and 9 summarize these projections for the region as a whole. Table 8 is particularly interesting as it shows the clear contrast between the historical trend, on the one hand, and recent experience and projections for the 1970s, on the other.

Should the gross domestic product continue to grow at the same rate as in the past, the investment coefficient would not rise above the average for the past decade and would be below that of the past few years. Provisional estimates suggest that the coefficient climbed as high as 19.6 per cent in 1970, while the product grew by more than 6 per cent; therefore, on the basis of the lower growth rate postulated in the projections, the investment coefficient would have to be just over 18 per cent. Moreover, the realization of these projections would not en-

Table 8. Latin America: analysis of economic growth projections
Low growth rate hypothesis (5.5 per cent) for the product

	<i>Past trends</i> <i>1951-1953 to</i> <i>1966-1968</i>	<i>1966-1968</i> <i>to 1969</i>	<i>Projections</i>	
			<i>1966-1968</i> <i>to 1975</i>	<i>1975 to</i> <i>1980</i>
<i>Percentage annual growth rate</i>				
Gross domestic product	5.2	6.0	5.8	5.5
Total gross investment	4.6	8.8	5.5	5.6
Imports of goods and services, according to past trends	3.2	7.3	3.9	4.4
Exports of goods and services (low growth rate hypothesis)				
Purchasing power	3.1	6.4	4.7	4.0
Volume	4.6	6.1	4.8	4.0
<i>Percentage ratio to gross domestic product</i>				
		<i>1966-1968</i>	<i>1975</i>	<i>1980</i>
Total gross investment		18.6	18.1	18.1
Imports of goods and services		11.5	9.9	9.4
Exports of goods and services (low growth rate hypothesis)				
Purchasing power		11.9	11.7	10.8
Volume		12.6	10.9	10.2

SOURCE: ECLA.

Table 9. Latin America: projections of potential national savings gap and balance-of-payments deficit
Low growth rate hypothesis (5.5 per cent) for the product

	Potential national saving gap		Potential balance-of-payments deficit		
	Number of countries	Millions of dollars	Number of countries	Potential trade balance (millions of dollars)	Potential balance-of-payments deficit (millions of dollars)
<i>1975</i>					
Countries with a deficit . . .	14	1,454	12	1,083	2,610
Countries with a surplus . . .	4	-984	6	-2,303	-553
TOTAL . . .	18	470	18	-1,220	2,057
<i>1980</i>					
Countries with a deficit . . .	13	2,068	15	1,810	4,882
Countries with a surplus . . .	5	-1,612	3	-2,846	-1,279
TOTAL . . .	18	456	18	-1,036	3,603

SOURCE: ECLA.

tail any greater efforts to mobilize domestic resources, since the domestic savings coefficient has also been on the upswing.

This conclusion is illustrated to some extent by the data given in the first two columns of table 9, which show the gap between domestic savings and gross investment. The projections regarding savings were based on the historical data on the ratio of saving to domestic income. The table indicates that, by 1980, thirteen countries would have a savings deficit totalling about 2,000 million dollars and five countries a surplus of some 1,600 million. The latter would therefore be in a position to finance a more rapid growth rate, while the former would either have to step up their savings coefficient, or else rely on external financing, even to maintain their growth rate.

The balance-of-payments projections in table 9 are based on the slow growth hypothesis for exports. It is clear from the last three columns of the table that several countries will probably have trade and balance-of-payments surpluses, which is in principle an indication that they could sustain a higher growth rate.

The other significant fact is that remittances of interest and profits on foreign capital would reach a substantial figure if such a programme were put into effect. In 1980, fifteen countries would have a potential foreign trade deficit of some 1,800 million dollars, which would be swelled by another 3,000 million dollars in interest and profits on the external debt and foreign investment.

In short, as seems logical, the main lines of the over-all projections are much the same as those of the past decade. They illustrate cases of countries that would be in a position to accelerate their growth. The conclusion is the same for the region as a whole, seeing recent

saving and investment trends. So let us examine the accelerated growth hypothesis.

(c) Projections on the accelerated growth hypothesis (7 per cent) for the product

On this hypothesis it is assumed that growth rate of the product will rise to an average annual rate of 7.3 per cent in the second half of the decade. Tables 10 and 11 summarize the results for the region as a whole.

Let us first consider the mobilization of domestic resources and the proportion of external resources in the financing of growth.

As was only to be expected, stepping up the growth rate would necessitate considerably increased investment; this would have to grow more rapidly than the domestic product in the first half of the decade, and later at the same rate (see table 10). Consequently, the saving coefficient would rise from 18.6 to 24 per cent by 1975 and would subsequently have to remain at that figure in view of the steady growth projected for the product up to 1980.

Obviously, the additional investment could not be financed with external funds. Notwithstanding the region's high level of indebtedness—with its only-too-well-known results—the inflow of foreign resources has equalled between 1.5 and 1.7 per cent of the gross domestic product in recent years. Therefore, the acceleration of economic growth will depend on the capacity to mobilize domestic saving or on the effectiveness of the measures and institutional changes that must be taken to increase the proportion of investment resources.

The gross domestic saving coefficient has risen in the last few years and may already be as much as 17.9 per cent of the gross product, but it is still far from being large enough to

Table 10. Latin America: analysis of economic growth projections
Accelerated growth rate hypothesis (7 per cent) for the product

	Past trends 1951-1953 to 1966-1968	1966-1968 to 1969	Projections	
			1966-1968 to 1975	1975 to 1980
<i>Percentage annual growth rate</i>				
Gross domestic product	5.2	6.0	6.7	7.3
Total gross investment	4.6	8.8	10.1	7.3
Imports of goods and services, according to past trends	3.2	7.3	7.8	6.3
Exports of goods and services				
Medium growth rate hypothesis				
Purchasing power	3.1	6.4	5.8	4.8
Volume	4.6	6.1	5.7	4.8
High growth rate hypothesis				
Purchasing power	3.1	6.4	6.5	6.0
Volume	4.6	6.1	6.4	5.9
<i>Percentage ratio to gross domestic product</i>		1966-1968	1975	1980
Total gross investment		18.6	23.9	23.9
Imports of goods and services		11.5	12.4	11.9
Exports of goods and services				
Medium growth rate hypothesis				
Purchasing power		11.9	11.2	10.0
Volume		12.6	11.8	10.5
High growth rate hypothesis				
Purchasing power		11.9	11.7	11.1
Volume		12.6	12.3	11.6

SOURCE: ECLA.

satisfy these investment requirements. This is clear from the figures presented in the first two columns of table 11, which show that if the past ratio of saving to domestic income is maintained, there would be a savings gap of about 10,000 dollars in 1975 and 15,000 million in 1980.

These are the gaps which must be filled by mobilizing domestic investment resources and by external financing, which in its turn will depend on the balance-of-payments projections.

The International Strategy, taking up two UNCTAD recommendations, provides that the industrialized countries should endeavour to provide by 1972 annual net transfers of financial resources equal to 1 per cent of their gross national product, and that those which cannot achieve this target by 1972 will endeavour to attain it not later than 1975.

In his study,¹⁴ Raúl Prebisch estimates the

¹⁴ See "Change and development . . .", op. cit.

Table 11. Latin America: projections of potential domestic saving gap and balance-of-payments deficit
Accelerated growth rate hypothesis (7 per cent) for the product

Years and groups of countries	Potential domestic savings gap		Potential balance-of-payments deficit					
	Number of countries	Millions of dollars	Medium growth rate hypothesis for exports			High growth rate hypothesis for exports		
			Number of countries	Potential trade balance (millions of dollars)	Potential balance-of- payments deficit (millions of dollars)	Number of countries	Potential trade balance (millions of dollars)	Potential balance-of- payments deficit (millions of dollars)
1975								
Countries with a deficit	18	10,405	15	2,270	5,902	13	1,492	4,337
Countries with a surplus	0	0	3	-119	157	5	-313	616
TOTAL	18	10,405	18	2,151	6,059	18	1,179	4,953
1980								
Countries with a deficit	18	14,899	18	4,624	11,071	14	2,522	6,262
Countries with a surplus	0	0	0	0	0	4	-543	1,584
TOTAL	18	14,899	18	4,624	11,071	18	1,979	7,846

SOURCE: ECLA.

external resources which Latin America could obtain if this target were gradually achieved by 1975 and the region were to continue to receive its present 15 per cent share of those resources throughout the decade.

In relation to the projections now being discussed, this would mean a net inflow of external financing—according to the standard national accounts definition—equal to 2 per cent of the product in 1975 and to 1.7 per cent in 1980.

If for the purposes of this analysis that volume of external resources were included in the projections, the gross domestic savings coefficient would have to rise from 17.9 per cent in 1969 to 21.9 per cent in 1975 and 22.2 per cent in 1980 (see table 12).

Table 12. Projection of domestic and foreign financing of investment

*Accelerated growth rate hypothesis (7 per cent) for the product
(Percentage coefficients in relation to gross domestic product)*

Year	Gross national saving	Net inflow of foreign capital	Gross investment
1966-1968 . . .	17.1	1.5	18.6
1969	17.9	1.7	19.6
1975	21.9	2.0	23.9
1980	22.2	1.7	23.9

SOURCE: ECLA.

This might mean that the growth of aggregate consumption would have to be held down in the early years of the programme. To prevent this from affecting the low income groups, whose consumption should grow at an accelerated pace, investment resources would have to be mobilized by curtailing the consumption of the high income groups. The severity and scope of this policy would partly depend on how much investment could be stepped up; several hypotheses might be considered on this point.

This approach, which is summarized in table 12, represents only one of several possible variants whose practical effects should be analysed in conjunction with others. Thus, if a lower level of external indebtedness is assumed, the domestic saving coefficient would have to be raised, and consideration would have to be given to diverting resources and the distribution of consumption by social strata.

However that may be, the analysis shows that if Latin America were to set itself the target of pushing up its growth rate within a relatively short period to the 7 per cent considered here, it would have to raise the domestic savings coefficient by more than the annual 0.5 per cent laid down in the Strategy. On the other hand, to judge from the total figures, the

Latin American countries as a whole would be in a better position than the developing countries in other regions to attain the 6 per cent target; for one thing, their savings coefficient is higher, i.e., 17.5 per cent compared with an average of 15 per cent for the developing countries as a whole.

To complete this analysis, the balance-of-payments projections remain to be discussed. The first point to consider is the import requirements that are linked to this accelerated growth. As may be seen from table 10, imports would be likely to grow more rapidly than the product during the first stage, which is largely explained by the intensely dynamic growth of investment with a high content of external supplies; in the second stage, they would expand more slowly, although still by more than 6 per cent annually.

The medium growth hypothesis for exports, which is given first consideration in these projections, assumes an annual average growth rate of just over 5 per cent, i.e., a slower rate than for imports. In these circumstances, the potential trade gaps would rapidly widen.

Table 11 shows that by 1980 the potential trade gap would be 4,600 million dollars, and the balance-of-payments deficit would be nearly 11,000 million. The difference between these two figures represents the potential burden of external financing, in payments of interest and profits alone, and this emphasizes what a tremendous obstacle such a heavy burden of debt servicing is to any attempt to stabilize the balance of payments.

If the foregoing analysis is to be properly interpreted, one thing that must be borne in mind is that it relates to a hypothetical situation: it is assumed first, that there will be no change in the present terms and repayment periods for loans; and, secondly, that the increase in external indebtedness and foreign investment will be equal to the potential deficit on the balance-of-payments—implying the effective implementation of a programme regardless of the enormous differences noted above in the trends of exports and imports. This way of analysing the situation provides a useful basis for discussing exactly how these potential deficits and gaps could be covered or reduced.

There are three main ways in which this could be done: by external financing, by increasing exports, and by import substitution.

Table 13 gives rough results for two possible solutions. The figures for the contribution to be expected from each of these three sources are adjusted so as to indicate what their contribu-

tion would be in relation to a given growth of demand for imports.

Table 13. How the demand for imports could be met
Accelerated growth rate hypothesis (7 per cent) for the product

	Recent trend 1966-1968 to 1969	Projections covering 1966-1968 to 1980	
		Alternative A	Alternative B
<i>Imports</i>			
Annual growth of demand	7.3	7.2	7.2
<i>How the demand for imports could be met</i>			
Projected exports (medium growth rate hypothesis)	6.6	5.1	5.1
New exports of manufactures	—	0.5	0.5
Additional import substitution	—	1.1	1.7
Net inflow of external financing	0.7	0.5	—0.1

SOURCE: ECLA.

Alternative A: service payments on external debt = amortization 4 per cent, interest 2 per cent.

Alternative B: service payments on external debt = amortization 4 per cent, interest 6 per cent.

The table also presents the two alternatives for the terms and conditions of external loans discussed by Raúl Prebisch: alternative A (4 per cent amortization and 2 per cent interest); and alternative B (4 per cent amortization and 6 per cent interest). In both cases it is assumed that the net inflow of capital will be the same as the projected figure discussed earlier in connexion with the achievement of the 1 per cent target by industrialized countries.

As can be seen from table 13, over 70 per cent of the growth in demand for imports would be met by the projected growth of exports, which would expand by over 5 per cent annually. Under alternative A, net external resources would cover 0.5 points of the 7.2 per cent potential growth rate of imports.

The remaining 1.6 points would thus have to be covered by a further increase in exports or by more intensive import substitution. In his study,¹⁵ Raúl Prebisch considers the possibilities of new industrial exports and prospects for them, concluding that they could cover a further 0.5 points of the demand for imports.

This leaves, then, 1.1 per cent of the expanded demand for imports to be covered by

more import substitution. In this connexion, it should be noted that the projected demand for imports already takes account of past import substitution, which means that this replacement of additional imports represents a considerable effort. Nevertheless, the detailed studies that have been made demonstrate that this can be done within the context of regional industrial integration programmes.

Under alternative B, the net inflow of external financing is a negative figure, despite the large increment in net capital inflows; therefore, in order to cover the demand for imports it would be necessary either to expand exports even further or to step up import substitution. The table covers the latter possibility only for purposes of illustration. As a matter of fact, there are a number of complementary possibilities which emerge when the analytical model is applied to individual countries.

With a more satisfactory hypothetical growth rate for exports, it would be possible to meet the accelerated demand for imports with less external indebtedness or with a more flexible economic growth structure as far as external indebtedness is concerned. The figures in the last six columns of table 11 give an idea of the extent to which the trade gap and the balance-of-payments deficit might be expected to shrink if exports expanded at a faster pace.

The figures in table 11 were calculated on the basis of a growth rate for exports of slightly more than 6 per cent; this is of course quite a bit higher than the rate in the 1960s, and it would mean that the high growth rate of exports that has been achieved in the past few years would have to be kept up throughout the 1970s.

The 1 per cent rise in the growth rate of exports would be of considerable help in solving the problem raised in table 13. Thus, it is perhaps superfluous again to stress the importance of achieving the objectives and applying the policy measures laid down in the International Strategy for co-operation in trade and external financing, and particularly the significance, for stepping up the tempo of development in Latin America, of increasing the purchasing power of exports by an average 7 per cent per year during the 1970s, which is the figure set in the Strategy for the developing countries as a whole.

¹⁵ *Ibid.*

Part Two

TRENDS AND STRUCTURES OF THE LATIN
AMERICAN ECONOMY IN THE 1960s



INTRODUCTION

The problem of how to evaluate progress and setbacks in development and of the best methods of doing so has been given increasing attention of late. The *World Economic Survey, 1969*¹ has the following to say on this point:

"This *Survey* deals with the process of economic and social development and with the possibility of measuring it in ways that might be helpful not only in assessing the nature and pace of the progress that is being made but also in evaluating the efficiency of the policies that are being pursued. In order to carry out such an appraisal it is necessary to break down the complex concept of development into some of its components. It is useful, for example, to distinguish between those aspects of development that are directly reflected in human welfare and those that concern the economy as a mechanism through which individuals seek to co-operate in pursuit of their manifold objectives. By the same token, the time element needs to be kept in mind, characteristics of the current status being measured alongside those actions the fruits of which will be yielded only in the future. It is also useful to distinguish between those features of development whose effect is limited very largely to the community or national entity concerned and those that relate that entity to the rest of the world."

In recent years, ECLA has broadened the studies it has made and has introduced more system and method into them with the same end in view. In particular, at the thirteenth session of the Commission (Lima, 1969), a group of studies was presented which sought to outline the development and situation of the region in the 1960s; and the *Economic Survey of Latin America, 1969*² contains a general survey of past trends, current problems, and the essential

features of a development policy that might be adopted in the 1970s.

To follow up this line of action, an attempt was made to construct a methodological framework which would give a systematic and integrated picture of trends both in the region and in individual countries during the decade just ended, would give some insight into the major problems of today and, as a corollary, would help to determine the relative importance and the nature of the policies required to solve or relieve them. The aim, in short, was to broaden the factual basis for the analysis and formulation of development strategy both at the regional level and at that of relatively homogeneous groups of countries or even of individual countries, although this last part of the work would be proper to a more advanced stage of the project. In any event, it should be constantly borne in mind that the framework tried out here covers a much more circumscribed area than the systematic review and appraisal of progress in the Second United Nations Development Decade outlined in the International Development Strategy, which comprises not only an analysis of the results of the economic and social development process but also a systematic appraisal of international economic policy measures and of the lines of action pursued by the developed countries.³

For the purposes of this part of the Survey, the now plentiful literature on the subject and on other kindred matters was duly taken into consideration,⁴ although slightly different criteria were followed, which were thought to be better suited to the real situation in Latin America.

The first thing that had to be decided was what indicators would be appropriate for con-

¹ See United Nations, "World Economic Survey, 1969", Part One (document E/4841, 8 May 1970), Introduction, page 4. (Preliminary mimeographed edition.)

² See ECLA, *Economic Survey of Latin America, 1969* (United Nations publication, Sales No.: E.71.II.G.1), Part One: "Basic aspects of Latin American development strategy".

³ See "Framework for appraising progress during the Second United Nations Development Decade", report of a Working Group of the Committee for Development Planning (E/AC.54/L.37), 22 September 1970.

⁴ See, for instance, the "World Economic Survey, 1969", op. cit., and "The concept of development and its measurement", *International Social Development Review* No. 2 (United Nations publication, Sales No.: E.70.IV.10), pages 1-6.

sidering progress in development.⁵ A measure of agreement already exists on this point, although differences of some significance are to be found according to the objectives in view (for example, establishment of degrees of relative development, determination of the qualitative components of development, etc.).⁶

The second and perhaps the more crucial question was that of grouping the indicators in categories that would make it easier to analyse the basic topics under consideration. The conclusion was reached that the data could be organized in the following categories, corresponding to the basic aspects of development: (a) dynamism and stability of growth; (b) structural changes occurring in the course of growth; (c) the social aspects of growth; (d) trends in the external sector. Diagnoses and strategies have laid so much stress on either dynamism or stability or both in connexion with growth that they used to be thought—in the past, at least—the paramount considerations and perhaps sufficient by themselves for an appraisal of economic development.

In this field the more general data on the growth trends of the total product and of population are presented and compared. The over-all figures are broken down in each case so as to give a more precise picture of certain aspects of the questions on which attention is usually concentrated. In the matter of population growth, emphasis is placed on urban population trends (which, residually, indicate rural population trends also) and on trends in the under-14 age group.

In connexion with the total product, the rates of expansion of the major sectors are taken into account, the industrial sector being defined in a broad sense to include construction, mining and basic services. The same procedure has been followed in other studies because of the obvious advantages afforded by this classification.

Furthermore, with the aim of determining the

origin and relative significance of the prime movers of production, the evolution of both internal and external demand is traced, although without breaking down the former by consumption and public and private investment.

Lastly, as regards the stability of the growth process, data are presented on the movements of consumer prices, which give a general idea of the extent to which inflationary pressures are in operation and permit inflation to be related to other kindred phenomena.

Structural changes may be regarded as general qualitative objectives of the development process. As technical progress spreads and takes root, as the economy expands and income rises accordingly, the structure of production necessarily alters. Although each case indubitably presents its own specific pattern or characteristics, and it may not therefore be legitimately assumed that each will merely copy the model of the countries at the centre, it is equally true that there are certain general and common features and mutations which tend to repeat themselves, and which afford that much more material for evaluation purposes and, from another angle, for defining the policy that should be pursued.

Three main areas of analysis are demarcated here.

The first relates to changes in the structure of production by sectors, which are linked up with those occurring in the structure of employment. Comparison of these two aspects of the question and of the data on the sectoral product per employed person provides a basis for inferring the levels and relative variations of productivity in each major sector, which is a matter of great significance for some of the analyses, as will be seen later when the results of the development process are discussed.

Another objective was a more detailed appraisal of internal changes in manufacturing production, usually regarded as the most dynamic branch of activity at this stage of Latin America's development. To that end, an account is given of changes in the indicators for what have been dubbed the traditional industries, for those manufacturing intermediate products, and for the metal-transforming industries.

In the second area of study, another angle of approach is adopted in order to deal separately with the public sector. Here the changes considered are those taking place in the domestic-product/public-expenditure ratio and in the structure of public income and expenditure.

⁵ On this point, suffice it to bear in mind the following observation in the "World Economic Survey, 1969", op. cit., page 5: "the indicators would need to be confined to the most significant and widespread aspects of economic and social progress and their form would have to reflect current statistical practice as far as this was possible".

⁶ The data bearing on "the capacity of the economy to deliver needed goods and services in the future" ("World Economic Survey, 1969", op. cit., page 4) are not taken as a unit of analysis in the present study. The most decisive, however (rates of saving and investment, development of activities resulting in capital formation, external dependence with respect to the components of investment, etc.) have been taken into account in other areas of analysis, and, in addition, the question has been more specifically dealt with by ECLA in several studies on the mobilization of internal resources.

Lastly, attention is switched to the size and variations in the public sector's share of savings, investment and the total product. Accordingly, investment/product coefficients are discussed and the composition of investment is analysed; while, in the field of savings, changes in the shares of domestic and external savings and in the shares of the public and the private sectors are considered separately.

As to the social aspects of growth, the relationship between economic expansion and its social impact seems to be much more vague and imprecise in the countries on the periphery, even (and sometimes particularly) in those with the highest growth rates, where large segments of the population have hardly benefited at all from the rise in the levels of living. For this reason, it is all the more important—indeed essential—to assess what has been termed the social projection of development, both from the angle of changes in the over-all social situation and from that of how this impact has been felt by the different social groups and strata.

All economic development objectives and measures may be said to be intermediate when they are considered in perspective and in terms of achieving the essential and overriding goal of meeting the needs and the aspirations of the community as a whole and of its individual members. There is therefore every reason to include a category comprising the data that are most representative of this aspect of the development process. Another thing that must also be borne in mind is that it is more important and more difficult for the developing countries to achieve the goal of social development than it is for the countries at the centre. In the latter—the developed countries—with a very few exceptions, the whole population has benefited from the increasing flow of goods and services, including some that have traditionally been regarded as the prerogatives of a minority. This must not, however, be taken as a spontaneous or inevitable phenomenon, since it has obviously been due to some extent to deliberate decisions and policies—relating to such matters as full employment, the extension of social security, etc.—particularly in the post-war period.

Recently, thanks to the increasing attention devoted to the subject, the data that may be presumed to shed most light on the position in this respect have been emerging with greater clarity and breadth.⁷ Thus, a number of indica-

tors have been used, relating, on the one hand, to consumption of essential goods and services, and, on the other, to more specialised points such as the degree of cultural development or of participation in the socio-political process.

Unfortunately, it is precisely in this vital field that the statistical coverage is most unsatisfactory in Latin America and the errors and omissions are seen to be tremendous when the extremes masked by the over-all average figures, which are often very far apart, have to be explained. As will be seen later, a conservative approach has been adopted here; the prevailing norms have been adopted for the basic indicators, but attention has been drawn to the care with which general series must be interpreted and to the fact that they disguise or disregard some of the data.

The starting-point for measuring the social aspects is the scale and variations of per capita consumption in the different countries, the next step being to consider four outstanding aspects of social welfare: nutrition, health, education and housing. Two aspects of nutrition—calories and proteins—were chosen because the data on these two points embrace and synthesize a great deal of specific information.

The same procedure was followed in the case of health, for which two other indicators were adopted, relating to two indisputably representative and generally significant variables at the extremes of the life cycle: infant mortality and average life expectancy.

In the field of education, where more data are obtainable, emphasis was placed on the points which most affect the great mass of school-age children and the status of adults: enrolment percentages and rates of retention in primary schools and literacy indexes in the over-15 age group, and the absolute illiteracy figures recorded in selected years and at the end of the 1960s.

Housing is the area where the lack of reliable and historically comparable data is most conspicuous. The general records date back to the censuses taken at the beginning of the 1950s and 1960s, since the results of the 1970 censuses are not yet available. Furthermore, not only have modifications been introduced into the criteria for classification, they are not the same in all countries. For this reason, only the 1960 census data were used; they give at least a rough impression of the status of the problem in the light of some salient indicators (percentages of housing units with piped water supply, sanitation and electric light, and average numbers of persons per room).

⁷ See "World Economic Survey, 1969", op. cit.; *International Social Development Review*, No. 2, op. cit.; and Centro para el Desarrollo Económico y Social de América Latina (DESAL), *América Latina, una y múltiple*.

In addition, an attempt was made to break down the over-all data so as to afford some idea of the profound contrasts revealed when disparities in income distribution and between conditions in urban and rural areas and in different internal regions are taken into consideration.

The fourth unit or category adopted for the purposes of the analysis relates to the external sector. Here again a difference can be noted between the countries at the centre and those on the periphery. For the former, the categories and approaches enumerated above would doubtless suffice for an evaluation of their development process; but this does not seem to be true of the peripheral economies, in which the external sector, as it is called, is of special importance, either because of the high degree of dependence on a small range of exports, or because of the key significance of certain strategic imports (for example, the more technically complex capital goods), or because the nature of the physical and financial transactions conducted is the chief factor which determines the dependence or the relative independence of the national economies.

As the data representative of the operation and structure of the external sector are so many and so various, they have been grouped under three heads, relating to the following points: (a) dynamism and stability of trade; (b) structural changes in trade; (c) external vulnerability and dependence.

As will be readily understood, the four different categories or units of analysis described above are closely interrelated. They are by no means symmetrical, however, and in the past and present experience of the countries under consideration they may be linked in very different ways. For example, there may be economies combining dynamic development (stable or unstable), with structural changes of greater or lesser significance and in differing directions, a social projection of the development process that may be concentrated or diffuse, and with conditions in the external sector which may aggravate or mitigate the economies' dependence or vulnerability. The analytical framework decided on seems suitable for identifying the pattern formed by these different aspects in individual countries and the changes in it, so that it can be studied

in each case and compared with experience elsewhere.

The first indicators to be presented in connexion with the dynamism and stability of external transactions are the growth rates of exports and imports over the last two decades. Certain trends of great qualitative significance are also shown, such as those of the terms of trade and of the purchasing power of exports, and the average annual fluctuations in the sales of goods and services effected by the region and by individual countries during the 1950s and 1960s.

Under the second head, trends in the structure of exports and imports of goods are indicated. To show whether any diversification of exports has been achieved, figures are given for the share of the major export product, of the three major export items, and of manufactures. Similarly, the case of imports, the share represented in different years by purchases of consumer goods, inputs and capital goods are given.

Other indicators are intended to illustrate changes in the destination and origin of goods traded as a means of indicating the relative importance of the various supplier and buyer markets.

The third unit of analysis in the external sector category comprises the most significant trends and changes affecting the external vulnerability and dependence of the Latin American economies. In the first place, the size of the trade gap and the methods of financing it are described. Next appear the cumulative balance-of-payments position on current account, the cumulative net inflow of foreign financing, and the amount and evolution of the external debt between the mid-1950s and the end of the 1960s. One set of indicators is also presented in relation to the growth pattern and relative importance of the various forms of external financing (non-compensatory and compensatory capital movements, long- and medium-term loans, short-term liabilities and official transfers).

Other basic data assembled in this section relate to the servicing of foreign capital, giving the total amount and the percentage of current foreign exchange income that it has represented at different periods. Lastly, some figures are given for cumulative foreign direct investment.

Chapter I

BIRD'S-EYE VIEW OF TRENDS IN THE 1960s

1. DYNAMISM AND STABILITY OF GROWTH

In comparative and over-all terms, the rate of expansion of the Latin American economy during the 1960s slightly exceeded the figure for the preceding decade and was about the same as that of the world economy, although not so high as those of more dynamic regions and countries. At this level, then, trends were not unfavourable; but they cannot be properly appraised without taking into account structure and social implications of growth, as will be shown in subsequent sections.

On the other hand, there were sharp fluctuations which are apparent when the rates of development for the periods 1959–1964 and 1964–1969 are considered. As a general rule, growth was brisker at the beginning of the decade and in its closing years (1968–1969, and on into 1970). The fluctuations were largely due to what happened in various years in Argentina and Brazil. (These two countries accounted for about 43 per cent of Latin America's domestic product at the end of the 1960s, and both had encountered serious difficulties with inflation and with stabilization policies.)

When differences in stages of development are taken into consideration, it will be noted that one group of countries, representing more than half the population of Latin America, developed at annual average rates ranging from 6 to 8 per cent, and that in contrast, eight countries showed growth rates below the regional average. Since both groups include economies differing widely in structure and in degree of development, generalizations are ruled out, and each individual case must be analysed separately.

The rate of population growth changed hardly at all compared with trends in the 1950s. Hence the growth rate of the per capita product was lower than in other regions with similar over-all growth rates. Nor were there any appreciable changes in the rates of increase of the urban and rural populations, except in some of the relatively less developed countries and in Peru; and the same was true of the child population.

As a result of the increases in the product and the population, by 1969 the average annual per capita product had reached about 514 dollars. The inter-country differences in per capita income ranged down the scale 1,000 to 100 dollars. From another angle, but still in terms of country totals, it may be estimated that for about 56 per cent of the population the per capita product was less than 400 dollars.

The growth rate of the industrial sector, in the broad sense of the term used here, was still the highest; furthermore, it showed no very marked fluctuations. While the expansion of industrial activities and of services outstripped the growth of the population by quite a wide margin, agriculture kept only just ahead of it.

A more dynamic role was played by internal than by external demand in the expansion of the regional product.

Broadly speaking, the economy developed within a context of relative stability in most countries. In the countries where inflation was most rapid, it tended to slow down or to remain stationary in the second half of the decade, except in some countries and in the closing years of the decade.

2. STRUCTURAL CHANGES

Taking the region as a whole, there was little change in the relative importance of the major sectors of production. A slight shrinkage in the share of the agricultural sector was offset by an almost identical increase in the share of industry, including basic services, so that there was no change in the position of "other services". Such changes were more marked in some of the relatively less developed economies which showed more dynamic growth during the decade.

The changes in the structure of employment continued to be along the same lines as previously; the proportion of persons employed in agriculture declined, although their number increased in absolute terms. In another fundamental area, that of the distribution of non-agricultural labour between the industrial and the services sectors, it was again clear that ser-

vices absorbed at least part of the increase in the labour force and most of the redundant agricultural labour.

Since the changes in the structure of employment did not keep pace with those in the structure of the product in most of the Latin American countries, there came to be major differences in productivity between sectors, to the obvious disadvantage of services and agriculture. Structural disparities therefore became more pronounced, even from the point of view of the economic sectors as a whole, which does not reveal the more glaring and certainly increasing differences between the more capital-intensive and modern sector and the more backward traditional sector.

Looking at internal changes in manufacturing industry, there was a noticeable decline in the importance of the traditional industries and an increase in the importance of activities connected with metal-transforming. At all events, there were notable imbalances in this respect in different groups of economies.

An examination of the main changes in the government sector shows a general rise in the share of public expenditure in the domestic product. On the other hand, as regards the structure of expenditure and income, there was in most cases, a reduction in the share of consumer expenditure and an increase in the contribution of direct taxes to tax revenue. No decisive changes can be seen, however, in the proportions of government saving and public investment.

Towards the end of the 1960s, most of the countries had managed to increase their investment, which varied between 15 and 21 per cent, while there was a slight drop in the share of construction in capital formation. Generally speaking, public investment showed an upward trend.

There were no major changes in external and internal saving as proportions of total saving in the region as a whole, but there were big differences between countries in individual cases. The proportion of net external financing in total saving tended to be less in the relatively more developed economies.

Export coefficients, especially in the Central American countries, showed an upswing in many cases, as a result of increased reciprocal and foreign trade. There were, however, some notable exceptions, such as Venezuela, Peru and the Dominican Republic.

There would appear to be two basic trends in the import coefficient. In one case, the coefficient drops as the process of import substitution progresses, and despite the fact that the

capacity to import remains stable or increases. This is the case for such countries as Argentina and Brazil and, to a lesser extent, Colombia and Chile. In the other case, the drop is due principally to a decline in the capacity to import. On the other hand, there was an improvement in the import coefficient in many cases, particularly in the relatively less developed countries.

3. THE SOCIAL IMPACT OF DEVELOPMENT

In view of the growing importance attached to this topic, the fact that country studies have only recently begun to include social matters, and the special problems involved in their analysis, it may be appropriate to describe the main criteria that have been adopted for the consideration of it.

Statistics in Latin America generally leave much to be desired, and this is especially true of social statistics. In several respects they are not at all reliable. Some growth rates are obviously over-estimated, while at the same time there is a lack of data on possible progress. It can almost be said that there is a close correlation between the level of development and the accuracy of statistics in the countries in the region. Hence, the statistical data must be taken simply as indicators of general trends that always contain some degree of error, which may be quite substantial.

In selecting indicators of general trends in recent years, it would have been preferable to take the period from the middle of the 1950s to the end of the 1960s but, because of the difficulty of obtaining data, it was frequently necessary to use 1950, a year for which census results are available for the various countries.

As will be seen below, the supply of goods and services has increased throughout the region, with health and education showing substantial improvements. However, there are still substantial imbalances in the distribution of the benefits of development.⁸ There are very great differences from one Latin American country to another as regards such goods and services as education, housing, health, nutrition, social security, etc., and also as regards rates of growth, which, far from evening up the imbalances, may even accentuate them.

Furthermore, the national figures mask the wide variety of situations and internal imbalances within countries; for example, the supply of goods and services is much less in rural areas than in urban areas. The differences

⁸ See ECLA, *Economic Survey of Latin America, 1969* (United Nations publication, Sales No.: E.71.II.G.1), Part One.

noticeable between countries with different rates of growth are also evident within countries, between the dynamic regions, where the social benefits of development are concentrated, and the backward regions where the absence of these benefits is becoming increasingly serious. In recent years, studies of regional development have begun to show up these structural imbalances.

Ecological differences do not tell the whole story. There are imbalances in the distribution of benefits not only between countries, regions and areas, but in all spheres and in other respects, such as the distribution of income.

Without disregarding all the possible caveats, it may be useful to make a brief analysis of the most striking aspects and changes on the basis of the data available. The over-all picture, of course, is one of movement and progress in the major indicators, although there are appreciable variations in level and trend in each country and in effective content in terms of each social group.⁹

The data on nutrition indicate that there has been slow but general improvement, the exceptions being countries in very different positions in absolute terms, such as Argentina and El Salvador.

Progress has been much more marked in health, judging from the indicators. Life expectancy at birth and, in particular, the infant mortality rate have improved a great deal, particularly in many of the relatively less developed countries.

The same is true of education, where literacy rates and enrolment in primary schools have improved, although much still needs to be done, given the huge number of illiterates in absolute figures and the low rate of retention in primary schools.

The data on housing suffice to show that there is still much room for improvement in virtually all countries of the region.

As regards employment and social security, the data confirm a number of the views currently expressed on the social situation. One is that, even if account is taken only of open, officially recorded, unemployment, unemployment rates are high and rising. Another is that only in two countries is more than half of the working population covered by social security.

An examination of these general circumstances through the prism of social, urban-

rural and regional differences—even though fragmentary and not covering suitable time periods or the majority of countries—does however show up all too clearly the magnitude and sharpness of internal imbalances.

No general conclusions can be drawn from this, but for purposes of illustration suffice it to mention the income differences resulting from certain regional imbalances. In Brazil, for example, the Nordeste contains 41 per cent of those at the bottom of the income scale (the poorest 20 per cent) but only 8 per cent of those at the very top (the top 5 per cent). In contrast, the Federal District of Mexico holds slightly more than 1 per cent of the poorest group, but 38 per cent of the top income group.

4. THE EXTERNAL SECTOR

External sector trends in Latin America were more favourable in the 1960s than in the previous decade.

Although some key factors, such as the terms of trade, were unfavourable in the first five years, the boom in world trade, particularly in the second half of the decade, enabled the Latin American external sector to recover.

However, it did not reach the exceptionally high growth rates of world trade in those periods. From 1960 to 1969 world exports grew by 8.8 per cent annually, compared with 5.5 per cent for Latin America's exports over the same period.

Moreover, Latin American development was very uneven from country to country. With the organization of the Central American Common Market (CACM) at the beginning of the 1960s, the external sector position of the five member States was exceptionally good in the first half of the decade, but they were unable to maintain it in the second. In other countries, by contrast, foreign trade grew at a more rapid rate than the average for Latin America in the years 1965–1969. Brazil affords the most typical example of this trend.

On the other hand, Chile, Peru and Bolivia showed a much more dynamic growth throughout the decade than in the previous ten years. Mexico could also be included in this group, except that its growth was higher than the Latin American average in both decades.

In contrast with the general trend, Venezuela's external sector deteriorated in the 1960s, and Colombia's progress over the past twenty years, has been slow, with lower growth rates than the regional average in all the variables concerned.

Haiti was the only country which recorded

⁹ See ECLA, *Social change and social development policy in Latin America* (United Nations publication, Sales No.: E.70.II.G.3), pp. 169–172.

an absolute decline in its external sector position over the past decade, following upon very low growth rates in the previous ten years.

There were two major changes in the structure of Latin America's exports. First, the three principal export commodities lost ground, thus making for greater diversification; but the diversification meant only that other primary products were gaining ground on the traditional three at the head of the list. Secondly, the share of manufactures grew compared with that of the major primary exports, but this was more an accentuation of existing trends than a real change in the structure of total exports.

There were no great changes in the structure of imports either. The only clearly marked trend was that of consumer goods, whose share in total imports shrank somewhat, but all that this meant was that a certain stage in import substitution that is typical of Latin America was being prolonged.

The region's dependence and vulnerability vis-à-vis other countries became more acute.

First of all, the balance-of-payments deficit on current account increased still further. Despite the rapid growth of the region's exports, particularly during the second half of the decade, they failed to keep pace with imports with the result that there was a large negative trade balance.

Secondly, the sharp rise in remittances of

interest and profits abroad, which doubled from one decade to the next, accentuated the imbalance on current transactions. In most cases, more than half the deficit on current account can be accounted for by this factor.

In these circumstances, the necessary growth of the capacity to import had to be financed largely by means of external borrowing, which resulted in a corresponding increase in external indebtedness.

The outcome, then, was a kind of vicious circle: the deficit on current account necessitated more external financing, the latter entailed a steady rise in payments abroad, which in turn put a strain on the capacity to import, so that more external financing was needed again.

There were big changes in capital account over the decade; there was a decline in the share of net direct investment in the total volume of non-compensatory capital compared with the 1950s, and at the same time, medium- and long-term loans, along with short-term liabilities, increased substantially.

Even though the growth rate of private investment during the period under review was fairly modest, by 1969 it was over two and a half times more than in 1950, which meant that it still heavily influenced decision-making in the Latin American economies at the expense of the national authorities, and it was also a factor in the growth of payments abroad.

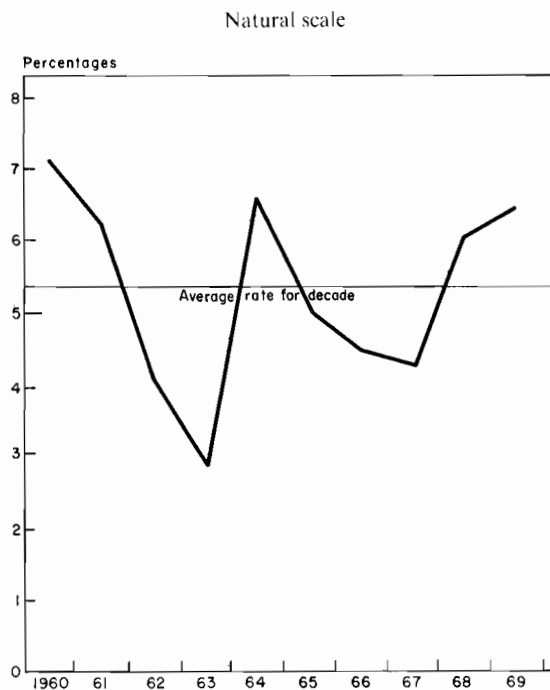
Chapter II

DYNAMISM AND STABILITY

1. THE GROSS PRODUCT

During the 1960s, the average annual growth rate of Latin America's gross product was 5.4 per cent, thus exceeding the 5.1 per cent attained in the preceding decade. If the 1960s are divided into two five-year periods, it can be seen that the average rate for the whole decade remained steady through each half, although the trends followed were somewhat different. The fluctuations in the annual growth rate were more marked in 1960–1964 than in 1965–1969 (see figure 1). In the first four years the average annual rate for the region declined steadily, dropping from about 7 per cent in 1960 to 3 per cent in 1964, but in 1965 it almost regained its 1960 level. It fell again in the first three years of the second half, but less sharply, and in the last two years it was over 6 per cent.

Figure 1. Latin America: annual percentage growth rates, 1960–69



The evolution of the aggregate growth rate masks widely differing trends for each country's total product. If the average rate for the region is taken as a point of reference, the countries can be grouped in three categories, according to their pace of economic growth (see table 1, and table 9, section 1).¹⁰ The first group comprises the countries whose average growth rates are above the average for the region, i.e., those with the highest rates of development in the decade (between 6 and 8 per cent): Brazil, Mexico, Panama, Costa Rica and Nicaragua. A second group is composed of six countries with medium growth rates similar to the average for Latin America: Colombia, Guatemala, Peru, El Salvador, Honduras and Bolivia. Lastly, the third group contains countries with rates below the average for the region. These slow-growing countries are: Argentina, Venezuela, Chile, Uruguay, Haiti, the Dominican Republic, Ecuador and Paraguay. Their average rates of development range from 4.7 per cent for Chile down to 1.1 per cent for Uruguay.

In the 1960s, the five countries forming the Central American Common Market, plus Mexico and Panama, showed average growth rates resembling or exceeding the regional average; in contrast, the countries of South America proper (with the exception of Brazil, Colombia, Peru and Bolivia) and the two Caribbean countries failed to reach the average for the region.

Owing to the sharp fluctuations characterizing the economic growth of most of the Latin American countries in the 1960s, the composition of the groups changes if shorter periods are considered. Of the five countries whose average growth rates for the decade were higher than the regional average, three (Brazil, Mexico and Panama) maintained their over-all rates both in the first and in the second half of the decade (see table 1). The other two (Costa Rica and Nicaragua) recorded marked fluctuations. Costa Rica's average growth rate was

¹⁰ All the other tables in this chapter are based on table 9.

Table 1. Latin America: growth of the gross product
(Annual percentage growth rates)

	1959-1969	1959-1964	1965-1969
<i>Average for Latin America</i>	5.4	5.4	5.3
<i>Above the regional average</i>			
Brazil	(6.0)	(5.9)	(6.0)
Mexico	(6.9)	(7.3)	(6.5)
Panama	(8.0)	(7.7)	(8.2)
Costa Rica	(7.1)	(7.4)	(8.5)
Nicaragua	(5.9)	(6.6)	(6.0)
		(6.4)	(5.9)
<i>Close to the regional average</i>			
Colombia	(4.9)	(4.8)	(5.0)
Guatemala	(4.9)	(4.8)	(5.0)
Peru	(5.6)	(5.3)	(5.3)
El Salvador	(5.4)	(5.6)	(5.0)
Honduras	(4.9)	(4.8)	
Bolivia	(5.3)		
<i>Below the regional average</i>			
Argentina	(3.9)	(3.4)	(4.5)
Venezuela	(4.3)	(4.4)	(4.1)
Uruguay	(1.1)	(1.4)	(0.8)
Haiti	(2.0)	(2.1)	(1.8)
Ecuador	(4.6)	(4.7)	(4.5)
Chile	(4.7)	(3.8)	(3.9)
Dominican Republic	(3.5)	(3.7)	(4.2)
Paraguay	(4.3)	(4.6)	(4.0)
			Dominican Republic (2.2)

SOURCE: ECLA, on the basis of official estimates.

Note: There may be differences in the data given in the tables in Part Two and in other parts of the *Survey* because the tables in Part Two are based on mid-1970 figures.

close to the regional average during the first five years, but in the second half of the decade it rose by over 50 per cent; and the rate in Nicaragua, which averaged 6.4 per cent between 1959 and 1964, dropped by about 20 per cent between 1964 and 1969.

Of the group of countries whose average over-all growth rates for the decade approximated to the Latin American average, only Colombia and Guatemala sustained that pace during both halves of the decade. In the other four countries (Peru, El Salvador, Honduras and Bolivia) wide fluctuations occurred. The growth rates of Peru and El Salvador, which had been above the average for the region in the first half of the decade, fell off considerably in the second half as a result of the contraction in agricultural and industrial activities in both countries. Bolivia and Honduras showed similar fluctuations, but in the opposite direction; their growth rates were below the average in the first half and above it in the second.

In the slow-growing countries, generally speaking, rates fluctuated a good deal, and in all of them except Argentina and Paraguay the average was lower in the second half of the decade than in the first. In five countries (Argentina, Venezuela, Uruguay, Haiti and Ecuador), the average growth rate was always

below the regional average, but in the other three, changes took place. Average rates in Chile and the Dominican Republic approximated to the Latin American average in the first five years, but declined appreciably in the second half of the decade. Paraguay, on the other hand, after the slow over-all growth during the first half, achieved a considerable increase in the second, and was thus able to reach an average rate for the decade that was very close to the average for the region as a whole.

2. POPULATION

The rapid population growth rate characteristic of Latin America in the 1950s persisted during the 1960s and even followed a slightly rising trend. In more than half the countries of the region the rate of population growth was higher in the 1960s than in the preceding decade (see table 2, and also table 9 below).

Among these, Peru, Paraguay, El Salvador, Honduras, Mexico and Ecuador were noteworthy for the rapidity of their population growth. As a general rule, the rates in the countries of this group were over 3 per cent in the 1960s, except in Bolivia and Haiti, where they were just over 2 per cent.

Table 2. Latin America: breakdown of countries by rates of population growth (Percentages)

	1950-1959	1960-1969
<i>Latin America</i>	2.8	2.9
<i>Countries in which the growth rate increased</i>		
Mexico	3.1	3.5
Colombia	3.2	3.4
Peru	2.3	3.1
El Salvador	2.7	3.2
Honduras	2.9	3.4
Panama	2.9	3.2
Haiti	2.0	2.3
Ecuador	3.0	3.4
Paraguay	2.7	3.3
Dominican Republic	3.1	3.3
Bolivia	2.1	2.3
<i>Countries in which the growth rate remained unchanged</i>		
Brazil	3.0	2.9
Chile	2.4	2.4
Costa Rica	3.8	3.8
Guatemala	2.9	3.0
Nicaragua	2.9	3.0
<i>Countries in which the growth rate decreased</i>		
Argentina	2.0	1.6
Venezuela	3.8	3.3
Uruguay	1.5	1.3

SOURCE: For absolute figures, see ECLA, *Statistical Bulletin for Latin America*, vol. VI, No. 2, September 1969.

Another group, comprising five countries, is characterized by the stability of its rates of population growth over the last two decades. In Brazil (the country with the biggest population in the region), Guatemala and Nicaragua, the rates hovered, with slight fluctuations, around 3 per cent; Costa Rica's population continued to grow at the same high rate it had attained in the 1950s, and Chile's at the same 2.4 per cent.

In a third group, composed of three countries, demographic growth rates declined in the 1960s. Argentina and Uruguay have the lowest population growth rates in the whole region, less than 2 per cent in the 1960s. In the third country in this group—Venezuela—there was a slackening off of the high rate attained in the 1950s.

The growth rate of Latin America's urban population dropped to 4.4 per cent in the 1960s from the 4.8 per cent it had attained in the 1950s (see table 3).

The countries in which it rose considerably include, in descending order, Paraguay, Haiti, Honduras, El Salvador and Peru. In the other three countries (Mexico, Panama and Bolivia) it increased also, but by much smaller percentages.

Of the countries in which the rate of increase of the urban population remained unchanged, the only one calling for comment is Ecuador, where already in the 1950s, the urban growth rate had been almost twice as high as that of the total population. The urban population of the three Central American countries (Costa Rica, Guatemala and Nicaragua) grew at annual rates which fluctuated between 4.2 and 4.8 per cent.

Eleven out of the 12 countries increased or maintained the average growth rate reached in the 1950s; by the end of the 1960s their urban population accounted for less than 50 per cent of their total population, and in eight of them (the five Central American countries, Haiti, Paraguay and Bolivia), the proportion was less than 40 per cent. The only country in these groups in which the urban population predominated was Mexico, where it represented 62 per cent of the total in 1969.

Lastly, among the countries where the rate of urban population growth declined, Argentina, Uruguay, Chile and Venezuela have a predominantly urban population; by 1969, the urban population constituted close to 80 per

Table 3. Latin America: breakdown of countries by rates of urban population growth (Percentages)

	1950-1959	1960-1969
<i>Latin America</i>	4.8	4.4
<i>Countries in which the growth rate increased</i>		
Mexico	4.7	5.0
Peru	4.5	5.6
El Salvador	4.0	5.1
Honduras	4.8	6.4
Panama	4.8	5.0
Haiti	4.2	5.8
Paraguay	3.3	5.3
Bolivia	3.6	4.1
<i>Countries in which the growth rate remained unchanged</i>		
Costa Rica	4.5	4.6
Guatemala	4.2	4.2
Nicaragua	4.8	4.8
Ecuador	5.9	5.9
<i>Countries in which the growth rate decreased</i>		
Argentina	3.2	2.3
Brazil	5.8	4.6
Colombia	6.2	5.5
Venezuela	6.5	4.7
Chile	3.8	3.5
Uruguay	2.5	2.0
Dominican Republic	6.2	5.9

SOURCE: ECLA, on the basis of statistics taken from Latin American Demographic Centre (CELADE), *Boletín Demográfico*, Year 2, vol. III, January 1969.

cent of the total in the first two countries and about 70 per cent in the last two. In the other countries in this group (Colombia, Brazil and the Dominican Republic), the corresponding proportions were 57 per cent, 47 per cent and 36 per cent, respectively.

The proportion of children in the population, which is a noteworthy demographic feature of Latin America, underwent no significant change during the 1960s, when it stood at 43 per cent. The population aged 0 to 14 years increased at much the same rate as the total population, both in the region as a whole and in the individual countries (see table 9). Perhaps the only significant exceptions are Argentina, whose child population increased less rapidly than the total population, and El Salvador and Ecuador, where the growth rate of the 0 to 14 age group was somewhat higher than that of the population as a whole. Consequently, the proportion of the child population fell from 31 per cent in 1960 to 29 per cent in 1969 in Argentina, whereas it rose from 45 per cent to 47 per cent in El Salvador and Ecuador over the same period. In the remainder of the Latin American countries the 0 to 14 age group still represented the same proportion in 1969 as in 1960—between 40 and 48 per cent of the total population—except in Uruguay, where the corresponding figure was only 28 per cent.

3. THE PER CAPITA PRODUCT

During the 1960s, the annual growth rate of Latin America's regional per capita product averaged 2.5 per cent; the average rate for the whole group of developing countries over the same period was about 3 per cent, while for the developed countries as a whole it was a little over 4 per cent. The fact that the Latin American countries' rates of population growth are so high in comparison with those of other regions unquestionably slows down the rate of increase shown by the per capita product in Latin America. Although the region was in a somewhat disadvantageous position vis-à-vis other parts of the world as regards the growth of its per capita product in the 1960s, that was not true of its position with regard to the growth of the total gross product. The increase in Latin America's total product was about the same as the average for the developing countries as a whole, and a little higher than the average for the developed economies as a whole.

The growth rates of the per capita product of the individual Latin American countries were widely scattered around the region's average of 2.5 per cent (see table 4). At the top came

Table 4. Latin America: growth rates of the per capita product, 1960–1969
(Percentages)

<i>Average for Latin America</i>	2.5
<i>Above the regional average</i>	
Panama	4.8
Mexico	3.4
Costa Rica	3.3
Brazil	3.1
Bolivia	3.0
Nicaragua	2.9
<i>Close to the regional average</i>	
Peru	2.5
Argentina	2.3
Chile	2.3
El Salvador	2.2
<i>Below the regional average</i>	
Guatemala	1.9
Colombia	1.5
Honduras	1.5
Ecuador	1.2
Paraguay	1.0
Venezuela	1.0
Dominican Republic	0.2
Uruguay	–0.2
Haiti	–0.3

SOURCE: ECLA, on the basis of official statistics.

Panama, with a rate approaching 5 per cent; at the other extreme were countries with virtually stagnant economies such as the Dominican Republic, Haiti and Uruguay.

In six countries (Panama, Mexico, Costa Rica, Brazil, Bolivia and Nicaragua) the rates of increase were above the average for the region; in four others (Peru, Argentina, Chile and El Salvador) they were close to it; and in the remaining nine (Guatemala, Colombia, Honduras, Ecuador, Paraguay, Venezuela, the Dominican Republic, Uruguay and Haiti) they were below the average for Latin America as a whole.

The difference in the relative positions of several Latin American countries in each of the three groups according to whether the average growth rate by which they are ranked is that of the total product or that of the per capita product merely reflects the differing impact of the rate of population growth on economic development in the countries of the region.

On the other hand, the countries falling into the middle group are not all the same when the countries are grouped according to growth rates of the gross product (see table 1) and to growth rates of the per capita product. Of the countries whose growth rate of the gross product was close to the 1960 regional average, only two—Peru and El Salvador—were in the same group for the growth of the per capita product. Bolivia, which was below the regional

average with regard to the growth of the gross product, was above the regional average for the per capita product; conversely, Colombia, Guatemala and Honduras, which had a gross product growth rate of close to the regional average, were below the regional average in terms of growth of the per capita product. Lastly, while the gross products of Chile and Argentina grew relatively slowly, they did better in regard to the growth of the per capita product.

Nevertheless, in the countries where growth rates were rapid in terms of the total product (higher than the regional average), the per capita product increased at a similar pace. Much the same thing happened in the countries classified here as slow-growing (with growth rates below the average for the region); almost all those whose total product increased at rates lower than the regional average showed similar trends in the growth rates of their per capita product.

The final outcome of the growth trends of the per capita product during the 1960s was, by the end of the decade, a per capita figure of 514 dollars for Latin America as a whole. The corresponding figures for the individual countries ranged from a maximum of nearly 1,000 dollars (Argentina) down to a minimum of 100 dollars (Haiti). The other Latin American countries fell somewhere between these two extremes.

Table 5 groups the countries in three categories according to their per capita product in absolute terms—high (over 600 dollars), medium (400–600 dollars) and low (less than 400 dollars). Argentina, Venezuela, Uruguay, Panama, Mexico and Chile, in descending order, fell into the first group. Costa Rica, with a per capita figure that was very close to that of the top group, and Peru, with a figure very close to that of the bottom group, were in the middle category; and the 11 remaining countries were all in the bottom group.

The six countries in the top group, with a per capita product of 600 dollars and over, contained 38 per cent of the total population of Latin America in 1969, and of that 38 per cent, half was in only one country: Mexico.

The 11 countries with a per capita product of less than 400 dollars accounted for 56 per cent of the region's population, and about 76 per cent of that was in Brazil and Colombia (62 and 14 per cent, respectively). The two countries in the middle group, with a per capita product of between 400 and 600 dollars, contained only 6 per cent of the region's population.

Table 5. Latin America: per capita product and population, 1969

	Per capita product (dollars at 1960 prices)	Population (thousands of inhabitants)
<i>Latin America</i>	514	258,916
<i>Over 600 dollars</i>		
Argentina	980	23,982
Venezuela	790	10,401
Uruguay	720	2,854
Panama	710	1,361
Mexico	680	48,995
Chile	650	9,559
<i>Between 400 and 600 dollars</i>		
Costa Rica	580	1,731
Peru	408	13,171
<i>Under 400 dollars</i>		
Brazil	390	90,633
Colombia	381	21,407
Guatemala	359	5,034
El Salvador	340	3,326
Nicaragua	339	1,960
Ecuador	316	5,829
Paraguay	284	2,336
Honduras	253	2,496
Dominican Republic	237	4,200
Bolivia	203	4,546
Haiti	98	5,095

SOURCE: ECLA, on the basis of official statistics.

4. PRODUCTION IN THE INDUSTRIAL AND BASIC SERVICES SECTORS

Industry and basic services developed much more vigorously than the other sectors of the economy during the 1960s. In Latin America as a whole, the annual growth rate of these activities averaged 6.4 per cent for the decade with very slight fluctuations around this figure in the two five-year periods. Generally speaking, the rates were higher in the Central American Common Market countries, Mexico, and Panama, and lower in the countries of South America and the two Caribbean countries.

Most of the countries whose per capita product was above the regional average maintained their position in both halves of the decade, although with some fluctuations (see table 6). The most striking changes took place in Nicaragua and Honduras. In the former, the growth rate of the industrial sector fell by 25 per cent between the first and second halves of the decade (10.6 per cent per annum in 1959–1964 and 8.0 per cent in 1965–1969); while in Honduras the growth rate rose by 27 per cent (7.8 per cent in 1960–1964 and 9.9 per cent in 1965–1969). Peru and El Salvador also attained high industrial growth rates for the decade as a whole, but their averages dropped sharply in

Table 6. Latin America: rates of industrial growth
(Annual percentage growth rates)

	1959-1969	1959-1964	1965-1969
<i>Average for Latin America</i>	6.4	6.3	6.5
<i>Above the regional average</i>			
Mexico	(8.0)	(7.7)	(8.3)
Panama	(11.5)	(12.1)	(10.9)
Costa Rica	(8.7)	(8.5)	(8.8)
Nicaragua	(9.3)	(10.6)	(8.0)
Honduras	(8.8)	(7.8)	(9.9)
Peru	(7.5)	(10.0)	(7.6)
El Salvador	(7.9)	(9.1)	(7.7)
		Dominican Republic. (7.7)	
		Chile (8.5)	
<i>Close to the regional average</i>			
Brazil	(6.8)	(6.8)	(6.8)
Guatemala	(6.7)	(5.8)	(6.0)
Bolivia	(6.4)	(6.2)	(6.7)
Chile	(5.9)		Argentina (6.0)
<i>Below the regional average</i>			
Venezuela	(3.8)	(4.0)	(3.6)
Uruguay	(0.9)	(1.0)	(0.9)
Haiti	(3.2)	(3.8)	(2.5)
Paraguay	(5.4)	(5.6)	(5.2)
Colombia	(5.7)	(5.4)	(5.1)
Argentina	(5.3)	(4.5)	(4.7)
Ecuador	(5.5)	(5.2)	(4.0)
Dominican Republic.	(5.5)		Dominican Republic. (3.2)

SOURCE: ECLA, on the basis of official statistics.

the second five-year period (Peru's from 10 per cent in 1960-1964 to 5.1 per cent in 1965-1969, and El Salvador's from 9.1 per cent to 6.7 per cent).

Four countries—Brazil, Guatemala, Bolivia and Chile—kept close to the regional average. In Brazil the rate remained unchanged throughout both halves of the decade; in the other three countries it fluctuated widely over the whole period. The annual rates shown by Guatemala and Bolivia were, respectively, 5.8 per cent and 5.2 per cent in the first half of the decade, as against 7.6 per cent and 7.7 per cent in the second half. Chile, whose annual rate of industrial development had been 8.5 per cent in 1960-1964, saw it drop to 4 per cent in 1965-1969.

Lastly, among the countries in which industrial growth was slow, the industrial product grew at an annual rate of a little over 3 per cent in Venezuela and Haiti; and in Paraguay, Colombia, Argentina, Ecuador and the Dominican Republic, it ranged from 5.3 to 5.7 per cent. Uruguay showed the lowest average growth rate, not exceeding 1 per cent. The fluctuations occurring between 1960-1964 and 1965-1969 were most marked in Ecuador, Haiti and the Dominican Republic (where the rate fell) and Argentina (where it rose).

5. AGRICULTURAL PRODUCTION

In Latin America's agricultural sector growth was moderate in the 1960s, when the average annual rate for the region as a whole was 3.5 per cent. It was somewhat higher in the first half of the decade (3.7 per cent), but it fell off somewhat in the second (3.3 per cent).

Such a low over-all growth rate meant that in the 1960s the per capita agricultural product increased at an average annual rate of barely 0.6 per cent for Latin America as a whole.

The trend described above was the outcome of different growth rates in the individual countries. Table 7 groups the countries in three categories, according to the average rate of increase in their agricultural product in 1960-1969 compared with the average for Latin America.

Five countries—Venezuela, Mexico, Panama, Costa Rica and Brazil—were above the regional average. While Venezuela and Mexico expanded their agricultural production at a rapid pace in the first half of the decade, growth slowed down in the second; the other three countries—Panama, Costa Rica and Brazil—speeded up their growth rate in the second five-year period (it had fluctuated around the Latin American average in the first five-year period).

Table 7. Latin America: growth rates of agriculture, 1959-1969
(Annual percentage growth rates)

	1959-1969		1959-1964		1965-1969	
<i>Average for Latin America</i>	3.5		3.7		3.3	
<i>Above the regional average</i>	Venezuela	(5.9)	Venezuela	(7.1)	Venezuela	(4.6)
	Mexico	(4.1)	Mexico	(5.1)	Brazil	(4.6)
	Panama	(5.2)	Nicaragua	(5.9)	Panama	(6.6)
	Costa Rica	(5.4)	Guatemala	(4.4)	Costa Rica	(7.3)
	Brazil	(4.3)	Peru	(4.6)	Colombia	(4.0)
			El Salvador	(5.0)	Honduras	(4.4)
<i>Close to the regional average</i>	Nicaragua	(3.9)	Brazil	(4.0)	Mexico	(3.1)
	Colombia	(3.4)	Panama	(3.8)	Guatemala	(3.1)
	Guatemala	(3.8)	Costa Rica	(3.5)	Bolivia	(3.2)
	Honduras	(3.6)	Paraguay	(3.4)		
	Ecuador	(3.1)	Ecuador	(3.8)		
<i>Below the regional average</i>	Argentina	(2.2)	Argentina	(2.0)	Argentina	(2.4)
	Uruguay	(1.6)	Uruguay	(1.9)	Uruguay	(1.3)
	Haiti	(1.4)	Haiti	(1.4)	Haiti	(1.5)
	Chile	(2.6)	Chile	(3.0)	Chile	(2.3)
	Dominican Republic	(2.4)	Dominican Republic	(2.9)	Dominican Republic	(1.8)
	Peru	(2.4)	Colombia	(2.8)	Nicaragua	(1.9)
	El Salvador	(2.4)	Honduras	(2.8)	Peru	(0.2)
	Bolivia	(2.7)	Bolivia	(2.3)	El Salvador	(-0.1)
	Paraguay	(2.6)			Ecuador	(2.4)
					Paraguay	(1.9)

SOURCE: ECLA, on the basis of official statistics.

The countries in the second group—Nicaragua, Colombia, Guatemala, Honduras and Ecuador—increased their agricultural production in the 1960s at rates that were close to the regional average. Nicaragua, Guatemala and Ecuador recorded lower growth rates in the second five-year period than in the first. The trend in Colombia and Honduras was the opposite: the agricultural product, which had increased in the first five-year period at an annual rate of 2.8 per cent in both countries, expanded more rapidly in the second half of the decade, at rates of 4 per cent in Colombia and 4.4 per cent in Honduras.

The largest group consists of the countries in which agricultural production developed very slowly. The average annual rates of increase ranged from a maximum of 2.7 per cent in Bolivia to a minimum of 1.4 in Haiti. Although the growth trend of production in Argentina, Uruguay, Haiti, Chile and the Dominican Republic was not steady, the rate never rose as high as the regional average. The outstanding feature in Peru and El Salvador was a sharp decline in agricultural production between the first and second halves of the decade.

6. INTERNAL AND EXTERNAL DEMAND

The quantity of goods and services available for consumption and investment in Latin

America as a whole increased during the 1960s at the same annual rate as the total product—5.4 per cent—while the annual growth rate of external demand (measured by the volume of exports) was 4.5 per cent (see table 9, section 5).

In the individual countries, the average rate of expansion of internal demand generally kept pace with that of the total product. The most notable divergences between the two rates occurred in Venezuela and the Dominican Republic. In Venezuela, domestic demand increased by 2.9 per cent per annum while the product grew at a rate of 4.3 per cent because of the reduction of exports in the 1960s. In the Dominican Republic, by contrast, the average growth rate of internal demand was 5.2 per cent while that of the product was 3.5 per cent, the disparity being due to the rapid expansion of imports (which increased at an average annual rate of 8.9 per cent).

The highest growth rates of external demand were in Central America: Nicaragua, Honduras, Costa Rica, Guatemala and Panama increased the volume of their exports at rates varying from 6 to 12 per cent. In El Salvador, Paraguay, Brazil and Peru likewise, external demand rose rapidly, at average rates approaching 6 per cent in the first three countries and 7 per cent in the last.

The volume of exports expanded more slowly

Table 9. Latin America: indicators

Countries	1. Gross domestic product at factor cost (annual percentage growth rates)				2. Population (annual percentage growth rates)			
	1950-1960	1959-1969	1959-1964	1965-1969	Total population		Urban population 1960-1969	Population aged 0-14 years 1960-1969
					1950-1960	1960-1969		
Argentina	3.1	3.9	3.4	4.5	2.0	1.6	2.3	1.1
Brazil	6.8	6.0	5.9	6.0	3.0	2.9	4.6	2.7
Mexico	5.8	6.9	7.3	6.5	3.1	3.5	5.0	3.7
Colombia	4.6	4.9	4.8	5.0	3.2	3.4	5.5	3.5
Venezuela	7.7	4.3	4.4	4.1	3.8	3.3	4.7	3.4
Peru	5.3	5.6	7.4	3.9	2.3	3.1	5.6	3.2
Chile	4.0	4.7	5.3	4.0	2.4	2.4	3.5	2.3
Uruguay	2.1	1.1	1.4	0.8	1.5	1.3	2.0	1.3
Costa Rica	7.1	7.1	5.6	8.5	3.8	3.8	4.6	4.0
El Salvador	4.7	5.4	6.6	4.2	2.7	3.2	5.1	3.6
Guatemala	3.8	4.9	4.8	5.0	2.9	3.0	4.2	2.9
Honduras	3.3	4.9	3.8	6.0	2.9	3.4	6.4	3.2
Nicaragua	5.2	5.9	6.4	5.3	2.9	3.0	4.8	3.1
Panama	4.9	8.0	7.7	8.2	2.9	3.2	5.0	3.5
Haiti	1.9	2.0	2.1	1.8	2.0	2.3	5.8	2.5
Dominican Republic	5.7	3.5	4.8	2.2	3.1	3.3	5.9	3.4
Ecuador	5.0	4.6	4.7	4.5	3.0	3.4	5.9	3.7
Paraguay	2.4	4.3	3.7	5.0	2.7	3.3	5.3	3.3
Bolivia	0.4	5.3	4.6	5.9	2.1	2.3	4.1	2.5
Latin America	5.1	5.4	5.4	5.3	2.8	2.9	4.4	3.0

SOURCE: ECLA, on the basis of official statistics.

^a Mining, manufacturing and construction.^b Electricity, gas, water, etc., and transport and communications.

in Argentina, Colombia, Ecuador, Venezuela, Haiti and Uruguay, at annual rates ranging from 2 per cent to 4 per cent. In Mexico, Chile and Bolivia the rate of expansion of external demand was close to the regional average.

7. PRICE TRENDS

Inflationary pressures in Latin America during the 1960s varied in intensity from one country to another; in most of the countries, however, internal price trends were kept within relatively narrow bounds, although there were quite considerable fluctuations between the first and second halves of the decade. Only a few countries were exceptions to this general rule, and in these prices rose very rapidly.

In table 8 the countries are grouped by average rates of increase in consumer price indexes. In twelve countries—those of Central America and the Caribbean, together with Mexico, Venezuela, Ecuador and Paraguay—the annual rise in prices was less than 5 per cent. In this group, where prices were relatively stable, the highest rates of increase were in Ecuador, Paraguay and Haiti, and the lowest in Venezuela, Guatemala and El Salvador. However, in more than half of the countries in this group, the average price rise was more rapid in the second half of the decade than in

the first. The trend in the other countries was the exact opposite.

Table 8. Latin America: changes in consumer prices, 1960-1969
(Percentages)

Country	1960-1969	1960-1965	1965-1969
<i>High rate of inflation</i>			
Uruguay	47.1	29.3	72.6
Brazil	47.2	62.0	30.6
Chile	26.0	27.0	24.5
Argentina	22.2	23.2	20.8
<i>Moderate rate of inflation</i>			
Colombia	11.7	12.5	10.8
Peru	10.1	9.4	10.6
Bolivia	5.6	5.0	6.4
<i>Relative stability</i>			
Ecuador	4.2	3.8	4.6
Paraguay	3.7	5.2	1.6
Haiti	2.8	3.6	2.1
Honduras	2.5	2.7	2.3
Mexico	2.4	1.7	3.1
Costa Rica	2.2	2.4	1.9
Nicaragua	1.9 ^a	1.7	2.7 ^b
Dominican Republic	1.8	2.8	0.8
Panama	1.2	1.2	1.2
Venezuela	0.7	0.2	1.4
Guatemala	0.7	0.2	1.3
El Salvador	0.4	0.2	0.7

SOURCE: ECLA, on the basis of official statistics.

^a Average rate for 1960-1967.^b Average rate for 1965-1967.

of dynamism and stability

3. Per capita product (dollars at 1960 prices)		4. Sectoral product (annual percentage growth rates)			5. Final demand (annual percentage growth rates)		6. Inflation Indexes of consumer prices (annual percentage increases)		
		1959-1969			1959-1969		1960-1969	1960-1965	1965-1969
1960	1969	Agriculture	Industry ^a and basic services ^b	Other services	Internal	External			
823	975	2.2	5.3	2.6	4.1	3.6	22.2	23.2	20.8
310	390	4.3	6.8	5.4	5.7	5.7	47.2	62.0	30.6
507	678	4.1	8.0	6.9	7.0	4.8	2.4	1.7	3.1
332	381	3.4	5.7	5.7	5.1	3.7	11.7	12.5	10.8
718	794	5.9	3.8	4.6	2.9	2.9	0.7	0.2	1.4
337	408	2.4	7.5	5.7	6.0	5.9	10.1	9.4	10.6
550	654	2.6	5.9	3.6	5.3	4.5	26.0	27.0	24.5
753	720	1.6	0.9	0.7	1.0	3.0	47.1	29.3	72.6
448	581	5.4	8.7	7.3	6.8	10.1	2.2	2.4	1.9
277	340	2.4	7.9	5.8	5.5	5.8	0.4	0.2	0.7
297	359	3.8	6.7	5.1	4.1	10.3	0.7	0.2	1.3
215	253	3.6	8.8	4.6	5.4	7.8	2.5	2.7	2.3
254	339	3.9	9.3	8.2	6.7	6.0	1.9 ^c	1.7	2.7 ^d
468	708	5.2	11.5	7.3	7.2	11.6	1.2	1.2	1.2
105	98	1.4	3.2	1.5	2.0	2.4	2.8	3.6	2.1
236	237	2.4	5.5	3.9	5.2	1.2	1.8	2.8	0.8
287	316	3.1	5.5	5.6	5.1	3.4	4.2	3.8	4.6
253	284	2.6	5.4	4.8	4.5	6.7	3.7	5.2	1.6
155	203	2.7	6.4	4.4	5.8	4.8	5.6	5.0	6.4
423	514	3.5	6.4	5.2	5.4	4.5	—	—	—

^c Average for 1960-1967.

^d Average for 1965-1967.

In a second group, comprising Colombia, Peru and Bolivia, prices rose at medium annual rates which ranged from 5 to 12 per cent, and there was little variation from the first half of the decade to the next.

Lastly, four countries—Uruguay, Brazil, Chile and Argentina—recorded the biggest increases in domestic prices. In Uruguay and

Brazil, consumer prices rose at an annual rate of 47 per cent over the decade, and in Chile and Argentina they increased at average rates of 26 and 22 per cent, respectively. In the first two countries, moreover, there were big differences between the averages for the two five-year periods; but, in the other two, they were more stable.

Chapter III

STRUCTURAL CHANGE*

1. EVOLUTION OF THE STRUCTURE OF THE PRODUCT

Economic development usually involves change, which may sometimes be very far-reaching and sometimes much less so. It is worth investigating whether the changes that the Latin American countries have been undergoing resemble those that have occurred in other regions or are different from them. For the purposes of this investigation, the traditional division of the economy into the primary, secondary and tertiary sectors was abandoned in favour of established United Nations practice, which groups manufacturing, mining, construction and basic services in one sector, leaving two others—agriculture and “other services”.

The data contained in table 25,¹¹ at the end of this chapter, refer to the productive structures of the Latin American countries. The most obvious general trend is the not surprising drop (from a regional average of 20.2 per cent to 17.3 per cent) in the share of the agricultural sector in the total product. This drop was the natural consequence of the growth process, and it could be considered moderate in view of the fact that it took ten years to accomplish. This trend should be compared with the current structure of production in Latin America, where the agricultural product accounts for less than one fifth of the total product.

The increase in the share of the industrial and basic services sector (by an average of 2.7 per

cent for the region) was responsible for 93 per cent of this moderate drop in the share of the agricultural sector. There was no change in the share of the services sector, on the other hand, except for a very slight increase—barely 0.2 per cent.

These average results for the region should be compared with what happened in the different individual economies. The share of the agricultural sector shrank nearly everywhere, as was to be expected (see table 10), Venezuela and Uruguay being the only exceptions. Venezuela has been striving, through agricultural promotion programmes, to expand the very small share of the agricultural sector, which made it markedly dependent on external supplies of foodstuffs. In Uruguay, on the other hand, the increase in the share of the agricultural product seems to be due more to lack of dynamism in the non-agricultural sectors.

The intensity of the declining trend in the share of agriculture in all the other countries of the region can be seen from the information contained in table 10, which distinguishes between three types of productive structure, corresponding to three different levels of development. The first type, where the share of the agricultural sector is not more than 25 per cent, includes the more developed countries, such as Brazil, Argentina and Mexico, and the economies of Chile, Venezuela, Uruguay, Peru and Panama. At the end of the decade, Costa Rica, Bolivia and the Dominican Republic also managed to climb into this group. The second type, where the agricultural product accounts for more than 35 per cent of the total product, corresponds to an earlier stage of development and it included Nicaragua, Ecuador, Paraguay, Honduras and Haiti at the beginning of the decade, but in 1969, only the two last-named countries were still at this level. The third type corresponds to an intermediate level. In 1969, Guatemala, El Salvador and Colombia were still at this level, despite the progress they had achieved, particularly El Salvador.

Trends in the agricultural sector must be compared with those of activities that grew

* The term “structural change” is used here in a strictly economic sense, and it refers mainly to stages of development and differences between systems of production. It is assumed that what the changes indicate, in the last analysis, is how rapid and far-reaching the process of technical innovation has been, and how the national economies have become part of the world economic system. The latter aspect of structural change is discussed in chapter V, which deals with the external sector. Nevertheless, this does not preclude the possibility of introducing more complex and substantive aspects of the idea of structural change, such as those connected with land reform and other similar reforms, in future studies.

¹¹ All the other tables in this chapter are based on table 25.

Table 10. Latin America: share of the agricultural sector in the total product
(Percentages)

Share	1960	1969
<i>Below 25 per cent</i>	Venezuela 7.2 Chile 12.1 Mexico 16.6 Argentina 17.4 Brazil 22.1 Uruguay 19.3 Peru 24.1 Panama 24.9	Venezuela 7.8 Chile 10.1 Mexico 12.8 Argentina 15.2 Brazil 19.9 Uruguay 20.9 Peru 18.2 Panama 21.0 Costa Rica 22.4 Bolivia 23.1 Dominican Republic 24.8
<i>Between 25 and 35 per cent</i>	Costa Rica 27.0 Bolivia 30.6 Dominican Republic 30.7 Guatemala 30.3 El Salvador 32.4 Colombia 34.1	Guatemala 27.3 El Salvador 26.0 Colombia 30.3 Nicaragua 27.9 Ecuador 31.7 Paraguay 34.2
<i>Over 35 per cent</i>	Nicaragua 37.2 Ecuador 36.8 Paraguay 38.8 Honduras 44.1 Haiti 48.5	Honduras 38.5 Haiti 45.9
<i>Average for Latin America</i>	20.2	17.3

SOURCE: ECLA estimates on the basis of official data. See also table 25, section 1.

faster than agriculture during the last decade. To that end, table 11 assembles information on the changes that occurred in industry and basic services and services, according to intensity. A general trend is observable towards an increase in the relative share of industry and basic services, which is of special importance in the light of the key position of that sector.

There is a fairly logical relationship between the pace of change and the level of development. In countries where industrial development is of relatively recent date, the establishment of new branches of industry has the effect of speeding up the growth rate of the sector. This is the case of such countries as El Salvador, Bolivia and Panama, where the growth of the industrial sector's share was fairly pronounced. In contrast, in countries where industrial development had reached a more advanced stage, the pace of change was more moderate; and this would seem to account for the small increments in the share of industry in Argentina, Brazil and Mexico.

Nevertheless, there were countries like Ecuador, Haiti and Nicaragua where changes were very slight despite the fact that industrial development was still in its early stages, which would seem to indicate that industrialization had not yet got off the ground. There were, too, some exceptions to the general trend—for

example, Uruguay and Venezuela—where the share of industry and basic services decreased slightly.

Table 11 provides an interesting picture of the changes that occurred in the services sector. Unlike the industry and basic services sector, the share of the services sector tended to remain constant or to decline in most countries of the region.

In none of the more developed countries did the share of the services sector increase. It would appear—although no data are available on the changes in the internal structure of the sector—that its relatively slow rate of growth may have been due to its magnitude in absolute terms at the beginning of the 1960s, corresponding to a higher level of industrial development. It was only in the more recently industrialized countries that the services sector showed moderate growth, although growth rates were much lower than in industry and basic services.

It may therefore be concluded that the changes observed in the structures of production of the Latin American countries were in line with past trends in other countries. It should be borne in mind, however, that the shares of the sectors were determined on the basis of data for the gross domestic product, which may have been somewhat distorted by changes in the relative prices over the period.

Table 11. Latin America: changes in the relative share of the sectors in the total product, 1960 and 1969
(Percentage variations)

	Manufacturing and basic services		Services	
<i>Sharp increase</i>	Honduras	37.7	Nicaragua	17.8
	Panama	27.8		
	Bolivia	26.6		
	El Salvador	21.5		
	Guatemala	18.0		
	Dominican Republic	16.1		
<i>Moderate increase</i>	Paraguay	14.9	Ecuador	9.8
	Costa Rica	13.2	Peru	5.9
	Haiti	12.4	Colombia	5.7
	Chile	11.7	Dominican Republic	4.3
	Mexico	11.0	El Salvador	3.0
	Argentina	10.3	Paraguay	2.5
	Nicaragua	10.1	Costa Rica	2.2
	Peru	9.8		
	Brazil	7.0		
	Colombia	5.8		
	Ecuador	5.8		
<i>Little or no change</i>			Haiti	0.9
			Venezuela	0.8
			Mexico	0.3
			Guatemala	-0.4
			Brazil	-0.5
<i>Moderate decrease</i>	Venezuela	-2.2	Uruguay	-1.8
	Uruguay	-2.3	Bolivia	-6.7
			Panama	-7.0
			Argentina	-7.2
			Chile	-8.2
			Honduras	-8.7

SOURCE: ECLA estimates on the basis of official data. See also table 25, section 1.

2. THE COMPOSITION OF EMPLOYMENT AND ITS TRENDS DURING THE 1960s

There were two striking features of labour supply trends in Latin America over the decade. The first was the upswing in the growth rate of the working age population (between 15 and 65), which is estimated to have reached 32 per cent in the 1960s, as against 25 per cent in the 1950s. Secondly, as noted earlier, the migration of labour from rural to urban areas raised the annual rate of increase in the region's urban population to 4.4 per cent. These facts demonstrate the magnitude of the problem of incorporating labour in productive activities which the Latin American countries have to face.

It is customary when considering the structure of employment anywhere to look at the trends of change in the countries at the centre, where, as average productivity in agriculture increased, the rate at which agriculture absorbed labour declined and even became a negative quantity, thus freeing surplus labour which was absorbed by activities connected with the industrial and tertiary sectors.

It may be worth while looking at the changes that have taken place in Latin America in the light of these trends. Table 25, section 2, gives data on the structure of employment in Latin America in 1960 and in 1969. It can be seen that agricultural employment generally showed a moderately declining trend.

This decrease, however, was not accompanied by a corresponding increase in industrial employment, which remained unchanged throughout the period. The services sector was responsible for the rapid absorption of urban labour, and its share of which increased from 24.6 per cent in 1960 to 27.4 per cent in 1969.

Individual country trends reflect the over-all trends. The first thing that emerges clearly from table 12, which shows the changes in employment, is that the share of agricultural employment in total employment declined, particularly in Uruguay, Chile, Argentina and Venezuela. In these countries, this reflects rising productivity in agriculture and the small scale of agricultural employment at the beginning of the decade.

Table 12. Latin America: changes in the relative share of the sectors in total employment, 1960 and 1969
(Percentage variations)

	Agriculture	Manufacturing and basic services	Services
<i>Sharp increase</i>			Nicaragua . . . 33.0 Colombia . . . 27.1 Dominican Republic . . . 24.4 Honduras . . . 23.1 Ecuador . . . 22.0 Mexico . . . 21.9 Peru . . . 21.7 Brazil . . . 21.4 Guatemala . . . 18.6 Bolivia . . . 18.3
		Venezuela . . . 14.3	Chile . . . 14.5
		Panama . . . 15.6	Paraguay . . . 15.7 Costa Rica . . . 15.2 Uruguay . . . 11.9 Argentina . . . 10.7 Venezuela . . . 10.0 El Salvador . . . 6.4 Panama . . . 2.1
<i>Moderate increase</i>		Mexico . . . 8.4 Paraguay . . . 5.8 Honduras . . . 5.1 Bolivia . . . 5.0 Peru . . . 4.0 El Salvador . . . 3.8 Brazil . . . 1.3 Guatemala . . . 1.3	
<i>Moderate decrease</i>	El Salvador . . . -3.8 Ecuador . . . -5.9 Panama . . . -6.0 Costa Rica . . . -6.1 Guatemala . . . -4.9 Honduras . . . -6.3 Dominican Republic . . . -7.7 Bolivia . . . -7.9 Nicaragua . . . -9.4 Paraguay . . . -8.9 Brazil . . . -10.7 Peru . . . -11.5 Colombia . . . -12.3 Mexico . . . -13.1	Dominican Republic . . . -0.7 Argentina . . . -2.9 Chile . . . -4.3 Costa Rica . . . -4.4 Nicaragua . . . -4.4 Colombia . . . -6.1 Uruguay . . . -6.5 Ecuador . . . -6.9	
<i>Sharp decrease</i>	Uruguay . . . -16.6 Chile . . . -16.4 Argentina . . . -18.3 Venezuela . . . -22.2		

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 2.

In all the other countries, in which agricultural employment accounts for more than 40 per cent of the total, there were few changes. It would appear that the lower the level of development, the less significant are changes in the share of agricultural employment, because it is not so easy to transfer surplus agricultural labour to urban areas. This seems to be what happened in such countries as El Salvador, Ecuador, Panama and Costa Rica.

The significance of decreases in agricultural employment in Latin America must however be placed in proper perspective, for it is rare for such relative decreases to signify decreases in agricultural employment in absolute terms. What generally happens is that agricultural labour is absorbed more slowly. The labour force at present engaged in agriculture is still

large, an estimated 35 million or so for Latin America as a whole.

The data on employment in industry and basic services do not show any clear trend. The only countries where employment in the sector increased significantly were Venezuela and Panama, all the other countries having relatively modest or even negative absorption rates. Here there does not seem to be any clear connexion between shifts in employment in the sector and the stage of industrial development.

A more detailed study is required of the internal structure of employment in industry and basic services and of the changes in it at different levels of productivity in order to explain the sector's inability to generate employment.

With respect to the services sector, past trends provide a basis for analysing the changes

that took place during the 1960s. The decline in agricultural employment, together with the low rate at which labour was absorbed in industry and basic services, led to a disproportionate increase in employment in services. This trend is examined in table 13, which relates the increase in employment in the services sector to the decrease in the share of agricultural employment. It can be seen that in many countries employment declined not only in agriculture but in industry and basic services. In these cases, "other services" absorbed the surplus manpower from both sectors and employment in this sector increased by over 100 per cent. This occurred in Uruguay, Argentina, Chile, Costa Rica, Ecuador, Colombia, Nicaragua and the Dominican Republic.

Table 13. Latin America: changes in the structure of employment, 1960 and 1969
(Percentages)

Countries	Decline in the share of agricultural employment in total employment between 1960 and 1969	Absorption by the services sector of the labour released by the decline in the share of agricultural employment in total employment ^a
Uruguay	-3.3	167
Ecuador	-3.3	145
Chile	-4.4	132
Argentina	-3.5	131
Costa Rica	-3.2	128
Colombia	-5.9	125
Nicaragua	-5.8	114
Dominican Republic	-5.0	102
Brazil	-5.6	95
Guatemala	-3.3	94
Honduras	-4.5	87
Peru	-6.0	83
Bolivia	-4.7	79
Paraguay	-5.0	78
Mexico	-7.1	75
El Salvador	-2.2	68
Venezuela	-7.6	55
Panama	-3.1	26
Latin America	-5.0	98

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 2.

^a The indexes were calculated by relating the increase in the share of services to the decline in the share of agriculture multiplied by 100.

Moreover, even in countries where employment in industry and basic services did not fall, the services sector still absorbed virtually all the labour released by the decline in agricultural employment, the only exceptions being Panama and Venezuela.

It seems clear that the assumptions of the classical theory of change do not apply to Latin America. Only in the initial stages did industrialization fulfil the function of rapidly in-

creasing industry's share in total employment. Once these initial stages had been completed, industry lost its capacity to create employment at a sufficiently high rate with the result that labour was rapidly absorbed by "other services". And the services sector generates a variety of marginal activities into which labour is for all intents and purposes "dumped", and employed at an extremely low level of productivity.

3. SECTORAL PRODUCTIVITY

(a) *Structure of production and of employment*

Now that the main trends in the development of the production and employment structures in Latin America have been considered, it will be of interest to consider the changes in both from an over-all viewpoint.

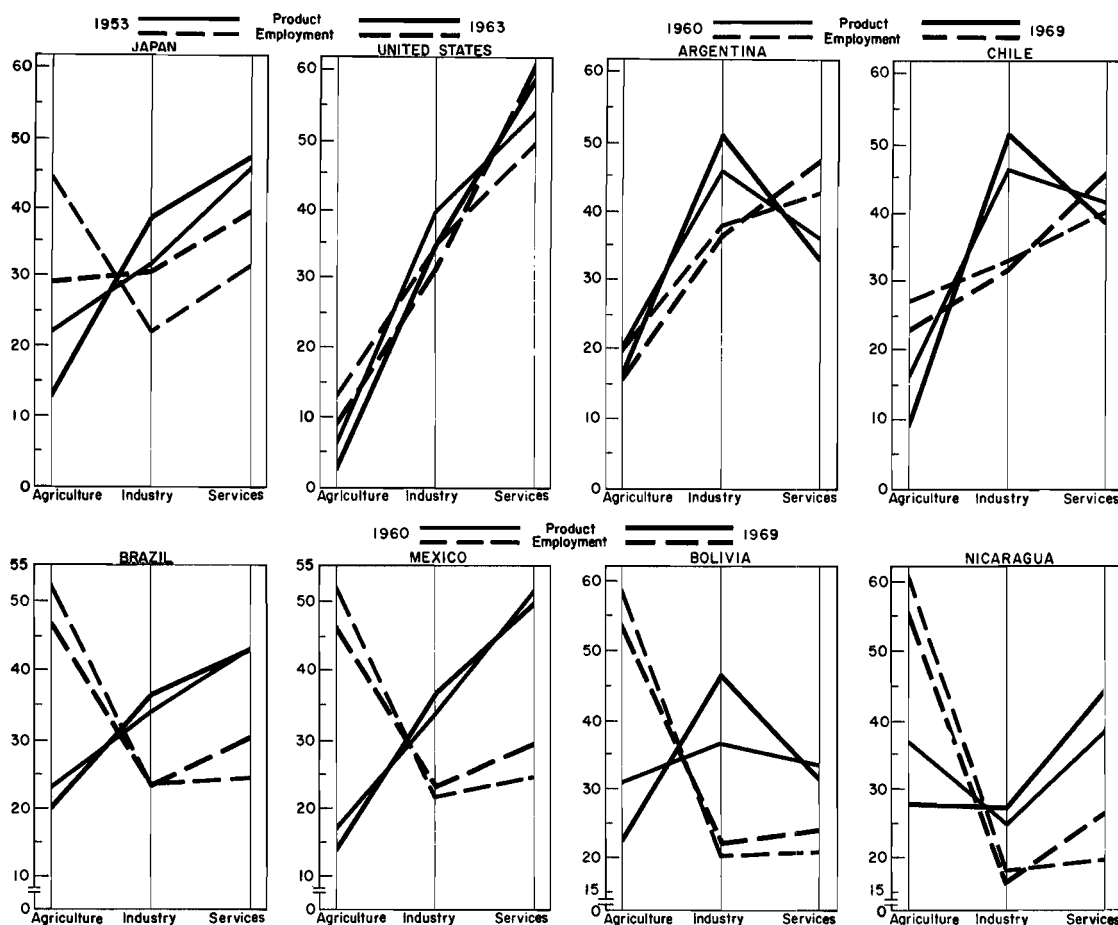
Here, it is most important to make comparisons with the experience of other countries. Taking, for example, economies that have developed along different lines and with a different structure, such as those of Japan and the United States, it is observed that the direction taken by structural changes in the composition of the product and of the employed population have tended to be in the same direction. Where the two structures were already much the same, as was the case in the United States in 1953, they were drawn even closer together by the changes that occurred in the following decade. On the other hand, in the relatively less developed Japanese economy, where the process of change was more intense, the structure of employment followed the same trends as the structure of the product, so that they were much closer together at the end of the decade than at the beginning (see figure II).

The Latin American economies appear to have developed in the opposite direction in the last decade. The assimilation and spread of technical progress accentuated the imbalances, leading to a growing divergence between the structure of production and that of employment. Some typical cases bear out this trend.

In Argentina and Chile, the marked changes in the structure of production were not accompanied by similar trends in employment, where the changes were only moderate. Consequently, the two structures developed along increasingly divergent paths. On the other hand, in economies such as Brazil's and Mexico's, there were sharp changes in employment structure, while the structure of the product remained virtually unchanged. Here, too, the original disparity between the two was accentuated.

In the more recently industrialized coun-

Figure II. Structure of product and employment
Natural scale



tries, such as Bolivia, where there were consequently the most abrupt changes in the structure of production, there were no concomitant changes in employment which, in fact, often moved in the opposite direction, with the result that here, too, the disparities were accentuated.

Only in the relatively less developed economies of the region, where the process of modernization lacked dynamism, did the initial disparities between the structure of employment and that of production remain unchanged, without accentuation or improvement.

The development of the structures of production and divergencies of employment in the Latin American economies led to an accentuation of the disparities between the levels of productivity of the different sectors of economic activity.

Account must be taken of the fact that there are insuperable obstacles in the way of making a more detailed analysis, and without such an analysis it is impossible to make a more complete study of the disparities between the levels of productivity of the different economic activities.

(b) *The trend towards greater structural diversity*

Taking 1950 as a base year for comparison (see table 25, section 4), it can be seen that agricultural productivity continued to decline compared with the average for the economy, except in Argentina, Uruguay, Colombia and Venezuela. The growth rate of productivity in the agricultural sector has always been below the average, which is a clear indication of the unequal distribution of the benefits of technical progress.

In industry and basic services, there was a general upswing in productivity, except in Venezuela and Mexico. The upswing was more marked in countries that had recently started on the path of industrialization (Honduras, Nicaragua, the Dominican Republic, Panama and Ecuador), while the rate was more moderate in the more developed countries. The improved productivity of the sector seems to have been due both to its greater capacity to absorb technological advances and to changes in its internal structure, artisan-type activities losing ground to manufacturing industry.

Largely as a consequence of the above-mentioned developments, there was a sharp downward trend in the productivity levels of the services sector. The only countries where the trend was more moderate were Argentina, Uruguay, Costa Rica, Bolivia, El Salvador, Ecuador and Paraguay (see table 25). As a result, the sectoral imbalances were accentuated during the decade. The following examples of such imbalances can be given for 1968:

	National average	Sector with lowest level of productivity	Sector with highest level of productivity
Argentina	100	70.7 (services)	138.8 (industry)
Mexico	100	27.1 (agriculture)	172.9 (services)
Venezuela	100	29.3 (agriculture)	170.2 (industry)
Guatemala	100	42.2 (agriculture)	261.6 (services)
Latin America	100	41.0 (agriculture)	159.7 (industry)

These imbalances in sectoral productivity, however, are only rough estimates of developments which are intra-sectoral in character and of greater magnitude.

The economic structures of the Latin American countries have been characterized by increasing differences in productivity between the different economic activities, including major intra-sectoral disparities, which are the result of considerable differences in the forms of organization, the levels of technology assimilated and the prevailing social relationships.¹²

In previous studies,¹³ reference was made to the growing disparities between what may be considered as modern activities, with productivity levels close to the average for the industrialized economies, and primitive activities, with rudimentary forms of productive organization and equipment. Thus, while the process of

development promoted greater harmony between the structures of production and of employment in the developed countries, in Latin America the process led to an accentuation of the initial disparities and, as a result, of the discordances in the economy as a whole.

4. COMPOSITION OF THE MANUFACTURING SECTOR

Another change that is a constant feature of the development process is the shift in the relative importance of the subsectors of industry. Generally speaking, it is well known that the importance of the traditional industries (producing non-durable consumer goods) declines, while the intermediate goods industries, particularly the metal-transforming industries, which produce both capital goods and consumer durables gain ground.

For that reason it would be as well to examine the structure of industry in Latin America and its evolution during the decade in order to determine what changes occurred.

Section 5 of table 25 contains basic data for the period 1955 to 1968. The first noticeable trend is the declining share of traditional industries in the structure of the product. However, this change assumed marked proportions only in Brazil, Argentina, Mexico, Peru, Bolivia, Ecuador and the Dominican Republic, and was unremarkable in the other countries.

The second important trend is the fairly dynamic growth of the metal-transforming industry, with the sole exception of Uruguay, where the share of this industry declined. However, the region's output of machinery and equipment continues to be small, and it is outstanding only in Brazil, Argentina and Mexico, where it accounts for 27.2, 36.2 and 31.3 per cent, respectively, of total manufacturing output.¹⁴

As regards the development of the intermediate goods industries, which produce general inputs, the changes during the period were moderate, assuming importance only in Bolivia and the Dominican Republic.

The information contained in table 14 is presented from another angle; it shows three levels for the share of traditional industries in the industrial product, reflecting different levels of industrial development. The countries generating the larger shares of the industrial product, such as Brazil, Argentina and Mexico, con-

¹² See "Employment problems and productivity trends", ECLA, *Economic Survey of Latin America, 1964* (United Nations publication, Sales No.: 66.II.G.1), Part One, chapter I, pp. 37-47.

¹³ See "Basic aspects of Latin American development strategy", ECLA, *Economic Survey of Latin America, 1969* (United Nations publication, Sales No.: E.71.II.G.1), Part One.

¹⁴ In 1966, the metal-transforming industries accounted for 34.1 per cent of industrial output in Japan and 39.7 per cent in the United States.

Table 14. Latin America: share of traditional industries in total industrial output
(Percentages)

	1955	1968
<i>About 40 per cent</i>		Argentina . . . 39.8 Brazil . . . 41.9 Mexico . . . 41.2
<i>Between 40 and 70 per cent</i>	Argentina . . . 52.2 Brazil . . . 52.2 Mexico . . . 52.9 Venezuela . . . 52.6 Chile . . . 57.1 Uruguay . . . 62.3 Peru . . . 66.7 Colombia . . . 69.3	Chile . . . 47.5 Venezuela . . . 48.0 Peru . . . 57.3 Uruguay . . . 61.3 Colombia . . . 63.2 Ecuador . . . 65.5
<i>Over 70 per cent</i>	Ecuador . . . 75.8 Panama . . . 78.4 Bolivia . . . 82.5 Guatemala . . . 94.2 Dominican Republic . . . 94.6	Bolivia . . . 71.4 Panama . . . 73.7 Dominican Republic . . . 85.7 Guatemala . . . 91.9

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 5.

siderably strengthened the fastest-growing branches of their industry, with the result that the share contributed by the traditional industries had dropped to no more than 40 per cent by 1968. This figure should, however, be compared with those for Japan, the share of whose traditional industries had dropped to 34.1 by 1965, and for the United States, where it was 31.4 in 1966.

Venezuela, Uruguay, Peru and Colombia, on the other hand, remained in an intermediate position reflecting an earlier stage of industrialization, and this position was also reached by Ecuador.

Lastly, the structure characteristic of low levels of industrialization remained unchanged in Bolivia, Panama, the Dominican Republic and Guatemala, where the share of traditional industries in the sectoral output was more than 70 per cent.

5. GENERAL GOVERNMENT TRENDS

Section 6 of table 25 gives data on general government trends in Latin America. Although a number of different aspects are involved, there are uniform data on general government covering all the Latin American countries only for total expenditure, the structure of income and expenditure, and capacity to finance public investment.

The most striking feature is the marked tendency for government expenditure expressed as a percentage of the gross domestic product to increase. Of the countries considered, this ratio declined slightly only in the Dominican Republic, El Salvador and Venezuela.

The greatest changes, as can be seen in table 15, occurred in Paraguay, Colombia, Argentina and Honduras, where there were sharp increases in government investment and a proportionately smaller increase in current expenditure. The same trend, although less pronounced, was observable in the other countries of the region.

Taking the data for the end of the 1960s, the countries can be classified in three groups according to the ratio of total expenditure to the gross domestic product. For Argentina,

Table 15. Latin America: changes in the ratio of total government expenditure to the gross domestic product between 1959-1960 and 1968-1969^a
(Percentages)

<i>Sharp increase</i>	Paraguay . . . 66.0 Colombia . . . 41.3 Argentina . . . 33.0 Honduras . . . 26.9
<i>Moderate increase</i>	Nicaragua . . . 16.8 Panama . . . 16.5 Chile . . . 15.7 Costa Rica . . . 15.6 Mexico . . . 15.3 Uruguay . . . 11.2 Bolivia . . . 10.8 Brazil . . . 8.4 Peru . . . 7.9 Guatemala . . . 3.4 Ecuador . . . 2.7
<i>Moderate decrease</i>	Dominican Republic . . . -8.3 El Salvador . . . -5.9 Venezuela . . . -4.3

SOURCE: ECLA, on the basis of official statistics. See also table 25, section 6.

^a The same periods as in table 25.

Brazil, Chile and Uruguay the ratio was above 25 per cent. The intermediate group, in which the figure ranges between 15 and 25 per cent, comprises the majority of countries, namely Bolivia, Costa Rica, Ecuador, Peru, Venezuela, Honduras, Nicaragua, Panama, Paraguay, the Dominican Republic and Mexico. The third group, in which the figure was below 15 per cent, is composed of Colombia, El Salvador and Guatemala.

Turning now to the structure of current government expenditure, there was a general trend for the share of consumption or operating expenditure to decrease, with a corresponding rise in expenditure under the head of transfer payments, normally connected with various types of social expenditure. This trend, which was particularly marked in Brazil and Honduras, did not appear in Bolivia and Uruguay, where the share of consumption expenditure noticeably increased.

As regards the level of operating expenditure, it should be noted that in only five of the countries considered (Brazil, Chile, Mexico, Peru and Uruguay) did it represent less than 70 per cent of total current expenditure.

With respect to the structure of general government income, section 6 of table 25 shows that there was no substantial change in the proportion of non-tax revenue. The only exception to this is Ecuador, where non-tax revenue increased considerably, accounting for an average of 34.7 per cent of total revenue in 1966-1967.

The general trend as regards the structure of tax revenue was towards a decline in the share of indirect taxation, which dropped substantially in El Salvador, Panama, the Dominican Republic and Venezuela. This was not the case, however, in Argentina, Brazil, Bolivia, Guatemala, Paraguay, Peru and Uruguay, where there was a slight increase in the share of indirect taxation (see table 25, section 6).

The countries considered may be grouped according to the share of direct taxes in their total tax revenue (see table 16). Only in Paraguay, Argentina, Brazil, Honduras and Guatemala did they account for less than 30 per cent of total tax receipts. However, it is not possible to draw any firm conclusions from an analysis of tax structures in Latin America without knowing more about the nature and coverage of indirect taxes, on which the results of all tax measures ultimately depend.¹⁵

¹⁵ See "Some recent changes in tax financing", ECLA, *Economic Survey of Latin America, 1967* (United Nations publication, Sales No.: E.69.II.G.1), Part One, chapter IV.

Table 16. Latin America: share of indirect taxes in total tax revenue in selected years
(Percentage averages)

	Period	Country	
Over 40 per cent	1967-1968	Venezuela	67.6
	1967-1968	Chile	53.1
	1967-1968	Panama	51.6
	1966-1967	Uruguay	48.1
	1966-1967	Ecuador	42.6
	1967-1968	Mexico	42.0
	1967-1968	Colombia	41.6
Between 30 and 40 per cent	1967-1968	Costa Rica	36.3
	1968-1969	Bolivia	35.6
	1966-1967	Peru	34.6
	1967-1968	Dominican Republic	32.4
	1967-1968	El Salvador	30.6
	1968-1969	Nicaragua	30.4
Below 30 per cent	1968-1969	Paraguay	27.2
	1968-1969	Argentina	26.3
		Brazil	25.4
	1966-1967	Honduras	23.4
	1966-1967	Guatemala	22.5

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 6.

Section 6 of table 25 also gives data on the ratio of general government saving to public investment. There were marked variations throughout the decade, notably in Argentina, Brazil, Colombia, Costa Rica, Ecuador and Paraguay, which were due to problems of so many different kinds that it is impossible to give a general explanation, although it should be borne in mind that the various forms of general government internal and external indebtedness played an important role.

Looking now at the share of general government saving in public investment at the end of the decade, the data show that only in Ecuador, Colombia, Venezuela and El Salvador was that share above 80 per cent, while most of the countries considered fell into the intermediate range between 50 and 80 per cent (see table 17). In Honduras, Costa Rica, Brazil, Paraguay, Peru and Bolivia it was below the 50 per cent mark.

6. TRENDS IN THE INVESTMENT COEFFICIENTS

There is one factor that is most meaningful for any appraisal of the development of the Latin American economies, and that is the trend in the ratio between the growth of the product and investment.

The investment coefficient of Latin America as a whole in 1969 was approximately 19.6 per cent, which represents quite a substantial effort towards capital formation which can compare with the rates achieved by the more developed

Table 17. Latin America: ratio of general government saving to public investment
(Percentages)

	Period	Country	
Over 80 per cent	1966-1967	Ecuador	123.8
	1967-1968	Colombia	97.3
	1967-1968	Venezuela	85.1
	1967-1968	El Salvador	82.1
Between 50 and 80 per cent	1967-1968	Panama	75.9
	1968-1969	Argentina	69.3
	1967-1968	Mexico	62.2
	1967-1968	Dominican Republic	61.9
	1968-1969	Nicaragua	58.8
	1966-1967	Uruguay	57.1
		Chile	54.6
	1966-1967	Guatemala	50.7
Below 50 per cent	1966-1967	Honduras	37.5
	1967-1968	Costa Rica	34.6
	1967-1968	Brazil	32.5
	1968-1969	Paraguay	31.5
	1966-1967	Peru	16.5
	1968-1969	Bolivia	7.1

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 6.

economies in the past.¹⁶ It has been accompanied by a growth rate of about 6 per cent for the gross product over the last three years.

Most of the countries in the region were able to increase their capital formation between 1955 and 1969, Paraguay and Panama heading the list with increases of 12.1 and 8.8 per cent respectively in their investment coefficients (see table 18). In Venezuela, Colombia and Peru, in contrast, the investment coefficient declined by 9, 7.2 and 5.9 per cent respectively over the same period, which would seem to indicate that the high level achieved in 1955—well above the Latin American average—was due to special circumstances in these countries.¹⁷ There were only slight changes in the other countries, and it may be assumed that they were due to transitory phenomena in the years considered. The investment coefficient for Latin America as a whole did not show any very marked changes during the period considered.

Above the Latin American average, the differences in investment coefficients are not very marked. In 1969, most countries fell into the 18 to 21 per cent range, except for Panama and

¹⁶ The United States' investment coefficient was 20.4 per cent during the period 1909-1928 and 18.2 per cent in 1946-1955. The United Kingdom had a coefficient of 14 per cent in 1900-1914 and of 16.2 per cent in 1950-1958. See Simon Kuznets, *Modern Economic Growth* (Yale University Press, 1966), p. 236.

¹⁷ Fluctuations in investment in the petroleum industry were the main reason for the decrease in Venezuela.

Table 18. Latin America: changes in the investment coefficient between 1955 and 1969
(Percentages of the gross domestic product)

Paraguay	+12.1
Panama	+8.8
El Salvador	+4.4
Honduras	+4.2
Argentina	+3.1
Brazil	+2.2
Mexico	+1.5
Bolivia	+1.2
Costa Rica	+0.9
Chile	+0.5
Guatemala	+0.2
Venezuela	-9.0
Colombia	-7.2
Peru	-5.9
Uruguay	-4.0
Haiti	-3.0
Dominican Republic	-2.9
Ecuador	-2.2
Nicaragua	-0.6

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 7.

Paraguay, which had coefficients of roughly 23.7 per cent (see table 19). There were more pronounced differences, however, between the countries with coefficients below the average, which fall into two groups according to their level of development.

Table 19. Latin America: investment coefficients, 1969
(Percentages)

Level in relation to the Latin American average (19.6 per cent)	Country	
Above the Latin American average	Panama	23.7
	Paraguay	23.7
Round the Latin American average	Argentina	20.9
	Mexico	20.7
	Honduras	20.7
	Venezuela	20.3
	Costa Rica	20.3
	Brazil	19.6
	Bolivia	19.1
	Nicaragua	18.8
	Dominican Republic	18.8
Below the Latin American average	Colombia	18.6
	Peru	18.4
	Chile	17.1
	Uruguay	15.6
	Ecuador	14.7
	El Salvador	14.1
	Guatemala	12.5
	Haiti	5.0

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 7.

Chile, Uruguay, Peru and Colombia were in the 15 to 18 per cent range. The countries whose coefficient was less than 15 per cent—indicating the early stages of capital formation—were El Salvador, Guatemala, Ecuador; and there is the special case of Haiti, whose investment coefficient was the lowest in the region, a bare 5 per cent.

7. INTERNAL SAVING AND NET EXTERNAL FINANCING

During the period 1960–1969, net financing of investment in the region as a whole remained virtually the same, with the share of net external funds increasing by only 0.4 points. Although it is not possible to distinguish a general trend, the data given in table 20 show marked changes in certain countries. There were considerable shifts in the composition of investment resources throughout the period in Haiti, Panama, Chile, Uruguay and Argentina, with savings from domestic sources showing an upward trend. In contrast, there was a sharp increase in the share of external financing in total investment in Nicaragua, Ecuador and Honduras. But the most marked changes occurred in the Dominican Republic and Venezuela. At the beginning of the decade the level of domestic savings in these countries was more than sufficient to finance investment, but the situation changed, and by 1967–1969, net

Table 20. Latin America: share of net external financing in total investment, 1960–1962 and 1967–1969
(Percentages)

	Average 1960–1962	Average 1967–1969
Haiti	50.6	9.5
Bolivia	38.6	30.0
Panama	34.4	10.2
Chile	29.2	9.0
Guatemala	21.5	22.8
Nicaragua	17.0	41.2
Uruguay	16.5	—1.4
Costa Rica	16.2	24.2
Paraguay	13.6	17.3
Colombia	11.6	12.1
El Salvador	10.3	15.6
Brazil	9.7	5.5
Ecuador	9.7	25.5
Argentina	9.0	0.1
Mexico	6.8	8.2
Peru	1.4	6.7
Honduras	0.5	26.6
Dominican Republic	—21.0	43.4
Venezuela	—41.7	10.5
Latin America	7.1	7.5

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 8.

external funds accounted for 43.4 and 10.5 per cent of their investment, respectively.

For the region as a whole, the share of external savings was around 7.5 per cent in 1967–1969, which is not a very high figure.

It is useful, however, to distinguish the different levels of the share of net external funds in each country. Table 21 groups countries according to the type of saving that goes into investment, and it shows that as a general rule the most developed of the countries are least dependent on external savings. In Mexico, Brazil and Argentina, external funds represented less than 10 per cent of total investment; but countries at an earlier stage of industrialization, such as the Dominican Republic, Nicaragua, Honduras and Ecuador, were unable to finance more than 75 per cent of their capital formation from domestic sources, which means that a very large share of fixed investment came from external sources; their dependence is even greater than would appear from this fact because of the high import component. In the intermediate group, comprising Colombia, Venezuela and Panama, external financing represents between 10 and 20 per cent of investment resources.

Table 21. Latin America: share of external saving in total investment, 1967–1969
(Percentages)

Above 20 per cent	Dominican Republic	43.4
	Nicaragua	41.2
	Bolivia	30.0
	Honduras	26.6
	Ecuador	25.5
	Costa Rica	24.2
	Guatemala	22.8
Between 10 and 20 per cent	Paraguay	17.3
	El Salvador	15.6
	Colombia	12.1
	Venezuela	10.5
	Panama	10.2
Below 10 per cent	Haiti	9.5
	Chile	9.0
	Mexico	8.2
	Peru	6.7
	Brazil	5.5
	Argentina	0.1
	Uruguay	—1.4

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 8.

8. COMPOSITION OF INVESTMENT

Another factor that is important is the composition of the capital being formed for investment. Among other things, it is known that investment associated with construction has a

comparatively lower product-capital ratio and is linked more with infrastructure, urbanization and housing. Investment in machinery and equipment, on the other hand, is more directly linked with production.

The composition of investment in Latin America as a whole did not vary appreciably during the 1960s (see table 25, section 9), apart from a decline of 1.9 per cent in the share of construction. There were marked changes within the different countries, however, especially in the relatively less developed countries. In Nicaragua, Panama, Guatemala, and Uruguay the share of construction in fixed investment declined markedly, with machinery and equipment increasing its share to 60 per cent. In Colombia, Haiti and Ecuador, on the other hand, construction accounted for close to 50 per cent of fixed investment at the beginning of the decade but by 1969 had risen to about 70 per cent. In the remaining countries, the changes did not substantially alter the initial composition, in which the share of machinery and equipment ranged from 80 per cent in Brazil to 30 per cent in Ecuador.

It might be thought that, the higher the level of development, the larger the share of machinery and equipment in fixed investment, but this is not borne out by the data available in every case. In Nicaragua, Paraguay and Guatemala, for example, the share of machinery and equipment was above 60 per cent in 1969, while the figures for Mexico and Argentina were 46 and 55 per cent respectively. Therefore, to make a more precise estimate of the composition of investment in Latin America, more detailed consideration must be given to the composition of investment in machinery and equipment in each country.

9. SHARE OF PUBLIC AND PRIVATE SECTORS IN INVESTMENT

There are two kinds of factor that help to determine the share of the public sector in the process of capital formation. In the first place, there is the autonomous nature of public sector investment as a component of over-all demand, which enables it to play a compensatory role whenever the rate of private capital formation declines. A situation of this kind arose in the period 1960–1963 in Argentina, Brazil, Chile, Colombia and Uruguay, when the public sector continued to invest at the same rate despite the prevailing economic recession. The second group of factors has to do with the public sector's freedom of action with regard to yield on investment, which means that it can

invest in infrastructure at rates of return that would not be attractive to the private investor.

Table 25, section 10, shows the trend of public investment in the Latin American economies. On the whole, public investment increased, particularly in Peru, Colombia, Chile, Panama, Paraguay and Bolivia. The only countries showing a sharp drop in the share of the public sector were Venezuela and the Dominican Republic. It would be wrong, however, to attach too much importance to these figures since statistics in Latin America are inclined to blur the distinction between private and public investment, sometimes attributing to the private sector investment made by state-owned enterprises.

In most of the Latin American economies (see table 22), the share of the public sector—which can be taken as indicative of the structure of investment in the region—was more than 30 per cent, and as high as 59.0 and 58.6 per cent in Bolivia and Chile respectively. Countries like Colombia, El Salvador and Guatemala were in an intermediate position, with the public sector accounting for between 20 and 30 per cent, while in Uruguay, Costa Rica and Nicaragua public investment represented less than 20 per cent of the total.

Table 22. Latin America: share of public sector in fixed investment, 1969
(Percentages)

<i>Above 30 per cent</i>	Chile	58.6
	Bolivia	59.0
	Paraguay	46.0
	Ecuador	40.5
	Brazil	38.8
	Argentina	37.1
	Mexico	40.8
	Venezuela	36.8
	Peru	34.6
	Dominican Republic	33.5
<i>Between 20 and 30 per cent</i>	Colombia	28.6
	El Salvador	23.1
	Guatemala	22.2
	Honduras	27.8
	Panama	27.5
	Haiti	22.7
	Uruguay	17.2
<i>Below 20 per cent</i>	Costa Rica	17.7
	Nicaragua	19.5

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 10

The data given in table 22 do not indicate any clear-cut relationship between the level of development and the public sector's share of total investment.

Country	1. Average per person (1960-1969)				2. Average per person (1970-1979)				3. Average per person (1980-1989)				4. Average per person (1990-1999)				5. Average per person (2000-2009)				6. Average per person (2010-2019)				7. Average per person (2020-2029)					
	Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry			
	1960	1969	1960	1969	1970	1979	1970	1979	1980	1989	1980	1989	1990	1999	1990	1999	2000	2009	2000	2009	2010	2019	2010	2019	2020	2029	2020	2029		
Argentina	17.4	46.4	36.2	15.2	19.1	38.0	45.8	15.6	36.9	47.5	2.185	7.621	78.0	118.4	102.6	91.1	122.1	84.4	97.4	138.8	70.7	52.2	21.8	36.0	39.8	34.0	27.2	36.2	36.2	
Brazil	22.1	33.9	44.0	39.2	23.0	24.8	46.6	26.3	23.3	29.5	1.558	4.201	45.4	126.9	207.8	42.3	147.4	177.4	42.7	155.5	145.5	52.2	26.1	21.7	49.8	30.9	27.2	36.2	36.2	
Chile	16.6	32.6	50.8	12.8	36.2	51.0	15.6	22.2	29.5	29.5	1.208	2.108	31.3	171.6	282.3	30.6	151.6	209.9	27.1	155.4	122.9	52.2	21.6	23.5	41.3	34.0	27.2	36.2	36.2	
Colombia	7.2	43.5	45.7	7.8	46.3	32.8	43.9	26.6	27.2	27.2	2.316	2.841	19.6	127.0	189.0	21.1	138.7	168.3	29.4	159.2	99.4	52.6	34.4	13.0	48.0	32.7	36.2	36.2	36.2	
Costa Rica	24.1	35.4	40.5	18.2	38.9	42.9	52.2	24.8	21.0	28.0	1.099	1.221	42.9	122.2	259.9	42.9	122.2	176.1	39.4	150.8	153.2	66.7	16.4	16.9	38.6	24.3	36.2	36.2	36.2	
Cuba	12.1	46.1	41.8	10.1	51.5	38.4	28.9	33.0	31.6	42.9	1.656	1.385	96.1	127.5	196.2	45.0	109.7	104.2	44.0	130.8	83.7	57.1	27.2	47.5	29.2	23.3	36.2	36.2	36.2	
Dominican Republic	27.0	32.7	45.8	22.4	45.8	22.4	45.8	22.4	45.8	22.4	1.380	1.195	61.9	121.5	192.0	51.4	132.7	168.6	46.4	157.1	180.5	52.6	20.4	11.3	48.0	32.7	36.2	36.2	36.2	36.2
El Salvador	23.2	23.2	43.8	26.0	28.8	45.2	38.3	18.4	23.3	36.1	1.91	1.888	57.7	123.4	241.2	55.6	128.8	189.4	46.5	157.1	180.5	52.6	20.4	11.3	48.0	32.7	36.2	36.2	36.2	36.2
Guatemala	30.3	17.7	55.0	27.3	20.9	51.8	68.0	15.5	19.8	15.5	1.918	1.888	47.3	111.7	249.7	44.6	135.5	191.4	43.2	154.8	201.6	52.6	20.4	11.3	48.0	32.7	36.2	36.2	36.2	36.2
Honduras	27.2	24.6	38.0	27.2	27.1	43.0	48.0	16.7	20.9	20.9	1.380	1.195	61.9	121.5	192.0	51.4	132.7	168.6	46.4	157.1	180.5	52.6	20.4	11.3	48.0	32.7	36.2	36.2	36.2	36.2
Nicaragua	30.3	17.7	55.0	27.3	20.9	51.8	68.0	15.5	19.8	15.5	1.918	1.888	47.3	111.7	249.7	44.6	135.5	191.4	43.2	154.8	201.6	52.6	20.4	11.3	48.0	32.7	36.			

Country	1. Average per person (1960-1969)				2. Average per person (1970-1979)				3. Average per person (1980-1989)				4. Average per person (1990-1999)				5. Average per person (2000-2009)				6. Average per person (2010-2019)				7. Average per person (2020-2029)				
	Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		Agriculture		Industry		
	1960	1969	1960	1969	1970	1979	1970	1979	1980	1989	1980	1989	1990	1999	1990	1999	2000	2009	2000	2009	2010	2019	2010	2019	2020	2029	2020	2029	
Argentina	17.4	46.4	36.2	15.2	19.1	38.0	45.8	15.6	36.9	47.5	2.185	7.621	78.0	118.4	102.6	91.1	122.1	84.4	97.4	138.8	70.7	52.2	21.8	36.0	39.8	34.0	27.2	36.2	
Brazil	22.1	33.9	44.0	39.2	23.0	24.8	46.6	26.3	23.3	29.5	1.558	4.201	45.4	126.9	207.8	42.3	147.4	177.4	42.7	155.4	145.5	52.2	26.1	21.7	49.8	30.9	27.2	36.2	
Chile	16.6	32.6	50.8	12.8	36.2	51.0	15.6	32.6	21.5	24.2	47.2	6.284	31.3	171.6	282.3	30.6	151.6	209.9	27.1	155.4	122.9	52.2	21.6	23.5	41.3	34.0	27.2	36.2	
Colombia	7.2	43.5	45.7	7.8	46.3	32.8	43.9	45.2	27.2	27.2	2.316	2.841	19.6	127.0	189.0	21.1	138.7	108.3	29.4	159.2	99.4	52.6	32.6	34.4	48.0	48.0	32.7	36.2	
Costa Rica	24.1	35.4	40.5	18.2	38.9	42.9	52.2	24.8	21.0	26.0	1.099	1.221	42.9	122.2	259.9	42.9	122.2	176.1	39.4	150.8	153.2	66.7	16.4	16.9	38.6	24.3	36.2	36.2	
Cuba	12.1	46.1	41.8	10.1	51.5	38.4	28.9	33.0	31.0	22.5	1.656	1.305	96.1	109.7	104.2	45.0	109.7	104.2	44.0	130.8	83.7	57.1	27.2	47.5	29.2	23.3	36.2	36.2	
El Salvador	22.7	23.7	45.8	22.4	23.7	45.8	22.4	23.7	45.8	22.4	1.380	1.195	61.9	121.5	192.0	51.4	132.7	168.6	46.4	157.1	180.5	52.6	20.4	11.3	48.6	26.6	36.2	36.2	
Guatemala	30.3	17.7	55.0	27.3	20.9	51.8	68.0	15.5	19.8	18.8	1.008	1.008	47.3	111.7	349.3	44.6	115.5	191.4	43.2	154.8	201.6	52.6	16.2	16.2	48.0	34.0	27.2	36.2	
Honduras	30.3	17.7	55.0	27.3	20.9	51.8	68.0	15.5	19.8	18.8	1.008	1.008	47.3	111.7	349.3	44.6	115.5	191.4	43.2	154.8	201.6	52.6	16.2	16.2	48.0	34.0	27.2	36.2	
Nicaragua	30.3	17.7	55.0	27.3	20.9	51.8	68.0	15.5	19.8	18.8	1.008	1.008	47.3	111.7	349.3	44.6	115.5	191.4	43.2	154.8	201.6	52.6	16.2	16.2	48.0	34.0	27.2	36.2	
Panama	24.9	18.5	48.9	21.0	33.5	45.5	47.0	14.7	38.3	39.3	1.354	1.216	59.9	155.7	235.1	59.9	155.7	235.1	47.8	197.1	116.4	52.6	16.2	5.4	73.7	18.2	8.1	36.2	
Paraguay	38.5	28.5	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9
Peru	48.5	38.5	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9
Republic of Korea	38.5	28.5	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9
Uruguay	38.5	28.5	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9
Venezuela	38.5	28.5	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9
Latin America	30.2	36.9	43.9	17.3	23.1	46.1	30.8	42.1	35.0	23.9	1.259	1.549	42.0	200.0	186.7	164.4	164.4	164.4	42.0	174.6	129.9	52.9	14.4	3.9	71.4	23.2	5.4	36.2	

Source: ECLA, on the basis of official statistics.
For section 6: Argentina: Secretaría del Consejo Nacional de Desarrollo; *Plan Nacional de Desarrollo 1970-1974* and *Diagnóstico del Ingreso y Cuentas Nacionales en la Argentina*, vol. II, Buenos Aires, 1965.
Dominican Republic: Oficina Nacional de Planificación, *Mévil para el Desarrollo Nacional*, Santo Domingo, December 1963.
* Mining, manufacturing and construction.

^b Electricity, gas, water, sanitation and transport and communications.
^c Data supplied by ODEPLAN.
^d Data for 1960.

* Data for 1958.
† Current general government expenditure plus public investment.
‡ The structure of current expenditure and income refers to a national government.
§ General government.

¹ Includes a projection of total public saving and public investment for 1990.

10. EXPORT AND IMPORT COEFFICIENTS

(a) *Export coefficients*

In a great many Latin American countries the export coefficient, measured in terms of value, was higher in the late 1960s than at the beginning of the decade (see table 25, section 11). The trend was particularly noticeable in the Central American countries, where the average for the decade rose by 6.5 per cent of the product.

There was not, however, any general tendency for the export situation to improve. In Colombia, Mexico, Peru, Paraguay and Venezuela, the export coefficient fell slightly, and in Haiti and the Dominican Republic quite sharply (by about 6 per cent of the gross domestic product in the Dominican Republic).

When ranged in order of their export coefficients (see table 23), the relatively more developed countries—Brazil, Mexico and Argentina—actually come bottom. The fact, however, that other variables enter into the picture, such as the type of commodity exported and progress or lack of progress towards integration of regional markets, means that no precise relationship can be established between the two concepts. Thus, for example, despite their different stages of development, Argentina and Haiti, Peru and Honduras, Venezuela and El Salvador all have roughly similar export coefficients.

Table 23. Latin America: export coefficients, 1967–1969
(Percentages of the gross domestic product)

<i>Below 10 per cent</i>	Brazil	6.1
	Mexico	9.3
<i>Between 10 and 20 per cent</i>	Argentina	11.7
	Haiti	12.4
	Chile	13.6
	Colombia	14.4
	Paraguay	14.6
	Dominican Republic	16.4
	Ecuador	18.3
	Bolivia	18.7
	Guatemala	18.7
	Uruguay	19.2
<i>Above 20 per cent</i>	Peru	21.0
	Honduras	24.7
	Nicaragua	24.9
	Costa Rica	25.9
	El Salvador	25.9
	Venezuela	28.1
	Panama	38.5

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 11.

(b) *Import coefficients*

The difference in the way the import coefficients of Latin American economies fluctuated are revealing (see table 25, section 11). Two

dominant and quite distinct factors were at work in the countries whose coefficients declined over the decade. Thus, a drop in the import coefficient may be either the natural outcome of the import substitution process or a reflection of decreases in the capacity to import at different times.

In principle, the decline in the coefficient in countries like Argentina, Brazil, Chile, Colombia and Mexico can largely be ascribed to continuing import substitution and the same may be said of Venezuela, although in this country there were other contributory causes related to changes in the structure of production.

In almost all the smaller countries the coefficient rose, owing to the operation of various factors. Intra-regional trade, especially among the Central American countries, is noteworthy for its structural significance; but the expansion of exports doubtless pushed up imports in the usual vicious circle. Moreover, the possibilities of import substitution have their well-known limitations in the smaller countries.

Seen from the point of view of the average import coefficients for the period 1967–1969 (see table 24), there is a fairly close structural correlation between the relative level of development and dependence upon imports. Thus, the import coefficients of Brazil, Mexico and Argentina were 10 per cent or less, whereas those of the Dominican Republic, Nicaragua, Bolivia, Honduras and Panama were all over 30 per cent. This position is also indicative of differing structures of growth.

Table 24. Latin America: import coefficients, 1967–1969
(Percentages of the gross domestic product)

<i>Below 10 per cent</i>	Brazil	5.7
	Mexico	9.8
<i>Between 10 and 20 per cent</i>	Argentina	10.0
	Colombia	13.1
	Haiti	14.1
	Venezuela	14.7
	Chile	16.2
	Uruguay	16.4
	Guatemala	17.5
	Paraguay	19.8
	Ecuador	20.6
<i>Above 20 per cent</i>	El Salvador	26.1
	Peru	28.6
	Costa Rica	30.1
	Dominican Republic	31.1
	Nicaragua	31.9
	Bolivia	32.5
	Honduras	32.6
	Panama	39.0

SOURCE: ECLA estimates on the basis of official statistics. See also table 25, section 11.

Chapter IV

THE SOCIAL IMPLICATIONS OF DEVELOPMENT

1. THE SOCIAL SITUATION IN THE REGION

Table 54, at the end of this chapter, gives data for the various countries of the region on per capita personal consumption, nutrition, health, education, housing, employment and social security. Except in the case of housing, for which there are insufficient and not easily comparable data, the table shows the trend of changes between the 1950s and 1960s.

The first indicator is per capita personal consumption, based on the expenditure column of the national accounts. This indicator is perhaps too all-embracing and contains elements that have nothing to do with what is of interest here, but it does help to assess how far the needs for human well-being can be met. A considerable proportion of private expenditure goes on the consumption of foodstuffs, and the two indicators most frequently used for this are the number of calories and of grammes of protein consumed per day, which give an idea of the quality of the food intake.

As regards health, the main indicators are mortality and morbidity. There are fairly comprehensive data on mortality, although not broken down by age groups, but the data on infant mortality is usually very inadequate owing to under-registration of births. For this reason, the table gives mortality in the 1-4 age group. The data on morbidity are too incomplete to provide national coverage, and the indicator used to show the general state of health is average life expectancy at birth.

Enough data are available on education for the table to include indicators of literacy, primary school enrolment and retention rate in the primary education system. It was considered that in Latin America primary schooling is still the major problem because of the proportion of the population it affects and the existing shortfall. The data on secondary and higher education relate to smaller segments of the population but they are qualitatively of great importance.

Five indicators are used for housing, which is a great many, but the gaps and deficiencies in some of them are made good by others.

The unemployment rate was taken as the indicator of changes in employment, i.e., the ratio of open unemployment to the total labour force.

With regard to social security, the data available consist of very general estimates, while what is really of interest is the quality of the coverage. Statistics indicate the percentage of the working population covered by social security but do not specify the type of services provided.

(a) Consumption

Countries can be divided into four groups by their per capita consumption, which is shown in table 54, section 1.

The first group comprises Argentina and Uruguay, which are the countries with the highest consumption. Consumption in Argentina increased by 20.3 per cent during the period considered, rising from 562.2 to 676.5 dollars (at 1960 prices) to place it at the head of the list, while in Uruguay, which was the biggest consumer at the beginning of the period, consumption fell by 11.6 per cent, from 591.8 to 522.9 dollars.

The second group is composed of Mexico, Panama, Costa Rica and Venezuela. The largest increase in consumption in the region was in Mexico (45.1 per cent), which moved up to the head of the group; it is followed by Panama (42.4 per cent), Costa Rica (37.1 per cent) and Venezuela, in which consumption grew by only 7.8 per cent, bringing it down from top to bottom place in the group.

Chile falls between these two groups, fairly close to Uruguay, with a per capita consumption of 489.5 dollars. Since no data are available for the period 1954-1956, it was not possible to estimate its growth rate.

The third group comprises virtually all the remaining countries in the region, ranging from Bolivia with 152.2 dollars in 1967-1969 to Peru with 297.6. Growth rates ranged from 9.4 per cent in Bolivia to 41.1 per cent in Brazil.

The last group consists of one country, Haiti,

rate in 1950 (66 per cent). Conversely, the largest increases occurred in countries with low levels of literacy in 1950—El Salvador, Guatemala, Haiti and Honduras. The highest increases seem to have been in Venezuela (63.5 per cent), where the rate rose from 52 to 85 per cent, and Peru (59.5 per cent), where it rose from 42 to 67 per cent (see table 54, section 4).

The percentage of the population enrolled in the primary education system followed a similar pattern, the biggest increases being in Bolivia (127.9 per cent) and Honduras (152.3 per cent), which had low enrolments in 1950 (24 and 22 per cent respectively). The smallest rise was in Argentina (10.8 per cent), which, along with Chile, had the highest percentage in 1950. The most notable improvement also occurred in Chile, where enrolment rose from 66 to 81.4 per cent, while the only country showing a decline (from 22 to 14.8 per cent) was Haiti.

In absolute terms, however, the situation was more complex; while the percentage of the population able to read and write was on the increase in the region as a whole and in most countries individually, so was the number of illiterates. The only countries where these percentages dropped were Argentina, Venezuela and Chile (see table 26).

Table 26. Latin America: number of illiterates in the over-15 age group in selected years
(Millions of persons)

	1950	1960	1970 ^a
Argentina	1.5	1.2	0.9
Brazil	15.3	12.8	16.4
Colombia	2.4	2.5	2.8
Venezuela	1.4	1.5	0.9
Costa Rica	0.1	0.1	0.1
Chile	0.7	0.7	0.6
El Salvador	0.6	0.7	0.9
Guatemala	1.1	1.4	1.7
Honduras	0.6	0.6	0.7
Nicaragua	0.4	0.4	0.5
Panama	0.1	0.1	0.2
Dominican Republic	0.7	0.6	1.1
Ecuador	0.8	0.8	1.0
Paraguay	0.2	0.2	0.4
TOTAL	26.1	26.8	28.2

SOURCE: National population censuses.

^a Estimates.

The educational situation looks worse from the point of view of the primary school retention rate for the period 1960–1965.

The highest rate of retention was in Uruguay, with 50.3 per cent in the top primary grade, followed by Panama (44.2 per cent), Argentina

(39.8 per cent), Costa Rica (37.7 per cent) and Chile (37.5 per cent); the lowest were in Haiti, where only 8.6 out of every 100 students completed the six-year cycle, and the Dominican Republic, where only 8.1 did so. In Mexico's rural areas, where 42 per cent of the school-age population lives, the rate of retention is 9 per cent.¹⁹ (See figure III).

The first-year drop-out rate is particularly striking. A study on Central America points out that nearly one quarter of all the pupils who ever enter primary school drop out before completing (whether satisfactorily or not) their first year of primary schooling—excluding Costa Rica and Panama, where the retention rate for the period under consideration is around 80 per cent.²⁰

The data on retention do not take into account the number of repeaters, either because the annual cohorts include repeaters from previous years and pupils who return after a break in their schooling, or else because they do not include those taking longer than they should to complete the cycle.

The problem of repeaters is important and has a major bearing on educational performance and costs. An inquiry into the first primary school year in Ecuador in 1966–1967 provided the following information (in percentages):²¹

	Boys	Girls
Not repeating	58.2	58.6
Repeating one year	31.8	32.5
Repeating more than one year	10.0	8.9

In Ecuador, as in other countries, nearly half the pupils repeated their first year.

Consequently, a world-wide inquiry was made into retention rates with projections of annual cohorts allowing for repeaters who completed the cycle; the figures for Latin America that emerged from it are higher than those given in table 54, section 4.

A comparison of the two sets of figures (table 54, section 4, and table 27) shows that the biggest difference is in the percentages for the Dominican Republic, where the retention rate rises from 8.1 to 30.4 per cent when al-

¹⁹ Francisco Alcalá, "Las tareas del Banco Nacional de Comercio Exterior", December 1970.

²⁰ Central American Planning Organization (OCEPLAN), *Estudio sobre situación, tendencias y necesidades de la educación Centroamericana*, chapter III: "Rendimiento cuantitativo del sistema: retención y desgranamiento escolar", 1970.

²¹ See UNESCO, *The Statistical Measurement of Educational Wastage* (International Conference on Education, 1970).

which had the lowest consumption level in 1967–1969 (93.4 dollars) and had remained virtually at that level since 1954–1956 (a rate of 0.1 per cent).

The most significant variations in these figures are the decline in Uruguay and the increase in Mexico.

(b) Nutrition

There was little change in the consumption of calories between 1955 and 1967 (see table 54, section 2). The largest increases came in Venezuela (27.7 per cent), Peru (14.7 per cent) and Chile (11 per cent). Uruguay and Argentina had fairly high figures in 1955, but Argentina declined slightly over the period (a drop of 4.9 per cent), while Uruguay improved its position (by 7.1 per cent) and moved up into first place. On the other hand, there were declines also in El Salvador (–9.4 per cent), Honduras (–3.4 per cent) and the Dominican Republic (–7.3 per cent).

On the basis of the age and sex structure of the population, FAO has worked out the daily per capita calorie requirements for each country. Five countries have an average that is above these requirements (Uruguay, Argentina, Brazil, Paraguay and Mexico), while that of Chile, Colombia, Peru, Ecuador, the Dominican Republic, Venezuela, Guatemala and El Salvador is below them. In Ecuador, food supplies are almost 25 per cent below the requirements.¹⁸

There are similar variations in the consumption of protein: a decrease in Argentina (–9.2 per cent), which used to be the largest consumer, El Salvador (–22 per cent), Honduras (–4.9 per cent), the Dominican Republic (–21.3 per cent), Nicaragua (–5 per cent) and Paraguay (–3.1 per cent). These variations are especially significant since, with the exception of Argentina and Paraguay, the first data are for 1961–1962, which means that the decline occurred over a shorter period of time.

The largest increase was in Venezuela (28.5 per cent), followed by Ecuador (8.7 per cent), Brazil (7.8 per cent), Colombia (7.4 per cent) and Peru (7.1 per cent).

If a comparison is made between Latin America and France using these two indicators, it can be seen that France's are in general much higher than Latin America's, but roughly at the same level as Uruguay's. In 1955, the figures were higher for Argentina than for France but by 1967 the positions had been reversed.

FRANCE AND LATIN AMERICA: NUTRITION

	Daily consumption of calories		Daily consumption of protein (grammes)	
	1955	1967	1955	1967
Latin America	2,420	2,560	63.6	65.4
France	2,890	3,100	95.3	100.7

(c) Health

Life expectancy was up in every country except Uruguay, which had the highest index in 1950 and continued at that level with practically no change (–0.4 per cent), and Peru, where the increase was only slight (1 per cent). It lengthened most in Haiti (45.7 per cent), Brazil (32.4 per cent) and Nicaragua (32.1 per cent), all of which had low indexes in 1950 (see table 54, section 3).

A relatively smaller but possibly even more significant increase was recorded in Argentina (10.6 per cent), which already had a high life expectancy in 1950 (60.6 years) and now is virtually on a par with Uruguay. By comparison with Latin America, France's index in 1950 was higher than the regional average but lower than Uruguay's which, however, it had overtaken by 1968 (71.5 years as against 68.5). There are still wide differences within the region, ranging from 42.6 and 46 years in Honduras and Bolivia respectively to 68.5 in Uruguay.

On average, the 1950–1952 mortality rate in the 1–4 age group was fairly high—20 per thousand compared with a mere 2.1 per thousand in France. By about 1968, the Latin American index had dropped by 46 per cent, but the 10 to 1 ratio with France remained (10.8 and 1 per thousand, respectively). Uruguay alone approached France's rate in 1968. The biggest drops in mortality occurred in Chile (75.6 per cent), Guatemala (65.6 per cent), Costa Rica (64.7 per cent) and Venezuela (62.9 per cent), with the result that Chile moved up into second place below Uruguay. At the start of the 1950s, Chile's mortality rate was 13.5 per thousand; it declined to 8.2 in the 1960s and was as low as 3.3 per thousand in 1968. Dropping even faster during the 1950s, the corresponding figures for Venezuela are 13.2 per thousand in 1950, 5.7 in 1960 and 4.9 in 1968 and for Costa Rica 15, 7.5 and 5.3 per thousand for the same years.

(d) Education

There were major changes in education, too. The smallest increases were recorded in the countries with the highest literacy rates in 1950 (Argentina, 86 per cent; Costa Rica, 79 per cent; Chile, 80 per cent; and Uruguay, 85 per cent). The smallest increase of all was in Paraguay, which had a relatively high literacy

¹⁸ Pan American Health Organization, *Hechos que revelan progresos en salud*, 1968.

difficulty arises both in evaluating public housing services and in trying to measure the housing shortage (see table 54, section 5).

The United Nations survey of the world social situation in 1967 revealed major differences between countries. Whereas Chile and Venezuela were able to meet between 60 and 65 per cent of their own needs, the Dominican Republic and Bolivia met only 1.6 and 4.2 per cent, respectively, of theirs.²³

The countries have more or less the same ranking as in the other tables, with Argentina at the top of the list. Mexico's housing indicator is lower than its other indicators.

(f) *Employment*

As the figures given refer only to open unemployment, the real unemployment rates must be considerably higher (see table 54, section 6). Moreover, it is difficult to define the difference between employment and underemployment in quantitative terms or to distinguish cases of multiple employment. Along with housing and social security, this is the sector that needs the greatest accuracy in compiling data and defining indicators and indices. Consequently, the unemployment rates given here are just a rough and not very accurate guide to the changes that have taken place in each country; they cannot be used to give an order of magnitude or to make comparisons between countries.

Generally speaking, and excluding Venezuela, Brazil, the Dominican Republic and Haiti, the open unemployment rate rose in every country, which, considering the increase in population, means that the number of unemployed must also have risen in absolute terms.

The biggest change occurred in Ecuador, where the unemployment rate rose from a possibly underestimated 2 per cent to 5.6 per cent, followed by Paraguay and Uruguay. Unemployment also rose considerably in Argentina, Peru and Mexico, the three countries with the lowest unemployment rate in 1965.

In Central America, there was an over-all rise from 2.6 to 5 per cent. The estimated figures for the whole of Latin America are 7.3 per cent in 1955 and 7.9 per cent in 1965.

(g) *Social security*

On the whole, the proportion of the economically active population covered by

social security is fairly low (see table 54, section 7). In 1961, Chile was the only country where this proportion was more than 50 per cent (65.7 per cent). Argentina came next with 48.6 per cent. Chile remained at roughly the same level in 1967, with an increase of only 2.6 per cent. Although Nicaragua made the greatest strides in this respect, its percentage was still quite low. Elsewhere, the percentage variation ranged from 75.6 in Panama to -8.3 per cent in Paraguay, while there was no change in Haiti (1.2 per cent).

2. URBAN-RURAL DIFFERENCES

The national averages and growth rates tend to mask another kind of imbalance within countries. To show this difference, the data must be broken down first of all into rural and urban.

Splitting up the data poses something of a problem, as each country adopts its own criteria for classifying urban areas; while some censuses classify all built-up areas with more than 2,000 inhabitants as urban, others make 2,500 or even more the cut-off figure. Moreover, there are the semi-urban fringes that are directly affected by their proximity to the city, use its services and yet cannot be disassociated from the surrounding rural area. There are also noticeable differences between large cities, medium-sized cities and small towns that do not show up when they are all lumped together as urban.

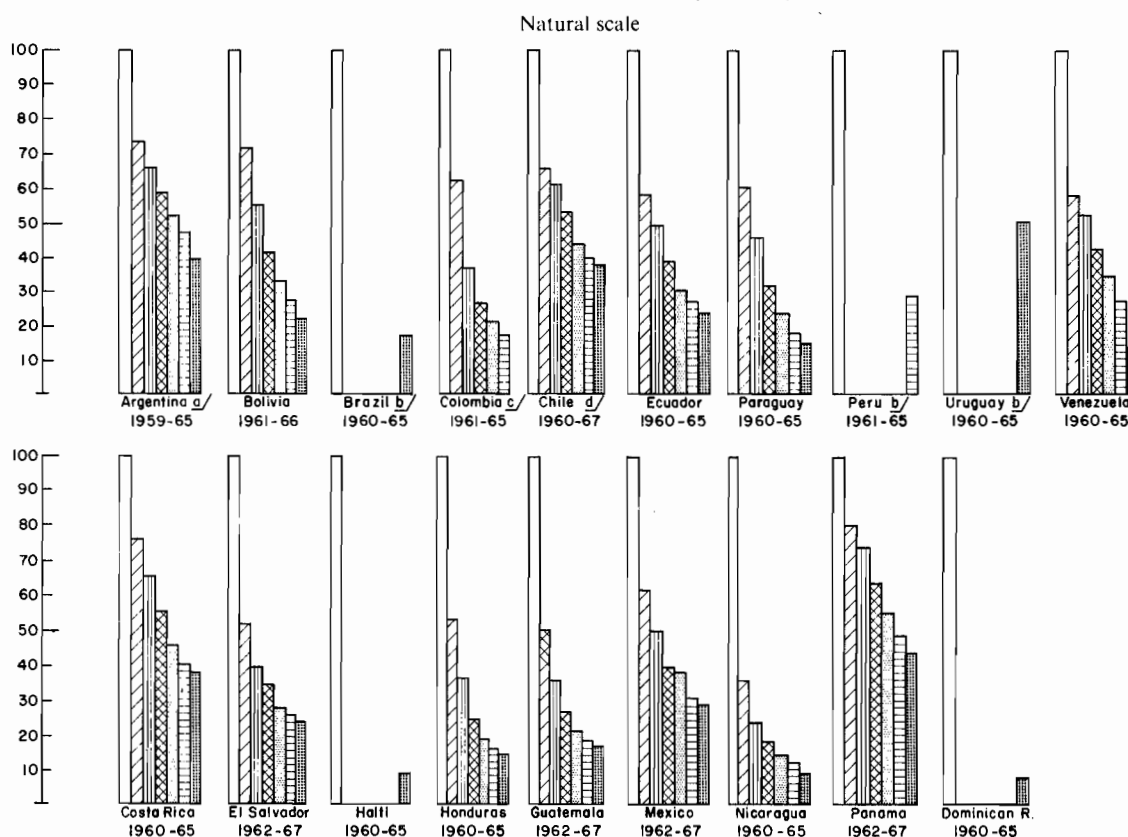
Important though some aspects of the problem are, information is not available for all the countries or even for all the indicators given in the previous section. Consequently, indicators that are representative of the differences between urban and rural areas that are to be found between countries of the region and within individual countries were chosen, i.e., literacy, school retention rates, the geographical distribution of doctors and of population, and housing (see tables 28 to 32).

Argentina, Uruguay and Costa Rica have the highest literacy rates in both the urban and the rural areas, with very little difference between the two. Next come Panama, Chile, Colombia, Ecuador and Mexico, with lower rural literacy rates in rural areas (but still over 50 per cent) and wider gaps between urban and rural levels.

In all the remaining countries for which data are available, the urban literacy rate is consistently over 60 per cent and the rural rate below 40 per cent, except in Peru where it is even lower. The differences between the two are

²³ United Nations, 1967 *Report on the World Social Situation* (United Nations publication, Sales No.: E.68.IV.9).

Figure III. Latin America: Retention in the primary school system, by grades



SOURCE: UNESCO, *Statistical Yearbook*, 1969.

^a In Argentina, primary education has seven grades; 39 per cent of children complete the seventh grade.

^b No data available on retention in intermediate grades.

^c Primary education has only five grades.

^d In Chile, primary education has eight grades; 30 per cent of children begin the eighth grade and 27.3 per cent complete it.

lowance is made for repeaters. It should be borne in mind, however, that the figures being compared are for different years, and that one set is based on national totals of pupils en-

rolled in consecutive years and the other on an international inquiry conducted in two stages.²²

(e) Housing

On the basis of the available data, it is difficult to make a comparative analysis of housing, since differences in climate, customs and construction materials from one country to another and within individual countries mean that minimum housing requirements vary. This

Table 27. Latin America: retention rate in primary education system, including repeaters, 1960-1961 to 1966-1967 (Percentages)

Argentina	54.3
Brazil	35.6
Canada	37.2
Colombia	27.3
Costa Rica	57.2
Dominican Republic	30.4
El Salvador	43.3
Guatemala	25.3
Mexico	38.4
Panama	62.3
Paraguay	31.6
Uruguay	66.9

SOURCE: UNESCO, *The Statistical Measurement of Educational Wastage* (International Conference on Education, 1970).

²² The same inquiry showed considerably higher retention rates for European countries:

	(Percentages)
Bulgaria	77.4
Czechoslovakia	77.0
Hungary	85.2
Italy	90.2
Poland	95.2
Portugal	81.4

In Europe, the country with the retention rate closest to Latin America's is Yugoslavia (58.3 per cent) and, in North America, Canada (66.4 per cent).

As to housing, data on some of the essential services required in dwellings are given in table 32. It can be seen that the highest figures are for running water and sanitary facilities and that here there is the least difference between urban and rural areas. More houses have electric light than water supply, and there the difference between urban and rural areas is much greater. Argentina, Costa Rica and Uruguay provide more of all these facilities than the other countries in Latin America, in both urban and rural areas, although only a small percentage of dwellings have running water in Uruguay.

One point that stands out from the table is the extremely low percentages of these facilities available in rural areas in Ecuador, Guatemala, Honduras and Nicaragua, and the very poor showing made by Brazil and Peru as regards water and electricity supply.

The lack of such facilities is not so serious in rural areas—where there have never been any and where they would probably not be missed—as in densely populated urban areas. The real differences between the two areas often do not show up in the statistics. First, it is difficult to include the subsistence consumption of rural areas in any statistical estimates. Secondly, owing to the rapid growth of towns which industrialization brings in its wake, there is always a shortage of these facilities, however many are provided.

Differences between rural areas are sharper than between urban areas, so that in countries

with a predominantly rural population, the gap between urban and rural is much wider and the national averages are lower.

3. REGIONAL DIFFERENCES

A few indicators for Brazil, Chile and Argentina give an idea of the immense differences that exist between regions of the same country.

For Brazil, table 33 shows big differences between regions with respect to water supply and sewerage. If a comparison is made between the north-east and the south-east, the two most densely populated regions, each with the same number of *municipios*, it can be seen that there are enormous differences in the number of *municipios* with water supply (28 and 83 per cent respectively) and sewerage (16.6 and 66 per cent, respectively). Although there are also big differences between the west-central and north areas, on the one hand, and south and south-east, on the other, they are not so serious because these regions are scantily populated.

Taking health indicators for Brazil, table 34 shows that 61 per cent of the hospital beds and 69 per cent of the doctors working in hospitals are concentrated in the south-east. For the south and south-east together, the figures are 80 and 81 per cent, respectively, compared with 14 and 13 per cent in the north-east. There is therefore only one bed for every 630 members of the population in the north-east, whereas the ratio is one to 200 in the south-east. An

Table 32. Latin America: housing in urban and rural areas in selected years
(Percentages)

Year	Country	With running water			Housing units With sanitary facilities			With electric light		
		Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
1960	Argentina . . .	51.6	62.9	14.1	86.7	93.1	65.8	68.8	84.0	18.8
1950	Bolivia . . .	—	46.5	—	—	37.3	—	—	—	—
1960	Brazil . . .	21.0	41.8	1.4	50.9	79.2	24.2	38.7	71.5	7.6
1964	Colombia . . .	38.7	...	...	40.6	...	...	34.5	...	...
1963	Costa Rica . . .	68.3	97.7	51.0	74.5	97.9	60.7	54.6	93.5	31.6
1960	Chile . . .	56.1	...	...	82.4	...	...	...	...	...
1962	Ecuador . . .	37.5	87.2	12.0	32.9	79.4	9.0	32.3	78.5	8.5
1961	El Salvador . . .	—	75.7	—	—	100.0	—	—	60.4	—
1964	Guatemala . . .	29.5	70.1	8.2	30.6	70.6	9.5	22.0	56.0	4.1
1950	Haiti . . .	2.9	...	...	10.2	...	...	2.5	...	...
1961	Honduras . . .	24.9	77.4	9.0	19.8	67.3	5.4	14.6	56.7	1.9
1960	Mexico . . .	32.3	...	...	...	...	...	...	...	...
1963	Nicaragua . . .	21.3	48.7	0.7	44.3	87.9	11.6	32.9	71.0	4.3
1960	Panama . . .	46.2	89.5	9.6	64.1	96.5	36.8	44.0	82.7	11.3
1962	Paraguay . . .	5.9	...	...	88.3	...	...	13.2	...	...
1961	Peru . . .	21.1	43.7	1.0	45.0	64.6	27.7	26.0	50.7	4.2
1950	Dominican Republic . . .	29.7	79.9	12.4	90.4	97.4	88.0	13.2	46.2	1.9
1963	Uruguay . . .	68.1	69.5	1.7	93.8	96.5	73.8	79.2	76.8	31.7
1961	Venezuela . . .	46.7	65.4	16.4	62.4	87.4	21.7	60.7	86.1	19.5

SOURCE: Pan American Union, *América en cifras*, 1967.

Table 28. Latin America: proportion of literates in the over-15 age group in selected years (Percentages)

Census year	Country	Urban population	Rural population
1960	Argentina	93.7	81.5
1964	Brazil	73.4	33.1
1964	Colombia	85.0	58.7
1963	Costa Rica	94.4	78.2
1960	Chile	90.8	66.4
1962	Ecuador	88.1	55.5
1961	El Salvador	71.2	33.7
1964	Guatemala	65.0	22.6
1961	Honduras	73.9	35.4
1960	Mexico	78.7	51.1
1963	Nicaragua	79.4	29.8
1960	Panama	93.2	61.6
1961	Peru	82.3	40.6
1963	Uruguay	92.8	84.0
1961	Venezuela	77.6	36.6

SOURCE: National population censuses.

rather striking: 77.6 and 36.6 per cent in Venezuela; 73.4 and 33.1 per cent in Brazil; 71.2 and 33.7 per cent in El Salvador; 73.9 and 35.4 per cent in Honduras; and 79.4 and 29.8 per cent in Nicaragua. Guatemala has the lowest rural rate of all—22.6 per cent—compared with 65 per cent in urban areas.

The international inquiry into school retention rates mentioned above (subsection 1 (d) of this chapter) reveals sharp differences between urban and rural areas in some countries.

Rural retention rates are extremely low, barely 3.5 per cent at the end of the primary cycle in Guatemala. Though in Panama the figure is somewhat higher, it is still far below the urban rate.

Table 29. Latin America: retention rates in primary education system, by urban and rural areas for selected countries, 1960–1961 and 1966–1967 (Percentages)

Country	Total	Urban	Rural
Colombia	27.3	47.3	3.7
Dominican Republic	30.4	48.1	13.9
Guatemala	25.3	49.6	3.5
Panama	62.3	80.7	45.3

SOURCE: UNESCO, *The Statistical Measurement of Educational Wastage* (International Conference on Education, 1970).

Table 30 shows the differences between urban and rural areas in several departments of Peru. There are two types of differences here. First, there is a big gap between the regional and national averages for illiterates in the total population (65 and 39 per cent). These departments have a largely indigenous popula-

tion, where illiteracy is associated with learning in a language that is not their mother tongue. Secondly, there is a big gap between the rural and the urban areas of all the departments mentioned except Puno, where the difference is slight. It should be noted that the difference between the regional and national averages for illiterates in rural areas is not very great—81 and 78 per cent respectively. If the rural illiteracy rate remains high in other departments and the urban rate goes down, the urban-rural gap will widen.

Table 30. Peru: illiterates in selected departments as a percentage of total and of rural population, 1960

Department	Illiterates in the over-15 age group in the total population	Illiterates in the over-15 age group in the rural population
Ancash	51	82
Apurimac	76	86
Ayacucho	72	81
Cuzco	72	80
Huancavelica	66	88
Puno	64	66
Regional average	65	81
National average	39	78

SOURCE: National population census of 1961, quoted by Emilio Romero and César Levano in *Regionalismo y Centralismo* (Lima 1969).

Table 31, on Colombia, illustrates another case of differences between urban and rural areas, i.e., the geographical distribution of doctors. Most of the doctors in Colombia (91 per cent) are to be found in the capitals and in towns with more than 20,000 inhabitants, in which only 36.4 per cent of the population lives. Most of the rural population gets medical attention from the other 9 per cent of doctors who live in towns with less than 20,000 inhabitants. However, the fact that some services are concentrated in urban areas does not necessarily mean that they are not available to the rural areas, as this will depend on the distance of the rural area from the nearest town.

Table 31. Colombia: geographical distribution of doctors and population, 1965 (Percentages)

	Doctors	Population
Capitals	74.4	31.1
Towns with 20,000 inhabitants or more (excluding capitals)	16.6	5.3
Towns with less than 20,000 inhabitants	9.2	63.6

SOURCE: Asociación Colombiana de Facultades de Medicina, 1965, quoted by Saturnino Sepúlveda in *El atraso rural colombiano*, 1970.

Table 37. Argentina: primary school attendance rate and illiteracy rate, by region, 1960
(Percentages)

	Primary school attendance rate (6-12 age group)	Illiteracy rate in the over-16 age group
Buenos Aires (city)	94.7	3.2
Pampa	91.2	6.6
Pampa and Buenos Aires	91.8	5.7
Cuyo	83.0	11.5
Patagonia	74.0	14.6
North-west	79.7	17.2
North-east	72.7	17.7
National rates	85.6	8.6

SOURCE: 1960 national population census, as given in Consejo Nacional de Desarrollo (CONADE), *Educación, Recursos Humanos y Desarrollo Económico-Social*, 1968, vol. 1, table 1.IV.17.

Table 38. Argentina: retention rate in the sixth grade of primary schools, by region, 1961-1962
(Percentages)

Buenos Aires (city)	50.4
Pampa	56.2
Cuyo	44.5
Patagonia	40.0
North-west	27.8
North-east	27.8
National average	48.9

SOURCE: Population Census, 1960.

whereas it was 56.2 in the Pampa region and as low as 27.8 in the north-east and north-west.

Looking at the facts from another angle, the next few tables give some data on the geographical distribution of economic activity, which helps to create regional disparities. Most manufacturing, which is the fastest-growing economic sector in the countries of the region, is concentrated in the large towns, thus inevitably leading to imbalances in the use of economic space. Table 39 gives the value added by manufacturing in some parts of certain

Latin American countries and it shows that over the last two decades either there has been a trend towards a greater concentration of activity or there has been no change, as in Argentina and Colombia.

The same trend is clear from the concentration of the manpower employed in manufacturing in the most important parts of selected countries (see table 40). Here again, the trend is on the whole towards greater imbalance, the percentages rising throughout the whole period considered. The only exception worth mentioning is that of Mexico, where the number of factory workers in the Federal District has been considerably reduced.

The above mentioned trends have swelled the population of the largest town in some countries of the region, as can be seen from table 41. The worst cases of this are in Argentina, Costa Rica, Chile, Panama and Uruguay, where there is a tremendous concentration of population in the capital city.

These regional imbalances, which are only a reflection of something much more disquieting, are to be found in nearly every country of the region. Furthermore, they are becoming more pronounced because the growth of the more dynamic regions outpaces that of the others.

4. INFLUENCE OF INCOME DISTRIBUTION

Something must be said about the breakdown of the social indicators by income level, in addition to urban-rural and regional differences.

Up to some time ago, some people maintained that an unequal income distribution in the early stages of development helped to speed up the development process and that the imbalances tended to iron themselves out in the

Table 39. Selected Latin American countries: value added by manufacturing in certain areas, for various years

Country	Area	Year	Percentage	Year	Percentage	Year	Percentage
Argentina	Federal capital and province of Buenos Aires	1943	74.4	1954	75.9	1963	70.9
Brazil	São Paulo	1940	35.8	1950	48.9	1960	55.4
Colombia	Cundinamarca	1945	25.3	1953	24.8		
Costa Rica	San José			1958	64.8	1964	65.4
Ecuador	Guayas			1955	64.4	1965	56.6
Guatemala	Guatemala City			1953	64.4	1958	68.3
Paraguay	Asunción			1955	45.3	1963	48.2
Peru	Lima-Callao					1963	62.9
Uruguay	Montevideo	1936	83.2				

SOURCE: ECLA, on the basis of industrial inquiries.

Table 33. Brazil: *municípios* with water supply and sewerage, by region, 1967

<i>Municípios</i>	North	North-east	South-east	South	West central	Total
Total number	161	1,376	1,412	717	306	3,972
With water supply	57	383	1,167	270	77	1,954
Percentage	35.4	28.0	83.0	37.8	25.0	—
With sewerage	23	215	929	174	76	1,417
Percentage	14.3	16.6	66.0	24.3	24.8	—

SOURCE: Instituto Brasileiro de Estatística, *Anuário Estatístico do Brasil*—1969.

Table 34. Brazil: number of hospital beds and doctors working in hospitals, 1967

	North	North-east	South-east	South	West-central	Total
Number of beds	8,047	40,987	176,230	55,626	9,946	290,836
Percentage of national total	2.7	14.1	60.8	19.1	3.4	100.0
Number of inhabitants per bed	395	630	214	283	425	—
Number of doctors	516	4,526	23,834	4,091	1,534	34,501
Percentage of national total	1.5	13.1	69.1	11.9	4.4	100.0
Number of inhabitants per doctor	6,190	5,690	1,580	3,850	3,760	—

SOURCE: Instituto Brasileiro de Estatística, *Anuário Estatístico do Brasil*—1969.

additional touch is given to the picture by the fact that there is one doctor per 5,700 and per 1,600 inhabitants in these two regions.

In the field of education, table 35 shows that the retention rate in the primary education system was only 19 per cent in the north-east in 1966–1967, whereas it was over 47 per cent in the south-east. Although it is difficult to separate out the regional figures, the disparity between the northern and the southern states of Brazil emerges quite clearly.

Table 35. Brazil: retention rate in primary education system, 1966–1967
(Percentages)

North-east	19.0
North-west	22.9
South-east	47.3
TOTAL	35.6

SOURCE: UNESCO, *The Statistical Measurement of Educational Wastage* (International Conference on Education, 1970).

In Chile, the regional disparities are shown up by some of the health indicators. It can be seen from table 36 that the highest rates for medical attention and the lowest for infant mortality are those of the province of Magallanes, in the extreme south, followed by Santiago, while the three southern regions of Cautín, Valdivia and Osorno, and Llanquihue-Chiloé-Aisén get the least medical attention and have the highest infant mortality rates; infant mortality was 50.9 per cent in Magallanes in 1968, and a catastrophic 131.1 per cent in Cautín.

Table 36. Chile: Regional distribution of health services, 1968

Region	Number of hospital beds per 1,000 inhabitants	Number of hours of medical attention per 1,000 inhabitants	Infant mortality rate
Tarapaca	4.1	2.0	65.9
Antofagasta	4.8	2.6	85.3
Atacama-Coquimbo	2.8	1.8	89.3
Valparaiso-Aconcagua	5.0	2.6	60.2
Santiago	4.2	3.6	56.6
O'Higgins-Colchagua	2.9	1.9	79.9
Curicó-Talca-Linares-Maule	3.3	1.3	92.1
Ñuble-Arauco-Concepcion-Bio-Bio and Malleco	3.1	1.6	111.9
Cautín	2.5	1.4	131.1
Valdivia-Osorno	2.7	1.3	124.8
Llanquihue-Chiloé-Aisén	2.5	1.4	117.4
Magallanes	5.5	3.1	50.9
National total	3.7	2.5	83.4

SOURCE: Chilean Health Ministry.

Even in Argentina, where circumstances are more favourable because the country is more homogeneous, there are still quite big regional differences. Table 37 shows that the primary school attendance rate is 94.7 per cent in the city of Buenos Aires, compared with 72.7 per cent in the north-east, and the illiteracy rate in the over-16 age group is only 3.2 per cent in the former but 17.2 and 17.7 per cent in the north-east and north-west.

As to the retention rate in primary schools, table 38 gives some regional figures. The national average for retention in the sixth grade of primary schools was 48.9 in 1961–1962,

It is also probable that the gap between extremes of income (and per capita productivity) is growing in all sectors of employment.²⁶

The data on over-all income distribution in Latin America show that the poorest half of the population receives barely 13.4 per cent of total income, while 62.6 per cent is concentrated in the hands of the top 20 per cent. Moreover, 80 per cent of the population receive less than the regional average, while the top 5 per cent receive nearly seven times that amount. Indeed, the inequality in the income distribution of the region is concentrated at the top of the scale. In all the low and middle income groups, income rises comparatively slowly, there being a rapid rise only after the seventh decile. The average per capita income ranges from 60 dollars for the poorest 20 per cent of the population to 2,600 dollars for the top 5 per cent, which is over forty times more.

²⁶ ECLA, *Social change and social development policy in Latin America*, op. cit.

However, there are differences in the internal situation of the different countries (see table 42).

For the lowest 20 per cent, income ranges from 40 dollars in Brazil to 114 dollars in Costa Rica and 203 dollars in Argentina. For the top 5 per cent, it ranges from 1,350 dollars in El Salvador to nearly 5,000 in Argentina.

Within each country, the most significant change occurs between the group below the top group and the top 5 per cent. Only in Venezuela is the income of the 15 per cent below the top 5 per cent more than 1,000 dollars. Incomes in the top 5 per cent may be anything from twenty to forty times those of the poorest group; being top incomes highest in Brazil and lowest in Costa Rica.

To facilitate the analysis of distribution within each country, the income of each group is related to the national average in table 43.

As for the region as a whole, the income of all the groups except for the upper 20 per cent is less than the national average. In Venezuela the

Table 42. Latin America: *per capita* income of the different income groups in selected countries, about 1960
(Dollars at 1960 prices)

Country	Per capita national income	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Brazil	230	40	88	181	338	1,820
El Salvador	205	56	72	154	390	1,350
Venezuela	515	77	194	475	1,081	2,730
Mexico	390	70	194	340	767	2,270
Costa Rica	380	114	155	276	633	2,660
Panama	350	86	182	267	516	2,415
Colombia	260	77	124	200	455	1,590
Argentina	780	203	398	661	1,190	4,867

SOURCE: ECLA, *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E.71.II.G.1).

Table 43. Latin America: incomes of the different income groups in relation to the national average in selected countries, about 1960

Country	National average	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Argentina	100	26	51	85	152	624
Brazil	100	17	38	79	147	791
Colombia	100	30	48	77	175	610
Costa Rica	100	30	41	73	166	700
El Salvador	100	27	35	75	190	659
Mexico	100	18	39	87	197	582
Panama	100	25	52	76	147	690
Venezuela	100	15	38	92	210	530
Latin America	100	15	35	80	195	668

SOURCE: ECLA, *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E.71.II.G.1).

Table 40. Selected Latin American countries: percentage of the manpower employed in manufacturing located in certain areas, for various years

Country	Area	Year	Percentage	Year	Percentage	Year	Percentage
Argentina	Federal capital and province of Buenos Aires	1943	69.9	1954	68.7	1963	66.8
Brazil	São Paulo	1940	37.4	1950	40.4	1960	47.2
Colombia	Cundinamarca	1945	20.5	1953	24.2		
Costa Rica	San José	1952	47.6	1958	54.2	1964	64.0
Ecuador	Guayas			1955	42.0	1965	38.8
El Salvador	San Salvador	1951	57.4	1956	56.8	1961	56.3
Guatemala	Guatemala City			1953	60.5	1958	64.4
Mexico	Federal District			1955	52.1	1965	35.5
Panama						1960	73.5
Paraguay	Asunción			1955	40.5	1963	35.4
Peru	Lima-Callao					1963	70.2
Venezuela	Federal District						
	Metropolitan area of Caracas			1953	29.7	1963	45.9
Uruguay	Montevideo	1936	81.2				

SOURCE: ECLA, on the basis of industrial inquiries.

Table 41. Selected Latin American countries: percentage of total population living in city with the largest population, for various years

Country	Year	Percentage	Year	Percentage	Year	Percentage
Argentina	1914	25.8	1947	29.7	1960	33.7
Brazil	1920	3.8	1950	4.4	1960	4.5
Colombia	1938	4.1	1951	6.2	1964	9.7
Costa Rica	1927	19.3	1950	22.3	1963	24.0
Cuba	1919	14.7	1943	17.4	1953	18.3
Chile	1920	13.6	1952	22.7	1960	25.9
Ecuador	...	...	1950	8.1	1962	11.2
El Salvador	1930	6.2	1950	8.7	1961	10.2
Guatemala	...	...	1950	10.2	1964	13.4
Panama	1930	15.8	1950	22.1	1960	25.4
Peru	...	...	1940	8.4	1961	14.5
Uruguay	1908	28.0	...	...	1963	44.7
Venezuela	1936	7.0	1950	13.8	1961	17.8

SOURCE: ECLA, on the basis of national censuses.

very process of growth. Recent studies have shown, however, that, on the contrary, an uneven income distribution impedes development and has deleterious effects on the well-being and the social and economic integration of the population.²⁴

The problem of employment comes before the problem of income distribution. Part of the labour force of the countries of the region is either unemployed or engaged in what are to all intents and purposes marginal activities. This is not just a problem of the distribution of in-

come throughout the scale, which goes from the poorest group to the top 5 per cent earning very high incomes, but a problem of employment opportunities and access to one of those groups, even the lowest, which would mean emerging from horizonless subsistence living or complete destitution. If account were taken of those who are not engaged in a remunerated employment and therefore do not receive an income, the discrepancies discussed below would be even greater.

(a) *Inequality*

Studies of income distribution show that there is much more inequality in Latin America than in the western industrialized countries.²⁵

²⁴ See ECLA, *The economic development of Latin America in the post-war period* (United Nations publication, Sales No.: 64.II.G.6); *The process of industrial development in Latin America* (United Nations publication, Sales No.: 66.II.G.4); *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E.71.II.G.1).

²⁵ ECLA, *Economic Survey of Latin America 1969*, op. cit., Part Three, chapter III.

The same connexion between income groups and levels of education was revealed by an inquiry carried out in five Brazilian towns (see tables 47 and 48). These tables show a regional difference also, i.e., between the three southern towns, on the one hand, and the two others in the north and north-east.

Another inquiry, carried out in four towns in Chile, also showed a clear correlation between income levels and years of education of family heads. As can be seen from table 49, only 27.8 per cent of the lowest income groups had more than six years of primary education, while the proportion was 80 per cent in the higher

Table 45. Mexico: structure of the different income groups in the working population, by level of education, 1964-1965

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Total
Total working population (thousands)	2,084.9	3,127.3	3,127.3	1,563.6	521.2	10,424.3
Percentages, Total	100.0	100.0	100.0	100.0	100.0	100.0
Never attended school	44.1	32.0	19.5	6.7	2.8	25.4
Primary school attendance	54.3	64.1	72.2	61.6	33.3	62.6
Secondary school attendance	1.0	2.3	4.5	13.8	20.9	5.4
Other post-primary school attendance	0.3	1.2	2.8	9.7	9.6	3.2
Professional training	0.3	0.4	1.0	8.2	33.4	3.4

SOURCE: ECLA, on the basis of Secretaría de Industria y Comercio, Dirección General de Muestreo, *La población económicamente activa de México 1964-1965*, Resumen general, vol. VII.

Table 46. Mexico: percentages of the working population in the different income groups, by level of education, 1964-1965

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Percentages	Total (Thousands)
Total working population	20	30	30	15	5	100.0	10,424.3
No schooling	34.7	37.7	23.1	4.0	0.5	100.0	2,648.3
Primary schooling	17.3	30.7	34.6	14.7	2.7	100.0	6,530.5
Secondary schooling	3.9	12.8	25.0	38.8	19.5	100.0	558.1
Other post-primary schooling	1.8	11.8	26.2	45.3	14.9	100.0	335.1
Professional training	1.2	3.8	9.2	36.4	49.4	100.0	352.3

SOURCE: As for table 45.

Table 47. Brazil: percentage of illiterates, by income group, 1960

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Total
São Paulo	17.2	8.2	2.9	0.7	—	6.9
Rio de Janeiro	20.5	10.8	2.1	—	—	8.0
Curitiba	14.2	6.7	2.2	3.1	1.3	6.1
Recife	31.6	14.7	6.6	9.6	—	14.1
Belem	18.7	11.4	5.6	4.2	4.6	9.7

SOURCE: Fundação Getulio Vargas, *Pesquisa sobre orçamentos familiares, 1961-1962*.

Table 48. Brazil: average number of years of education, by income group, 1960

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Total
São Paulo	3.8	4.6	5.9	8.7	11.6	6.2
Rio de Janeiro	4.3	5.3	7.0	10.6	12.4	7.0
Curitiba	4.4	4.9	6.3	9.5	10.3	6.2
Recife	3.3	4.1	5.1	7.3	10.7	5.1
Belem	3.8	4.1	4.5	5.0	7.4	4.5

SOURCE: As for table 47.

30 per cent above the median receive nearly the national average income. The top 5 per cent receive between five and eight times as much.

In Venezuela, Mexico and Brazil, there is great inequality in the distribution, the incomes of the two poorest groups being far below the national average. In Brazil and Mexico, there is a high concentration of income at the top of the scale.

Other differences appear when the data are broken down into rural and urban incomes, but this has been done for only two countries. However, the division between agricultural and non-agricultural income may be considered as an approximation to the division between urban and rural income (see table 44).

If the rural and urban averages are compared, it can be seen that the urban is about twice the rural income, except in Argentina. As to the different income groups, again excluding Argentina, more than 60 per cent of the rural population, and nearly 100 per cent of those employed in agriculture in El Salvador, are in the poorest 20 per cent. On the other hand, more than 80 per cent of the top income group is urban.

(b) *Effects of inequality on the supply of goods and services*

All these imbalances have important implications for the distribution of goods and services. This is borne out by the indicators for education, the structure of consumption and housing in a few representative countries.

Table 45 shows the distribution of the population in Mexico by income groups and levels of education. The majority of the three lowest income groups (98.4 per cent, 96.1 per cent and 91.7 per cent, respectively) either never had any schooling or never went beyond the primary level. These three groups comprise 80 per cent of the population. The corresponding figure for the 15 per cent below the top 5 per cent on the income scale is 68.3 per cent but 61.6 per cent of the members of this group had attended primary school.

Only in the top 5 per cent of the income scale do the figures for secondary education and professional training assume any significance. Table 46 gives the same data but it shows the employed population broken down by level of education.

Table 44. Latin America: rural and urban incomes in the income distribution structure of selected countries, around 1960
(Percentage shares)

Country and sector	Average income (rural average 100)	Share of all income units	Income groups		
			Lowest 20 per cent	75 per cent of the population between the lowest 20 per cent and the top 5 per cent	Top 5 per cent
Venezuela ^a					
Rural	100	40.8	72.9	34.2	12.2
Urban	250	59.2	27.1	65.8	87.8
Mexico ^a					
Rural	100	44.2	68.7	40.0	10.7
Urban	231	55.8	31.3	60.0	89.3
Mexico					
Agricultural	100	43.7	68.2	38.4	20.7
Non-agricultural . .	198	56.3	31.8	61.6	79.3
Brazil					
Agricultural	100	45.4	62.2	43.3	12.1
Non-agricultural . .	273	54.6	37.8	56.7	87.9
Costa Rica					
Agricultural	100	50.0	76.4	45.0	19.6
Non-agricultural . .	184	50.0	23.6	55.0	80.4
El Salvador					
Agricultural	100	60.2	100.0	52.0	18.8
Non-agricultural . .	229	39.8	—	48.0	81.2
Argentina					
Agricultural	100	14.8	21.9	13.2	14.9
Non-agricultural . .	115	85.2	78.1	86.8	85.1

SOURCE: ECLA, *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E.71.II.G.1).

^a The Venezuelan and Mexican classifications differ somewhat. In Mexico the urban category includes all towns with 2,500 or more inhabitants. In Venezuela the dividing line is 5,000 inhabitants. About 3 per cent of the population in Venezuela live in towns of from 2,500 to 5,000 inhabitants.

Table 52. São Paulo: structure of consumption, by income levels, 1960
(Percentages)

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Total
Number of families	134	201	201	101	34	671
Structure of expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Food, beverages and tobacco	53.4	49.3	41.9	33.8	24.5	38.7
Housing	23.4	23.6	24.6	24.2	32.8	25.8
Clothing	7.0	9.5	11.0	12.7	12.4	11.1
Other items	16.3	17.6	22.5	29.3	30.2	24.4
Personal and cultural	9.5	10.0	11.7	13.8	14.8	12.3
Transport	5.3	5.6	8.1	11.5	13.4	9.3
Other expenditure	1.5	2.1	2.7	4.0	2.0	2.7
Average family income (thousands of cruzeiros)						711.8

SOURCE: Fundação Getúlio Vargas, *Pesquisa sobre orçamentos familiares, 1961-1962*.

Table 53. Recife: structure of consumption by income levels, 1960
(Percentages)

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent	Total
Number of families	103	155	155	77	25	515
Structure of expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Food, beverages and tobacco	68.1	63.4	58.7	47.6	37.6	53.2
Housing	17.0	17.4	19.3	22.3	23.4	20.4
Clothing	5.1	6.5	8.2	11.1	13.0	9.4
Other items	9.7	12.8	13.8	18.9	26.0	16.9
Personal and cultural	4.5	6.4	8.2	9.2	13.0	8.8
Transport	4.2	4.9	4.4	5.6	8.9	5.6
Other expenditure	1.0	1.5	1.2	4.1	4.1	2.5
Average family income (thousands of cruzeiros)						380.2

SOURCE: Fundação Getúlio Vargas, *Pesquisa sobre orçamentos familiares, 1961-1962*.

	Lowest 20 per cent	Top 5 per cent
Mexico		
Food	65.8	23.5
Other expenditure	16.0	56.0
Argentina		
Food	56.5	25.2
Other expenditure	21.1	54.1

(d) The different regions in each country vary widely in structure—with disparities between the urban and rural sectors—and in the income level of the population. The 20 per cent at the top of the income scale absorb a very large proportion of the available goods and services.

5. FINAL COMMENTS

A few general conclusions may be drawn from the tables presented in the previous sections:

- The social development indicators improved appreciably in the 1960s;
- The supply of goods and services and of many other items, however, was far below satisfactory levels;
- Marked differences still exist between the countries of the region and, since their growth rates vary considerably, in some cases these differences in many cases are even increasing instead of being ironed out;

Each of the tables might be analysed in greater detail so as to draw fresh conclusions and working hypotheses for specific research; but the intention here is merely to show general trends and the most important characteristics.

It must be forgotten, as mentioned above, that the present study is based mainly on quantitative data. However, social statistics are far from accurate, and they are no help at all in a qualitative analysis, which is more important.

Looked at from the qualitative angle, the picture of the region becomes more complex and perhaps gloomier. An earlier ECLA study contains an analysis of social trends over the

income groups. The disparity is even greater in the poorer regions, such as the province of Curicó, for which the corresponding figures are 17.5 and 86.7 per cent.

Table 49. Chile: income levels and years of education of family heads, 1953-1956
(Percentages)

Income level	Six years of schooling			
	Concepción	Santiago	Antofagasta	Curicó
Low	22.0	27.8	38.9	17.5
Medium	30.7	48.4	49.3	36.7
High	54.0	79.8	53.0	86.7

SOURCE: Eduardo Hamuy, *El problema educacional del pueblo de Chile* (Santiago, Editorial del Pacífico, 1961).

Differences which correspond to different income levels also appear when the structure of consumption is analysed. The next few tables give data on this point; those for Mexico refer to the whole country, while those for Argentina and Brazil refer to two urban areas and to two towns, respectively (see tables 50 to 53).

Table 50 shows that the lowest income group in Mexico spend 65.8 per cent of their income on food, while the top 5 per cent spend only 23.5 per cent on food items. Secondly, after satisfying their essential needs, the lowest income group have only 16 per cent of their income left for other expenditure, while the top 5 per cent have 56 per cent of disposable income.

It can be seen from table 51 that the structure of consumption of the lowest income group is not so bad in Argentina as it is in Mexico, since the members of this group spend only 56.5 per cent of their income on food, and 21.1 per cent on a variety of other items. Nevertheless, the pattern of consumption expenditure of the top 5 per cent in the income distribution is much the same in both countries; in Argentina this group spends 25.2 per cent on food and 54.1 per cent on other items.

In Brazil, the structure of consumption in São Paulo shows that the lowest income group spend 53.4 per cent of their income on food and only 16.3 per cent on other items; this pattern of expenditure is better than in Mexico and more like that of Argentina. On the other hand, the top 5 per cent of the income scale in Brazil spend much less on other items than their opposite numbers in Argentina and Mexico—only 30.2 per cent (see table 52).

The structure of consumption shown in table 53 for Recife, in the north-east of Brazil, is even less satisfactory than that shown in the previous three examples. The poorest 20 per cent spend as much as 68 per cent of their income on food and only 10 per cent on other items. This pattern persists, to some extent, even in the top 5 per cent, where 37.6 per cent of income is spent on food and only 26 per cent on non-essentials.

In both Mexico and Argentina, the pattern of expenditure of the highest income group is the exact opposite of that of the poorest 20 per cent.

Table 50. Mexico: structure of consumption, by income level, 1963-1964
(Percentages)

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Food	65.8	61.7	52.9	40.8	23.5
Housing	7.0	8.3	8.5	8.3	8.5
Clothing	11.2	11.4	12.2	12.7	12.0
Other items	16.0	18.6	26.4	38.2	56.0
	100.0	100.0	100.0	100.0	100.0

SOURCE: Secretaría de Industria y Comercio, *Ingresos y egresos familiares, 1963-1964*.

Table 51. Argentina: structure of consumption of the urban population, by income levels, 1963
(Percentages)

	Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Food	56.5	51.8	45.7	36.2	25.2
Housing	14.3	12.8	12.5	10.4	10.5
Clothing	8.1	9.8	10.4	11.1	10.2
Other items	21.1	25.6	31.4	42.3	54.1
	100.0	100.0	100.0	100.0	100.0

SOURCE: Consejo Nacional de Desarrollo (CONADE), *Encuesta sobre presupuestos de consumo de las familias urbanas por niveles de ingreso para 1963*.

social development indicators

3. Health								
Protein (grammes per day)			Life expectancy at birth			Death rate per thousand in the 1-4 age group		
Approximate quantity			Approximate number of years			Average 1950-1952	About 1968	Percentage decrease
1955	1967	Variation	1950	1968	Variation			
96.9	88.0	-9.2	60.6	67.0	10.6	4.3 ^a	3.7	19.9
48.6 ^b	50.6	4.1	40.8	46.0	12.7	19.1	13.8	27.7
61.5	66.3	7.8	42.3 ^c	56.0	32.4	...	...	...
42.9 ^b	48.9	14.0	52.2	60.0	14.9	21.4	13.4	37.4
53.9 ^b	57.9	7.4	56.5	63.3	12.0	15.0	5.3	64.7
80.1	81.8	2.1	54.0	62.0	14.8	13.5	3.3	75.6
47.5	51.5	8.4	49.9 ^e	57.7	15.6	22.2 ^a	16.6	25.2
56.7 ^b	44.2	-22.0	51.4	56.9	9.5	17.1 ^a	10.4	39.2
55.4 ^b	56.8	2.5	43.6	47.0	7.8	62.5	28.5	65.6
			32.6	47.5	45.7	...	33.0	...
53.6 ^b	51.0	4.9	36.9 ^f	42.6	15.4	24.1	10.6	56.0
63.3	65.7	3.8	48.8	60.0	23.0	30.3	12.7	58.1
62.1	59.0	-5.0	38.6 ^e	51.0	32.1	15.3	7.0	54.2
60.5 ^b	62.9	4.0	62.2	64.3	3.4	10.6	7.3	31.1
65.3	63.3	-3.1	54.4 ^g	59.1	8.8	9.4 ^a	5.5	41.5
50.5 ^d	54.1	7.1	57.4	58.0	1.0	22.4	18.7	16.5
53.0 ^b	41.7	-21.3	43.0	52.0	20.9	13.1	6.3	51.9
95.8	101.6	6.1	68.5	68.5	-0.4	1.3 ^a	1.3	0.0
51.3	65.9	28.5	58.0	65.8	13.4	13.2	4.9	62.9

5. Housing						6. Employment		7. Social security	
Census year	Percentage of occupied housing units with running water	Percentage of housing units with any type of sanitary facilities	Percentage of housing units with electric light	Percentage of housing units with 3 or more persons per room	Average number of persons per room	Unemployment rate		Percentage of the economically active population covered by social security	
						1955	1965	1961	1967
1960	51.6	86.7	68.8	15.3	1.4	2.3	2.6	48.6	66.3
	...	...	...	...	...	...	...	...	5.4
1960	21.0	50.9	38.7		1.3	11.8	11.6	19.2	20.4
1964	38.7	40.6	34.5		1.9	6.4	10.5	8.3	10.1
1963	68.3	74.5	54.6		1.5	...	...	26.7	29.7
1960	56.1	82.4		23.8	1.6	5.5	6.4	65.7 ^b	67.4
1962	37.5	32.9	32.3	49.0	2.5	2.0	5.6	11.9	13.6 ^m
	...	...	...	...	2.2	...	...	4.7	7.1
1964	29.5	30.6	22.0	43.1	2.1	...	...	21.5	24.9
1950	2.3	10.2	2.5	44.7		16.1	15.0	1.2	1.2
1961	24.9	19.8	14.6	57.0	2.4	...	...	3.9 ^b	4.5
1960	32.3			52.0	2.9	2.0	2.7	11.5	16.7
1963	21.3	44.9	32.9	44.1	2.8	...	...	5.6	14.0
1960	46.2	64.1	44.0		2.4	8.5	10.9	23.4	41.1
1962	6.9	88.3	13.2	38.4		3.2	5.3	10.8	9.9
1961	21.1	45.0	26.0		2.2	2.4	2.8	22.4	26.5
1950	29.7	90.4	13.2		1.7	16.1	15.0	16.4	15.4
1963	68.1	93.8	79.2			7.8	12.3	...	...
1961	46.7	62.4	60.7	21.1	1.6	12.3	10.0	11.5	21.9

7. Social security: Pan American Union, *América en cifras*, 1967.

^a Average for 1960-1962.

^b Average for 1961-1962.

^c 1945.

^d Average for 1957-1959.

^e 1956.

^f 1954.

^g 1955.

^h Estimate.

ⁱ For the sake of uniformity, the percentage of pupils who had completed six years of primary education was taken for all countries. The data do not allow for repeaters, because the annual cohorts include repeaters from previous years and pupils who return after a break in their schooling.

^j 1960.

^k 1964.

^l 1966.

^m 1962.

ⁿ 1963.

Table 54. Latin America:

	1. Consumption			2. Nutrition		
	Per capita personal consumption (dollars at 1960 prices)			Per capita		
Country				Daily calories		
	Average		Variation	Approximate number		Variation
	1954-1956	1967-1969		1955	1967	
Argentina	562.2	676.5	20.3	3,070	2,920	-4.9
Bolivia	139.1	152.2	9.4	1,830 ^b	1,980	8.2
Brazil	183.4	258.8	41.1	2,560	2,690	5.1
Colombia	229.9	292.0	27.0	1,900 ^d	2,200	15.8
Costa Rica	292.8	401.3	37.1	2,420 ^b	2,610	7.9
Chile . . . . .	...	489.5	...	2,550	2,890	11.0
Ecuador	201.5	229.0	13.6	1,890	2,020	6.9
El Salvador	208.4	256.3	23.0	2,030 ^b	1,840	-9.4
Guatemala	231.7	283.4	22.3	2,040 ^b	2,200	7.8
Haiti	93.5	93.4	-0.1	...		
Honduras	164.5	197.3	19.9	2,080 ^b	2,010	-3.4
Mexico	324.4	470.7	45.1	2,370	2,550	7.6
Nicaragua	211.4	295.4	39.7	2,300 ^b	2,350	22.2
Panama	302.7	431.1	42.4	2,310 ^b	2,500	8.2
Paraguay . . . . .	...	235.1	...	2,510	2,520	0.4
Peru	214.2	297.6	38.9	2,040 ^d	2,340	14.7
Dominican Republic	161.1	200.0	24.1	2,470 ^b	2,290	-7.3
Uruguay	591.8	522.9	-11.6	2,960	3,170	7.1
Venezuela	344.0	370.9	7.8	1,950	2,490	27.7

	4. Education							
Country	Percentage of literate persons aged 15 years and over			Absolute number of illiterates	Percentage of the population aged 5-14 years enrolled in primary education system			Retention rate in primary education system
	About		Variation		About		Variation	
	1950	1968		1970 ^b	1950	1968		About 1960-1965 ⁱ
Argentina	86.0	91.4 ^j	6.3	947	66	73.1	10.8	39.8
Bolivia	32.0	39.8	24.4	...	24	54.7	127.9	22.1
Brazil	49.0	69.6	42.0	16,436	28	45.7	63.2	18.2
Colombia	57.0	72.9 ^k	27.9	2,817	28	45.5	62.5	16.7
Costa Rica	79.0	85.8	8.6	133	49	61.6	25.7	37.7
Chile	80.0	89.6	12.0	618	66	81.4	23.3	37.5
Ecuador	56.0	72.0	28.6	971	41	55.5	35.4	24.0
El Salvador	39.0	50.8	30.3	896	31	52.3	68.7	22.8
Guatemala	29.0	37.9 ⁿ	30.7	1,686	22	35.7	62.3	16.7
Haiti	11.0	18.8	70.9	...	22	14.8	-32.7	8.6
Honduras	35.0	47.0 ^j	34.3	674	22	55.5	152.3	14.1
Mexico	57.0	77.5	36.0	...	39	61.0	56.4	29.1
Nicaragua	38.0	49.8 ⁿ	28.4	502	28	42.4	51.4	9.4
Panama	70.0	78.3	11.9	169	54	60.6	12.2	44.2
Paraguay	66.0	69.0	4.5	401	51	60.2	18.0	15.2
Peru	42.0	67.0	59.5	...	43	68.7	59.8	29.3
Dominican Republic	43.0	53.1	23.5	1,070	40	55.7	39.3	8.1
Uruguay	85.0	89.4 ⁿ	5.2	...	61	73.5	20.5	50.3
Venezuela	52.0	85.0	63.5	884	40	63.0	52.5	25.1

SOURCES: 1. Per capital personal consumption: ECLA, on the basis of official statistics.
 2. Nutrition: Food and Agriculture Organization of the United Nations, *Production Yearbook*, 1968.
 3. Health: Latin American Demographic Centre (CELADE); Pan American Health Organization (PAHO); United Nations, *Compendium of Social Statistics*, 1967.

4. Education; UNESCO; PAHO; United Nations, *Compendium of Social Statistics*, 1969; Pan American Union, *América en cifras*, 1967.
 5. Housing: Pan American Union, *América en cifras*, 1967; United Nations, *Compendium of Social Statistics*, 1967.
 6. Employment: Latin American Institute for Economic and Social Planning (ILPES), on the basis of official statistics.

Chapter V

THE EXTERNAL SECTOR

1. EXPORTS AND THE TERMS OF TRADE

(a) *Export trends*

Latin America's exports, in terms of dollars at current prices, rose by 5.5 per cent annually in the 1960s (see table 55), and although this cannot be considered to be a very high rate, it is considerably higher than in the 1950s (3.7 per cent) and almost equal to that of the regional product (5.6 per cent). Exports did not grow evenly throughout the decade, since they grew faster in the second half with the rise in the prices of Latin America's export products (see table 56).

There was very little change in the countries' positions in relation to the regional average from one decade to the next. Peru, Chile and Mexico and most of the Central American and Caribbean countries maintained rates that were higher than the regional average, and the countries of the Central American Common Market (CACM) recorded a significant increase in the second of the two decades. Brazil, Paraguay and Bolivia joined this group in the 1960s, and the highest growth rate for the period was recorded in Bolivia.

On the other hand, the lowest growth rates (apart from Haiti's) were recorded in three countries which had been in favourable positions between 1950 and 1960 (Ecuador, Venezuela and the Dominican Republic). Haiti, Colombia, Argentina and Uruguay remained in the group with a lower-than-average growth rate in both decades.

If the first half of the period 1960–1969 is compared with the second, it will be noted that some countries did not follow the general trend and recorded higher growth rates in the first five-year period. These include the members of the Central American Common Market (except Costa Rica), Argentina and Uruguay.²⁸

Other countries which constituted exceptions to the rule were Colombia, Venezuela and Haiti, which throughout the 1960s main-

tained a slow growth rate for exports in relation to the average for the region.

Lastly, if consideration is given to the trends in both decades and in both halves of the 1960s, it will be seen that only in Costa Rica, Guatemala, Mexico, Peru and Chile was the value of exports always above the Latin American average.

Exports did not grow so fast in volume as they did in value over the two decades, the volume increasing by only 4.1 per cent in the 1950s and by 4.8 per cent in the 1960s (see tables 55 and 57).

Comparing these rates with the growth rate in the value of exports, it can be seen that the prices obtained followed a totally different trend in the two decades. From 1950 to 1960 the larger increase in volume than in value shows that prices deteriorated over the period. The 1960s were characterized by a rise in export prices, particularly in the second half, so that the annual increase in the value of exports was greater than in the volume. This may have been due to the changes which took place in the structure of exports, since many countries began to diversify their foreign trade (see section 2 below).

The position of the individual countries in relation to the regional average is not very different, whether the rates of growth of the value or of the volume of exports are considered (see tables 56 and 57). Some countries, however, which in terms of the value of their products were among those attaining the fastest growth in the region, recorded rates lower than the average in terms of sales volume, which reflects a continuing rise in export prices. Chile and Mexico were in this position in the 1950s. Chile continued in the same position in the 1960s and was joined by Peru and Bolivia. Peru also managed to raise the volume of its exports above the regional average, but this increase was still far below the rise in the value of its exports (see table 57).

The sharp disparity between the increases in the value and in the volume of Chile's and

²⁸ Argentina and Uruguay dropped into the lower-than-average group during the second half of the decade.

past decade, together with a policy-oriented diagnosis.²⁷ Discussing the distribution of goods and services, it points out that what is needed is not only to make good short falls in supply or simply to improve its distribution; the very nature and quality of the goods and services required must be given critical consideration.

Two sectors may be taken as an example. The diagnosis of education cannot be confined to determining the capacity of the education system to meet quantitative needs, nor can future policy be aimed simply at increasing the number of schools or ensuring a larger intake of children and young adults. The question that must be asked is: Education for what? In terms of what personal and social values? In what form is education being given? What values are explicitly or implicitly inculcated by the education available? Today, the content of education and the traditional education structure are being increasingly questioned. Does education take internal regional differences into account? Is the same kind of education required in urban and rural areas? What kind of education is required by the country's industrial development and technology?

The optimum health level is always being pushed up. As it moves forward science calls forth new needs and reveals new horizons; and every new health requirement must be met immediately. This aggravates a situation where even the minimal requirements of broad sectors of the population are not yet satisfied.

When data on nutrition, health, education, social security and housing are being analysed, social questions are being dealt with in a vacuum; the living structure of society and its

growth and complex relationships are ignored. The income distribution indicator introduces the problem of social stratification also, but it goes no further. This means that there is a whole social dimension of development which has not been dealt with here.

For future and more comprehensive studies, it would be useful if more data were available on other social questions in the various countries, especially on participation by the people. What kind of trade union organizations exist in the different countries? What percentage of the working population do they cover? What are their main activities? Information should also be obtained on organizations of other types, such as local neighbourhood, labour, sports and other groups. The distribution of goods and services is closely linked to the type of people's organizations that exist and their objectives.

Two final comments remain to be made. First, better and more complete data are required for future evaluations. The Latin American countries should seek more uniform criteria for the preparation of their social indicators, and the data should always be broken down into urban and rural, by region and by level of income.

Secondly, and lastly, an evaluation of the social distribution of goods and services can be made only if there is a clear image of society and objectives are well defined. The results of the appraisal will depend on the model in view. For the same reason, no tentative image of the future can be just a projection of present goals or simply aim at bridging of existing gaps; there must be new needs and new priorities. It is clear, however, that the very low levels of living revealed by this study, which mean a hand-to-mouth existence for large segments of the population, are unlikely to improve very much, no matter what new living patterns are proposed for the future.

²⁷ ECLA, *Social change and social development policy in Latin America* (United Nations publication, Sales No.: E.70.II.G.3).

Peru's exports was particularly marked in the last few years of the period.

(b) *Average fluctuations in exports*

The figures in table 55 show a trend towards greater stability in Latin America's exports, particularly in terms of current value. Fluctuations in volume, which had been less marked than fluctuations in value in the 1950s, became slightly more marked than those in value in the 1960s. It may be concluded that prices did not only rise, they fluctuated less on the international market in the last decade.²⁹

The average coefficient of fluctuations in the value of exports fell from 9.7 to 7.5 per cent, though this figure masks—and therefore underestimates to a certain extent—the decline in individual countries, since it takes no account of the scatter of prices in relation to the median in each case. Fluctuation kept much closer to the median line in the 1960s than in the 1950s, and at the same time the lowest prices were much lower (see table 58).

In the 1950s, particularly marked fluctuations were observed in Haiti (2.5 times above the average), and also in Bolivia, Uruguay and Chile. In the 1960s, however, the country with the greatest fluctuations in the value of its exports was the Dominican Republic, with a rate of 12.5 per cent, owing essentially to changes in the prices of its products, since the volume of exports fell by 8.5 per cent.

Although fluctuations in the value of exports were not so violent, there were more countries with export prices that fluctuated more than the average for Latin America in the last decade. However, there was no change among the countries as regards fluctuations in volume (see table 59).

It is interesting to consider the growth rates of exports as a whole, measured in terms of value and of volume, together with the fluctuations they showed in the 1960s. The countries fall into four different groups (see tables 60 and 61). The first is that of countries that managed to expand their exports at a faster pace than the regional average, and at the same time, recorded fluctuations that were lower than the regional average. In terms of value, not a single country achieved this position in the 1960s, while Bolivia and Mexico were the only two

countries which were in this position as regards the volume of their exports.

The second group comprises countries that showed a higher-than-average growth of exports, with above-average fluctuations. Most of the Latin American countries fall within this group as regards the value of their exports, while seven countries are in this position in respect of the volume of exports: four members of the Central American Common Market and Brazil, Panama and Paraguay.

The countries that recorded below-average fluctuations with only small increases or even decreases in their exports were, in terms of value, Colombia, Ecuador and Venezuela, and in terms of volume, Venezuela again, and Peru.

The fourth group comprises countries whose exports grew but at the same time underwent sharp fluctuations in foreign sales. In terms of value of exports this was the case of Uruguay, Argentina, Haiti and the Dominican Republic; in terms of volume, it was the same countries, except that Argentina was replaced by Ecuador.

(c) *Growth of the purchasing power of exports*

The purchasing power of exports followed a more dynamic growth trend in the 1960s than in the 1950s.

In the 1950s exports expanded at an annual rate of 4.1 per cent in volume and their purchasing power by only 2 per cent, whereas in the next decade they rose by 4.8 per cent in volume and purchasing power by 4.1 per cent a year.

Looking at the picture from another angle, the increased purchasing power of exports is shown by the number of countries with a higher growth rate for the purchasing power than for the volume of exports.

From 1950 to 1960 only two countries were in this position, Chile and Nicaragua, but this number increased to nine in the 1960s with the addition of a further seven countries—Bolivia, Peru, the Dominican Republic, Panama, Honduras, Argentina and Paraguay (see table 62).

There was little change, in quantitative terms, from the first to the second half of the 1960s, but as can be seen from table 63, the countries falling into each group did not remain exactly the same. Only four of the countries mentioned above (Chile, Peru, the Dominican Republic and Panama) were among the countries whose exports grew faster in purchasing power than in volume in both halves of the decade.

(d) *Trends in the terms of trade*

The sharp deterioration in Latin America's

²⁹ Chile, Peru and Bolivia were the countries which experienced greater fluctuations in the value of their exports than in the volume. This indicates that their export prices did not only rise appreciably, they also fluctuated violently over the period.

Table 55. Latin America: growth of the external sector, 1950-1960 and 1960-1969
(Annual percentages)

	Exports of goods and services			Average percentage variations in exports of goods and services			Purchasing power of exports		Indexes for the terms of trade			Imports of goods and services		
	Current value		Volume		Current value		1950-1960		1960-1969		1955-1959 = 100		Current value	
	1950-1960	1960-1969	1950-1960	1960-1969	1950-1960	1960-1969	1950-1960	1960-1969	1950-1960	1960-1969	1960-1965	1965-1969	1950-1960	1960-1969
Argentina	0.4	4.4	2.0	3.7	10.4	8.7	-1.5	4.2	116	116	116	2.5	3.4	1.4
Bolivia	-3.4	13.6	-3.5	6.7	18.1	11.7	-1.7	12.5	113	160	160	1.4	10.3	4.1
Brazil	0.8	6.4	2.6	6.4	8.4	10.1	-0.1	5.4	84	79	79	4.2	3.7	3.7
Colombia	3.1	4.2	4.5	4.7	9.0	7.0	1.6	3.3	83	78	78	4.6	4.5	3.0
Costa Rica	4.5	9.3	4.7	9.3	10.9	8.8	3.4	8.5	77	75	75	9.0	9.6	7.8
Chile	5.2	9.7	1.9	4.5	14.6	9.7	3.3	9.0	99	136	136	8.8	5.8	6.8
Ecuador	6.1	3.0	7.1	3.1	10.7	7.0	3.8	2.7	84	80	80	10.1	7.1	7.6
El Salvador	4.7	7.5	4.3	7.8	7.6	8.2	3.8	6.3	78	78	78	9.2	6.4	8.3
Guatemala	4.6	9.7	4.9	10.9	6.3	10.2	3.1	8.5	68	63	63	6.5	8.1	4.9
Haiti	2.6	-1.3	3.7	-1.6	23.5	8.4	1.2	-2.3	81	77	77	3.9	0.5	2.5
Honduras	1.4	11.3	2.0	8.7	9.6	10.8	0.1	10.7	88	94	94	6.6	11.4	5.1
Mexico	5.3	8.0	4.1	5.6	6.8	7.4	3.1	4.6	92	89	89	7.9	7.5	5.6
Nicaragua	7.6	10.2	6.5	9.1	11.9	9.3	6.7	10.1	93	97	97	10.8	10.0	9.8
Panama	3.9	13.2	4.2	11.3	6.7	11.5	2.6	12.0	87	91	91	6.3	10.7	5.2
Paraguay	2.1	6.7	3.2	5.3	8.4	9.5	0.5	5.8	76	77	77	7.8	6.9	6.0
Peru	8.9	8.6	9.6	4.0	10.5	8.1	7.5	8.0	94	123	123	7.4	8.3	6.1
Dominican Republic	6.8	3.2	8.1	-0.3	10.9	12.5	3.0	4.4	98	111	111	7.4	10.7	3.6
Uruguay	-4.9	4.8	-3.6	4.3	16.2	11.2	-4.7	4.2	114	108	108	0.2	0.0	0.4
Venezuela	7.7	0.5	7.1	2.8	9.8	2.3	4.3	-1.9	75	56	56	6.8	4.2	3.5
Latin America, excluding Cuba	3.7	5.5	4.1	4.8	9.7	7.5	2.0	4.1	86.6	85.1	85.1	5.5	5.5	3.9
														4.2

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

by period and group of countries, 1950-1960 to 1960-1969

Countries below the average for Latin America				Countries whose exports declined			
1950-1960		1960-1969		1950-1960		1960-1969	
Colombia . . .	3.1	Uruguay . . .	4.8	Uruguay . . .	-4.9	Haiti . . .	-1.3
Haiti . . .	2.6	Argentina . . .	4.4	Bolivia . . .	-3.4	—	—
Paraguay . . .	2.1	Colombia . . .	4.2				
Honduras . . .	1.4	Dominican Republic .	3.2				
Brazil . . .	0.8	Ecuador . . .	3.0				
Argentina . . .	0.4	Venezuela . . .	0.5				

1960-1965		1965-1969		1960-1965		1965-1969	
Colombia . . .	3.8	Colombia . . .	4.6	Haiti . . .	-3.8	—	—
Brazil . . .	3.7	Paraguay . . .	4.1	Dominican Republic .	-3.6	—	—
Venezuela . . .	0.2	Argentina . . .	2.6				
		Nicaragua . . .	2.5				
		Haiti . . .	1.9				
		El Salvador . . .	1.3				
		Uruguay . . .	0.9				
		Venezuela . . .	0.9				
		Ecuador . . .	0.8				

by period and group of countries, 1950-1960 to 1960-1969

Countries below the average for Latin America				Countries whose exports declined			
1950-1960		1960-1969		1950-1960		1960-1969	
Haiti . . .	3.7	Uruguay . . .	4.3	Uruguay . . .	-3.6	Haiti . . .	-1.6
Paraguay . . .	3.2	Peru . . .	4.0	Bolivia . . .	-3.5	Dominican Republic .	-0.3
Brazil . . .	2.6	Argentina . . .	3.7				
Argentina . . .	2.0	Ecuador . . .	3.1				
Honduras . . .	2.0	Venezuela . . .	2.8				
Chile . . .	1.9						

1960-1965		1965-1969		1960-1965		1965-1969	
Bolivia . . .	4.0	Haiti . . .	3.6	Dominican Republic .	-5.8	Ecuador . . .	-2.3
Venezuela . . .	3.5	Chile . . .	3.4	Haiti . . .	-5.5	Uruguay . . .	-1.7
Brazil . . .	3.3	Peru . . .	2.8				
Colombia . . .	2.9	El Salvador . . .	2.6				
		Nicaragua . . .	2.4				
		Argentina . . .	2.1				
		Venezuela . . .	2.0				

Table 56. Latin America: growth rate of the value of exports of goods and services,

		<i>Countries above the average for Latin America</i>		<i>Countries close to the average for Latin America</i>	
		1950-1960	1960-1969	1950-1960	1960-1969
Cumulative annual growth rate of the total current value of Latin America's exports of goods and services 1950-1959 3.7 per cent 1960-1969 5.5 per cent		Peru . . . 8.9	Bolivia . . . 13.6	Panama . . . 3.9	—
		Venezuela . . . 7.7	Panama . . . 13.2		
		Nicaragua . . . 7.6	Honduras . . . 11.3		
		Dominican Republic . . . 6.8	Nicaragua . . . 10.2		
		Ecuador . . . 6.1	Guatemala . . . 9.7		
		Mexico . . . 5.3	Chile . . . 9.7		
		Chile . . . 5.2	Costa Rica . . . 9.3		
		El Salvador . . . 4.7	Peru . . . 8.6		
		Guatemala . . . 4.6	Mexico . . . 8.0		
		Costa Rica . . . 4.5	El Salvador . . . 7.5		
			Paraguay . . . 6.7		
			Brazil . . . 6.4		
		1960-1965	1965-1969	1960-1965	1965-1969
Cumulative annual growth rate 1960-1964 5.0 per cent 1965-1969 6.2 per cent		Bolivia . . . 16.8	Costa Rica . . . 14.0	Ecuador . . . 4.9	—
		Nicaragua . . . 16.7	Panama . . . 13.0		
		Honduras . . . 13.9	Chile . . . 12.5		
		Panama . . . 13.3	Dominican Republic . . . 12.3		
		El Salvador . . . 12.7	Brazil . . . 10.0		
		Guatemala . . . 11.5	Bolivia . . . 9.6		
		Peru . . . 9.3	Mexico . . . 8.4		
		Paraguay . . . 8.8	Honduras . . . 8.1		
		Uruguay . . . 8.1	Peru . . . 7.5		
		Mexico . . . 7.8	Guatemala . . . 7.4		
		Chile . . . 7.5			
		Argentina . . . 6.0			
		Costa Rica . . . 5.5			

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 57. Latin America: growth rate of the volume of exports of goods and services,

		<i>Countries above the average for Latin America</i>		<i>Countries close to the average for Latin America</i>	
		1950-1960	1960-1969	1950-1960	1960-1969
Cumulative annual growth rate of the total volume of Latin America's exports of goods and services 1950-1960 4.1 per cent 1960-1969 4.7 per cent		Peru . . . 9.6	Panama . . . 11.3	Panama . . . 4.2	Colombia . . . 4.7
		Dominican Republic . . . 8.1	Guatemala . . . 10.1	Mexico . . . 4.1	Chile . . . 4.5
		Ecuador . . . 7.1	Costa Rica . . . 9.3		
		Venezuela . . . 7.1	Nicaragua . . . 9.1		
		Nicaragua . . . 6.5	Honduras . . . 8.7		
		Guatemala . . . 4.9	El Salvador . . . 7.8		
		Costa Rica . . . 4.7	Bolivia . . . 6.7		
		Colombia . . . 4.5	Brazil . . . 6.4		
		El Salvador . . . 4.3	Mexico . . . 5.6		
			Paraguay . . . 5.3		
		1960-1965	1965-1969	1960-1965	1965-1969
Cumulative annual growth rate 1960-1965 4.7 per cent 1965-1969 4.7 per cent		Nicaragua . . . 14.9	Costa Rica . . . 15.3	Costa Rica . . . 4.7	
		Guatemala . . . 13.6	Panama . . . 11.8		
		El Salvador . . . 12.1	Brazil . . . 10.5		
		Panama . . . 10.8	Bolivia . . . 10.1		
		Honduras . . . 9.5	Guatemala . . . 7.7		
		Uruguay . . . 9.4	Honduras . . . 7.7		
		Ecuador . . . 7.7	Dominican Republic . . . 7.0		
		Mexico . . . 5.5	Colombia . . . 6.9		
		Chile . . . 5.4	Mexico . . . 5.7		
		Paraguay . . . 5.3	Paraguay . . . 5.3		
		Peru . . . 5.1			
		Argentina . . . 5.0			

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 60. Latin America: growth and stability of the value of exports, by country, 1960-1969

	Countries with above-average fluctuations	Countries with average fluctuations	Countries with below-average fluctuations
Countries with export growth rates above the Latin American average	Bolivia Panama Honduras Nicaragua Guatemala Chile Costa Rica Peru El Salvador Paraguay Brazil	Mexico	—
Countries with export growth rates close to the Latin American average	—	—	—
Countries with export growth rates below the Latin American average and countries whose exports declined	Uruguay Argentina Dominican Republic Haiti	—	Colombia Ecuador Venezuela

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 61. Latin America: growth and stability of the volume of exports, by country, 1960-1969

	Countries with above-average fluctuations	Countries with average fluctuations	Countries with below-average fluctuations
Countries with export growth rates above the Latin American average	Panama Guatemala Costa Rica Nicaragua Honduras Brazil Paraguay	El Salvador	Bolivia Mexico
Countries with export growth rates close to the Latin American average	—	—	Colombia Chile
Countries with export growth rates below the Latin American average and countries whose exports declined	Uruguay Ecuador Haiti Dominican Republic	Argentina	Peru Venezuela

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

terms of trade which was a feature of the 1950s has been underlined in previous ECLA studies.³⁰

In this context, the further deterioration that occurred in the 1960s compared with the 1950s (see tables 55 and 64), is seen to be very serious,

because it shows that for the last 20 years the region's balance of trade with the rest of the world has always been unfavourable.

However, the trend was fairly stable in the 1960s as far as the averages in each half of the decade were concerned, within the over-all context of deterioration. It is true that there was a slight drop from the first half to the second, when the region's unfavourable balance increased somewhat, but this is not so important

³⁰ See for instance *The Economic Development of Latin America in the Post-War Period* (United Nations publication, Sales No.: 64.II.G.6).

Table 63. Latin America : growth of the purchasing power of exports in relation to their volume by period and group of countries, 1960–1965 and 1965–1969

Greater increase in purchasing power than in volume		Smaller increase in purchasing power than in volume		Same increase in purchasing power as in volume	
1960–1965		1965–1969		1960–1965	
Bolivia		Chile		Venezuela	Brazil
Dominican Republic		Panama		Guatemala	
Honduras		Dominican Republic		Ecuador	
Peru		Peru		Uruguay	
Nicaragua		Uruguay		Mexico	
Paraguay		Ecuador		Haiti	
Argentina		Mexico		El Salvador	
Chile				Guatemala	
Panama				Nicaragua	
Costa Rica				Argentina	
				Bolivia	
				Honduras	

SOURCE: ECLA, on the basis of official statistics.

Table 64. Latin America: trends in the terms of trade, by period and group of countries, 1960–1969 compared with 1955–1959

Improvement			Slight deterioration			Serious deterioration					
1960-1964			1960-1964			1960-1964					
1965-1969			1965-1969			1965-1969					
Argentina	. 116	Bolivia .	. 160	Chile .	. 99	Nicaragua .	. 97	Brazil .	. 84	Ecuador .	. 80
Uruguay	. 114	Chile .	. 136	Dominican Republic	. 98	Honduras .	. 94	Ecuador .	. 84	Brazil .	. 79
Bolivia .	. 113	Peru .	. 123	Peru .	. 94	Panama .	. 91	Colombia .	. 83	Colombia .	. 78
		Argentina	. 116	Nicaragua .	. 93	Mexico .	. 89	Haiti .	. 81	El Salvador .	. 78
		Dominican Republic	. 111	Mexico .	. 92			El Salvador	. 78	Haiti .	. 77
		Uruguay .	. 108	Honduras .	. 88			Costa Rica .	. 77	Paraguay .	. 77
				Panama .	. 87			Paraguay .	. 76	Costa Rica .	. 75
								Venezuela .	. 75	Guatemala .	. 63
								Guatemala .	. 68	Venezuela .	. 56

SOURCE: ECLA, on the basis of official statistics.

Table 62. Latin America: growth of the purchasing power of exports in relation to their volume by period and group of countries, 1950-1960 and 1960-1969

Greater increase in purchasing power than in volume		Smaller increase in purchasing power than in volume		Decrease in purchasing power and increase in volume		Decrease in purchasing power and in volume	
1950-1960		1960-1969		1950-1960		1960-1969	
Chile	Bolivia	Dominican Republic	Guatemala	Argentina	Venezuela	Bolivia	Haiti
Nicaragua	Dominican Republic	Ecuador	El Salvador	Brazil		Uruguay	
	Chile	Colombia	Colombia				
	Peru	Venezuela	Brazil				
	Panama	Paraguay	Mexico				
	Honduras	Haiti	Costa Rica				
	Nicaragua	Peru	Ecuador				
	Argentina	Honduras	Uruguay				
	Paraguay	Guatemala					
		Panama					
		Costa Rica					
		Mexico					
		El Salvador					

SOURCE: ECLA, on the basis of official statistics.

Considering the variations in the growth of exports and the improvement in their purchasing power in the last decade, it is interesting to note that the region's imports did not expand at a faster pace in the 1960s. As mentioned below,³¹ one of the reasons for this must have been the increase in foreign debt servicing and in remittances of profits and other payments abroad during the last decade.

In any event, this lack of growth was offset to some extent by increased availability of imported goods, since import prices rose less than in the previous decade. Although export prices rose by an annual 5.5 per cent, those of imports rose at an annual rate of only 3.9 per cent in the 1950s and of 4.2 per cent in the 1960s.

As to the value of imports, there were no notable changes in the relative positions of the different countries from one decade to the next (see tables 65 and 66). The number of countries with an above-average increase in the value of

their imports remained the same, and only two countries changed their position (Bolivia joined the above-average group and Venezuela moved into the group with a below-average increase in imports compared with the regional average).

With regard to the volume of imports, about the same number of countries had an above-average growth rate for the volume as for the value of imports. However, differences in import patterns from one country to another meant that the impact of price changes was different in each, so that the composition of the two groups changed. This may explain the fact that the Dominican Republic's imports increased more rapidly in volume than they did in value during the 1960s, which is the reverse of the general trend.

The data for the two decades combined, however, does not give a true picture, in that it shows sustained growth, apparently with no sharp changes. In fact, import trends were completely different in the two halves of the 1960s.

³¹ See section 3 below.

by period and group of countries, 1950-1960 and 1960-1969 rates)

<i>Below the Latin American average</i>				<i>Decline in value</i>			
<i>1950-1960</i>		<i>1960-1969</i>		<i>1950-1960</i>		<i>1960-1969</i>	
Colombia . . .	4.6	Colombia . . .	4.5				
Brazil . . .	4.2	Venezuela . . .	4.2				
Haiti . . .	3.9	Brazil . . .	3.7				
Argentina . . .	2.5	Argentina . . .	3.4				
Bolivia . . .	1.4	Haiti . . .	0.5				
Uruguay . . .	0.2	Uruguay . . .	0.0				

<i>1960-1965</i>		<i>1965-1969</i>		<i>1960-1965</i>		<i>1965-1969</i>	
Chile . . .	1.6	Costa Rica . . .	8.4	Uruguay . . .	-6.9	Haiti . . .	-0.6
Haiti . . .	1.5	Argentina . . .	7.7	Brazil . . .	-6.5		
Colombia . . .	0.6	Bolivia . . .	7.6				
Argentina . . .	0.0	Venezuela . . .	5.4				
		Guatemala . . .	4.4				
		Nicaragua . . .	2.3				
		El Salvador . . .	1.6				
		Peru . . .	0.9				

when the trend of prices for exports and imports over the last five years are taken into consideration. The growth in both the value and the volume of trade indicates something like a recovery in the terms of trade from 1965 to 1969, although there was no rise in the average (see tables 56 and 57, and 65 and 66).

In the same way an analysis of the country indices shows that the number of countries that improved their terms of trade compared with 1955–1959 rose from three to six, while the number that suffered a sharp decline in their foreign trade balance was the same in the second half of the decade as in the first.

A more detailed analysis of the country figures for the terms of trade shows that although the over-all figure for the region is much the same for each of the five-year periods, it masks two quite different situations. In 1960–1965, there was a greater degree of similarity in the performance of the countries than in 1965–1969. There was no very marked rise in the index for 1960–1965 compared with

the figure for 1955–1959 in any country (the biggest rise was to 116), while in the second half three countries exceeded this figure and Bolivia's index was as high as 160.

In 1960–1965 the terms of trade index of 16 countries fell and in seven there was a moderate decline, whereas in the next five-year period, the same number of countries showed a sharp decline in their terms of trade index, but the difference in the index figures between countries was far greater (e.g., Venezuela had an index of 56).

Therefore, despite what the average index figure appears to indicate, the terms of trade of the countries of the region continued to follow a very uneven course during the decade, but the gains and losses cancelled each other out.

(e) *Growth of imports*

Over the past 20 years Latin America's imports have grown steadily in terms of value (5.5 per cent per year, as shown in table 55).

Table 65. Latin America: growth of the value of imports of goods and services, (Percentage growth)

	Above the Latin American average		Close to the Latin American average	
	1950–1960	1960–1969	1950–1960	1960–1969
Cumulative annual growth rate of the total current value of Latin America's imports of goods and services				
1950–1959 5.5	Nicaragua . 10.8	Honduras . 11.4		
1960–1969 5.5	Ecuador . 10.1	Panama . 10.7		
	El Salvador . 9.2	Dominican Republic . 10.7		
	Costa Rica . 9.0	Bolivia . 10.3		
	Chile . 8.8	Nicaragua . 10.0		
	Mexico . 7.9	Costa Rica . 9.6		
	Paraguay . 7.8	Peru . 8.3		
	Peru . 7.4	Guatemala . 8.1		
	Dominican Republic . 7.4	Mexico . 7.5		
	Venezuela . 6.8	Ecuador . 7.1		
	Honduras . 6.6	Paraguay . 6.9		
	Guatemala . 6.5	El Salvador . 6.4		
	Panama . 6.3	Chile . 5.8		
	1960–1965	1965–1969	1960–1965	1965–1969
Cumulative annual growth rate				
1960–1964 2.9	Nicaragua . 16.6	Brazil . 17.8	Ecuador . 9.0	
1965–1969 8.8	Peru . 14.7	Dominican Republic . 15.4	Mexico . 8.8	
	Bolivia . 12.5	Chile . 11.3	Paraguay . 8.6	
	Honduras . 11.6	Honduras . 11.3		
	Guatemala . 11.0	Panama . 10.5		
	Panama . 10.9	Colombia . 9.7		
	Costa Rica . 10.5	Uruguay . 9.2		
	El Salvador . 10.3			
	Dominican Republic . 7.0			
	Mexico . 6.4			
	Ecuador . 5.7			
	Paraguay . 5.5			
	Venezuela . 3.2			

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

by period and group of countries, 1950–1960 and 1960–1969
rates)

<i>Below the Latin American average</i>				<i>Decline in volume</i>			
<i>1950–1960</i>		<i>1960–1969</i>		<i>1950–1960</i>		<i>1960–1969</i>	
Dominican Republic .	3.6	Colombia . . .	3.6			Uruguay . . .	–0.7
Venezuela . . .	3.5	Argentina . . .	3.1			Haiti . . .	–0.5
Colombia . . .	3.0	Brazil . . .	2.7				
Haiti . . .	2.5	Venezuela . . .	1.7				
Argentina . . .	1.4						
Uruguay . . .	0.4						

<i>1960–1965</i>		<i>1965–1969</i>		<i>1960–1965</i>		<i>1965–1969</i>	
Chile . . .	0.8	Costa Rica . . .	6.9	Uruguay . . .	–7.9	Haiti . . .	–1.7
Argentina . . .	0.6	Argentina . . .	6.4	Brazil . . .	–6.8		
Haiti . . .	0.4	Mexico . . .	6.3	Venezuela . . .	–0.8		
		Venezuela . . .	5.0	Colombia . . .	–0.4		
		Guatemala . . .	3.4				
		Nicaragua . . .	1.1				
		Peru . . .	0.3				
		El Salvador . . .	0.2				

the Dominican Republic and Argentina—during the first half of the decade; during the period from 1965 to 1969, there were no similar cases.

2. STRUCTURAL CHANGES

(a) Exports

Two main trends are observable in the evolution of the structure of Latin America's exports. First, the three major export products declined in importance. The changes that occurred over little more than a decade thus point to a greater diversification of exports, but largely as a result of one primary product taking the place of another.

In the second place, there was an increase in the relative share of manufactures in total exports, although this did not represent any fundamental change in the structure of exports.

(i) *Exports of primary products.* In Latin America as a whole, the relative share of the principal export product dropped from 62.1 per cent in 1955 to 50.5 per cent in 1968, and that of

the three major exports fell from 79.9 to 65.2 per cent (see table 67).

In all the countries except Peru, Chile and Uruguay the share of the three major exports fell, to a marked extent in El Salvador, Costa Rica and Guatemala (see table 68).

In most cases the same trend was observable in respect of the principal export product, Peru, Uruguay and the Dominican Republic being the only exceptions. In Peru and Uruguay the share of the major product fell and that of the three major products remained unchanged, while the reverse was the case in the Dominican Republic.

The sharpness of these changes is clear from a consideration of the shares of the three major exports in total exports. In 1955, the three major exports accounted for more than 80 per cent of total exports in most of the countries, but, in 1968, this was true of only five of the countries.

There were only three countries where the share of the three principal exports was less than 60 per cent in 1955 (Paraguay, Mexico and

**Table 66. Latin America: growth of the volume of imports of goods and services,
(Percentage growth)**

		<i>Above the Latin American average</i>		<i>Close to the Latin American average</i>	
		1950-1960	1960-1969	1950-1960	1960-1969
Cumulative annual growth rate of the total volume of Latin America's imports of goods and services 1950-1960 3.9 1960-1969 4.2	Nicaragua	9.8	Dominican Republic	Bolivia	4.1
	El Salvador	8.3		Brazil	3.7
	Costa Rica	7.8	Honduras		
	Ecuador	7.6	Nicaragua		
	Chile	6.8	Panama		
	Peru	6.1	Bolivia		
	Paraguay	6.0	Costa Rica		
	Mexico	5.6	Peru		
	Panama	5.2	Guatemala		
	Honduras	5.1	Ecuador		
	Guatemala	4.9	Paraguay		
			Chile		
			El Salvador		
		1960-1965	1965-1969	1960-1965	1965-1969
Cumulative annual growth rate 1960-1965 1.4 1965-1969 7.6	Nicaragua	17.5	Brazil		Paraguay
	Peru	14.2	Dominican Republic		Bolivia
	Honduras	11.4			
	Bolivia	10.8	Chile		
	Costa Rica	10.5	Honduras		
	Dominican Republic	9.8	Panama		
	Guatemala	9.8	Uruguay		
	Panama	9.4	Colombia		
	El Salvador	9.4	Ecuador		
	Ecuador	5.7			
	Paraguay	4.9			
	Mexico	2.3			

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

During the first half there was a definite deceleration in the growth rates of both the volume and the value of the region's imports (1.4 and 2.9 per cent per year respectively). The second half showed a marked contrast with the first, and imports grew in volume by 7.6 per cent per year and in value by almost 9 per cent. Prices rose slightly less rapidly, as can be seen from a comparison between the growth rates for the volume and for the value of imports in the two periods.

The distribution of the countries according to their position in relation to the average growth of the value of the region's imports is another feature which distinguishes the two periods from each other. During the first five years, thirteen countries boosted the value of their imports at a higher rate than the regional average, compared with only seven in the second half of the decade. The countries were far closer to the regional average during the last five-year period also.

A qualitative analysis of the relative positions of the countries still further underlines the con-

traditions between the two halves of the decade. Only three countries maintained a steady growth rate for the value of their imports during both halves of the decade (the Dominican Republic, Honduras and Panama). The growth rate in the other 10 countries that were in this position during the first half of the decade was not even as high as the average rate of expansion of foreign purchases for the region; Peru, Nicaragua and El Salvador were particularly notable in this respect.

Of the four countries that moved up into the group with the fastest growing imports in the last few years, Brazil and Uruguay should be mentioned. Both countries' imports declined in the first half of the decade by 6.5 per cent and 6.9 per cent a year respectively, and, in the second half, Brazil's imports rose at an annual rate of 17.8 per cent and Uruguay's at 9.2 per cent.

A country-by-country comparison of the growth rates of the volume and of the value of imports shows that in three countries imports grew faster in volume than in value—Nicaragua,

merchandise exports, 1955–1968^a
the total)

<i>Manufactured goods: SITC sections 5, 6 (except division 68), 7 and 8</i>			<i>Notes</i>
<i>1955</i>	<i>1960</i>	<i>1968</i>	
3.5	2.8	12.0	1955 wheat, 1960 and 1968 meat; 1955 and 1960 meat, wheat and wool, 1968 meat, maize and wheat
0.2	0.3	1.9	1955, 1960 and 1968 tin; 1955 tin, tungsten and lead, 1960 tin, lead and silver, 1968 tin, petroleum and silver
1.1	1.7	6.9	1955, 1960 and 1968 coffee; 1955 coffee, cotton and cocoa, 1960 coffee, cocoa and iron ore, 1968 coffee, cotton and iron ore
1.3	1.5	8.3	1955, 1960 and 1968 coffee; 1955 and 1960 coffee, petroleum and bananas, 1968 coffee, petroleum and cotton
0.4	0.1	19.1	1955, 1960 and 1968 coffee; 1955, 1960 and 1968 coffee, bananas and cocoa
3.1	5.4	3.1	1955, 1960 and 1968 copper; 1955, 1960 and 1968 copper, nitrate and iron ore
2.5	0.9	1.9	1955, 1960 and 1968 bananas; 1955, 1960 and 1968 bananas, coffee and cocoa
1.9	5.5	31.8	1955, 1960 and 1968 coffee; 1955 coffee, cotton and oilseeds, 1960 coffee, cotton and shrimps, 1968 coffee, cotton and sugar
2.3	3.0	20.5	1955, 1960 and 1968 coffee; 1955, 1960 and 1968 coffee, bananas and cotton
...	...	...	1955, 1960 and 1968 coffee; 1955, 1960 coffee, sugar and sisal, 1968 coffee, bauxite and sugar
2.4	2.1	8.2	1955, 1960 and 1968 bananas; 1955, 1960 and 1968 bananas, coffee and timber
9.7	12.0	17.3	1955, 1960 and 1968 cotton; 1955 cotton, coffee and copper, 1960 and 1968 cotton, sugar and coffee
0.3	3.9	9.3	1955 cotton, 1960 coffee, 1968 cotton; 1955 cotton, coffee and cotton-seed, 1960 coffee, cotton and sugar, 1968 cotton, coffee and meat
1.2	0.4	1.2	1955, 1960 and 1968 bananas; 1955 and 1960 bananas, shrimps and cocoa, 1968 bananas, refined petroleum and shrimps
19.7	15.6	8.4	1955 timber, 1960 and 1968 meat; 1955 timber, cotton and meat, 1960 meat, timber and leather, 1968 meat, timber and vegetable oil
0.9	1.3	0.7	1955 cotton, 1960 and 1968 copper; 1955 cotton, sugar and copper, 1960 copper, cotton and sugar, 1968 copper, fish-meal and silver
1.1	2.5	2.9	1955, 1960 and 1968 sugar; 1955, 1960 and 1968 sugar, coffee and cocoa
2.1	7.1	11.4	1955, 1960 and 1968 wool; 1955 wool, wheat and leather, 1960 and 1968 wool, meat and leather
0.7	1.0	1.3	1955, 1960 and 1968 petroleum; 1955, 1960 and 1968 petroleum, iron ore and coffee
2.5	3.0	7.5	

cent), Argentina (21.7 per cent) and Mexico (18.6 per cent), while their share was insignificant in the other countries. In contrast, except in Paraguay and the Dominican Republic (where exports of chemicals accounted for more than 90 per cent of the total), the proportion of miscellaneous manufactured articles was more than 50 per cent in every case.

(b) Imports

Generally speaking, the share of consumer goods in total imports has fallen, reflecting the continuation of a characteristic stage in the process of import substitution in the Latin American countries (see table 70). For the region as a whole, the proportion of consumer goods in total imports dropped from 20.7 per cent in 1955 to 16.2 per cent in 1968; the only exceptions to this trend were Chile and the Dominican Republic.

In the countries with more diversified

economies, such as Argentina, Brazil and Mexico, the reduction was slight, since the import substitution process had already gone beyond its preliminary stage at the beginning of the period under consideration. In the more recently industrialized countries, however, the replacement of imported consumer goods by locally produced goods that was going on throughout the period was reflected in much more significant changes. This was the case in El Salvador, Guatemala, Honduras, Panama and, to a lesser extent, in Colombia and Venezuela.

There is an obvious correlation between the stage of development and the degree of dependence on imported consumer goods. Argentina, Brazil, Mexico and Colombia had the lowest import coefficients for consumer goods—less than 10 per cent except in Mexico (see table 71). This coefficient is highest in countries that are in the initial stages of industrialization (between

Table 67. Latin America: structure of
(Percentages of)

Country	Major product			Three major products		
	1955	1960	1968	1955	1960	1968
Argentina	26.5	20.3	24.5	62.0	47.0	44.7
Bolivia	57.4	64.8	52.6	79.4	78.9	73.5
Brazil	59.3	56.2	41.1	74.9	65.8	53.7
Colombia	82.9	71.8	62.9	95.8	92.0	74.0
Costa Rica	46.5	55.4	32.6	95.0	87.4	59.6
Chile	70.4	70.4	76.1	83.5	82.7	85.6
Ecuador	54.7	60.2	47.6	91.4	89.5	80.8
El Salvador	85.7	65.7	44.0	94.9	83.3	55.4
Guatemala	71.0	67.4	30.4	91.2	89.5	48.6
Haiti	66.7	52.3	37.6	87.5	75.0	59.0
Honduras	52.6	46.4	47.7	88.1	78.7	67.6
Mexico	29.3	20.7	13.6	51.3	37.7	27.4
Nicaragua	43.2	34.3	38.0	86.7	66.6	62.5
Panama	79.8	69.7	56.7	90.9	92.0	85.4
Paraguay	37.0	26.3	28.4	59.3	52.9	55.3
Peru	25.2	21.7	24.1	49.7	49.4	52.2
Dominican Republic	39.2	54.3	54.5	84.9	78.5	74.0
Uruguay	57.4	51.6	43.6	85.9	87.2	86.2
Venezuela	94.1	91.2	92.7	98.6	98.7	97.2
Latin America ^a	62.1	58.4	50.5	79.9	74.4	65.2

SOURCE: International Monetary Fund, *International Financial Statistics*. ^a Excluding Cuba.

Peru); by 1968, however, six more countries had been added to this group: Costa Rica, Haiti, El Salvador, Brazil, Guatemala and Argentina. The same trend can be observed in the share of the principal export product, which was less than 60 per cent of total exports in most of the countries in 1968.

Nevertheless, as has already been pointed out, the diversification of exports has chiefly been due to one primary product being replaced by another, so that primary products still account for a sizable share of the region's total exports.

(ii) *Exports of manufactures.* The increase in the relative share of exports of manufactures—from 2.5 to 7.5 per cent of total exports—did not fundamentally alter the structure of Latin America's exports, which is characterized by the predominance of primary products. Most countries managed to increase the proportion of their exports of manufactures, Chile,

Panama, Ecuador, Paraguay and Peru being the only exceptions.

In 1955, manufactures accounted for no more than 5 per cent of total exports in 16 of the countries considered. Only seven countries (see table 69) were still at this level in 1968, noteworthy progress having been made by Mexico (17.3 per cent), Costa Rica (19 per cent), Guatemala (20.5 per cent) and El Salvador (31.8 per cent).

More highly processed and sophisticated goods, such as machinery and transport equipment, accounted for only 17.8 per cent of total exports of manufactures. Miscellaneous articles of much less complex manufacture made up the bulk of the exports of manufactures, for instance, food products, such as canned fruit and meat, which in 1968 accounted for 57.3 per cent of total exports of manufactures. Exports of products of the metal-transforming industry were of importance only in Brazil (31.7 per

Changes in 1968 compared with 1955									
Share of major product			Share of three major products			Share of manufactures			
Increase	Slight drop	Sharp drop	Increase	Slight drop	Sharp drop	Sharp increase	Slight increase	No change	Drop
Chile	Peru	El Salvador	Peru	Venezuela	El Salvador	El Salvador	Bolivia	Chile	Ecuador
Dominican Republic	Argentina	Guatemala	Chile	Paraguay	Costa Rica	Guatemala	Dominican Republic	Panama	Paraguay
	Venezuela	Haiti	Uruguay	Panama	Guatemala	Costa Rica	Venezuela		Peru
	Bolivia	Mexico		Bolivia	Haiti	Mexico			
	Honduras	Panama		Dominican Republic	Mexico	Argentina			
	Nicaragua	Colombia		Ecuador	Nicaragua	Uruguay			
	Ecuador	Brazil			Honduras	Nicaragua			
		Uruguay			Colombia	Colombia			
		Costa Rica			Brazil	Honduras			
		Paraguay			Argentina	Brazil			

SOURCE: ECLA, on the basis of International Monetary Fund, *International Financial Statistics*.

Table 68. Latin America: evolution of the structure of merchandise exports, by groups of countries, 1955-1968

Major product		Three major products		Manufactured goods: SITC sections 5, 6 (except division 68), 7 and 8			
1955	1968	1955	1968	1955	1968		
Countries where the product represents more than 80 per cent		Countries where the products represent more than 80 per cent		Countries where the products represent less than 5 per cent			
Venezuela .	. 92.7	Venezuela .	. 98.6	Argentina .	. 3.5	Chile .	. 3.1
El Salvador .	. 85.7	Colombia .	. 95.8	Uruguay .	. 97.2	Dominican Republic .	. 2.9
Colombia .	. 82.9	Costa Rica .	. 95.0	Chile .	. 86.2	Bolivia .	. 1.9
Countries where the product represents between 60 and 80 per cent		El Salvador .	. 94.9	Panama .	. 85.6	Ecuador .	. 1.9
Panama .	. 79.8	Ecuador .	. 91.4	Ecuador .	. 80.8	Venezuela .	. 1.3
Guatemala .	. 76.1	Guatemala .	. 91.2			Panama .	. 1.2
Colombia .	. 62.9	Panama .	. 90.9	El Salvador .	. 2.1	Peru .	. 0.7
Chile .	. 70.4	Honduras .	. 88.1	Colombia .	. 1.3		
Haiti .	. 66.7	Haiti .	. 87.5	Panama .	. 1.2		
Countries where the product represents between 40 and 60 per cent		Nicaragua .	. 86.7	Brazil .	. 1.1		
Brazil .	. 56.7	Uruguay .	. 85.9	Dominican Republic .	. 1.1		
Bolivia .	. 57.4	Dominican Republic .	. 84.9	Peru .	. 0.9		
Uruguay .	. 57.4	Chile .	. 83.5	Venezuela .	. 0.7		
Ecuador .	. 54.7	Countries where the products represent between 60 and 80 per cent		Costa Rica .	. 0.4		
Honduras .	. 47.6	Bolivia .	. 79.4	Colombia .	. 0.3		
Honduras .	. 47.6	Brazil .	. 74.9	Dominican Republic .	. 0.2		
Costa Rica .	. 44.0	Argentina .	. 62.0	Bolivia .	. 0.2		
Nicaragua .	. 43.2			Honduras .	. 67.6		
Brazil .	. 41.1			Nicaragua .	. 62.5		
Countries where the product represents between 20 and 40 per cent		Countries where the products represent between 40 and 60 per cent		Countries where the products represent more than 5 per cent			
Dominican Republic .	. 38.0	Paraguay .	. 59.3	Costa Rica .	. 59.6	Brazil .	. 6.9
Paraguay .	. 37.0	Mexico .	. 51.3	Haiti .	. 59.0	Honduras .	. 8.2
Mexico .	. 32.6	Peru .	. 49.7	El Salvador .	. 55.4	Colombia .	. 8.3
Costa Rica .	. 30.4			Paraguay .	. 55.3	Paraguay .	. 8.4
Guatemala .	. 26.5			Brazil .	. 53.7	Nicaragua .	. 9.3
Paraguay .	. 25.2			Peru .	. 52.2	Uruguay .	. 11.4
Argentina .	. 24.5			Guatemala .	. 48.6	Argentina .	. 12.0
Peru .	. 24.1			Argentina .	. 44.7	Mexico .	. 17.3
Countries where the product represents less than 20 per cent		Countries where the products represent between 20 and 40 per cent		Countries where the products represent more than 5 per cent			
				Mexico .	. 9.7	Costa Rica .	. 19.1
				Paraguay .	. 19.7	Guatemala .	. 20.5
						El Salvador .	. 31.8

Table 71. Latin America: evolution of the structure of imports, by groups of countries, 1955–1968
(Percentages of the total)

Country	Consumer goods			Raw materials and intermediate products, including fuel			Capital goods, including construction materials		
	1955	1960	1968	1955	1960	1968	1955	1960	1968
<i>Countries with a low import coefficient for consumer goods</i>									
Argentina . . .	8.2	6.3	5.8	67.6	49.3	50.1	23.9	43.6	43.7
Brazil . . .	9.2	5.6	8.5	58.8	53.4	58.8	31.8	40.8	32.1
Colombia . . .	17.1	11.3	5.2	35.1	42.5	41.6	47.1	45.0	53.0
Mexico . . .	15.4	13.3	11.3	45.1	43.9	42.4	39.3	42.1	46.2
<i>Countries with an intermediate import coefficient for consumer goods</i>									
Chile . . .	13.2	15.6	22.1	54.5	43.2	45.7	32.1	40.7	31.3
Uruguay . . .	15.4	13.3	15.0	55.5	57.5	58.3	28.5	28.2	25.2
Peru . . .	22.5	19.5	18.8	41.7	44.1	39.2	34.9	36.1	41.7
Ecuador . . .	23.5	22.4	17.1	34.0	33.8	41.9	42.2	43.3	39.8
Venezuela . . .	31.2	40.3	22.2	22.3	25.3	38.7	46.0	33.8	38.0
<i>Countries with a high import coefficient for consumer goods</i>									
Dominican Republic	38.1	35.9	46.8	30.8	37.4	31.0	28.5	25.2	20.7
Panama . . .	55.8	44.6	34.8	26.6	35.3	47.3	17.3	18.8	17.9
Nicaragua . . .	35.9	29.3	32.1	32.5	44.2	40.7	30.0	23.4	27.0
El Salvador . . .	42.8	33.8	31.7	30.5	39.6	42.0	26.3	26.3	26.2
Costa Rica . . .	34.6	27.8	30.6	32.6	42.4	45.0	32.4	29.6	24.2
Honduras . . .	45.3	30.4	29.3	31.3	43.8	40.4	21.1	25.5	29.7
Guatemala . . .	43.1	26.3	29.2	31.8	44.5	43.2	24.9	29.1	27.4
Bolivia . . .	29.3	32.0	25.4	38.1	30.0	35.0	32.0	37.3	39.1
Haiti . . .	54.5	54.6	...	32.6	32.7	...	10.4	7.5	...
<i>Latin America . . .</i>	<i>20.7</i>	<i>18.7</i>	<i>16.2</i>	<i>45.5</i>	<i>43.4</i>	<i>45.8</i>	<i>33.4</i>	<i>37.3</i>	<i>37.5</i>

25.4 and 46.8 per cent), i.e., the Dominican Republic, Panama, Nicaragua, El Salvador, Costa Rica, Honduras, Guatemala, Bolivia and Haiti. At an intermediate stage, with coefficients of between 15 and 22.2 per cent, come Chile, Uruguay, Peru, Ecuador and Venezuela.

As regards imports of raw materials, no overall trend is observable. The share of raw materials in total imports showed almost no variation in Latin America as a whole, increasing only by about 0.3 per cent. However, a distinction should be drawn between two groups of countries. In the more industrialized countries, such as Argentina, Mexico, Brazil, Chile and Peru, the share of imports of raw materials tended to decline or, in exceptional cases, remained constant. In the second group, where the process of industrialization has not yet reached a very advanced stage (Costa Rica, Colombia, El Salvador, Guatemala, Honduras, Nicaragua and Panama), the proportion of such imports in total imports rose with different degrees of sharpness.

Imports of capital goods appear to be dictated more by the different growth rates of the economies than by trends in import substitution. Generally speaking, therefore, the countries that recorded a sharp upturn in imports of capital goods were those—like Bolivia, Colombia, Guatemala, Honduras and Mexico

—which showed relatively high growth rates in the last half of the 1960s. In contrast, the proportion of such imports in total imports fell in countries where growth had been below the Latin American average during the same five-year period, i.e., Chile, Ecuador, the Dominican Republic, Uruguay and Venezuela.

(c) *Destination of exports and origin of imports*

Generally speaking, trade with the United States declined, while trade with Europe, Japan and other countries of the region expanded. However, trade with the United States continued to be of outstanding importance, accounting for 35.5 per cent of the region's exports and 38.5 per cent of its imports. On the other hand, trade with Japan and Eastern Europe, although it was growing more rapidly, accounted for only 11.4 per cent of exports and 12.8 per cent of imports (see table 72).

Of the ALALC countries, only Venezuela, Peru, Bolivia, Uruguay and Paraguay showed increases, albeit moderate, in their trade with the United States; there was a decline in trade with the United States in all the other countries, more accentuated on the side of exports than of imports. In general, the ALALC countries' exports to the European Economic Community (EEC) increased, as did their trade with Japan, although the latter still accounts for only a

Table 72. Latin America: destination of exports and origin of
(Percentages of

Countries that trade more with:		United States				EEC			
The United States than with the EEC and EFTA	EEC and EFTA than with the United States	1958		1968		1958		1968	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total Latin America		45.6	50.2	35.5	38.5	15.4	17.7	19.3	18.0
ALALC countries		42.6	49.6	36.6	42.5	15.9	19.3	20.6	19.6
Mexico		76.2	77.0	65.6	63.1	7.9	11.0	7.4	16.4
Colombia		69.2	59.5	41.9	50.4	14.3	19.5	24.7	14.6
Ecuador		58.5	51.0	40.8	38.1	25.2	22.1	22.7	23.4
Brazil		43.0	35.7	33.3	32.1	17.5	17.3	25.5	20.9
Venezuela		42.1	57.3	42.9	50.5	7.0	22.1	7.3	20.0
Peru		38.1	47.3	39.5	33.8	24.4	21.1	26.8	21.4
	Argentina	12.4	16.5	11.8	23.1	33.2	25.5	36.9	23.6
	Bolivia	32.0	52.5	35.3	42.1	4.0	11.3	6.4	20.4
	Uruguay	7.9	10.5	12.3	22.4	28.1	18.4	26.8	17.6
	Chile	40.4	51.6	22.4	38.4	28.3	18.2	31.9	18.4
	Paraguay	23.5	28.2	25.0	24.7	14.7	15.4	18.7	21.9
CACM countries		50.8	55.8	32.8	38.3	28.4	16.5	19.4	13.6
Guatemala		64.5	59.7	27.9	41.1	22.4	16.8	15.8	16.9
Honduras		62.3	64.0	43.9	45.4	8.7	4.0	27.8	8.1
Costa Rica		50.0	51.5	47.1	38.2	33.7	20.2	14.0	13.2
El Salvador		39.7	49.1	19.4	29.2	37.9	22.2	22.3	16.0
	Nicaragua	36.5	55.1	29.3	37.8	34.9	15.4	17.2	12.4
Other countries									
Panama		90.6	54.4	79.8	39.0	—	9.7	7.4	8.6
Cuba		66.8	69.8	—	—	4.7	7.9	4.6	10.8
Dominican Republic		52.9	61.4	89.0	55.3	8.8	12.9	3.7	15.1
Haiti		48.7	62.8	61.1	61.4	38.5	14.0	25.0	18.2

SOURCE: ECLA, on the basis of official statistics.

small proportion of their total trade. Intra-Area trade remained steady at around 10 per cent of the total. Argentina was the only country that substantially increased its exports to the Area.

Trade with the United States also fell off in the Central American Common Market (CACM) countries, while intra-area exports showed a marked upswing. There was a slight contraction of trade with EEC and the European Free Trade Association (EFTA), which was partly offset by the increase in trade with Japan.

No over-all trend is observable in the other countries. Mention should be made, however, of the change in the origin of imports to Panama, where trade with the United States was partly replaced by intra-regional trade; and of the reorientation of Cuba's foreign trade to Eastern Europe, which accounted for 73.2 and 79.8 per cent of Cuba's exports and imports, respectively.

(d) *The trade balance*

On the whole, Latin America's imports expanded more rapidly than its exports during the 1960s. As a result, the region's external trade

gap widened, from 193 to 606 million dollars in the period 1958–1968 (see table 73).

Much of the deficit was in trade with the United States (484 million dollars in 1968), owing to the fact that Latin America's exports did not change, while its imports from the United States continued to grow.

As regards Europe, there was a surplus on trade with EEC, which to some extent offset the deficit on trade with the United States. In contrast, trade with the European Free Trade Association fluctuated very little between small surpluses and deficits, largely through the influence of the Central American countries, since the ALALC countries maintained a surplus on their transactions. The most notable change was in the trade balance with Eastern Europe, which swung from a small surplus to a heavy deficit in 1968, largely owing to the swing of Cuban trade away from the United States and towards Eastern Europe.

Though still of minor proportions, trade with Japan grew fairly rapidly during the period, providing a surplus of around 102 million dollars in 1968.

Lastly, as regards intra-regional trade, in

imports, by principal regions and countries, 1958 and 1968
the total)

EFTA				Eastern Europe				Japan				Latin America			
1958		1968		1958		1968		1958		1968		1958		1968	
Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
11.0	9.7	9.3	9.3	1.9	1.2	6.2	8.6	2.0	1.6	5.2	4.2	9.1		11.6	
11.7	10.8	10.5	10.7	2.0	1.5	2.5	1.6	1.3	1.6	5.0	4.2	10.3		11.0	
3.0	5.9	7.8	8.6	0.1	0.2	0.2	0.3	3.7	0.7	5.7	3.9	4.5	0.9	9.1	2.6
5.0	10.0	9.5	9.0	0.4	0.5	3.8	2.6	0.2	1.0	1.6	3.4	1.5	4.5	7.9	4.0
4.4	14.4	0.5	11.5	—	—	11.8	1.2	0.7	1.0	11.4	6.6	9.6	2.9	8.5	11.1
12.3	10.6	10.6	11.3	3.7	2.1	6.5	4.4	2.0	2.4	3.1	3.4	11.7	18.3	10.4	13.7
7.5	11.0	9.1	12.1	—	0.1	—	0.5	—	1.7	1.9	6.0	10.8	1.4	7.7	2.9
11.6	14.4	3.8	9.7	—	0.3	2.4	1.0	2.7	1.8	14.8	6.3	14.8	7.6	6.0	17.3
27.2	14.9	9.5	13.1	6.4	4.5	3.7	1.2	2.5	1.5	2.1	3.6	13.3	23.1	24.9	23.8
50.0	11.3	44.9	7.2	—	—	—	1.3	—	2.5	3.2	11.2	12.0	18.8	8.3	12.5
20.9	10.5	25.1	11.5	20.9	5.3	3.9	1.2	—	—	1.1	0.6	10.1	40.8	11.2	26.7
16.7	9.4	19.5	9.7	—	0.5	0.1	0.4	0.5	2.9	13.3	1.7	9.8	13.3	10.0	25.6
11.8	5.1	10.4	8.2	—	—	—	—	—	—	—	—	41.2	23.1	31.2	21.9
3.4	6.5	2.5	5.8	—	—	1.8	0.1	5.6	3.5	9.4	7.4	7.2		28.6	
4.7	8.1	4.1	7.7	—	—	1.4	—	2.8	0.7	10.8	8.9	4.7	6.0	32.9	20.6
2.9	2.7	0.6	4.3	—	—	—	0.5	2.9	5.3	3.9	5.4	14.5	9.3	23.3	29.7
2.2	8.1	2.3	6.6	—	—	1.2	—	—	5.1	1.2	7.1	6.5	6.1	24.4	31.1
1.7	7.4	0.9	4.7	—	—	5.7	—	11.2	4.6	7.1	7.5	6.9	13.9	40.8	39.2
6.3	3.8	5.1	4.9	—	—	—	—	11.1	3.8	26.1	7.6	4.8	10.3	16.6	34.1
—	4.9	1.1	4.5	—	—	—	—	—	2.9	—	4.5	3.1	2.9	3.2	25.5
7.2	3.8	3.8	3.5	2.5	0.2	73.2	79.8	6.4	—	3.8	0.3	1.3	10.2	—	0.2
25.7	7.9	1.2	5.5	—	0.7	—	—	4.4	2.9	0.6	5.9	0.7	2.9	—	5.6
7.3	2.3	2.8	2.3	—	—	—	—	—	—	5.6	6.8	—	—	—	—

1968, transactions between Latin American countries accounted for 11.6 per cent of the total value of exports and 12.4 per cent of imports (see table 73).

3. EXTERNAL VULNERABILITY AND DEPENDENCE

(a) *The accumulated balance-of-payments deficit on current account*

An analysis of statistics for Latin America's external sector clearly points to an accentuation of the imbalance on current balance-of-payments transactions.

Table 74 shows that, between 1960 and 1969, except in Argentina, Uruguay and Venezuela, there was a sharp increase in the accumulated current account deficit in every country, giving an over-all deficit of around 12,614.2 million dollars, 1.7 times higher than for the previous decade. Excluding Venezuela only, the over-all negative balance for the whole of Latin America is twice as high as at the end of the 1950s.

One of the main reasons for the increasing deficit was the ever-widening trade gap. As mentioned above, Latin America's exports did

not grow fast enough to cover the rising demand for imports, which resulted in large trade deficits. The only exceptions to the general tendency were Argentina, Brazil, Peru, Uruguay and Venezuela, where exports grew faster than imports. Excluding Venezuela, which is a special case, the accumulated trade deficit for the region as a whole amounted to about 2,812 million dollars at the end of the 1960s, 1.6 times more than for the previous decade.

The chief reason for this state of affairs seems to have been, not the unfavourable trade balance but the net remittances of profits and interest abroad, which, during the period 1960–1969, reached an accumulated total of 11,600 million dollars—2.4 times higher than for the 1950s. In more than half the countries covered, net remittances more than doubled. Furthermore, whereas the average annual growth rate of exports was a mere 3.6 per cent, that of remittances abroad was 5.8 per cent. Excluding Venezuela, the figures are 3.9 per cent for exports and 9.5 per cent for remittances abroad.

Net remittances represented 15.3 per cent of

Table 73. Latin America: exports and imports and trade balances,
(Millions of

			Total		United States	
			1958	1968	1958	1968
Total Latin America		Exports f.o.b.	8,396	11,799	3,831	4,186
		Imports c.i.f.	8,589	12,405	4,312	4,770
		Balance	-193	-606	-481	-584
Total ALALC		Exports f.o.b.	6,979	9,936	2,974	3,635
		Imports c.i.f.	6,906	9,685	3,239	4,119
		Balance	+73	+251	-265	-484
Venezuela		Exports f.o.b.	2,508	2,475	1,056	1,062
		Imports c.i.f.	1,622	1,771	930	894
		Balance	+886	+704	+126	+168
Mexico		Exports f.o.b.	735	1,253	560	822
		Imports c.i.f.	1,128	1,960	869	1,236
		Balance	-393	-707	-309	-414
Brazil		Exports f.o.b.	1,243	1,882	534	627
		Imports c.i.f.	1,353	2,134	483	685
		Balance	-110	-252	+51	-58
Colombia		Exports f.o.b.	461	558	319	234
		Imports c.i.f.	400	643	238	324
		Balance	+61	-85	+81	-90
Peru		Exports f.o.b.	291	866	111	342
		Imports c.i.f.	383	630	181	213
		Balance	-92	+236	-70	+129
Ecuador		Exports f.o.b.	135	211	79	86
		Imports c.i.f.	104	244	53	93
		Balance	+31	-33	+26	-7
Argentina		Exports f.o.b.	994	1,368	123	162
		Imports c.i.f.	1,232	1,170	203	270
		Balance	-238	+198	-80	-108
Chile		Exports f.o.b.	389	940	157	211
		Imports c.i.f.	413	743	213	285
		Balance	-24	+197	-56	-74
Uruguay		Exports f.o.b.	139	179	11	22
		Imports c.i.f.	152	165	16	37
		Balance	-13	+14	-5	-15
Bolivia		Exports f.o.b.	50	156	16	55
		Imports c.i.f.	80	152	42	64
		Balance	-30	+4	-26	-9
Paraguay		Exports f.o.b.	34	48	8	12
		Imports c.i.f.	39	73	11	18
		Balance	-5	-25	-3	-6
Total CACM		Exports f.o.b.	447	942	227	309
		Imports c.i.f.	509	1,042	284	399
		Balance	-62	-100	-57	-90
Guatemala		Exports f.o.b.	107	222	69	62
		Imports c.i.f.	149	248	89	102
		Balance	-42	-26	-20	-40

by principal regions and countries, 1958–1968
(dollars)

EEC		EFTA		Eastern Europe		Japan		Latin America	
1958	1968	1958	1968	1958	1968	1958	1968	1958	1968
1,297	2,277	926	1,094	161	729	169	617	762	1,368
1,518	2,229	833	1,157	105	1,072	138	515	898	1,535
–221	+48	+93	–63	+56	–343	+31	+102	–136	–167
1,107	2,043	818	1,042	142	252	89	501	718	1,096
1,330	1,899	749	1,032	102	155	113	407	755	1,135
–223	+144	+69	+10	+40	+97	–24	+97	–37	–39
175	180	187	224	—	—	—	48	272	190
358	355	179	214	2	8	28	107	22	51
–183	–175	+8	+10	–2	–8	–28	–59	+250	+139
58	93	22	98	1	3	27	72	33	114
124	322	66	168	2	6	8	76	10	51
–66	–229	–44	–70	–1	–3	+19	–4	+23	+63
218	480	153	200	46	123	25	59	146	196
234	447	144	242	29	94	33	73	247	292
–16	+33	+9	–42	+17	+29	–8	–14	–101	–96
66	138	23	53	2	21	1	9	7	44
78	94	40	58	2	17	4	22	18	58
–12	+44	–17	–5	—	+4	–3	–13	–11	–14
70	232	34	33	—	21	8	128	43	52
81	135	55	61	1	6	7	40	29	109
–11	+97	–21	–28	–1	+15	+1	+88	+14	–57
34	48	6	1	—	25	1	24	13	18
23	57	15	28	—	3	1	16	3	27
+11	–9	–9	–27	—	+22	—	+8	+10	–9
330	505	279	130	64	51	25	29	132	340
314	276	184	153	56	14	18	42	285	278
+16	+229	+86	–23	+8	+37	+7	–13	–153	+62
110	300	65	183	—	1	2	125	38	94
75	137	39	72	2	3	12	13	55	190
+35	+163	+26	+111	–2	–2	–10	+112	–17	–96
39	48	29	45	29	7	—	2	14	20
28	29	16	19	8	2	—	1	62	44
+11	+19	+13	+26	+21	+5	—	+1	–48	–24
2	10	25	70	—	—	—	5	6	13
9	31	9	11	—	2	2	17	15	19
–7	–21	+16	+59	—	–2	–2	–12	–9	–6
5	9	4	5	—	—	—	—	14	15
6	16	2	6	—	—	—	—	9	16
–1	–7	+2	–1	—	—	—	—	+5	–1
127	183	15	24	—	17	25	89	32	269
84	142	33	60	—	1	18	77	45	318
+43	+41	–18	–36	—	+16	+7	+12	–13	–49
24	35	5	9	—	3	3	24	5	73
25	42	12	19	—	—	1	22	9	51
–1	–7	–7	–10	—	+3	+2	+2	–4	+22

Table 73. Latin America: exports and imports and trade balances,
(Millions of

			Total		United States	
			1958	1968	1958	1968
Costa Rica	Exports f.o.b.		92	172	46	81
	Imports c.i.f.		99	212	51	81
	Balance		-7	-40	-5	—
Honduras	Exports f.o.b.		69	180	43	79
	Imports c.i.f.		75	185	48	84
	Balance		-6	-5	-5	-5
Nicaragua	Exports f.o.b.		63	157	23	46
	Imports c.i.f.		78	185	43	70
	Balance		-15	-28	-20	-24
El Salvador	Exports f.o.b.		116	211	46	41
	Imports c.i.f.		108	212	53	62
	Balance		+8	-1	-7	-21
Total other Latin American countries	Exports f.o.b.		970	921	630	242
	Imports c.i.f.		1,174	1,678	789	252
	Balance		-204	-757	-159	-10
Cuba	Exports f.o.b.		763	628	510	—
	Imports c.i.f.		888	1,148	620	—
	Balance		-125	-520	-110	—
Dominican Republic	Exports f.o.b.		136	163	72	145
	Imports c.i.f.		140	219	86	121
	Balance		-4	-56	-14	+24
Panama	Exports f.o.b.		32	94	29	75
	Imports c.i.f.		103	267	56	104
	Balance		-71	-173	-27	-29
Haiti	Exports f.o.b.		39	36	19	22
	Imports c.i.f.		43	44	27	27
	Balance		-4	-8	-8	-5

SOURCE: ECLA, on the basis of official statistics.

export earnings during the 1960s, compared with 12.4 in the previous decade, or—excluding Venezuela—12.4 per cent in the 1960s compared with 7.4 per cent in the 1950s. Costa Rica, Ecuador, Honduras, Panama and Venezuela did not follow this general trend.

In most countries, net remittance abroad constituted more than 50 per cent of the deficit on current account. For the whole of Latin America, excluding Cuba and Venezuela, factor payments amounted to 11,600 million dollars, while the deficit on current transactions reached 13,800 million dollars. During the first five years of the decade, foreign factor payments stood at 4,000 million dollars and the deficit on current account at 6,600 million; but over the second half of the decade the former shot up to 7,500 million dollars while the latter rose only to 7,200 million (see table 75).

It is therefore obvious that the heavy burden of remittances and other payments abroad means that the capacity to import depends to an enormous extent on the availability of new external financing, with all the evils that this brings in its train.

(b) *External financing*

During the 1960s, all the Latin American countries except Venezuela showed an over-all deficit on current account. Not including Cuba and Venezuela, the net inflow of capital to the region rose to approximately 13,800 million dollars, slightly more than double the figure for the 1950s (see table 76).

The three biggest recipients (Brazil, Argentina and Mexico) took 62 per cent of the net capital transfers to the region during the 1950s and, together with Venezuela, Peru and

by principal regions and countries, 1958-1968 (continued)
dollars)

EEC		EFTA		Eastern Europe		Japan		Latin America	
1958	1968	1958	1968	1958	1968	1958	1968	1958	1968
31	24	2	4	—	2	—	2	6	42
20	28	8	14	—	—	5	15	6	66
+11	-4	-6	-10	—	+2	-5	-13	—	-24
6	50	2	1	—	—	2	7	10	42
3	15	2	8	—	1	4	10	7	55
+3	+35	—	-7	—	-1	-2	-3	+3	-13
22	27	4	8	—	—	7	41	3	26
12	23	3	9	—	—	3	14	8	63
+10	+4	+1	-1	—	—	+4	+27	-5	-37
44	47	2	2	—	12	13	15	8	86
24	34	8	10	—	—	5	16	15	83
+20	+13	-6	-8	—	+12	+8	-1	-7	+3
63	51	93	28	19	460	55	27	12	3
104	188	51	65	3	916	7	31	98	82
-41	-137	+42	-37	+16	-456	+48	-4	-86	-79
36	29	55	24	19	460	49	24	10	—
70	124	34	40	2	916	—	3	91	2
-34	-95	+21	-16	+17	-456	+49	+21	-81	-2
12	6	35	2	—	—	6	1	1	—
18	33	11	12	1	—	4	13	4	12
-6	-27	+24	-10	-1	—	+2	-12	3	-12
—	7	—	1	—	—	—	—	1	3
10	23	5	12	—	—	3	12	3	68
-10	-16	-5	-11	—	—	-3	-12	-2	-65
15	9	3	1	—	—	—	2	—	—
6	8	1	1	—	—	—	3	—	—
+9	+1	+2	—	—	—	—	-1	—	—

Chile, 86 per cent. In the following decade, the corresponding figures were only 55.7 per cent and 73.5 per cent respectively (see table 77).

The sharp drop in the shares of Argentina, Brazil and Venezuela, and the steep rise in those of Chile, Mexico and Colombia are particularly striking.

Compared with the 1950s, there was an increased inflow of external financing to most of the Latin American countries in the 1960s, when the net capital inflow increased faster than the value of imports and exports. Thus, whereas only three countries used external resources to cover more than 15 per cent of their imports of goods and services in the 1950s, there were 10 (Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Haiti, Mexico, Nicaragua and Paraguay) in the 1960s. There were therefore fewer countries that depended

on external financing only to a moderate or a very small extent (see table 78).

Movements of compensatory capital did not vary greatly, rising from 1,002.2 million dollars in the 1950s to a mere 1,101.7 million in the next decade. Consequently, the flow of non-compensatory capital, plus errors and omissions, was less than the deficit on current account in the 1950s and exceeded it during the following decade. During the 1960s, moreover, and especially in the latter half, Latin America received enough external financing to cover its balance-of-payments deficit and increase its foreign exchange reserves (see table 79).

As regards errors and omissions, the situation improved somewhat, as the figure for the region as a whole dropped by about 50 per cent, probably corresponding to unregistered movements of capital. However, this item is still

Table 74. Latin America: balance-of-payments transactions
(Cumulative values in

Country	1950-1959					
	Exports of goods and services	Imports of goods and services	Trade balance	Net profit and interest payments abroad	Private transfer payments	Balance on current account
Argentina	11,058.8	12,078.0	-1,019.2	-193.5	-59.9	-1,272.6
Bolivia	813.6	1,003.2	-189.6	-5.9	3.6	-191.9
Brazil	15,613.0	16,439.0	-826.0	-1,354.0	-96.0	-2,276.0
Colombia	6,121.2	5,784.4	336.8	-296.1	13.1	53.8
Costa Rica	886.9	881.9	5.0	-92.2	5.3	-81.9
Chile	4,495.4	4,222.9	272.5	-631.6	19.5	-339.6
Ecuador	1,221.5	1,107.7	113.8	-165.4	3.4	-48.2
El Salvador	1,108.1	1,024.8	83.3	-25.4	-0.9	57.0
Guatemala	1,078.6	1,212.1	-133.5	-6.6	1.1	-139.0
Haiti	498.0	515.9	-17.9	-34.8	3.5	-49.2
Honduras	699.1	667.7	31.4	-85.1	-6.8	-60.5
Mexico	11,077.2	11,003.5	73.7	-1,162.0	-12.9	-1,101.2
Nicaragua	703.4	691.1	12.3	-50.5	2.5	-35.7
Panama	979.4	1,014.7	-35.3	-143.9	-56.0	-235.2
Paraguay	395.4	427.4	-32.0	-9.6	0.2	-41.4
Peru	3,090.1	3,476.4	-386.3	-265.5	70.1	-581.7
Dominican Republic	1,325.0	1,198.4	126.6	-103.8	-19.4	3.4
Uruguay	2,249.8	2,445.9	-196.1	-49.1	-22.1	-267.3
Venezuela	19,560.3	14,368.3	5,192.0	-5,606.4	-480.3	-894.7
<i>Total, excluding Cuba</i>	<i>82,974.8</i>	<i>79,563.3</i>	<i>3,411.5</i>	<i>-10,281.4</i>	<i>-632.0</i>	<i>-7,501.9</i>
<i>Total, excluding Cuba and Venezuela</i>	<i>63,414.5</i>	<i>65,195.0</i>	<i>-1,780.5</i>	<i>-4,675.0</i>	<i>-151.7</i>	<i>-6,607.2</i>

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 75. Latin America: balance-of-payments transactions
(Cumulative values in

Country	1960-1964					
	Exports of goods and services	Imports of goods and services	Trade balance	Net profit and interest payments abroad	Private transfer payments	Balance on current account
Argentina	6,793.7	7,164.7	-371.0	-401.6	-27.5	-800.1
Bolivia	386.7	569.3	-182.6	-7.7	6.6	-183.7
Brazil	7,337.0	7,902.0	-565.0	-911.0	27.0	-1,449.0
Colombia	3,077.2	3,468.0	-390.8	-301.3	19.4	-672.7
Costa Rica	569.1	663.7	-94.6	-33.7	16.1	-112.2
Chile	2,885.6	3,508.5	-622.9	-435.3	35.5	-1,022.7
Ecuador	798.5	795.6	2.9	-101.9	9.5	-89.5
El Salvador	754.5	811.5	-57.0	-25.3	10.8	-71.5
Guatemala	774.7	877.1	-102.4	-36.9	8.0	-131.3
Haiti	251.9	295.3	-43.4	-24.4	13.9	-53.9
Honduras	431.9	453.9	-22.0	-9.2	-1.9	-33.1
Mexico	7,840.0	7,981.9	-141.9	-1,221.5	-62.9	-1,426.3
Nicaragua	543.0	581.3	-38.3	-17.1	5.4	-50.0
Panama	829.4	912.5	-83.1	-45.2	-34.9	-163.2
Paraguay	234.7	283.7	-49.0	-9.7	8.5	-50.2
Peru	3,075.0	2,883.2	191.8	-329.5	26.5	-111.2
Dominican Republic	914.8	891.5	23.3	-88.0	16.3	-48.4
Uruguay	1,027.4	1,161.6	-134.2	-46.1	-0.4	-180.7
Venezuela	12,757.2	7,410.0	5,347.2	-3,015.0	-409.6	1,922.6
<i>Total, excluding Cuba</i>	<i>51,282.3</i>	<i>48,615.3</i>	<i>2,667.0</i>	<i>-7,060.4</i>	<i>-333.7</i>	<i>-4,727.1</i>
<i>Total, excluding Cuba and Venezuela</i>	<i>38,525.1</i>	<i>41,205.3</i>	<i>-2,680.2</i>	<i>-4,045.4</i>	<i>75.9</i>	<i>-6,649.7</i>

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

on current account, 1950–1959 and 1960–1969
millions of dollars)

1960–1969					
<i>Exports of goods and services</i>	<i>Imports of goods and services</i>	<i>Trade balance</i>	<i>Net profit and interest payments abroad</i>	<i>Private transfer payments</i>	<i>Balance on current account</i>
15,324.7	14,603.7	721.0	–1,025.6	–38.5	–343.1
1,175.5	1,517.7	–342.2	–75.7	11.1	–406.8
17,412.0	17,552.0	–140.0	–2,354.0	168.0	–2,326.0
6,799.2	7,495.0	–695.8	–814.3	30.4	–1,479.7
1,479.6	1,792.7	–313.1	–114.8	38.1	–389.8
7,934.6	8,062.5	–127.9	–1,382.3	68.5	–1,441.7
1,844.7	1,993.4	–148.7	–231.0	29.0	–350.7
1,864.5	2,046.9	–182.4	–66.3	50.5	–198.2
2,060.2	2,278.6	–218.4	–149.9	46.9	–321.4
476.1	590.8	–114.7	–42.6	64.5	–92.8
1,281.5	1,346.6	–65.1	–100.6	5.9	–159.8
19,176.0	19,944.9	–768.9	–3,545.5	–45.9	–4,360.3
1,452.2	1,637.6	–185.4	–115.0	18.7	–281.7
2,299.7	2,397.4	–97.7	–167.2	–65.9	–330.8
572.5	709.3	–136.8	–34.4	18.4	–152.8
7,631.0	7,500.2	130.8	–1,003.5	62.5	–810.2
1,826.0	2,048.9	–222.9	–184.2	59.1	–348.0
2,248.1	2,152.0	96.1	–152.3	0.2	–56.0
25,576.2	16,934.0	8,642.2	–6,509.0	–897.6	1,235.6
118,434.3	112,604.2	5,830.1	–18,068.2	–376.1	–12,614.2
92,858.1	95,670.2	–2,812.1	–11,559.2	521.5	–13,849.8

on current account, 1960–1964 and 1965–1969
millions of dollars)

1965–1969					
<i>Exports of goods and services</i>	<i>Imports of goods and services</i>	<i>Trade balance</i>	<i>Net profit and interest payments abroad</i>	<i>Private transfer payments</i>	<i>Balance on current account</i>
8,531.0	7,439.0	1,092.0	–624.0	–11.0	457.0
788.8	948.4	–159.6	–68.0	4.5	–223.1
10,075.0	9,650.0	425.0	–1,443.0	141.0	–877.0
3,722.0	4,027.0	–305.0	–513.0	11.0	–807.0
910.5	1,129.0	–218.5	–81.1	22.0	–277.6
5,049.0	4,554.0	495.0	–947.0	33.0	–419.0
1,046.2	1,197.8	–151.6	–129.1	19.5	–261.2
1,110.0	1,235.4	–125.4	–41.0	39.7	–126.7
1,285.5	1,401.5	–116.0	–113.0	38.9	–190.1
224.2	295.5	–71.3	–18.2	50.6	–38.9
849.6	892.7	–43.1	–91.4	7.8	–126.7
11,336.0	11,963.0	–627.0	–2,324.0	17.0	–2,934.0
909.2	1,056.3	–147.1	–97.9	13.3	–231.7
1,470.3	1,484.9	–14.6	–122.0	–31.0	–167.6
337.8	425.6	–87.8	–24.7	9.9	–102.6
4,556.0	4,617.0	–61.0	–674.0	36.0	–699.0
911.2	1,157.4	–246.2	–96.2	42.8	–299.6
1,220.7	990.4	230.3	–106.2	0.6	124.7
12,819.0	9,524.0	3,295.0	–3,494.0	–488.0	–687.0
67,152.0	63,988.9	3,163.1	–11,007.8	–42.4	–7,887.1
54,333.0	54,464.9	–131.9	–7,513.8	445.6	–7,200.1

Table 76. Latin America: financing of the balance-of-payments deficit on current account, 1950-1959 and 1960-1969
(Cumulative values in millions of dollars)

Country	Total net external financing		Net non-compensatory movements of capital		Net compensatory movements		Net errors and omissions	
	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969
Argentina	1,272.6	343.1	995.0	875.4	434.6	-437.1	-157.0	-95.2
Bolivia	191.9	406.8	234.5	469.0	24.1	-29.2	-66.7	-33.0
Brazil	2,276.0	2,326.0	1,550.0	3,011.0	991.0	-303.0	-265.0	-382.0
Colombia	-53.8	1,479.7	317.1	1,561.9	-14.8	-2.0	-356.1	-80.2
Costa Rica	81.9	389.8	51.5	373.1	-9.9	-3.6	40.3	20.3
Chile	339.6	1,441.7	353.3	1,481.5	12.0	-24.5	-25.7	-15.3
Ecuador	48.2	350.7	90.5	353.3	-23.8	-10.9	-18.5	8.3
El Salvador	-57.0	198.2	-11.9	238.6	9.8	9.4	-54.9	-49.3
Guatemala	139.0	321.4	158.6	395.4	-1.3	-13.7	-18.3	-60.3
Haiti	49.2	92.8	50.0	47.2	6.5	3.4	-7.3	42.2
Honduras	60.5	159.8	59.7	176.5	-6.1	-16.0	6.9	-0.7
Mexico	1,101.2	4,360.3	1,467.4	3,992.5	-369.1	-226.7	2.9	594.5
Nicaragua	35.7	281.7	63.6	306.7	-8.8	-16.1	-19.1	-8.9
Panama	235.2	330.8	142.7	361.7	0.0	0.0	92.5	-30.9
Paraguay	41.4	152.8	47.8	202.9	-4.7	-8.9	-1.7	-41.2
Peru	581.7	810.2	609.9	768.2	20.6	183.0	-48.8	-141.0
Dominican Republic	-3.4	348.0	21.7	361.5	1.6	42.4	-26.7	-55.9
Uruguay	267.3	56.0	111.5	253.7	106.3	71.2	49.5	-268.9
Venezuela	894.7	-1,235.6	2,009.9	-613.3	-165.8	-319.4	-949.4	-302.9
Latin America, excluding Cuba	7,501.9	12,614.2	8,322.8	14,616.8	1,002.2	-1,101.7	-1,823.1	-900.9
Latin America, excluding Cuba and Venezuela	6,607.2	13,849.8	6,312.9	15,230.1	1,168.0	-782.3	-873.7	-598.0

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 77. Latin America: distribution of net capital inflow, 1950-1959 and 1960-1969
(Percentages)

Country	1950-1959	1960-1969
Argentina	17.0	2.7
Bolivia	2.5	3.2
Brazil	30.3	18.4
Costa Rica	1.1	3.1
Chile	4.5	11.4
Ecuador	0.6	2.8
Guatemala	1.8	2.5
Haiti	0.6	0.7
Honduras	0.8	1.3
Mexico	14.7	34.6
Nicaragua	0.5	2.2
Panama	3.1	2.6
Paraguay	0.5	1.2
Peru	7.7	6.4
Uruguay	3.6	0.4
Venezuela	11.9	—
Colombia	—	11.7
El Salvador	—	1.6
Dominican Republic	—	2.7

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

fairly large in Brazil, Uruguay and Venezuela, and also in Mexico, where it represents a net capital inflow.

(c) *External indebtedness*

The changes in the composition of the capital account have for the most part been reflected in a sharp upswing in the guaranteed external public debt over the past 20 years. The average annual increase in each country's indebtedness was 441.8 million dollars during the 1950s, rising to 1,225.1 million between 1960 and 1968—the last year on which data are available.

The total external debt of 2,213.3 million dollars in 1950 rose to 6,631.4 million in 1960 and 16,432.3 million in 1968, which means that it practically tripled in the space of ten years (see table 80).

The external debt was concentrated on seven countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. In Argentina and Brazil, it grew particularly fast during the 1950s

Table 78. Latin America: percentage of imports of goods and services financed out of net capital inflow, by groups of countries, 1950-1959 and 1960-1969
(Percentages)

Percentages	1950-1959	1960-1969
Over 15 per cent	Panama 23.2 Bolivia 19.1 Peru 16.7	Bolivia 26.8 Mexico 21.9 Costa Rica 21.7 Paraguay 21.5 Colombia 19.7 Chile 17.9 Ecuador 17.6 Nicaragua 17.2 Haiti 15.7
From 5 to 15 per cent	Brazil 13.8 Guatemala 11.5 Uruguay 10.9 Argentina 10.5 Mexico 10.0 Paraguay 9.7 Haiti 9.5 Costa Rica 9.3 Honduras 9.1 Chile 8.0 Venezuela 6.2 El Salvador 5.6 Nicaragua 5.2	Guatemala 14.1 Panama 13.8 Brazil 13.2 Honduras 11.9 Peru 10.8 El Salvador 9.7
Under 5 per cent	Ecuador 4.3	Uruguay 2.6 Argentina 2.3
Net exporters of capital	Colombia El Salvador Dominican Republic	Venezuela

SOURCE: ECLA, on the basis of official statistics and International Monetary Fund, *Balance of Payments Yearbook*.

Table 79. Latin America: financing of the balance-of-payments deficit on current account, 1960-1964 and 1965-1969
(Cumulative values in millions of dollars)

Country	Total net external financing		Net non-compensatory movements of capital		Net compensatory movements		Net errors and omissions	
	1960-1964	1965-1969	1960-1964	1965-1969	1960-1964	1965-1969	1960-1964	1965-1969
Argentina	800.1	-457.0	1,093.4	-218.0	194.9	-632.0	-488.2	393.0
Bolivia	183.7	223.1	220.3	248.7	-17.9	-11.3	-18.7	-14.3
Brazil	1,449.0	877.0	1,173.0	1,838.0	648.0	951.0	-372.0	-10.0
Colombia	672.7	807.0	642.9	919.0	168.0	-170.0	-138.2	58.0
Costa Rica	112.2	277.6	109.6	263.5	30.6	-34.2	-28.0	48.3
Chile	1,022.7	419.0	688.5	793.0	305.5	-330.0	28.7	-44.0
Ecuador	89.5	261.2	86.5	266.8	-10.7	-0.2	13.7	-5.4
El Salvador	71.5	126.7	125.4	113.2	-20.6	30.0	-33.3	-16.5
Guatemala	131.3	190.1	172.6	222.8	-8.8	-4.9	-32.5	-27.8
Haiti	53.9	38.9	19.5	27.7	2.8	0.6	31.6	10.6
Honduras	33.1	126.7	45.2	131.3	-3.0	-13.0	-9.1	8.4
Mexico	1,426.3	2,934.0	1,577.5	2,415.0	-127.7	-99.0	-23.5	618.0
Nicaragua	50.0	231.7	76.0	230.7	-15.0	-1.1	-11.0	2.1
Panama	163.2	167.6	198.0	163.7	0.0	0.0	-34.8	3.9
Paraguay	50.2	102.6	64.2	138.7	-1.8	-7.1	-12.2	-29.0
Peru	111.2	699.0	174.2	594.0	-98.0	281.0	35.0	-176.0
Dominican Republic	48.4	299.6	83.9	277.5	23.2	19.2	-58.7	2.8
Uruguay	180.7	-124.7	174.1	79.6	106.3	-35.1	-99.7	-169.2
Venezuela	-1,922.6	687.0	-1,439.3	826.0	-157.4	-162.0	-325.9	23.0
Latin America, excluding Cuba	4,727.1	7,887.1	5,285.5	9,331.3	1,018.4	-2,120.1	-1,576.8	675.9
Latin America, excluding Cuba and Venezuela	6,649.7	7,200.1	6,724.8	8,505.3	1,175.8	-1,958.1	-1,250.9	652.9

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 80. Latin America: outstanding external debt and accumulated direct external investment, in selected years
(Millions of dollars)

Country	External debt outstanding at the end of				Accumulated direct external investment		Share of United States investment in total direct external investment	
	1960		1968		1950	1969	1950	1969
	Total	Excluding amounts not utilized	Total	Excluding amounts not utilized				
Subtotal	1,938.6	5,865.3	4,940.5	14,257.5	6,652	15,867	49.4	59.3
Argentina	400.0 ^a	1,478.1	1,307.7	2,221.1	800	1,892	44.5	65.8
Brazil	409.4	1,823.9	1,669.5	4,310.1	1,343	3,661	48.0	45.0
Colombia	157.5	376.8	313.3	1,296.9	423	748	45.6	91.4
Chile	355.4	565.9	453.8	1,842.9	620	1,022	87.1	82.8
Mexico	509.1	1,038.4	719.9	3,047.9	566	3,023	73.3	54.0
Peru	107.2	268.1	163.0	1,018.9	270	1,002	53.7	70.2
Venezuela	—	314.1	313.3	519.7	2,630	4,519	37.8	59.0
Panama	13.0	58.4	31.3	112.5	70	268	82.9	...
Subtotal	40.7	207.6	129.5	753.8	330	910	77.0	...
Guatemala	0.4	53.5	26.9	161.6	115	306	92.1	...
Costa Rica	12.0 ^a	56.1	46.3	162.3	105	238	57.1	...
Honduras	1.3	23.6	10.8	114.1	70	143	88.6	...
El Salvador	22.4	33.3	23.6	102.6	25	98	68.0	...
Nicaragua	4.6	41.1	21.9	213.2	15	125	60.0	...
Subtotal	221.0	500.1	434.5	1,308.5	330	890	62.1	...
Dominican Republic	10.0 ^a	5.7	5.7	220.8	112	196	94.6	...
Haiti	8.3	39.7	39.1	43.5	15	48	86.7	...
Ecuador	31.9	100.8	76.3	274.3	20	222	70.0	...
Uruguay	105.5	131.8	114.8	309.1	80	172	68.7	...
Bolivia	50.0 ^a	199.8	178.4	359.7	50	162	22.0	...
Paraguay	15.3	22.3	20.2	101.1	53	90	11.3	...
Latin America, excluding Cuba	2,213.3	6,631.4	5,535.8	16,432.3	7,382	17,935	51.5	...

SOURCE: D. Avramovic and R. Gulhari, *Debt Servicing Capacity and Postwar Growth in International Indebtedness*, Appendix II; S. N. Badri Rao, *Recent Changes in the External Public Indebtedness of Latin American Countries* (IBRD, October 1963), table 1.

Note: The total external debt includes both utilized and non-utilized guaranteed loans and excludes the unguaranteed private debt and IMF position.
^a Estimates.

—by over 1,000 million dollars a year—but more slowly than the regional average during the following decade. In Chile, Colombia, Mexico, Peru and Venezuela during the 1960s, on the other hand, it grew faster than the regional average.

The share of the remaining countries in the total external debt was negligible though the rate at which their indebtedness increased was higher than the regional average for the 1960s.

As can be seen, a policy of indebtedness involving increasing recourse to foreign financing pushes up servicing payments on foreign capital, which eat more and more into export earnings; and this means an increasing use of foreign financing to expand the capacity to import—a vicious circle which has been responsible in the spiralling indebtedness that has been impeding progress in Latin America's external sector over the last two decades.

(d) *External financing*

One of the most important components in Latin America's external financing is the movement of autonomous or non-compensatory foreign capital (see tables 81 and 82).

The accumulated total of non-compensatory capital in the 1960s was slightly more than double that of the previous decade. From one decade to the next, there was a slight reduction in net direct investment in absolute terms (from 5,500 million dollars to 4,600 million) but a sharp increase in short-, medium- and long-term loans. Net direct investment dropped in the 1960s,³² which meant that its share in the total volume of non-compensatory funds fell from 63.8 to 26.5 per cent. This decline, which was particularly noticeable in the first half of the decade, affected the entire region, especially Chile and Venezuela, where foreign capital disinvestment reached a peak. In the second half of the decade, however, external investment recovered somewhat. Medium- and long-term loans were more than five times higher in the 1960s than in the 1950s and their share in total non-compensatory financing rose from 19.3 per cent to 49.4 per cent. The growth rate was even higher in the second half of the decade, particularly in Chile and Venezuela.

³² The figures for direct investment include reinvested profits, so that only part of it really constitutes an effective inflow of external financing.

Short-term liabilities also shot up during the 1960s; their share grew from 10.4 per cent in the 1950s to 16.6 per cent the following decade. There was a sharp drop in Argentina and a sharp increase in Brazil, Chile and Panama. The over-all trend was more or less the same in both halves of the decade.

Official transfer payments also followed a favourable trend from one decade to the next, rising from 562.4 million to 1,295.7 million dollars. Their share of total non-compensatory capital, however, remained fairly low, never exceeding 7.4 per cent during the 1960s. There was a substantial decline in such payments in Chile and Bolivia during this period.

Though the outflow of non-compensatory domestic capital was up, its share in the total did not increase; Brazil, Mexico and Venezuela were the only countries for which the outflow was substantial.

(e) *External direct investment*

External direct investment grew appreciably over the past two decades; the cumulative total in 1969 stood at 17,935 million dollars, two and a half times more than in 1950 (see table 80).

Nearly 90 per cent of this amount was concentrated in seven countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela), which together increased their assets under this head from 6,652 million dollars in 1950 to 15,867 million in 1969. In Brazil, direct investment rose from 1,343 million to 3,661 million dollars, and in Mexico from 566 million to 3,023 million. United States investment grew fastest in this group of countries; its share in total investment rose from 49.4 per cent during the 1950s to 59.3 per cent in the 1960s.

By contrast, the share of direct United States investment in the countries of the Central American Common Market, excluding Panama, dropped from 77 to 69 per cent, despite the fact that the total invested rose from 330 million to 910 million dollars during the period.

The share of United States investment in the other countries remained unchanged, and the growth of total direct investment was roughly the same as in the Central American countries, where it rose from 330 million dollars in the 1950s to 890 million in the 1960s.

Table 81. Latin America: forms of external financing, 1950-1959 and 1960-1969
(Cumulative totals in millions of dollars)

Country	Non-compensatory capital											
	Total		Net direct investment		Net long- and medium-term loans		Net short-term liabilities		Net official transfer payments		Non-compensatory domestic funds or assets	
	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969	1950-1959	1960-1969
Argentina	706.0	1,045.6	519.6	572.6	155.2	695.7	30.6	-222.2	0.6	-0.5	289.0	-170.2
Bolivia	243.7	483.7	45.6	66.7	50.2	224.4	11.8	25.3	136.1	167.3	-9.2	-14.7
Brazil	1,636.0	3,542.0	994.0	1,324.0	522.0	1,060.0	92.0	901.0	28.0	257.0	-86.0	-531.0
Colombia	386.4	1,696.7	29.5	295.1	168.8	935.5	179.3	332.3	8.8	133.8	-69.3	-134.8
Costa Rica	58.4	433.6	21.5	110.9	17.0	176.9	-9.5	105.9	29.4	39.9	-6.9	-60.5
Chile	343.4	1,653.8	268.4	-36.1	7.2	1,319.0	-5.0	286.7	72.8	84.2	9.9	-172.3
Ecuador	113.8	387.4	49.0	152.6	44.0	150.3	2.4	12.7	18.4	71.8	-23.3	-34.1
El Salvador	22.2	242.5	0.5	72.7	15.0	91.8	1.5	48.3	5.2	29.7	-34.1	-3.9
Guatemala	173.1	404.8	58.6	132.6	30.3	158.2	13.1	59.4	71.1	54.6	-14.5	-9.4
Haiti	90.8	66.1	23.9	9.1	29.8	5.0	8.1	4.1	29.0	47.9	-40.8	-18.9
Honduras	59.0	195.7	37.1	36.0	9.3	87.4	0.7	32.6	11.9	39.7	0.7	-19.2
Mexico	1,566.0	4,494.6	962.0	1,494.9	351.7	2,363.7	217.2	640.2	35.1	-4.2	-98.6	-502.1
Nicaragua	61.5	332.2	19.6	90.6	16.0	122.4	10.4	85.5	15.5	33.7	2.1	-25.5
Panama	141.1	518.5	74.1	123.5	21.1	111.9	13.6	202.3	32.3	80.8	1.6	-156.8
Paraguay	53.1	209.3	10.6	26.4	8.4	113.8	19.5	39.8	14.6	29.3	-5.3	-6.4
Peru	630.8	1,009.1	334.2	180.3	170.0	592.9	85.1	147.1	41.5	88.8	-20.9	-240.9
Dominican Republic	52.8	348.0	14.3	69.2	7.0	190.6	30.2	-21.8	1.3	110.0	-31.1	13.5
Uruguay	126.4	243.8	81.5	10.6	2.7	78.1	32.7	110.3	9.5	44.8	-14.9	9.9
Venezuela	2,172.7	234.8	1,969.7	-81.0	39.0	196.7	162.7	132.0	1.3	-12.9	-162.8	-848.1
Latin America, excluding Cuba	8,637.2	17,542.2	5,513.7	4,650.7	1,664.7	8,674.3	896.4	2,921.5	562.4	1,295.7	-314.4	-2,925.4

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Table 82. Latin America : forms of external financing, 1960-1964 and 1965-1969
(Cumulative totals in millions of dollars)

Country	Total			Net direct investment			Non-compensatory capital			Net short-term liabilities			Net official transfer payments			Non-compensatory domestic funds or assets		
	1960-1964	1965-1969		1960-1964	1965-1969		1960-1964	1965-1969		1960-1964	1965-1969		1960-1964	1965-1969		1960-1964	1965-1969	
							Net long- and medium-term loans											
Argentina	1,180.6	-135.0		490.6	82.0		764.7	-69.0		-83.2	-139.0		8.5	-9.0		-87.2	-83.0	
Bolivia	228.8	254.9		45.3	21.4		65.1	159.3		14.2	11.1		104.2	63.1		-8.5	-6.2	
Brazil	1,311.0	2,231.0		590.0	734.0		357.0	703.0		235.0	666.0		129.0	128.0		-138.0	-393.0	
Colombia	752.7	944.0		103.1	192.0		385.5	550.0		223.3	109.0		40.8	93.0		-109.8	-25.0	
Costa Rica	127.4	306.2		44.0	66.9		54.7	122.2		10.6	95.3		18.1	21.8		-17.8	-42.7	
Chile	806.8	847.0		72.9	-109.0		537.0	782.0		130.7	156.0		66.2	18.0		-118.3	-54.0	
Ecuador	112.3	275.1		33.6	119.0		43.0	107.3		3.0	9.7		32.7	39.1		-25.8	-8.3	
El Salvador	124.5	118.0		30.7	42.0		24.3	67.5		56.8	-8.5		12.7	17.0		0.9	-4.8	
Guatemala	181.0	223.8		40.3	92.3		42.8	115.4		56.4	3.0		41.5	13.1		-8.4	-1.0	
Haiti	36.5	29.6		3.2	5.9		5.4	-0.4		0.9	3.2		27.0	20.9		-17.0	-1.9	
Honduras	54.3	141.4		-7.9	43.9		35.1	52.3		5.9	26.7		21.2	18.5		-9.1	-10.1	
Mexico	1,895.6	2,599.0		488.9	1,006.0		1,050.7	1,313.0		354.2	286.0		1.8	-6.0		-318.1	-184.0	
Nicaragua	97.7	234.5		27.3	63.3		31.8	90.6		24.3	61.2		14.3	19.4		-21.7	-3.8	
Panama	192.9	325.6		77.3	46.2		47.4	64.5		28.2	174.1		40.0	40.8		5.1	-161.9	
Paraguay	68.2	141.1		12.2	14.2		21.5	92.3		19.1	20.7		15.4	13.9		-4.0	-2.4	
Peru	297.1	712.0		47.3	133.0		127.9	465.0		104.1	43.0		17.8	71.0		-122.9	-118.0	
Dominican Republic	94.9	253.1		21.2	48.0		27.5	163.1		13.9	-35.7		32.3	77.7		-11.0	24.5	
Uruguay	159.1	84.7		10.6	...		42.6	35.5		86.0	24.3		19.9	24.9		15.0	-5.1	
Venezuela	-744.2	979.0		-500.0	419.0		-246.3	443.0		3.0	129.0		-0.9	-12.0		-695.1	-153.0	
Latin America, excluding Cuba	6,977.2	10,565.0		1,630.6	3,020.1		3,417.7	5,256.6		1,286.4	1,635.1		642.5	653.2		-1,691.7	-1,233.7	

SOURCE: ECLA, on the basis of International Monetary Fund, *Balance of Payments Yearbook*.

Part Three

THE LATIN AMERICAN ECONOMY IN 1970¹

¹The figures for 1970 are estimates. The Cuban economy is not included for lack of data comparable with those on other countries.

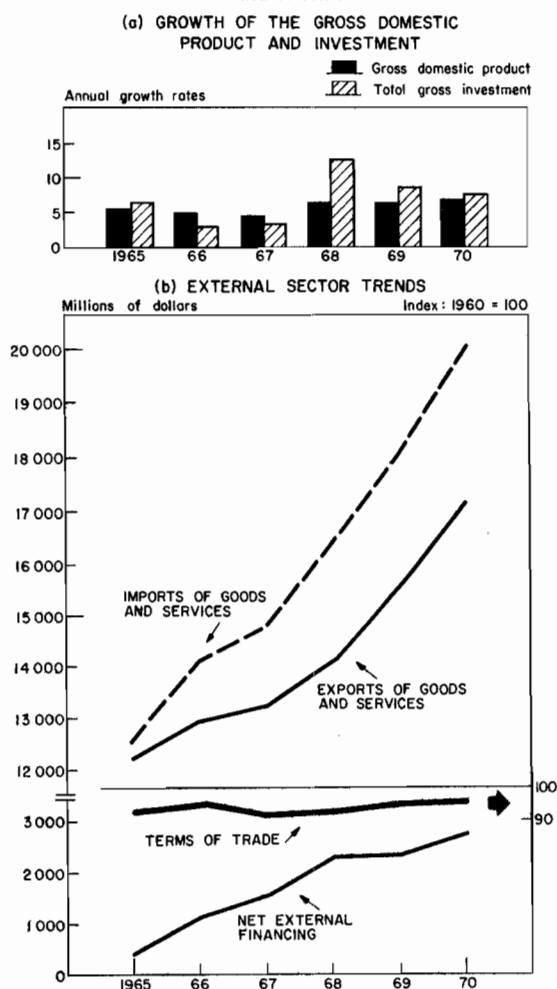
Chapter I

RECENT ECONOMIC TRENDS

1. OVER-ALL APPRAISAL

For the third year in succession, there was a definite upward trend in the economic growth rate in 1970, with the region's internal gross product expanding by more than 6.3 per cent in a year. The rate was 6.3 in 1968, 6.5 in 1969, and 6.9 in 1970, an improvement on the 5 per cent a year achieved from 1965 to 1968, and in striking contrast with the loss of impetus in 1966 and 1967 (see table 1 and figure I).

Figure I. Latin America (excluding Cuba): 1965-1970
Natural scale



Latin America's growth in 1970 was due to that of its more developed countries. Among these, there are several which, because of their size, weigh heavily in the regional balance, e.g., Brazil, Colombia, Mexico and Peru, whose domestic product grew by 7 per cent or more (see table 2). Another factor which helped to determine the 1970 trends was the fact that in every country the domestic product grew faster than the population. Mexico, Brazil, Colombia, Costa Rica, the Dominican Republic, Guatemala and Nicaragua are noteworthy because of the steady growth of their economies since 1965.

Construction, basic services and manufacturing were the sectors which were mainly responsible for the economic expansion in 1970, as was true in 1969 and to a lesser extent in 1968. In fact, all the production sectors grew by more than 4.5 per cent annually. This evenly balanced sectoral growth was an accentuation of the trend already observable in 1969, and it gives a very individual character to Latin America's development process which is in contrast with the trend for most of the 1960s. One outstanding feature was the recovery of agriculture, with rates of 3.4 per cent in 1969 and 4.8 per cent in 1970, compared with an annual rate of only 1.7 per cent in the period 1965-1968 (see table 3).

These results characterized by an accelerated over-all growth rate and the absence of any serious lag in any of the countries or sectors, may be ascribed to a number of factors, the most important of which are the trends in investment and in the external sector.

On the internal scene, although total investment did not grow quite so fast as in 1969, when it reached 8.5 per cent, it grew at an estimated 7.4 per cent in 1970, so that it equalled an increasing proportion of the gross product. The total investment coefficient rose to 19.4 per cent in 1970, which was appreciably higher than the 17.9 per cent—one of the lowest in the decade—recorded in 1967.

The increase may not seem very large but it is significant because a fairly large and virtually

Table 1. Latin America: total supply and demand

	Millions of dollars at 1960 prices				Average annual growth rates		
	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Total supply	119,201.4	139,218.2	148,434.7	158,849.0	5.3	6.6	7.0
Gross domestic product	109,221.8	126,550.0	134,786.2	144,062.5	5.0	6.5	6.9
Imports ^b	9,979.6	12,668.2	13,648.5	14,786.5	4.1	7.7	8.3
Total demand	119,201.4	139,218.2	148,434.7	158,849.0	5.3	6.6	7.0
Exports ^b	11,976.6	13,444.2	14,397.2	14,886.9	3.9	7.1	3.4
Total investment	20,116.8	24,026.3	26,061.8	27,981.7	6.1	8.4	7.4
Total consumption	87,108.0	101,747.7	107,975.7	115,980.4	5.3	6.4	7.4
General government	10,095.3	11,940.0	12,515.8	13,332.4	5.8	4.8	6.5
Private	77,012.7	89,807.7	95,459.9	102,648.0	5.3		7.5

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

^b Goods and services, excluding factors.

Table 2. Latin America: growth rate of the gross domestic product at factor cost
(Annual growth rates)

Country	1965-1968	1969	1970 ^a
Argentina	2.4	6.6	4.8
Bolivia	6.8	4.5	5.2
Brazil	6.1	8.5	9.0
Colombia	5.2	6.2	7.0
Costa Rica	7.2	6.7	7.5
Chile	4.1	3.1	2.5
Ecuador	4.5	5.7	9.5
El Salvador	5.3	3.4	4.3
Guatemala	5.1	5.6	5.1
Haiti	0.4	3.3	3.6
Honduras	7.0	3.2	4.0
Mexico	7.1	7.3	7.4
Nicaragua	4.4	4.4	4.6
Panama	7.7	7.2	8.6
Paraguay	3.6	4.2	5.3
Peru	2.7	1.3	7.3
Dominican Republic	6.5	7.0	6.5
Uruguay	-0.8	5.3	4.6
Venezuela	3.6	3.5	6.1
Latin America	5.0	6.5	6.9

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

Table 3. Latin America: gross domestic product at factor cost, by sector of economic activity
(Annual growth rates)

	1965-1968	1969	1970 ^a
Agriculture	1.7	3.4	4.9
Mining	4.3	3.7	4.6
Manufacturing	6.4	7.7	8.0
Construction	9.2	8.6	10.6
Basic services	6.2	8.3	9.3
Other services	5.2	6.8	6.4
TOTAL	5.0	6.5	6.9

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

covered the deficit of 2,800 million dollars on current account and resulted in a balance-of-payments surplus of 1,140 million dollars. Short- and medium-term capital has accounted for an increasing share of the larger net inflow of capital in the last three years, which has intensified the pressure on the balance of payments.

Looking at the picture from another angle, that of prices, the deceleration in the rise of domestic prices which occurred in most of the Latin American countries in 1969 did not continue into 1970. In 1969 the declining price trends brought the number of countries with less than a 3 per cent increase in domestic prices to 13. This number dropped to eight in 1970, since the rate of inflation in the other five fluctuated between 3 and 5 per cent (see table 4). In 1969 prices rose less than the year before in 11 countries, but in five of these the rate quickened again in 1970. Argentina was one of the latter; after slowing down in 1969 inflation gained new impetus, especially in the last few months of 1970; thus, the index rose by 21.7 per cent from December 1969 to December 1970. Prices also rose steeply in Mexico and Bolivia. As to the other five countries where the rate of inflation dropped in 1969, it declined further in 1970 in four of them and there was no change in the remaining one; this was signifi-

constant part of it is accounted for by capital depreciation.²

Pursuing the previous years' trends, the external sector showed an increasing deficit on current account and a balance-of-payments surplus before compensation. The value of exports of goods and services, in dollars at current prices, rose by 9.3 per cent, mainly as a result of higher prices. Concurrently, imports of goods and services continued to rise for the third consecutive year (by 11 per cent in 1968, 10 per cent in 1969 and 12 per cent in 1970). For the first time there was a trade deficit, but the larger inflow of non-compensatory capital

² See ECLA, *Economic Survey of Latin America 1968* (United Nations publication, Sales No.: E.70.II.G.1), pp. 116-117.

Table 4. Latin America: variations in consumer price indexes
(Annual growth rates)^a

Country	1960-1965	1965-1968	1969	1970
Argentina	23.2	25.7	7.7	13.4
Bolivia	5.0	7.8	2.3	3.9
Brazil	62.0	33.1	23.4	19.2
Colombia	12.5	11.1	10.1	6.2
Costa Rica	2.4	1.8	2.7	4.7
Chile	27.0	22.6	30.6	32.3
Ecuador	3.8	4.1	6.3	5.2
El Salvador	0.2	0.9	-0.2	2.9
Guatemala	0.2	1.0	2.2	2.4
Guyana	...	2.7	1.3	3.4
Haiti	3.6	2.1	1.3	1.3
Honduras	2.7	2.2	2.6	2.4
Jamaica	2.8	3.6	6.3	9.7
Mexico	1.7	3.2	3.1	4.9
Nicaragua	1.7	2.7	0.3	...
Panama	1.2	1.1	1.8	3.0
Paraguay	5.2	1.6	2.3	-0.9
Peru	9.4	12.9	5.5	5.3
Dominican Republic	2.8	0.5	1.0	1.2
Trinidad and Tobago	2.0	4.8	2.5	2.6
Uruguay	29.3	94.9	20.1	17.3
Venezuela	0.2	1.0	2.4	2.1

SOURCES: IMF, *International Financial Statistics*.

^a Variations between annual averages.

cant in countries like Uruguay and Brazil because of the galloping inflation they had been suffering from. The price index fell in absolute terms only in Paraguay. The pace of the price

rise quickened again in Chile and, though not so sharply, in four other countries as well. It is interesting to note that inflation was a really serious problem in only four of the countries of the region, where the annual price rise was more than 10 per cent; the rise in domestic prices was between 5 and 10 per cent in four other countries, and less than that in all the others (see table 4).

2. OUTSTANDING FEATURES OF THE MAIN SECTORS OF PRODUCTION

The brief review given below is intended only to indicate some general features of the development of certain sectors of production, which are analysed in more detail in the individual country studies.

The growth rate of manufacturing (8 per cent) was slightly higher than in 1969, mainly as a result of changes in some of the larger countries—Brazil and Mexico—and in some of medium size, such as Colombia and Peru. High rates were also recorded in Bolivia, the Dominican Republic, Nicaragua, Panama and Costa Rica, in descending order (see table 5). The share of manufacturing in the total product increased from 21.8 per cent in 1960 to 24.3 per cent in 1970.

In recent years, the different branches of manufacturing production have grown at vary-

Table 5. Latin America: trends in the main sectors of economic activity, 1970
(Percentage variation compared with 1969)

Country	Agriculture	Mining	Manufacturing	Construction	Basic services ^a	Other services ^b
Argentina	1.6	10.0	6.0	13.9	6.2	3.0
Bolivia	5.0	7.6	13.5	-4.0	3.1	4.2
Brazil	7.0	—	10.2	14.9	13.7	8.7
Colombia	4.5	-3.2	10.7	4.2	10.0	8.0
Costa Rica	8.0	...	8.4	8.8	9.6	6.2
Chile	6.0	0.4	0.8	5.5	2.6	3.0
Ecuador	...	...	11.6	9.8	...	...
El Salvador	7.0	7.1	2.1	6.0	3.7	3.6
Guatemala	3.8	33.3	8.0	3.8	4.3	5.1
Haiti	4.0	...	6.0	...	...	...
Honduras	2.2	5.2	5.2	7.5	5.3	4.5
Mexico	3.8	7.3	8.5	10.0	10.8	6.7
Nicaragua	-0.5	—	11.6	15.1	5.0	4.0
Panama	3.1	9.5	8.7	12.8	8.5	10.5
Paraguay	4.3	8.0	5.0	11.5	4.1	6.2
Peru	7.4	3.8	10.5	13.9	6.2	5.9
Dominican Republic	6.3	2.8	13.0	1.9	8.9	4.2
Uruguay	3.0	...	5.2	4.0	...	...
Venezuela	5.0	4.1	7.5	14.4	6.9	5.2
Latin America	4.9	4.6	8.0	10.6	9.3	6.4

SOURCE: ECLA, on the basis of official statistics.

^a Electricity, gas and water, and transport and communications.

^b Commerce and finance, ownership of dwellings, public administration and defence, and other services.

^c Mining included in manufacturing.

ing rates, with a slight increase in capital goods and, to a smaller extent, intermediate goods, while production of non-durable consumer goods appears to have declined. In 1970, in particular, the metal-transforming and chemical industries in Argentina, Brazil and Mexico showed a rapid growth rate, and in the latter two countries there was a sharp upswing in output of machinery and transport equipment. Viewing events from another angle, there were some institutional changes, such as the Peruvian law on industry, the Brazilian national integration programme, and the ceiling placed on the proportion of foreign capital investment in enterprises in Mexico. The Peruvian law is analysed in the section dealing with Peru. The Brazilian integration programme is concerned basically with encouraging the incorporation in the national economy of the North-east and Amazon regions, by encouraging the establishment of new industries in those areas; and in Mexico, it was decided that foreign investors could not hold more than 49 per cent of the capital in six basic branches of industry (steel, cement, glass, fertilizers, pulp and paper, and aluminium).

Agriculture showed an upturn of 4.9 per cent, compared with 3.4 per cent in 1969 and 1.7 per cent during the period 1965–1968. In the individual countries, there were outstanding annual increases of 5 per cent or more in Costa Rica, Peru, Brazil, El Salvador, the Dominican Republic, Chile, Bolivia and Venezuela. Generally speaking, it was a good year for agriculture, since, in addition to the increases mentioned above, production fell off slightly in only one country, and the domestic per capita supply of agricultural products declined only in Nicaragua and Honduras.

There are sharp differences, not only between the production of the different staple commodities of the sector but also as regards the performance of the same crop in different countries. A rapid review shows an increase in wheat production in Argentina, Brazil and Paraguay, while harvests were down in 1969 in Colombia, Peru and Uruguay; on the other hand, the maize harvest was larger in nearly all the countries. Coffee output grew in Colombia, Costa Rica, El Salvador, Honduras, Nicaragua, Panama and Peru and declined in Brazil, Haiti and Mexico. Cotton output climbed in Brazil and Haiti, but fell from the 1969 level in Colombia, Mexico, Nicaragua and Paraguay. The sugar crop was better than in the previous year in all the countries except Mexico. Production of cocoa expanded in Colombia and the Dominican Republic and fell off in Brazil.

Cattle production appears to have declined only in Argentina.

Production of crude petroleum grew by around 4 per cent in 1970, a significant improvement over the rate of 0.6 per cent recorded in 1969; excluding Venezuela, the increase was around 6 per cent. As this rate was less than the total world increase of 9.7 per cent, Latin America continued to lose ground, its share of world output falling from 18 per cent in 1960 to 12 per cent in 1970. Two of the biggest increases were recorded in Argentina and Colombia. The growth rate in Mexico and Brazil continued to be moderate but stable. In the case of Mexico, the development of new offshore oil fields on Tuxpan is worthy of note. In Venezuela, where output is largely dictated by conditions on the international market, there was an increase of around 3 per cent, following a decrease of 0.6 per cent in 1969. In contrast, production levelled off or declined, for different reasons, in Bolivia, Chile, Peru, and Trinidad and Tobago. The nationalization of the Bolivian Gulf Oil Company in October 1969 produced an immediate fall in Bolivia's output, but it recovered in the last few months of 1970. In Chile, the National Petroleum Enterprise (ENAP) was hit by labour problems. In Peru, production remained at the previous year's level, since the increase in production from the continental shelf did no more than offset the decline in that of the main oilfields. Although production in Ecuador has fallen off since 1966, the exploitation of the important Napo deposits in the near future will open up new prospects not only for petroleum production but for national development. As to prospecting, the intensive search for oil in Ecuador in 1970 bore fruit in the discovery of the Auca oilfield near the river Tiputini, and of natural gas in the Gulf of Guayaquil; an apparently rich deposit of crude oil was discovered on the coast at Sergipe in Brazil; and lastly, a new offshore deposit was discovered in Musopa, to the north of Tuxpan, Mexico.

The share of the product generated by basic services grew by 9.4 per cent in 1970, for which the production of electric energy was largely responsible. In 1970, generating plants with a total capacity of around 3,300 MW were put into operation, chiefly by the public utilities, and total installed capacity—that is, public supply plus self-supply—was over 40,000 MW by the end of the year. The increase can be broken down as follows: 1,700 MW in hydro-electric plants and 1,600 MW in thermal plants, bringing their respective totals to 19,100 and 20,900 MW. Public electricity supply, with an

installed capacity of 33,000 MW, accounts for 82 per cent of total generating capacity, and generally speaking it has achieved an acceptable level of operation, with no electricity cuts, no drops in voltage, etc., although about half the population is now being supplied. An important feature of development is the process of concentration and integration, both in individual enterprises and in electricity systems as a whole, so that the bulk of the electric energy is generated by no more than three or four enterprises in each country.

Two major hydroelectric projects are currently under construction: at Chocón in Argentina and Mantaro in Peru. Moreover, Argentina, Brazil and Mexico will have nuclear energy plants in the near future. The first plant of this type is under construction in Argentina at Atucha (Province of Buenos Aires); it will have a capacity of 319 MW and is expected to begin operating in 1972. In Brazil, tenders have been called for the construction of a plant with a capacity of 500 MW at Angra dos Reis (close to the highway between Rio de Janeiro and Santos), which is scheduled to go into operation in 1976. Studies are being made in Mexico with a view to the construction of a plant with a capacity of 600 MW.

Total generation of electric energy in 1970 is estimated at 149,000 GWh, or 9 per cent above the 1969 level, which means an annual per capita output of 558 kWh. Public-service supply accounted for 82 per cent of this total (in 1960 the figure was 79.1 per cent). The breakdown of consumption is as follows: industrial, 30 per cent, non-industrial, 50 per cent, the remaining 20 per cent being distributed between the plants themselves, unrecorded consumption, losses in transmission and, in particular, losses in distribution. Self-supply electricity is consumed chiefly in manufacturing and mining.

3. THE EXTERNAL SECTOR

(a) *Some recent developments in the world economy*

In 1970, the growth rate of the world economy slackened off, halting the favourable trends recorded in 1968 and 1969 and throughout the 1960s, with the exception of 1967. The decline was attributable to the developed countries, except for Japan, whose growth rates slowed down in differing degrees. The countries of North America, the European Economic Community (EEC) and the European Free Trade Association (EFTA) followed roughly similar trends. In the United States and the United Kingdom, however, the decline was

comparatively more pronounced: the real gross domestic product of the United States remained unchanged and that of the United Kingdom is estimated to have grown by 2 per cent.

World industry, which is estimated to have grown at an annual rate of over 7.5 per cent in 1968 and 1969, grew by less than 5 per cent during the first nine months of 1970, compared with 1969.³ But unlike what happened in 1969, when developed market-economy countries provided the impetus for growth, in 1970 these countries were responsible for the slackening of growth, recording an increase of only 2.8 per cent, as against 7.3 per cent in 1969. Contributory factors were the drop in industrial production in the United States (-2.9 per cent) and the stagnation of industry in the United Kingdom (a growth rate of 0.8 per cent). The industrial product of the EFTA countries grew by 3.1 per cent in 1970 (4.9 per cent in 1969), owing to the decline in Sweden's output and the stagnation of output in the United Kingdom. The industrial product of the EEC countries grew by 6.4 per cent, less than the 10.2 per cent recorded in 1969 but still above the world average. Japan's industrial product grew by 16.2 per cent in 1970.

Nevertheless, the trade of the industrialized countries expanded by approximately 15 per cent in 1970, i.e., at roughly the same pace as in 1969. The growth rate of United States exports rose from 9.5 per cent in 1969 to 13.7 per cent in 1970, and Canada's from 9.6 to 13.1 per cent. High rates of export growth were also maintained by Japan (20.8 per cent), EEC (16.2 per cent) and EFTA (12.5 per cent). It should be noted that inflation in these countries and areas continued to affect the unit prices of exports. In 1970, the rise in unit prices accounted for one third of the increase in the value of exports, compared with 25 per cent in 1969. Hence, from the standpoint of the Latin American countries, the rise in the unit value of their imports cancelled out any benefit they might have derived from the rise in export prices.

In 1970, the trade of the industrialized countries expanded more rapidly than that of the developing countries, the figures being 15 and 8.5 per cent respectively. Thus, the share of the developing regions in world trade continued to shrink, and even dropped more rapidly than in 1969, when the developing countries' exports grew by 11.5 per cent. Merchandise exports from Latin America (excluding Cuba) grew by 9.5 per cent, which does not compare favour-

³ United Nations, *Monthly Bulletin of Statistics*, May 1971.

ably with the 11 per cent increment recorded in 1969.

Between the end of 1969 and the end of 1970, the international reserves of the 14 major developed countries (Austria, Belgium, Canada, Denmark, France, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United States and United Kingdom and the Federal Republic of Germany) rose from 54,500 to 65,300 million dollars,⁴ after falling from 55,600 to 54,500 million between 1968 and 1969. On the other hand, it is estimated that the total international reserves of the market-economy countries grew from 77,000 to some 90,000 million dollars between 1969 and 1970, while they had remained unchanged between 1968 and 1969. Slightly more than 3,000 million of the increase in 1970 corresponded to IMF Special Drawing Rights; 1,000 million to the position with the IMF; and approximately 9,000 million to foreign exchange reserves; the trends of gold bullion remained virtually unchanged.⁵

It can thus be seen that the growth of world trade in 1970 was accompanied by a considerable increase in international reserves without there being, as in earlier years, significant disruptions in the operation of the international monetary system.

The performance of the United States economy in 1970, particularly as regards its gross domestic product and industrial product, was mainly attributable to the introduction of counter-inflationary measures and the cutback in Government defence spending.⁶ The recessive trends thus generated led to a substantial rise in unemployment from an average of 3.5 per cent in 1969 to 5.5 per cent in November 1970. It did not prove possible, moreover, to hold down domestic prices, and the consumer price index rose by 6 per cent in 1970, roughly as much as in 1969.

Imports by the United States grew more slowly than its exports (11 and 14 per cent, respectively), with the result that the surplus trade balance rose from about 600 million dollars in 1969 to 2,880 million in 1970. This is what was mainly responsible for the reduction of its balance-of-payments deficit from 7,400 million dollars in 1969 to 3,300 million in 1970.

Under the stress of increasing competition from Japanese and European goods on its own

market, together with the rise in unemployment and prevailing prices, the United States Government came under increasing pressure from the protectionist lobbies, and a bill was presented to Congress which, if passed, would extend the quotas and restrictions on the imports of various products of particular interest to the developing countries, such as petroleum, clothing and footwear.

Among the EEC countries, Italy recorded the lowest growth rate for exports (13 per cent), while the average growth rate for imports was 18 per cent, France being at the bottom of the scale with 9 per cent. Over the first three quarters of 1970, trade by the EEC countries was in balance, while the over-all EEC balance of payments showed a surplus of some 6,200 million dollars (compared with a deficit of 300 million over the same period in 1969). The surplus was mainly attributable to a substantial inflow of capital, chiefly from the United States.

(b) *Export prices and the terms of trade in Latin America*

For the third year in succession the level of prices for Latin America's main export products improved in 1970. According to provisional ECLA estimates, the index of 20 export products (with 1963 as the base year = 100) reached a level of 117.7, i.e., 5 per cent higher than in the previous year (see table 6). If petroleum and petroleum products are excluded, the price increase is even more pronounced than the figures for 1970 and 1969, being 124 and 114 respectively, that is, a rise of 10 per cent.

Tropical products—especially coffee, which accounts for a large share of exports (20 per cent)—were mainly responsible for pushing up the export price index. Prices for Brazilian coffee and Colombian coffee rose by 53 per cent and 24 per cent respectively, a come-back after the drop in coffee production in the 1969–1970 and 1970–1971 crop years, a drop of approximately 14 per cent in the latter year mainly owing to the bad harvest in Brazil. Considering the difference, at the world level, between the exportable surplus from the 1970–1971 crop and estimated demand—half a million tons—a further decrease in the large stocks accumulated in previous years is to be expected. As to other tropical products, the upward trend in sugar prices recorded in 1969 continued, both on the open market and on the United States market, and banana prices also rose. Sugar prices seem likely to continue their upward trend in 1971, since world market prices remained steady even when, towards the

⁴ Including 2.4 million in Special Drawing Rights.

⁵ IMF, *International Financial Statistics*, March 1971, p. 18.

⁶ See, for example, President Nixon's comments in his Message on the State of the Nation, delivered on 22 January 1971.

Table 6. Latin America: price index for major exports^a
(1963 = 100)

	Weighting	1968	1969	1970 ^b	Percentage variation	
					1969	1970
<i>Food, beverages and tobacco</i>	41.61	90.4	99.5	117.4	10.1	18.0
<i>Tropical zone</i>	35.36	89.8	99.5	118.8	10.8	19.4
Sugar (open market)	6.61	24.9	41.1	44.4	65.1	7.1
(United States)	3.86	92.3	95.7	98.7	3.7	3.1
Bananas	2.88	88.6	87.9	102.4	-0.8	16.5
Cocoa	1.53	124.2	164.2	124.2	32.2	-24.4
Coffee (Santos No. 4)	9.80	109.7	119.6	158.7	9.0	32.7
(Manizales)	9.83	107.6	113.6	140.9	5.6	24.0
<i>Temperate zone</i>	6.25	96.1 ^c	99.2 ^c	103.4 ^c	3.2	4.2
Beef	2.77	...	...	...	...	...
Maize	1.70	93.7	100.0	111.8	6.7	11.8
Wheat	1.78	98.4	98.4	95.3	—	-3.2
<i>Agricultural raw materials</i>	12.14	97.2	97.2	100.2	—	3.1
Cotton (Matamoros)	3.89	106.1	96.9	101.4	-8.7	4.6
(São Paulo)	1.34	102.3	88.3	100.8	-13.7	14.2
Cattle hides	1.02	129.4	147.6	145.2	14.1	-1.6
Fish meal	1.10	110.9	133.0	147.1	19.9	10.6
Wool (Montevideo)	1.25	72.1	74.3	63.5	3.1	-14.5
(Buenos Aires)	2.06	54.7	59.0	59.3	7.9	0.5
<i>Metals</i>	12.51	147.9	174.0	172.1	17.6	-1.1
Copper	6.59	182.7	226.5	219.5	24.0	-3.1
Tin	0.61	124.6	136.7	144.6	9.7	5.8
Iron ore	3.84	97.9	97.7	100.1	-0.2	2.5
Lead	0.88	137.7	165.8	170.7	20.4	3.0
Zinc	0.59	124.1	135.2	137.6	8.9	1.8
<i>Petroleum and petroleum products</i>	33.74	91.8	89.4	87.0	-2.6	-2.7
<i>Total, excluding petroleum and petroleum products</i>	66.26	103.2	113.9	125.0	10.4	9.7
<i>Total, 20 products^a</i>	100.00	99.2	106.1	111.7	7.2	5.1

SOURCE: ECLA, on the basis of United Nations, *Monthly Bulletin of Statistics*.

^a Less important products carrying little weight in the index (tobacco, linseed oil, Pima cotton No. 1 and quebracho extract) are excluded.

^b Incomplete data and estimates.

^c Excluding meat.

end of 1970, the quotas under the International Sugar Agreement were increased, because it was considered unlikely that Cuba's production would match the 8.5 million tons achieved in 1969-1970. Cocoa prices dropped sharply as a result of surplus production in 1969-1970, and a further surplus is expected in 1970-1971.

Maize prices improved again in 1970, while wheat prices slipped slightly. However, at the end of 1970 wheat prices seemed to be rising, as a result of smaller harvests in some countries and larger sales to socialist countries.

Among agricultural raw materials there was a notable recovery in cotton prices and a fall in Montevideo wool prices, though not in Buenos Aires. The price of cattle hides fell slightly in 1970, while that of fish meal continued to rise.

The outstanding feature in metals was the drop in copper prices, after a five-year upward trend. This was mainly due to a slowing down of the growth of manufacturing production,

particularly in the United States. World demand for copper was also affected by such circumstances as the protracted General Motors strike in the United States, the reduction of Japanese copper imports, and the United States decision to discontinue its purchases for defence reserves (13 per cent of United States annual copper production). Although copper prices fell on an average only 3 per cent compared with 1969 over the whole of 1970 they dropped steadily from March to December, in which month they were 40 per cent below what they had been in December 1969. The prices of Latin America's other metal exports showed a slight rise on average, although lead and zinc prices fell during the second half of 1970.

Finally, the prices of petroleum and petroleum products continued to fall during 1970 at the same rate as in 1969.

As was to be expected, the increase in the

prices of Latin America's main exports in 1969 and 1970 was reflected in the unit value index of the region's exports. This index (with the base year 1963 = 100) rose from 105 in 1968 to 109 in 1969 and 115 in 1970, topping in the last two years the levels reached throughout the period from 1960 to 1968 (see table 7).

This rise in the unit value of exports occurred in most of the Latin American countries, to a greater or lesser degree in each country, depending on its main export products. For instance, the increase in 1970 was particularly marked in the countries exporting coffee (Brazil, Colombia, Costa Rica, El Salvador and Guatemala), tin (Bolivia) and cotton (Nicaragua). The increase registered in Peru was mainly due to rises in the prices of fish meal and cotton which offset the fall in copper prices.

The increase in the unit value of exports in 1969 and 1970 counterbalanced the rise in the unit value of imports during the same period and this brought about an improvement in Latin America's terms of trade, which rose from 99 to 100 between 1968 and 1969, and to 102 in 1970 (see table 7).

Last year's *Survey*⁷ included a special study on the terms of trade in Latin America, with particular reference to trends in the 1950s and 1960s. An analysis covering developments in 1970 only will show that the eight countries (Bolivia, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Nicaragua and Peru) with the largest increases in the unit value of their exports are precisely those which recorded the most notable improvements in their terms of trade. The improvement was only moderate in Honduras, Mexico and Uruguay.

Of the six countries whose terms of trade deteriorated (Argentina, Chile, Ecuador, Panama, the Dominican Republic and Venezuela), Chile stands out with a tremendous drop, followed by Panama, where the drop was not so serious.

It should be added that Venezuela's terms of trade in 1970 were by far the most unfavourable in the region. The figure was 28 per cent lower than in 1963, which is explained by the sharply divergent trends in the unit prices of its exports and its imports; the former dropped by 11 per cent and the latter rose by 24 per cent—the most catastrophic gap in the whole of Latin America.

(c) *Latin America's balance of payments before compensation*

Latin America's balance-of-payments surplus in 1970 was some 1,140 million dollars, including the 314 million units of Special Drawing Rights granted by the IMF to the 19 countries listed in table 8. Therefore, if the Special Drawing Rights are excluded, the surplus is only 827 million, which is much the same as in 1969.

Under this arrangement, introduced in 1970 to make the international monetary system more flexible, 3,414 million units of Special Drawing Rights were issued, of which 75 per cent went to the developed countries and 25 per cent to the developing regions; Latin America received 9.2 per cent of the total. At the end of 1970 the Central Banks of the Latin American countries had 266 million SDR units at their disposal; 48 million net units were used, made up of 61 million in drawings on twelve countries and 13 million in acceptances from five others.

Most of the balance-of-payments surplus in 1970, as in previous years, went to increase the gold and foreign exchange reserves and to improve the net position with the IMF. However, after five years of net reductions in foreign liabilities by the group of Central Banks as a whole, 1970 saw an increase in these liabilities.

The country with the biggest increase in its international reserves in 1969 and 1970 was Brazil. In 1969 Brazil was responsible for two thirds of the surplus recorded by a total of 12 countries (980 million dollars) and in 1970 for 60 per cent of that registered by 13 countries (920 million, excluding Special Drawing Rights); this meant that its gross international reserves rose to 1,200 million dollars, which is more than Venezuela's. The improvement in the position of the monetary authorities indicated by the balance-of-payments surplus covers a whole range of situations. It was considerable in Chile, for the third year in succession, and in Peru, for the first time after five successive years in the red; Argentina, El Salvador, and Nicaragua, made a partial recovery compared with the previous year; Venezuela, Mexico and Colombia recorded an improvement for the fourth year in succession, and Paraguay showed an improvement after three years of steady deterioration. In 1969 there was a deficit or a drain on international reserves in seven countries, totalling some 145 million dollars; in 1970 the total was 92 million (shared by six countries) but the deterioration was greatest in Uruguay, Honduras, Costa Rica and the Dominican Republic.

In the period from 1963 to 1970 the combined

⁷ United Nations, *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E.71.II.G.1), pp. 267–297.

Table 7. Latin America: terms of trade for seventeen countries, by major export commodity
(Index: 1963 = 100)

Countries exporting	Metals (tin and copper)			Coffee			Guatemala			Bananas			Sugar		Cotton	Livestock products		Petroleum	Miscellaneous products		Total Latin America ^b	
	Bolivia	Chile	Peru	Brazil	Colombia	Costa Rica	El Salvador	Guatemala	Honduras	Panama	Ecuador	Dominican Republic	Nicaragua	Argentina	Uruguay	Venezuela	Mexico	America				
Unit value of exports																						
1967	140	145	125	100	100	95	108	106	104	104	110	101	98	103	98	90	107	104				
1968	138	148	126	102	102	93	107	103	108	108	105	112	106	100	92	91	113	105				
1969	149	173	139	106	101	96	107	104	105	112	108	120	103	105	101	91	113	109				
1970 ^c	172	166	159	120	120	112	123	119	112	110	109	121	115	108	104	89	119	115				
Unit value of imports																						
1967	102	108	95	103	102	100	98	104	98	104	104	103	101	109	103	115	112	106				
1968	102	101	97	103	103	100	94	104	99	103	104	103	96	110	102	117	111	106				
1969	104	104	102	106	105	103	96	105	100	107	107	105	98	113	108	120	113	109				
1970 ^c	110	108	107	110	108	107	98	107	103	111	109	108	100	118	110	124	117	113				
Terms of trade																						
1967	137	134	132	97	98	96	110	102	106	100	106	98	97	94	95	78	96	98				
1968	135	147	134	99	99	93	107	99	109	105	101	109	110	91	90	78	102	99				
1969	143	166	136	100	96	93	111	99	105	105	101	114	105	93	94	76	100	100				
1970 ^c	156	154	149	109	111	105	126	111	109	99	100	112	115	92	95	72	102	102				

SOURCE: ECLA, on the basis of official statistics.

^a Beef, leather and wool.

^b Excluding Cuba.

^c Preliminary estimate.

Table 8. Latin America: balance-of-payments position before compensation
(Millions of dollars)

Country	Sum for the period 1958-1962	Sum for the period 1963-1970	1968	1969	Excluding special drawing rights 1970 ^a	Including special drawing rights 1970 ^a
Argentina	-364.5	768.2	150.0	-78.0	55.2	114.0
Bolivia	-4.9	29.0	0.2	0.4	-4.5	0.4
Brazil	-850.0	1,493.2	42.0	647.0	576.2	635.0
Colombia	-17.3	138.5	53.0	50.0	13.5	34.5
Chile	-234.0	393.2	119.0	183.0	102.2	123.2
Ecuador	3.8	14.2	-11.3	3.7	-1.5	2.7
Mexico	-56.7	291.6	71.0	23.0	25.6	71.0
Paraguay	-2.6	15.4	-0.9	-1.4	5.9	8.4
Peru	77.4	-198.4	-70.0	-33.0	57.6	71.9
Uruguay	-109.0	-39.4	35.0	16.0	-34.5	-25.3
Venezuela	-1,102.3	613.5	50.0	11.0	45.5	87.5
Haiti	-0.7	-3.3	0.9	1.1	1.1	3.6
Panama	—	-6.4	-2.4	-4.6	0.6	5.3
Dominican Republic	-38.8	-30.7	4.3	12.0	-12.2	-6.8
Costa Rica	-17.5	3.6	8.0	21.4	-19.7	-15.5
El Salvador	-21.9	14.2	0.9	-19.3	15.7	19.9
Guatemala	-39.3	33.4	-0.2	11.4	12.4	16.6
Honduras	-4.4	-0.5	6.1	-3.4	-19.3	-16.1
Nicaragua	-1.2	26.5	1.7	-5.7	7.0	10.2
TOTAL	-2,783.9	3,555.8	457.3	834.6	826.8	1,140.5
Compensatory financing (a+b+c+d)	2,783.9	-3,555.8	-457.3	-834.6	-826.8	-1,140.5
(a) Net balance-of-payments loans, trade arrears, deferred import payments, swaps and other liabilities of the monetary authorities	1,443.7	-363.5	-80.3	-251.7	167.1	119.0
(b) Net transactions with the International Monetary Fund	200.3	-648.9	-63.6	-17.4	-325.1	-325.1
(i) Stand-by credit	368.9	-210.0	62.7	-18.5	-147.6	-147.6
(ii) Compensatory credit	—	64.2	6.7	9.1	-33.7	-33.7
(iii) Other transactions	-168.6	-503.1	-133.0	-8.0	-143.8	-143.8
(c) Special drawing rights	—	—	—	—	—	-265.6
(d) Movement of gold and official foreign exchange (increase —)	1,139.9	-2,543.4	-313.4	-565.5	-668.8	-668.8

SOURCE: IMF, *Balance of Payments Yearbook* vols. 15, 20, 21 and 22.

^a ECLA estimates.

totals of the balance-of-payments surpluses before compensation of the Latin American countries amounted to 3,555 million dollars and, together with the surpluses for 1969, for the first time exceeded the outflow of international reserves between 1958 and 1962 (2,784 million) caused by the decline in the prices of Latin America's exports of raw materials. Between 1963 and 1970 gross gold and foreign exchange reserves were replenished or greatly strengthened, increasing by 2,540 million dollars, compared with a 1,140 million drop between 1958 and 1962; the IMF position improved considerably, especially the gold tranche position, and the Central Banks paid off 360 million out of a total of 1,440 million dollars of foreign liabilities, leaving 1,080 million still owing at the end of 1970.

In the period from 1963 to 1970 there were balance-of-payments surpluses totalling 3,835

million dollars in 13 countries and a combined deficit of 279 million in the remaining six countries. Six countries accounted for 96 per cent of the surplus: Brazil (39 per cent), Argentina (20 per cent), Venezuela (16 per cent), Chile (102 per cent), Mexico (7.6 per cent) and Colombia (3.6 per cent). It is interesting to note that, out of the 13 countries with a balance-of-payments surplus, only Argentina and Venezuela had a favourable balance on current account for the period under review. This means that all the other 11 countries increased their reserves by increasing their net external indebtedness. Obviously, such heavy indebtedness and the terms on which the loans were contracted, particularly the repayment periods and interest rates, may have an adverse effect on the future balance-of-payments position of the countries that have adopted this method of increasing their international reserves.

(d) *The current account on the balance of payments*

(i) *Merchandise trade.* According to provisional estimates, exports of goods from Latin America, excluding Cuba, totalled 13,700 million dollars in 1970, that is, 9.5 per cent higher than in 1969, when an increase of 11 per cent was registered. These two growth rates are the highest recorded since 1951 (see table 9). The f.o.b. value of imports was some 12,740 million dollars, i.e., 12.5 per cent higher than in 1969, which means that there has been a high annual growth rate for three years in succession. As imports increased more than exports, the surplus on merchandise account was further reduced in 1970 to some 960 million dollars, which is almost as low as in 1958–1962, during which period export prices dropped sharply.

The substantial increase in the exports of Brazil, Chile, and Argentina in 1969, together with their more moderate growth in Mexico, Bolivia, Uruguay, the Dominican Republic, Guatemala, Panama, Costa Rica, Colombia and Paraguay, determined the 11 per cent growth rate despite the decline in the exports of Ecuador, Venezuela, El Salvador, Honduras and Nicaragua. In 1970 the exports of all the countries grew, but the most significant increases were in the relatively less important countries, such as Costa Rica, Ecuador, Peru, Paraguay and Colombia, and they were more moderate in Brazil, the Dominican Republic, Nicaragua, Uruguay, Argentina, El Salvador and Bolivia, which recorded increases that were about the same as the average for the region. The higher prices for coffee, bananas, meat, fish meal and certain ores and minerals accounted for most of the growth in exports. In Mexico, Panama and Haiti short falls in production for the domestic market constricted exports, and in Chile and Venezuela the fall in copper and petroleum prices was an obstacle to increased sales.

Trends in the prices of exports of raw materials were not the same in 1970 as in 1969. In 1969 less than one third of the increase in the value of exports was attributable to the rise in unit prices whereas the proportion was almost two thirds in 1970, particularly in the cases of coffee, bananas and meat.

A country-by-country analysis of imports shows that Paraguay was the only country whose imports dropped in 1970, and that all the other countries increased theirs; the largest increases were recorded for the Dominican Republic, Costa Rica, Colombia, and to a lesser extent for Uruguay, Mexico, Panama, Brazil and Honduras. The growth of Latin America's

imports over the last three years has been due to the increase in the foreign purchases of Brazil, Colombia, Mexico, the Dominican Republic and Costa Rica, and in 1969 and 1970, those of Argentina, Chile, Uruguay and Panama.

Ever since 1966 the surplus on the merchandise account, which partially offsets net expenditure on the services account, has been steadily contracting. The average for the period from 1966 to 1970 shows that eight countries recorded a deficit on their goods transactions (Mexico, Panama, Costa Rica, the Dominican Republic, Paraguay, Nicaragua, Haiti and Colombia); the first three and Haiti recorded increasingly large unfavourable balances, but the other countries were only temporarily in the red. Mexico and Panama partly counterbalanced their deficits with net inflows from travel and the foreign earnings of residents. Furthermore, 11 countries showed a surplus on their merchandise trade; Venezuela had the largest surplus, although it is tending to shrink.

In 1970, the number of countries with merchandise trade surpluses fell to 10, and again the increase in Mexico's deficit was the major factor in reducing the total surplus, with the deficits in Panama, Costa Rica, the Dominican Republic, Colombia and Honduras contributing to a lesser extent. Among the countries showing surpluses, Peru, Brazil and Argentina and to a lesser extent El Salvador, Nicaragua and Bolivia, improved their positions but this was for the most part offset by the decline in the surpluses of Venezuela, Chile, Uruguay, Guatemala and Honduras. Developments in 1970 serve to confirm the downward trend of the surplus on merchandise account, evident since 1966, which causes rigidities and strains on the balance of payments.

(ii) *Trade in services and invisibles.* In the current account of the balance of payments of the developing countries, the invisibles account represents an outflow or a net inflow; and the outflow is proportionally greater if the merchandise trade surplus covers a smaller and smaller proportion of net expenditure on invisibles or if there is a deficit on merchandise trade.

This is what is happening in Latin America. Table 10 shows that in 1958–1962 the drop in export prices brought a substantial reduction in the surplus on merchandise account, which financed only 45 per cent of the net cost of invisibles. It financed as much as 80 per cent during 1963–1965, which was a period of recovery, but from 1966 onwards the proportion it covered steadily shrank to barely 25 per cent

Table 9. Latin America: merchandise
(Millions)

Country	Exports				
	1958-1962	1963-1965	1966-1970	1969	1970 ^a
Argentina	1,052.4	1,422.7	1,565.4	1,612.0	1,790.0
Bolivia	57.1	91.7	162.6	177.8	196.0
Brazil	1,282.2	1,477.3	2,057.4	2,311.0	2,700.0
Colombia	489.2	559.0	627.8	667.0	796.0
Chile	442.7	591.0	984.8	1,128.0	1,144.0
Ecuador	141.4	164.0	203.8	188.1	233.0
Mexico	801.8	1,045.3	1,296.4	1,435.0	1,445.0
Paraguay	38.2	48.8	55.0	55.2	66.0
Peru	422.9	641.6	845.8	881.0	1,058.0
Uruguay	144.2	178.7	190.5	201.0	228.0
Venezuela	2,443.0	2,475.3	2,509.0	2,523.0	2,554.0
Haiti	35.5	39.7	35.6	36.6	38.2
Panama	44.7	82.3	118.7	131.4	132.0
Dominican Republic	144.8	159.7	171.4	184.0	215.0
Costa Rica	86.4	107.0	175.1	189.6	237.1
El Salvador	118.0	171.9	207.1	202.5	222.7
Guatemala	112.1	173.3	242.4	261.3	284.8
Honduras	72.5	102.5	167.6	172.1	185.1
Nicaragua	66.6	121.4	154.6	154.6	178.3
Latin America, excluding Cuba	7,995.7	9,653.2	11,771.0	12,511.2	13,703.2
Latin America, excluding Cuba and Venezuela	5,552.7	7,177.9	9,262.0	9,988.2	11,149.2

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20, 21 and 22.

in 1970, raising the deficit on current account to some 2,800 million dollars.

This very small proportion is attributable not only to the steady contraction of the merchandise trade surplus but also to the rapid growth of payments in respect of invisibles, which in 1970 were virtually double the average for 1958-1962 owing to outflows in respect of net external investment income and net payments for miscellaneous services—which more than doubled over the period—and to the somewhat slower rise in freight, insurance and other transport costs. Under the head of tourism, however, the surplus increased, tourism being the only item in Latin America's services account that shows a net inflow. Seven countries had surpluses on tourism (Mexico accounting for 85 per cent, Panama for 10 per cent, and Uruguay, Paraguay, Costa Rica, Haiti and Peru for the rest), although in 1970 the surplus fell by 15 per cent as a result of an upswing in expenditure under this head in Brazil, Chile and Mexico.

The ratio of freight, insurance and other transport costs to imports fell from 9.3 to 8.3 between 1958 and 1970. In order to lower this figure substantially, in the future it will be necessary to increase the amount of freight carried by regional shipping, but unfortunately the shipping conferences and the fact that merchant marines are controlled by the more

powerful countries make progress in this respect difficult, added to which not much has been done in the region to develop the ship-building industry, except to some extent in Brazil.

(iii) *The current account balance in the balance of payments.* As noted above, in 1970 Latin America's balance of payments on current account closed with a deficit of some 2,800 million dollars, 470 million higher than in 1969 and continuing the downward trend that began in 1966. In 1968 and 1969, Argentina's and Venezuela's current account balances moved from surplus into a sizable deficit, with the result that the region's total current account deficit in those years was more than 2,300 million dollars. As is shown in table 11, the sharp increase in Mexico's deficit was the main factor in the rise in the deficit on current account for the region as a whole, but other contributory factors were the deterioration in the positions of Venezuela, Colombia, the Dominican Republic, Brazil, Chile, Panama, Costa Rica, Honduras and Uruguay. The over-all deficit was partly offset by the surplus recorded for Peru and the contraction of the current account deficit of the remaining countries.

Although 1966-1970 can be considered a period of recovery as regards export prices in Latin America, the current account deficit was

trade, 1958–1970
of dollars)

Imports					Balance on merchandise account				
1958–1962	1963–1965	1966–1970	1969	1970 ^a	1958–1962	1963–1965	1966–1970	1969	1970 ^a
1,094.3	944.3	1,160.4	1,371.0	1,483.0	–41.9	+478.4	+405.0	+241.0	+307.0
74.4	110.5	162.0	174.0	184.0	–17.3	–18.8	+0.6	+3.8	+12.0
1,255.6	1,107.0	1,774.4	1,993.0	2,280.0	+26.6	+370.3	+283.0	+318.0	+420.0
470.1	503.0	637.4	648.0	821.0	+19.1	+56.0	–9.6	+19.0	–25.0
480.1	553.3	785.0	850.0	928.0	–37.4	+37.7	+199.8	+278.0	+216.0
105.7	138.0	197.8	217.9	233.3	+35.7	+26.0	+6.0	–29.8	–0.3
1,081.6	1,381.0	1,891.2	2,003.0	2,306.0	–279.8	–335.7	–594.8	–568.0	–861.0
43.2	47.7	71.2	81.2	72.0	–5.0	+1.1	–16.2	–26.0	–6.0
361.5	552.0	720.8	664.0	717.0	+61.4	+89.6	+125.0	+217.0	+341.0
170.8	147.8	161.2	176.0	209.0	–26.6	+30.9	+29.3	+25.0	+19.0
1,271.3	1,186.3	1,520.6	1,622.0	1,739.0	+1,171.7	+1,289.0	+988.4	+901.0	+815.0
45.2	39.6	41.5	42.0	43.0	–9.7	+0.1	–5.9	–5.4	–4.8
113.5	174.4	260.4	282.8	325.2	–68.8	–92.1	–141.7	–151.4	–193.2
108.1	162.6	201.7	210.0	267.0	+36.7	–2.9	–30.3	–26.0	–52.0
95.9	133.1	206.5	221.5	281.3	–9.5	–26.1	–31.4	–31.9	–44.2
104.2	168.0	199.9	190.5	205.0	+13.8	+3.9	+7.2	+12.0	+17.7
126.1	179.0	237.4	245.3	275.8	–14.0	–5.7	+5.0	+16.0	+9.0
67.3	98.7	164.6	170.2	193.2	+5.2	+3.8	+3.0	+1.9	–8.1
62.4	111.6	165.0	158.4	177.5	+4.2	+9.8	–10.4	–3.8	+0.8
7,131.3	7,737.9	10,559.0	11,320.8	12,740.3	+864.4	+1,915.3	+1,212.0	+1,190.4	+962.9
5,860.0	6,551.6	9,038.4	9,698.8	11,001.3	–307.3	+626.3	+223.6	+289.4	+147.9

^a ECLA estimates.

virtually double the average for 1958–1962, when a steady decline in commodity prices brought a contraction of exports and a considerable deterioration in the net position of the monetary authorities. This led in 1963–1965 to a sharp contraction of imports to reduce the current-account deficit and improve the net external position. Despite the over-all trends of the region during each of these periods, 13 countries (Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and the Dominican Republic) recorded steadily rising current account deficits, which forced them to resort increasingly to external sources of financing.

(iv) *The capital account of the balance of payments.* From 1963 onwards Latin America's international reserves grew steadily, owing to the fact that net inflows of non-compensatory capital financed the deficit on current account and also helped to improve the net external position of the Central Banks, although this meant an increase in the indebtedness of the non-monetary sectors. It should be noted, however, that only in 1968–1970 did the inflow of non-compensatory capital increase capacity to import, for it fell between 1963 and 1968 owing to the increase in the value of external factor payments in relation to the net inflow of

non-compensatory capital (see tables 10 to 12).

According to preliminary estimates, net external financing in 1970 amounted to some 2,800 million dollars, almost 500 million dollars more than in 1969. The net inflow of non-compensatory capital (excluding errors and omissions) is estimated at approximately 3,935 million dollars, which falls to 3,620 million if allotments of IMF Special Drawing Rights are excluded. This latter figure is comparable with the net inflow of 3,160 million recorded in 1969. In both these years, Mexico and Brazil received the lion's share of capital, absorbing some 55 per cent of the total for the region. Nevertheless, while in Mexico the increase in the net capital inflow financed the current account deficit but only slightly improved international reserves, in Brazil the net position of the monetary authorities improved considerably. It should be noted that the increased inflow of non-compensatory capital to these countries is attributable to a sizable rise in the inflow of short-term capital, which makes their reserve positions somewhat vulnerable to external or internal fluctuations. The net inflow of non-compensatory capital also increased in 1970 in Argentina, Colombia, El Salvador, Guatemala, Nicaragua, Panama, the Dominican Republic, and Venezuela. The inflow declined appreciably in 1970, compared with

Table 10. Latin America (excluding Cuba): net transactions on merchandise account compared with services transactions and their effects on the balance-of-payments position on current account, 1958-1969

Period or year	Balance or net expenditure on invisible account							Balance-of-payments position on current account
	Exports f.o.b. ^a	Imports f.o.b. ^a	Balance on merchandise account	Freight, insurance and other transport	Travel	Other services	Net payments of profits and interest on foreign capital	
1958-1962	.	.	876.4	-669.8	+147.4	-182.7	-1,237.4	-1,149.0
1963-1965	.	.	1,917.2	-693.9	+187.9	-270.4	-1,623.7	-499.8
1966-1970	.	.	1,219.0	-861.7	+293.1	-333.7	-2,366.4	-2,026.9
1969	.	.	1,178.2	-955.1	+335.3	-353.6	-2,555.1	-2,324.5
1970 ^b	.	.	952.3	-1,063.1	+284.3	-386.5	-2,623.5	-2,794.3

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20, 21 and 22.

^a Including non-monetary gold.

^b ECLA estimates.

Table 11. Latin America: balance-of-payments position on current account
(Millions of dollars)

Country	Averages			1969	1970 ^a
	1958-1962	1963-1965	1966-1970		
Argentina	-262.8	+161.7	+8.8	-220.0	-160.0
Bolivia	-35.3	-38.2	-40.4	-46.0	-27.4
Brazil	-383.6	+31.0	-331.8	-355.0	-387.0
Colombia	-54.9	-98.3	-212.2	-210.0	-284.0
Chile	-161.3	-126.3	-92.5	-50.0	-74.5
Ecuador	-13.7	-21.3	-62.5	-102.7	-78.4
Mexico	-240.5	-361.3	-722.6	-731.0	-1,100.0
Paraguay	-10.6	-10.6	-26.6	-35.3	-14.4
Peru	-34.3	-77.3	-83.6	-10.0	+126.0
Uruguay	-41.5	+19.4	+4.6	+0.4	-19.0
Venezuela	+194.7	+234.7	-134.2	-253.0	-362.0
Haiti	-10.3	-11.6	-5.0	-4.6	-3.9
Panama	-35.5	-34.2	-47.4	-54.7	-76.4
Dominican Republic	+6.7	-43.0	-79.9	-77.0	-114.5
Costa Rica	-17.9	-42.2	-56.1	-56.2	-74.4
El Salvador	-5.8	-19.1	-26.4	-21.4	-21.7
Guatemala	-32.1	-32.7	-37.4	-24.4	-35.2
Honduras	-2.6	-15.0	-33.5	-33.7	-50.3
Nicaragua	-7.8	-15.4	-48.2	-39.9	-37.2
Latin America, excluding Cuba	-1,149.1	-499.7	-2,026.9	-2,324.5	-2,794.3
Latin America, excluding Cuba and Venezuela	-1,343.8	-734.4	-1,892.7	-2,071.5	-2,432.3

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20, 21 and 22.

^a ECLA estimates.

1969, in Bolivia, Costa Rica, Ecuador, Paraguay, Peru and Uruguay, with the last two recording a net disinvestment (see table 12).

4. RECENT DEVELOPMENTS IN LATIN AMERICAN INTEGRATION

(a) Intra-regional trade

During the 1960s, intra-regional trade grew rapidly at a cumulative annual rate of 9.8 per cent during 1960-1968, rising to 14.7 per cent in 1969 and, according to incomplete data, dropping to 7.4 per cent in 1970.

The share of intra-regional trade in total exports reached its highest point—13 per cent—in 1969, and remained at this level in 1970 despite the comparatively slow growth of intra-regional trade, for Latin America's total exports also slackened (an increase of 9.5 per cent as opposed to 11.9 per cent in 1969).

Taking the countries individually, the intra-regional trade of Venezuela, Ecuador and El Salvador declined over 1969, while that of Argentina, Brazil, Chile, Mexico, Panama and Peru rose by less than 7 per cent. The intra-regional trade of Bolivia, Colombia, Paraguay, Uruguay, Costa Rica, Guatemala, Honduras, Nicaragua and the Dominican Republic in-

creased by more than 7 per cent, but these countries accounted for only 26 per cent of total intra-regional trade in 1970 (see tables 13 and 14).

Intra-regional trade continued to be concentrated in a few countries, although in 1970 it was spread a little more evenly, for only Bolivia, Ecuador and the Dominican Republic had a share of less than 1 per cent in exports to the region, and only the Dominican Republic had a share of less than 1 per cent in imports from it.

The expansion of intra-regional trade has not only led to increases in the shares of individual countries, it has also brought the intra-regional trade deficits and surpluses of each country to their lowest levels for the past ten years. In 1970 the ratio of the intra-regional trade deficit to the total value of intra-regional trade was 0.17, compared with 0.42 in 1960-1961, 0.28 in 1968 and 0.20 in 1969.

Looking now at the net balance of each country on its trade with the rest of the region in 1970, Argentina, Mexico, Paraguay and Venezuela maintained their surpluses; Brazil—which in 1969 substantially reduced its deficit over 1968 (from 97 to 36 million dollars)—

Table 12. Latin America: capital
(Millions)

Country	Net external financing					Movement of non-		
	1958-1962	1963-1965	1966-1969	1969	1970 ^a	1958-1962	1963-1965	1966-1969
Argentina	262.8	-161.5	-51.0	220.0	160.0	325.1	-93.7	47.0
Bolivia	35.3	38.2	43.6	46.0	27.4	39.5	51.9	47.8
Brazil	383.6	-31.0	318.0	355.0	387.0	255.8	173.3	494.7
Colombia	54.9	98.3	194.2	210.0	284.0	50.5	142.6	229.2
Chile	161.3	126.3	97.0	50.0	74.5	115.8	101.0	199.0
Ecuador	13.7	21.3	58.5	102.7	78.4	14.4	21.9	59.5
Mexico	240.5	361.3	628.3	731.0	1,100.0	204.2	350.3	567.5
Paraguay	10.6	10.6	29.6	35.3	14.4	11.0	14.2	28.7
Peru	34.3	77.3	136.0	10.0	-126.0	51.8	77.7	109.5
Uruguay	41.5	-19.4	-10.5	-0.4	19.0	28.8	10.3	24.0
Venezuela	-194.7	-234.7	77.3	253.0	362.0	-374.5	-50.3	123.8
Haiti	10.3	11.6	5.3	4.6	3.9	5.8	6.0	4.1
Panama	35.5	34.2	40.1	54.7	76.4	35.2	37.6	38.2
Dominican Republic	-6.7	43.0	71.2	77.0	114.5	0.8	50.4	60.0
Costa Rica	17.9	42.2	51.5	56.2	74.4	13.7	37.7	50.3
El Salvador	5.8	19.1	27.6	21.4	21.7	9.5	31.9	23.2
Guatemala	32.1	32.7	37.9	24.4	35.2	31.0	49.5	40.0
Honduras	2.6	15.0	29.4	33.7	50.3	1.8	20.1	27.9
Nicaragua	7.8	15.4	51.0	39.9	37.2	9.5	32.7	45.1
Total, excluding Cuba	1,149.1	499.7	1,835.0	2,324.5	2,794.3	829.7	1,065.1	2,219.5
Less Special Drawing Rights								
Total comparable with previous years								

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20, 21 and 22.

Table 13. Latin America: total volume
(c.i.f. value of imports)

Importing country	Origin									
	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Mexico	Paraguay	Peru	
Argentina	X	11.7	174.5	9.4	71.6	5.2	21.5	15.9	14.1	
Bolivia ^a	14.7	X	3.1	0.4	1.8	0.1	0.5	—	2.7	
Brazil	155.9	0.7	X	2.0	29.5	0.7	21.0	0.4	8.4	
Colombia	9.7	—	3.0	X	4.8	8.6	26.9	0.2	7.3	
Chile	92.4	1.4	31.5	7.0	X	12.2	21.2	1.8	9.6	
Ecuador	2.2	—	0.4	15.4	3.2	X	1.3	0.6	2.0	
Mexico	12.4	1.3	11.5	0.6	8.3	0.8	X	0.4	10.9	
Paraguay	13.6	—	1.8	0.1	0.2	0.1	0.3	X	X	
Peru	62.0	0.2	4.0	13.1	5.5	2.8	6.5	0.3	—	
Uruguay	20.8	—	26.4	0.2	2.9	—	1.8	3.2	1.0	
Venezuela	12.6	—	5.7	7.1	5.1	0.1	24.1	0.1	6.4	
Costa Rica ^a	0.2	—	—	2.1	—	—	4.7	—	—	
El Salvador	0.2	—	0.1	0.8	—	0.1	3.3	—	0.4	
Guatemala	0.5	—	0.2	1.1	0.1	0.1	9.2	—	0.3	
Honduras	0.3	—	0.1	0.6	—	—	2.4	—	0.1	
Nicaragua	0.2	—	—	0.8	—	0.1	2.3	—	0.1	
Cuba	...	...	...	...	...	...	...	...	...
Haiti	...	...	...	...	...	...	...	...	...
Panama ^a	1.0	—	—	2.9	0.6	—	2.0	—	—	
Dominican Republic ^a	—	—	—	0.3	—	—	0.7	—	—	
TOTAL Latin America	398.7	15.3	262.3	63.9	133.6	30.9	149.7	22.9	63.3	

SOURCE: Official foreign trade statistics.

transactions, net external financing
(of dollars)

<i>compensatory capital,</i>			<i>Net movement of compensatory capital (surplus -)</i>					<i>Errors and omissions</i>			
1969	<i>Adjusted for errors and omissions</i>		1958-1962	1963-1965	1966-1969	1969	1970 ^a	1958-1962	1963-1965	1966-1969	1969
	1969	1970 ^a									
287.0	142.0	274.0	72.9	-59.6	-133.5	78.0	-114.0	-135.2	-8.2	+35.5	-145.0
55.5	46.4	27.8	1.0	-12.0	0.6	-0.4	-0.4	-5.2	-1.7	-4.8	-9.1
1,026.0	1,002.0	1,022.0	170.0	-96.7	-156.7	-647.0	-635.0	42.2	-107.6	-20.0	-24.0
305.0	260.0	318.5	3.4	2.0	-32.8	-50.0	-34.5	1.0	-46.3	-2.2	-45.0
218.0	233.0	197.7	46.8	1.3	-73.7	-183.0	-123.2	-1.3	24.0	-28.3	15.0
77.0	106.4	81.1	-0.8	-1.1	-3.1	-3.7	-2.7	0.1	0.5	2.1	29.4
827.0	754.0	1,171.0	11.3	-35.3	-40.0	-23.0	-71.0	25.0	46.3	100.8	-73.0
41.2	33.9	22.8	0.5	-3.6	0.3	1.4	-8.4	-0.9	0.0	0.6	-7.3
45.0	-23.0	-54.1	-15.5	4.3	60.7	33.0	-71.9	-2.0	-4.7	-34.2	-68.0
29.2	15.6	-6.3	21.8	18.1	-12.3	-16.0	25.3	-9.1	-47.8	-22.2	-13.6
363.0	264.0	449.5	220.4	-138.4	-38.2	-11.0	-87.5	-40.6	-46.0	-8.3	-99.0
4.9	5.7	7.5	0.1	1.6	-0.1	-1.1	-3.6	4.4	4.0	1.3	0.8
55.0	50.1	81.7	—	—	1.7	4.6	-5.3	0.3	-3.4	0.2	-4.0
91.0	89.0	107.7	7.8	-0.3	4.9	-12.0	6.8	-15.3	-7.1	6.3	-2.0
64.9	77.6	58.9	3.5	5.8	-10.2	-21.4	15.5	0.7	-1.3	11.4	12.7
15.4	2.1	41.6	4.4	-10.1	7.9	19.3	-19.9	8.1	-2.7	-3.5	-13.3
44.5	35.8	51.8	7.9	-6.4	-0.5	-11.4	-16.6	-6.8	-10.4	-1.6	-8.7
31.8	30.3	34.2	0.9	-3.5	-2.0	3.4	16.1	-0.1	-1.6	3.5	-1.5
36.4	34.2	47.4	0.3	-12.8	4.7	5.7	-10.2	-2.0	-4.5	1.2	-2.2
3,617.8	3,159.1	3,034.8	556.7	-346.7	-422.3	-834.6	-1,140.5	-237.3	-218.5	37.8	-458.7
		313.7					313.7				
		3,621.1					-826.8				

^a ECLA estimates.

of intra-regional trade, 1969
(in millions of dollars)

Uruguay	Venezuela	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Cuba	Haiti	Panama	Dominican Republic	Total Latin America
3.7	38.4	—	—	—	—	—	—	—	2.4	0.3	368.7
0.1	0.1	—	—	—	—	0.8	—	—	1.2	—	25.5
12.0	60.8	—	—	—	—	—	—	—	6.4	—	297.8
5.1	9.7	0.1	—	—	0.1	—	—	—	3.7	0.1	79.3
3.9	36.0	—	—	—	—	—	—	—	3.1	—	220.1
0.1	11.7	...	...	...	...	...	...	...	...	...	36.9
1.6	4.1	1.3	0.1	1.0	0.1	0.1	—	—	7.9	—	62.4
1.0	—	—	—	—	—	—	—	—	0.2	—	17.3
2.3	9.3	—	—	—	—	—	—	—	0.6	—	106.6
X	1.9	—	—	—	—	—	0.1	—	3.0	0.7	62.0
0.3	X	0.2	0.1	0.1	0.1	0.5	—	—	2.0	0.4	64.9
—	6.2	X	14.2	17.6	5.8	13.6	—	—	3.3	—	67.7
—	7.1	8.5	X	38.2	7.3	6.2	...	...	3.3	—	75.5
—	1.1	7.5	33.3	X	6.0	4.6	—	—	0.5	—	64.5
—	7.4	7.4	12.4	17.8	X	6.4	—	—	0.6	—	55.5
—	6.7	12.7	11.9	12.9	4.7	X	—	—	4.8	—	57.2
...	...	...	...	...	...	...	X	...	...	...	...
...	...	...	...	...	...	...	...	X	...	...	...
—	60.3	3.9	—	0.8	0.9	0.4	—	—	X	—	72.8
—	5.0	—	0.1	0.2	3.5	0.5	—	—	1.2	X	11.5
30.1	265.8	41.6	72.1	88.6	28.5	33.1	0.1	—	44.2	1.5	1,746.2

^a Estimates based on incomplete data.

Table 14. Latin America: total volume
(c.i.f. value of imports)

Importing country	Origin	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Mexico	Paraguay	Peru
Argentina		X	9.2	185.1	10.1	78.6	4.2	15.8	20.5	17.7
Bolivia		10.7	X	3.1	0.4	1.8	0.1	11.1	—	3.5
Brazil		158.1	0.9	X	2.0	30.0	0.7	18.6	2.0	9.2
Colombia		15.8	—	3.0	X	4.8	8.6	14.2	0.4	6.1
Chile		99.5	1.4	37.8	7.0	X	15.0	27.7	2.1	7.6
Ecuador		1.9	—	0.4	15.4	3.2	X	1.7	1.2	3.8
Mexico		14.7	0.8	16.6	0.8	8.3	0.3	X	0.8	11.0
Paraguay		12.9	—	2.2	0.1	0.3	0.1	0.2	X	0.1
Peru		41.4	0.2	5.3	28.6	11.3	2.2	13.2	0.2	X
Uruguay		34.9	—	41.9	0.1	3.5	—	2.3	3.7	1.0
Venezuela		8.5	—	10.4	5.1	6.3	—	16.2	0.2	5.8
Costa Rica		0.3	—	—	2.1	—	—	6.8	—	0.2
El Salvador		0.2	—	0.1	0.8	—	0.1	3.3	—	0.4
Guatemala		0.9	—	0.2	1.1	0.1	0.1	9.8	—	0.2
Honduras		0.1	—	0.1	0.6	—	—	3.0	—	0.1
Nicaragua		0.3	—	—	0.8	—	0.1	2.7	—	0.1
Cuba	
Haiti	
Panama		0.9	—	—	3.5	0.6	—	1.8	—	0.8
Dominican Republic		0.1	—	0.1	0.3	—	—	1.2	—	—
TOTAL Latin America		401.2	12.5	306.3	78.8	148.8	31.5	149.6	31.1	67.6

SOURCE: Official foreign trade statistics.

moved into a surplus, as did Colombia and El Salvador, while Venezuela, whose favourable position was due to exports of fuels to the region, recorded a surplus of 189 million dollars, equivalent to two thirds of its over-all trade surplus. In contrast, Bolivia, Chile, Peru, Uruguay, Costa Rica, Honduras, Nicaragua, Panama and the Dominican Republic remained in deficit on their intra-regional trade (see table 15).

Table 16 gives figures for trade between the countries comprising three subregional groupings. The impact of the conflict between El Salvador and Honduras is reflected in the figures for the Central American Common Market (CACM) in 1969, and the subsequent recovery in 1970. Also noticeable are the sluggishness of trade among the ALALC countries in 1970, and the steady expansion of trade among the Andean Group countries, although still at relatively low levels.

Table 17 gives the composition of Latin America's total and intra-regional exports under the main sections of the Standard International Trade Classification.

The main developments during 1970 in the four subregional free trade associations are discussed below.

(b) *The Latin American Free Trade Association (ALALC)*

The main developments in 1970 relate to the

establishment of an order of priorities for the studies to be carried out under the Action Plan, the results of the tenth regular session of the Conference of the Contracting Parties of ALALC, and the conclusion of complementarity agreements.

During the first half of 1970, the Standing Executive Committee established an order of priorities for the studies forming part of the ALALC Plan of Action under the provisions of Conference resolution 262 (IX). The studies to be completed during the first stage of the Plan, during the period 1970–1973, cover the trade liberalization programme, certain industrial and agricultural topics, and the co-ordination of industrial policy. Lower priority, but with completion dates set not later than 1980 was assigned to work in connexion with the adoption of a standard tariff nomenclature and a standard customs code, tariff treatment for third countries, and the formulation of guidelines for an Area industrial development policy and for harmonizing national agricultural development programmes.

The tenth regular session of the ALALC Conference was held from 26 October to 4 December 1970. Fourteen resolutions were adopted, seven of which constituted postponements of the deadlines fixed in earlier resolutions and five related to administrative matters. One of the remaining two (resolution 276 (X)), authorized Ecuador to apply protective tariffs

of intra-regional trade, 1970^a
in millions of dollars)

Uruguay	Venezuela	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Cuba	Haiti	Panama	Dominican Republic	Total ALALC
6.9	37.8	—	—	—	—	—	—	—	2.2	—	388.1
0.3	0.1	—	—	—	—	0.8	—	—	1.2	—	33.1
12.7	47.9	—	—	—	—	—	—	—	6.4	—	288.5
2.6	15.9	0.1	—	—	0.1	—	—	—	3.7	0.1	75.4
3.4	15.0	—	—	—	—	—	—	—	3.1	—	219.6
0.1	4.0	—	—	—	—	—	—	—	—	—	31.7
2.4	3.8	0.5	0.1	1.6	0.2	1.2	—	—	13.4	—	76.5
1.6	0.1	—	—	—	—	—	—	—	0.1	—	17.7
2.7	3.7	—	—	—	—	—	—	—	0.4	—	109.2
X	1.1	—	—	—	—	—	0.1	—	0.1	1.3	90.0
0.2	X	0.1	0.1	—	—	—	—	—	3.1	0.7	56.7
—	10.5	X	17.1	20.1	8.1	17.7	—	—	3.3	—	86.2
—	2.0	13.0	X	35.6	—	11.4	—	—	3.2	—	70.1
—	17.0	13.9	43.5	X	8.5	9.0	—	—	0.5	—	104.8
—	11.0	11.8	—	29.9	X	16.0	—	—	0.6	—	73.2
—	10.0	15.2	12.2	13.8	7.4	X	—	—	4.8	—	67.4
...	...	...	...	...	...	...	X	...	...	...	...
...	...	...	...	...	...	...	...	X	...	...	...
—	57.3	3.9	—	0.8	0.9	0.4	—	—	X	—	70.9
—	8.5	—	0.1	0.2	3.5	0.5	—	—	1.2	X	15.7
32.9	245.7	58.5	73.1	102.0	28.7	57.0	0.1	—	47.3	2.1	1,874.8

^a Estimates based on incomplete data.

on certain products of the paper industry, and the other (resolution 274 (X)), dealt with the initiation of the programme to promote intra-Area trade, as provided under a similar resolution of the preceding session.

The results of the annual negotiations held in connection with the tenth session were disap-

pointing, not only because so few new concessions were granted—31 in all—but because they covered products of little importance in regional trade. Furthermore, the concessions suggested by the sectoral meetings were not negotiated. Concessions were granted by countries in the following proportions: Argen-

Table 15. Latin America: net balance on intra-regional trade
(Millions of dollars)

Country	1960	1967	1968	1969 ^a	1970 ^b
Argentina	-21.0	+56.1	+91.0	+30.0	+13.1
Bolivia	-2.6	-9.2	-13.5	-10.2	-20.6
Brazil	-131.4	-37.4	-96.9	-35.5	+17.8
Colombia	-13.0	-15.7	-17.0	-15.4	+3.4
Chile	-44.6	-103.6	-78.0	-86.5	-70.8
Ecuador	+8.5	-7.1	-0.1	-6.0	-0.2
Mexico	+6.4	+54.6	+58.8	+87.3	+73.1
Paraguay	+3.4	+8.1	+6.0	+5.6	+13.4
Peru	+14.3	-56.7	-55.9	-43.3	-41.6
Uruguay	-63.0	-29.4	-17.9	-31.8	-57.0
Venezuela	+230.1	+201.1	+192.8	+200.9	+189.0
Costa Rica	-4.8	-10.1	-23.7	-26.1	-27.7
El Salvador	-5.0	+8.1	-2.0	-3.4	+3.0
Guatemala	-2.9	+11.9	+28.8	+24.1	-2.8
Honduras	+2.2	-17.2	-15.3	-27.0	-44.5
Nicaragua	-2.6	-37.7	-35.3	-24.1	-10.4
Panama	+26.1	-13.5	-12.1	-28.6	-23.6
Dominican Republic	-0.1	-2.3	-9.7	-10.0	-13.6
Balance (negative unless with minus sign)	291.0	339.9	377.4	347.9	312.8

SOURCE: Tables 13 and 14.

^a Provisional figures.

^b Estimates.

Table 16. Trade between the countries of the Latin American Free Trade Association, the Central American Common Market and the Andean Group

	1968		1969		1970	
	Millions of dollars c.i.f.	Percentage of total intra-regional trade	Millions of dollars c.i.f.	Percentage of total intra-regional trade	Millions of dollars c.i.f.	Percentage of total intra-regional trade
ALALC	1,069.9	71.5	1,304.8	74.7	1,345.8	71.8
CACM	251.0	16.8	249.0	14.3	304.2	16.2
Andean Group	70.2	4.7	98.1	5.6	121.0	6.5
TOTAL intra-regional trade ^a	1,497.2	100.0	1,746.2	100.0	1,874.8	100.0

SOURCE: Tables 13 and 14.

^a Trade among the countries of the Andean Group is also included in the figures for ALALC. In addition to the subregional groups considered, the intra-regional total covers Panama and the Dominican Republic; no data were available on Cuba and Haiti, and the CARIFTA countries were not considered.

Table 17. Latin America: composition of total and intra-regional exports (Percentages)

	SITC sections 0-9	0-1	2 and 4	3	5	7	6 and 8
	Total trade	Food, beverages and tobacco	Crude materials	Fuels	Chemicals	Machinery and transport equipment	Other manufactured goods
<i>Total exports</i>							
1965	100.0	44.0	19.3	24.8	1.5	0.6	9.6
1966	100.0	43.3	19.7	23.2	1.8	0.8	11.2
1967	100.0	42.5	18.4	24.4	1.9	1.0	11.8
1968	100.0	41.9	17.0	24.4	1.9	1.3	13.4
1969	100.0	41.3	19.1	22.6	2.0	1.7	13.2
<i>Intra-regional exports</i>							
1965	100.0	33.3	16.2	19.4	5.3	4.6	20.4
1966	100.0	31.6	16.7	21.4	6.5	5.6	19.7
1967	100.0	29.8	14.9	20.3	7.0	5.8	21.9
1968	100.0	29.5	14.9	19.1	7.3	6.4	22.6
1969	100.0	27.5	15.9	17.5	7.5	7.8	22.8

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1971.

tina, 3; Brazil, 9; Chile, 1; Mexico, 12 and Venezuela, 6 (see table 18).

There is a noticeable accentuation of the tendency of the relatively less developed countries and the members of the Cartagena Agreement not to negotiate within ALALC.

During 1970, a total of seven new complementarity agreements were concluded: two on office machines (Argentina, Brazil and Mexico); one on the electronics and electrical communications industries (Brazil and Mexico); one on the gramophone industry (Argentina, Brazil, Mexico and Venezuela); one on refrigerating and air-conditioning equipment and domestic electrical, mechanical and heating appliances (Brazil and Mexico); one on the chemical and pharmaceutical industry (Argentina, Brazil and Mexico); and, lastly, an agree-

Table 18. ALALC: number of concessions on national schedules negotiated by the contracting parties

Country	Year		
	1969	1970	1971
Argentina	1,839	1,867	1,870
Bolivia	194	192	192
Brazil	1,802	1,842	1,851
Colombia	777	777	777
Chile	970	972	973
Ecuador	1,720	1,718	1,718
Mexico	1,173	1,194	1,206
Paraguay	696	695	695
Peru	470	494	494
Uruguay	784	789	789
Venezuela	444	478	484
TOTAL	10,869	11,018	11,049
Increase compared with the previous year	487	149	31

SOURCE: ECLA.

ment with special features—based on concessions covering specified volumes and periods—on petroleum products (Argentina, Brazil, Mexico and Venezuela). The last five agreements were concluded at the end of the tenth regular session of the Conference and were declared compatible with the Montevideo Treaty by the Standing Executive Committee at its meeting on 8 January. Agreement was also reached on expanding Agreement No. 9 on electric power generation, transmission and distribution, bringing the total number of complementarity agreements concluded to sixteen.

(c) *The Central American Common Market*

The main institutional developments during 1970 in the field of Central American integration comprised the formulation of a *modus operandi* for the Central American Common Market; a decree by the National Congress of Honduras establishing measures to promote national production and regulate foreign trade;⁸ and a joint declaration by the Ministers of Foreign Affairs of Guatemala, Nicaragua and Costa Rica on Central American economic integration.⁹

(i) *Formulation of a modus operandi for the Central American Common Market.* The idea of formulating a *modus operandi* for the Central American Common Market was first put forward at the meeting of the Ministers of Foreign Affairs of the five Central American countries on 4 December 1969, with a view to resolving the difficulties that had arisen as a result of the conflict between El Salvador and Honduras, perfecting the legal and institutional systems of the Common Market, and establishing guidelines for the restructuring of the Central American integration movement.

Between 9 January and 2 December 1970, the Ministers of Economic Affairs met seven times to work out transitional provisions to govern the operation of the Common Market and to determine when the principal economic integration agencies should recommence their activities. First priority was assigned to designing and formulating a *modus operandi* of regional scope, consisting in the main of measures to correct the disequilibria in the intra-area trade of countries showing a deficit; to identify new policies for industrial and agricultural development of Central-America-wide scope; to create a regional fund for expanding productive activities; to formulate general escape clauses; and to

devise regulations on fiscal incentives, the balance of payments and the origin of goods.

As a basis for the formulation of the *modus operandi*, the Ministers of Economic Affairs laid down the following objectives: (a) to regulate the operation of the Central American Common Market on the basis of transitional measures to restore the situation to normal, bearing in mind the problems faced by the countries with small markets and those of countries with chronic deficits; (b) perfecting the Common Market in order to resolve the most pressing problems that had arisen during the first ten years of its existence; (c) re-establishing normal institutional conditions in the integration programme as rapidly as possible and ensuring the participation of each and every one of its members.

By 2 December 1970, the negotiations on the whole battery of agreements and commitments comprising the *modus operandi* were virtually completed. Only two points connected with the Central American Fund for Industrial and Agricultural Development remained to be cleared up pending further consultations between certain Governments, one concerning the size of the contributions required for creating the Fund, and the other concerning the setting up of a branch of the Central American Bank for Economic Integration (BCIE) in other countries members of the Common Market.

At a subsequent meeting of Ministers of Economic Affairs, held from 8 to 11 December, it proved impossible to reach a multilateral agreement. First, one of the participants stated that his Government was not able to sign the section of the agreement dealing with the Fund because it involved industrial and agricultural policy. Secondly, another participant announced that his own Government's signature would be conditional upon the full participation of all five countries.

As a result, this meant that not only could there be no hope of reaching multilateral agreement on the *modus operandi*, but the possibility of four countries participating fully and the fifth on a partial basis was also ruled out. At this point, the third meeting of the Ministers of Economic Affairs of Central America, which had lasted over four months, wound up with a decision that the Ministers of Foreign Affairs should be apprised of the outcome of the meeting so that they could seek another basis for understanding.

(ii) *Measures adopted by the Government of Honduras.* On 31 December 1970, the Govern-

⁸ Decree No. 97 of the National Congress of Honduras (30 December 1970).

⁹ Declaration of the Alcázar de la Antigua Guatemala (12 January 1971).

ment of Honduras introduced a series of measures to promote national production and regulate its foreign trade,¹⁰ on the grounds that, until the negotiations on restructuring the Common Market were completed and its original commitments and principles were restored and respected, each country was free to apply any measures it deemed necessary to protect its economic interests, within the framework of the Economic Integration Programme.

The measures adopted by Honduras have to do with modifying the free trade and tariff equalization policies; adopting common principles and joint measures to promote imports and exports, and establishing norms to make the action taken by the Executive arm of government and the State agencies to encourage integrated economic development more effective and more flexible.

Most important, they also affect trade with Central American countries in so far as they stipulate that the common external tariff should apply to all Honduras' imports. Although the existing uniform duties and charges are maintained, lower tariffs are applied to imports of certain essential products, raw materials, intermediate articles and capital goods. The measures also provide, in special cases, for the common external tariff and uniform tariff nomenclature to be amended.

As regards foreign trade policy, these measures raised the possibility of making changes in the customs tariff following bilateral negotiations with other countries. If these were conducted on a reciprocal basis with other Central American countries with which Honduras maintained diplomatic relations or with other countries, bilateral trade treaties or instruments could be signed covering the manner of payment and preferably applying a quota or similar system. The Executive was authorized to adopt an export promotion and domestic marketing system for stimulating new exports or boosting existing exports.

A number of steps are also provided for, to promote economic development, including the creation of a national fund for industrial and agricultural development, administered by the Central Bank and mainly financed out of State contributions amounting to at least 2 per cent of current central government income.

(iii) *Measures adopted by the Governments of Guatemala, Nicaragua and Costa Rica.* Following the adoption of these measures by Honduras, the Governments of Guatemala, Nicaragua and Costa Rica started, early in

January 1971, to require the deposit of a guarantee on products imported from Honduras, in accordance with the provisions of the General Treaty on Central American Economic Integration, a procedure which had already been applied in similar cases in the past when intra-regional trade problems arose and could not be solved multilaterally. Furthermore, a Joint Declaration was issued by the Ministers of Economic Affairs of the three Governments on 8 January stating that economic and trade relations between their countries would continue to be governed by the treaties in force and that joint bilateral commissions would be established to regulate trade and prevent any damaging repercussions of the measures adopted by the Government of Honduras.

On 12 January, the Ministers of Foreign Affairs of Guatemala, Nicaragua and Costa Rica adopted a series of agreements on Central American economic integration and took up a joint position on inter-American relations which they urged the Governments of El Salvador and Honduras to adhere to also. In a part of their statement dealing with regional economic integration, the Foreign Ministers approved and endorsed the above-mentioned Joint Declaration of the Ministers of Economic Affairs, recommended speeding up the work of the bilateral working group responsible for conducting peace negotiations between El Salvador and Honduras, and requested the special working group created to prepare drafts and carry out studies on reorganizing the Common Market institutions to resume its activities on 1 May 1971. The Foreign Minister of El Salvador, on behalf of his Government, supported the points covered by this part of the statement.

(iv) *Some economic effects of the measures adopted by Honduras.* The most direct impact of the conflict between Honduras and El Salvador was on intra-regional trade relations, since, for the first time since the signing of the General Treaty, sales dropped in absolute terms and changed in composition. The value of transactions within the Common Market in 1969 was 248.9 million dollars, 3.6 per cent down on the previous year.

The biggest losses were suffered by El Salvador and Honduras, whose intra-regional sales during the second half of the year dropped 40 to 50 per cent between 1968 and 1969.

On the other hand, Guatemala's and Nicaragua's trade continued to increase, as they actually profited from the supply difficulties of the countries engaged in the conflict.

¹⁰ Decree No. 97 of the National Congress of Honduras.

Owing to the general decline in the growth of demand in Central America and to the restrictions imposed early in 1969 by Nicaragua—its main export market—Costa Rica's exports to the Common Market fell.

(d) *Integration in the Andean Subregional Group*

The most important integration activities carried out since the signing of the Cartagena Agreement¹¹ and the creation of the Commission and the Board of the Agreement can be judged from the main agreements reached at meetings of the Commission, from the deliberations of the specialized intergovernmental meetings, and from the initial operations of the Andean Development Corporation.

(i) *Principal decisions adopted at the meetings of the Commission of the Cartagena Agreement.* The Commission has held seven sessions in Lima, four regular and three extraordinary:

First regular session (21 to 25 November 1969)

Second regular session (9 to 13 March 1970)

First extraordinary session (9 to 14 April 1970)

Third regular session (13 to 17 July 1970)

Second extraordinary session (14 to 20 October 1970)

Fourth regular session (9 to 12 November 1970)

Third extraordinary session (14 to 31 December 1970)

In all, it adopted thirty decisions, some of them extremely important, dealing among other things with the following points.

(1) *Minimum Common External Tariff*

The first extraordinary session was convened in order to adopt the minimum common external tariff applicable to the products listed in the first section of ALALC's Common Schedule. The Commission adopted decision No. 12 laying down the minimum tariff applicable by Chile, Colombia and Peru to imports from outside the subregion. At the same time, the three countries eliminated all duties, charges and restrictions on trade in these products within the subregion, in accordance with articles 49 and 65 (b) of the Cartagena Agreement. Subsequently, and in accordance with the provisions of article 63 of the Agreement, the Commission adopted decision No. 30

(III-E) establishing a minimum common external tariff for all products, except of course those specifically mentioned in each country's list of exceptions and those set aside and effectively included in sectoral industrial development programmes, which are governed by the rules laid down in such programmes. This tariff replaced the tariff levels established in decision No. 12 for products on the Common Schedule. In order to simplify its application and make it possible to compare it with the liberalization programme, it was decided that the common external tariff should be calculated on an *ad valorem* basis.

However, as a means of protecting subregional production adequately, progressively creating a subregional margin of preference, facilitating the adoption of the ALALC common external tariff and increasing the efficiency of subregional production, the minimum tariff is somewhat limited in scope in so far as the Agreement itself limits its sphere of action by stipulating, *inter alia*, that:

(a) In each country, the minimum tariff only applies to products on which national duties and charges are lower than the minimum tariff; that is to say, the Agreement permits the application of the national tariff whenever it is higher than the minimum tariff. Nevertheless, national tariffs above the minimum can—optionally—be reduced provided this does not entail a tariff commitment vis-à-vis countries outside the subregion and does not conflict with the margins of preference negotiated in ALALC. This means that in all countries with national tariffs that are higher than the minimum common external tariff, the latter will have only nominal significance.

(b) In exceptional cases, Bolivia and Ecuador shall be under the obligation to adopt the minimum common external tariff only for the products which are not produced in the subregion. In the case of such products, they shall adopt the minimum duties, charges and restrictions through an automatic and linear process, which shall be completed three years from the date on which the production of these products is initiated in the subregion.

(2) *Base levels for tariff reductions*

These are the levels of duties and charges on which the tariff reductions laid down in articles 52 and 97 (a) of the Cartagena Agreement are to be based. They were adopted by the Commission in decision No. 15 (II-E), which also stipulated that base levels and tariffs resulting from periodic reductions in accordance with the liberalization programme should be given and

¹¹ At its first regular session, the Commission decided (decision No. 1) to use the term "Cartagena Agreement" to designate the Andean Subregional Integration Agreement reached by the Governments of Bolivia, Chile, Colombia, Ecuador and Peru in Bogotá on 26 May 1960.

applied in c.i.f. *ad valorem* terms and would be the only tariffs applicable to subregional products. In decision No. 23 (III-E) the Commission later adopted base levels expressed in terms of the ALALC Tariff Nomenclature.

In accordance with article 52 of the Cartagena Agreement, the base levels are determined by the lowest duty or charge applying to each product in the national tariffs of Chile, Colombia or Peru or in their respective National Schedules on the date of signature of the Agreement, and shall not exceed one hundred per cent *ad valorem* of the c.i.f. price of each product.

On 31 December 1970, the two remaining sets of duties and charges had to be reduced to the base level. The liberalization programme covering most of the trade within the subregion was initiated on the basis of the base levels, all remaining duties and charges being reduced by 10 per cent each year until completely eliminated on or before 31 December 1980. The liberalization programme will, however, be more rapid in the case of products from Bolivia and Ecuador, on which tariffs will be reduced in three successive years, starting 31 December 1971, by 40, 30 and 30 per cent. These two countries in turn will not be obliged to start reducing their tariffs until the seventh year after the signing of the Agreement, completing the process in 1985.

(3) *Common policy towards foreign investment*

The Commission adopted decision No. 24 (III-E) establishing a common policy towards foreign capital investment and with regard to trade marks, patents, licenses and royalties, due to become effective in July this year. One of its chief objectives is to strengthen national enterprises so as to enable them to participate actively in the subregional market, and to put the member countries in a stronger bargaining position vis-à-vis exporters of capital, enterprises supplying resources and technological know-how, and international agencies.

The common policy distinguishes two types of capital: domestic capital, coming from the country where the investment is made; and foreign capital, coming from a country outside the subregion. The treatment accorded to capital from the subregion and capital from the Andean Development Corporation invested in member countries is to be determined by the Commission no later than September 1970. The uniform régime for multilateral enterprises is to be settled by the Commission before the end of 1972.

The various enterprises are classified as national, mixed national and foreign, and

foreign. National enterprises are those in which over 80 per cent of the capital is held by domestic public or private investors. Mixed enterprises are those in which national capital has a majority interest. In both cases, it is essential that the share of local capital be reflected in the company's technical, financial, administrative and commercial management. Foreign enterprises are those in which domestic capital accounts for less than 51 per cent of the total or, if more, is not reflected in the company's management. These are further divided into those existing before January 1971 and those established after that date.

The common policy lays down methods and procedures for the total or partial transfer into national hands of foreign firms, in a gradual manner and in accordance with specific provisions of the policy. In this connexion, the advantages deriving from the liberalization programme are restricted exclusively to those goods that are produced by the national and mixed national and foreign enterprises of the member States. However, in order to be able to enjoy such advantages, existing foreign enterprises will have to be in process of transformation into national or mixed enterprises, to which end they will have to sign the relevant agreement within the first three years of the operation of the common policy, and initiate the process of transformation as required, since in no case may the share of national capital in the enterprise be less than 15 per cent at the end of that period. The deadline for the completion of the process of transformation is not to exceed fifteen years in Colombia, Chile and Peru, and twenty years in Bolivia and Ecuador, as from the date of the entry into force of the policy.

Foreign enterprises established in and after 1971 will have to become mixed enterprises within a period of not more than fifteen years in Colombia, Chile and Peru, and not more than twenty years in Bolivia and Ecuador. In the case of these enterprises, any capital share held by the member States of the Andean Group or the Andean Development Corporation will be deemed to be national capital.

With a view to ensuring the progressive participation of national capital and the gradual process of transformation, minimum rates of national capital participation have been established, to be satisfied at intervals over the period agreed upon for the transformation of the foreign enterprise. If the enterprise does not sign the agreement for its transformation within the stipulated time limit, or does not meet the obligations laid down in the Agreement, its products are not to enjoy the advantages

stemming from the liberalization programme of the Andean Subregional Integration Agreement (Cartagena Agreement) and consequently, will not be granted certificates of origin.

As regards imported technology and patents and trade marks, it is stipulated that the member States shall not authorize the signing of contracts containing clauses that place an obligation on the importing country or enterprise to purchase capital goods, inputs or raw materials from a specific source; or restrict the volume and structure of production; or prohibit the use of competitive technologies; or impose the obligation to offer all or part of the production to the supplier of the technology; or permit the holder of the trade mark or the supplier of the technology to fix sale and resale prices for products that are made up on the basis of that technology or under the trade mark; or which prohibit or limit exports of such products or include other restrictive clauses of equivalent effect. Obviously, it is intended to improve the conditions under which foreign technology is obtained, so that such technology may make an effective contribution to the achievement of integration objectives and to the fulfilment of the goals indicated in the national development plans.

In addition, each member State may reserve sectors of economic activity for national public or private firms, and decide whether to allow participation by mixed national and foreign enterprises. Without prejudice to the above, the Commission may determine which sectors the member States shall reserve for national enterprises and decide on participation by mixed enterprises.

The common policy lays down special provisions on the following basic sectors: (a) basic products; (b) public utilities; (c) insurance, commercial banking and other financial institutions; (d) domestic transport, advertising, radio, television, newspapers, magazines and domestic marketing of all kinds of goods. Except for the first sector—where, during the first 10 years for which the policy is in effect, the activities of foreign enterprises may be authorized under the system of concessions provided that their contract does not exceed twenty years—in all the other sectors, fresh inflows of direct foreign investment are banned and existing foreign firms must be transformed into national enterprises within the first three years from the date on which the policy comes into effect, with the exception of public utilities enterprises, whose position will be decided on by each member Government. Moreover, it is provided that the foreign enterprises operating

in certain sectors shall not be obliged to undergo transformation into national or mixed enterprises, but shall be subject to the other provisions of the policy and to the special provisions of each specific sector.

The following further general provisions were approved: The rights conferred on foreign and mixed national and foreign enterprises shall be the maximum rights that the member States are able to confer; Remittances abroad of net profits derived from direct foreign investment are permitted up to a yearly maximum of 14 per cent of such investment; The capital of joint-stock companies must be in the form of registered shares. Ownership of bearer securities shall be prohibited after the first year for which the policy is in force; As regards domestic credit, foreign enterprises shall have access, exceptionally, to short-term credit on the terms laid down in the regulation adopted by the Commission; Before 31 December 1970, the Commission shall approve an agreement designed to prevent double taxation between the member States; A subregional office dealing with the ownership of industrial property shall be set up, the rules and regulations of which must be approved by the Commission within six months following the entry into effect of the policy within the same time-limit, rules and regulations shall be agreed upon for the application of norms relating to the ownership of industrial property; Before December 1972, the Commission shall approve a programme to promote and protect the emergence of subregional technology, and the adaptation and assimilation of existing technologies.

(4) *Harmonization of policies*

With a view to facilitating the harmonization of economic and social policies and the co-ordination of the development plans of the member States, the Commission approved decision No. 22 (III-E), by virtue of which five Councils were set up in the following fields: planning, monetary questions and exchange, financing, fiscal Policy and Foreign Trade. Their task will be to formulate recommendations and co-operate with the Board in drawing up proposals for the harmonization of the policies concerned.

(5) *Sectoral industrial development programmes*

The Commission adopted decision No. 25 (III-E), listing the products that are to be covered by the sectoral industrial development programmes, a listing which comprises some 2,500 items out of the 6,500 subregional tariff items. The rest, apart from the products on

each country's list of exceptions, will be covered by a general liberalization programme.

The exceptions include practically all the products of the motor-vehicle and iron and steel sectors, a large number of chemicals, some petrochemicals, many of the manufactures produced by light industry, and some of those produced by heavy industry. In the majority of cases these will be products or groups of products which are not manufactured in any of the countries of the subregion, or which are not produced in sufficient quantity to supply the domestic market. The sectoral programmes for these goods must be approved by the Commission before 1974, but this time-limit can be extended for a further two years at the Board's request.

Furthermore the Board has started work and studies on a general development strategy for the subregion, which will serve as a framework for the sectoral programmes and the joint agricultural development programmes, and will help to provide the necessary co-ordination of development policies. This work is being carried out at two levels; on the one hand, each member country is drawing up its own development strategy; and on the other, the Board, advised by ECLA and ILPES, is to draft a strategy for the subregion as a whole.

(6) Petrochemical sector

In compliance with the Agreement and, particularly bearing in mind that Bolivia and Ecuador should receive special treatment under any industrial policy for the subregion, the Commission approved decision No. 10 (II) whereby the Board was requested to define the basis and conditions for the adherence of Ecuador to the ALALC complementarity agreement No. 6 on the petrochemical industry, signed by Bolivia, Colombia, Chile and Peru.

As a result of the studies carried out it was also agreed to give Bolivia more favourable treatment and to begin subregional programming of the petrochemical industry. To this end decision No. 18 (II-E) was adopted, recommending that the Board submit a draft sectoral industrial development programme for the petrochemical sector before 15 March 1971.

(7) Agricultural Sector

In decision No. 16 (II-E), the Commission approved the schedule of agricultural products to be covered by the escape clauses; the schedule is provisional in so far as it can be modified by the Commission. Furthermore, the Board was asked to submit, before July 1971, proposals regarding measures to promote trade

in agricultural products and to facilitate the adoption of common norms on plant and animal health.

On the basis of studies carried out by FAO experts¹² on the short-term prospects of intra-subregional trade, products can be divided into four categories: (a) products in short supply which are not suitable for subregional trade; (b) products in short supply with better prospects; (c) products in which there is no trade; (d) products moving in frontier trade.

In the longer-term, prospects for the expansion of intra-subregional trade in agricultural commodities may improve considerably; however, joint product-by-product programmes are needed as a basis for harmonizing subregional agricultural development, together with joint marketing systems, supply agreements between State institutions, agreements between national bodies dealing with the planning and implementation of agricultural policy, and common norms and programmes on plant and animal health.

(8) Joint action in international forums

The need for member countries to co-ordinate their action and submit joint plans to international economic agencies has been recognized. To this end, the Foreign Ministers agreed, at their first meeting, that the Permanent Representative on the ALALC Executive Committee of the country whose representative is President of the Commission should act as co-ordinator for the other representatives and maintain contact with the President of the Commission.

Furthermore, towards the middle of 1969, the President of the Commission was entrusted with an exploratory mission to the organs of the European Economic Community, with a view to seeking ways of improving trade and financial and technicological relations between the two regions, and exchanging views on the shape and form a co-operation policy between the Community and the Andean Group should take. The results of the mission, carried out in November last, show that the Community is willing to tighten the present links. Trade offers the most immediate possibilities for arriving at some agreement between the two regions, based on reciprocity in expansions of both markets. In the financial and technicological field, the

¹² For more detailed information see, "Informe sobre la situación y perspectivas del comercio agrícola de los países andinos", by the Joint ECLA/FAO Agriculture Division, August 1970; and ECLA, "Política agropecuaria subregional en los países del Pacto Andino", (E/CN.12/883).

Commission of the Community does not have the same power as it has in the field of trade, but there are far-reaching prospects and it would seem that an agreement could be reached at a later stage. In this respect the authorities of the Commission of the Cartagena Agreement welcomed the idea of setting up a Joint Committee, at the technical level, of the Board of the Agreement and the EEC Commission, to discuss what practical steps could be taken to achieve co-operation in all forms between the two regions.

(9) *Special treatment for Venezuela*

The Commission agreed on special treatment for Venezuela, with a view to its possible adherence to the Cartagena Agreement. It therefore adopted decision No. 13 (III) inviting Venezuela to send a representative as a special guest to all ordinary and extraordinary sessions of the Commission, and all meetings convened to study problems of subregional integration, and any other meetings the Board may think fit, up to December 1970. The period was extended by decision No. 21 (III-E) to December 1971. Moreover, numerous contacts have been made and talks held between the foreign ministers and other ministers in order to clear the way for closer ties between Venezuela and the Andean Group. The idea that Venezuela might establish more and more links with the subregional integration agencies has emerged from these talks.

(ii) *Points discussed at specialized inter-governmental meetings.* In June 1970, the chief executive officers of the Central Banks of member countries and an observer from Venezuela met at Quito to examine various aspects of the subregion's monetary, financial and foreign exchange policies. Agreement was reached on a recommendation that working groups should be established to carry out studies and research in these fields and, above all, to consider how the Governments and Central Banks could help to channel domestic and external savings into productive activities, to strengthen national export financing and promotion machinery, to improve and extend the methods of payment, and to make use of bilateral balances in non-convertible currencies.

On the same date, a meeting of directors of national tourist agencies was held in Bogotá. It recommended setting up a secretariat for the integration of the Andean tourist industry which would deal with the technical problems of tourism. Meetings were also held on air transport, shipbuilding and maritime transport in August, September and October 1970 respec-

tively. Two of the most important recommendations concerned the creation of an Andean multinational air-freight and passenger-transport enterprise to handle intra- and extra-regional air traffic and the carrying out of feasibility studies for the establishment of a multinational subregional merchant fleet.

The reports of these meetings are being studied by the Commission of the Cartagena Agreement with a view to taking appropriate action.

At the first meeting of Ministers of Education of the Andean region, to which Venezuela was specially invited, held in Bogotá in January 1970, the Andrés Bello Agreement on Educational, Scientific and Cultural Integration was adopted. A second meeting was held in Lima in February 1971 at which a common doctrine was adopted as a framework for the objectives and provisions of the Andrés Bello Agreement.

(iii) *The Andean Development Corporation.* Meeting in Bogotá on 7 February 1968, the seven signatories to the Declaration of Bogotá agreed to establish the Andean Development Corporation, with headquarters in Caracas. The Corporation became operative on 30 January 1970, when three countries deposited their instruments of ratification with the Ministry of Foreign Affairs of Venezuela.

The authorized capital of the Corporation is 100 million dollars, split up into A, B and C series shares. Paid-up capital amounts to 25 million dollars and comprises six A series registered shares for a million dollars each, to be taken up by the member Governments, and 3,800 B series registered shares for 5,000 dollars each, to be taken up by the respective Governments or by juridical or natural persons from the private sector, up to a maximum of 40 per cent of the total value. The non-paid-up capital, amounting to 75 million dollars, can, by decision of the directors of the Corporation, be covered by the sale of additional B series shares to member countries, by the sale of A and B series shares to other countries joining the subregional group, or by the issue of C series shares, to be purchased by juridical or natural persons outside the subregion.

The Directors and the Executive President of the Corporation were designated at its first general meeting, held in Caracas in June 1970. It was also decided that the regulations of the agreement establishing the Corporation should contain a number of clarifications as to the interpretation of the Agreement. These included the following points:

The immunities, exemptions and privileges laid down in chapter 8 of the Agreement are

applicable solely to the Andean Development Corporation and to their officials and are not to be extended to enterprises in which it has a financial interest; this means that the mere participation of the Corporation in an enterprise, even to the extent of a single share, cannot oblige it to grant immunity to the assets of that enterprise.

Natural persons acquiring B series shares corresponding to the 40 per cent purchasable by private individuals must be nationals of the country of the subregion concerned; juridical persons under private law acquiring such shares must comprise a majority of nationals of the country concerned; this is of special importance if it is remembered that only A and B series shares confer the right to elect the Board of Directors of the Andean Development Corporation.

The Corporation may not transfer its shares, equity, rights or obligations except with the consent of the Government of the country in which the corresponding investment has been made.

The main objective of the Andean Development Corporation is to promote integration by making the best possible use of the subregion's resources and potential. For this purpose, it may encourage the establishment of production or services enterprises and buy shares in or help to expand or modernize existing enterprises. These industrial promotion and development activities cannot be carried on without very positive support in the form of financial and technical assistance. For that reason, technical and financial assistance from other sources, both inside and outside the subregion, will be of the greatest value, particularly if it is channelled through one of the subregional institutions, such as the Andean Development Corporation.

The direct linkage between the Corporation and other subregional bodies, particularly the Board of the Cartagena Agreement, will prevent dispersal of effort and ensure that the flow of financing will be channelled into the sectors that are most important for the subregional economy and will also help to secure equitable geographical distribution of this financing, bearing in mind the special needs of the relatively less developed countries.

5. INTEGRATION IN THE CARIBBEAN FREE TRADE ASSOCIATION (CARIFTA)

The Caribbean Free Trade Association was established in May 1968 as the first step towards integrating the economies of Barbados, Guyana, Jamaica, Trinidad and Tobago and

the West Indies Associated States. Although it is still young in years, it has made significant progress towards this objective, institutionally and in the field of trade also and in identifying the principal problems faced by the Caribbean countries. At the same time, the Governments have been able to take a common stand vis-à-vis external situations. CARIFTA is therefore expanding: negotiations have been completed on the accession of British Honduras (Belize), and at the request of the Dominican Government, a study is being made of the possibility of the Dominican Republic joining the Association.

Under the CARIFTA Agreement of 1968, trade between the member countries in nationally produced goods was exempt from customs duties, except for a number of products included in a list of exceptions. The bigger CARIFTA countries which undertook to reduce customs duties on the products listed over a period of five years, have fulfilled their commitment to reduce duties by 20 per cent each year, and the territories comprised in the West Indies Associated States have adopted measures to cut tariffs 50 per cent by 1 May 1973.

The other provisions governing trade among the CARIFTA member countries have been implemented as provided in the time-table, and they include both customs measures proper, such as export duties, and other measures, such as quantitative restrictions.

The need of the relatively less developed territories comprising the West Indies Associated States for special treatment has constantly been borne in mind. These States have formed the East Caribbean Common Market (ECCM), which has enabled them not only to harmonize this economic policy but also to adopt a common stance within CARIFTA. In addition to the fact that their tariff protection lasts for a longer period, they have also benefited under the Agricultural Marketing Protocol, which established minimum prices and export quotas for exports of agricultural products within CARIFTA.

(a) *Results of trade between the members of CARIFTA*

Logically enough, the degree to which agreements are being fulfilled is chiefly reflected in the results of trade between the member countries of CARIFTA. Intra-Caribbean trade started to grow in 1968 and picked up momentum in 1969, when the measures described above became fully effective. The value of imports (see table 19) grew by 10.1 million East Caribbean dollars during 1968 and rose to 26.6

million in 1969. On the basis of the incomplete data available, it appears that all the Caribbean countries increased both their imports and their exports.

Table 19. CARIFTA: intra-area imports
(Millions of East Caribbean dollars)

Imports from	1967	1968	1969
Barbados . . .	13.2	16.8	21.1
Guyana . . .	25.6	29.4	32.4
Jamaica . . .	7.7	7.6	11.7
Trinidad and Tobago .	16.4	16.0	23.2
Subtotal . . .	62.9	69.8	88.4
ECCM . . .	26.8	(30.0) ^a	(37.0) ^a
TOTAL . . .	89.7	(99.8) ^a	(125.4) ^a

SOURCE: Official foreign trade statistics.

^a Estimates based on incomplete data.

The main factor responsible for these trends was initially the replacement of imports from outside the area with goods produced within CARIFTA. The Agricultural Marketing Protocol helped significantly in this respect, as did the increase in intra-area trade in hydrocarbons and chemicals, formerly originating mostly outside the CARIFTA area. Although these products account for a large proportion of the total, manufactures too made a significant con-

tribution, accounting for an estimated 17 per cent of subregional trade.

(b) Major problems

The basic problem of the CARIFTA economies is that of obtaining a higher growth rate and, at the same time, of eliminating the disparities that exist between their individual levels of growth. To this end, additional benefits are granted to the relatively less developed countries, and a study is being made of the machinery needed to guide the location of industry.

Another fundamental problem is that of transport, since these are island economies in which maritime transport is called upon to serve the needs of reciprocal trade. At the present time, however, the ships there are not adequate either in number or in efficiency. This situation is aggravated by the growing freight demands and the high international cost of chartering cargo boats. Moreover, most of the harbour installations are inadequate.

The Governments of the CARIFTA countries have studied this problem, paying particular attention to the feasibility of a special treaty covering a restructuring of the institutions that control commercial shipping inside and outside of CARIFTA.

Chapter II

THE ECONOMIC SITUATION IN SELECTED COUNTRIES

Argentina¹³

1. RECENT ECONOMIC TRENDS

Argentina's gross domestic product grew by 4.8 per cent in 1970, which brought the annual growth rate for the period 1966–1970 to about 4 per cent, higher than in the previous five-year period. This is the fourth consecutive year in which there have been increments in the product, with no recurrence of the periodic recessions that used to occur, mainly as a result of balance-of-payments disequilibria and of stabilization policies based on the curtailment of demand. Inflation gathered momentum, however, and the cost of living rose by 21.7 per cent between December 1969 and December 1970.

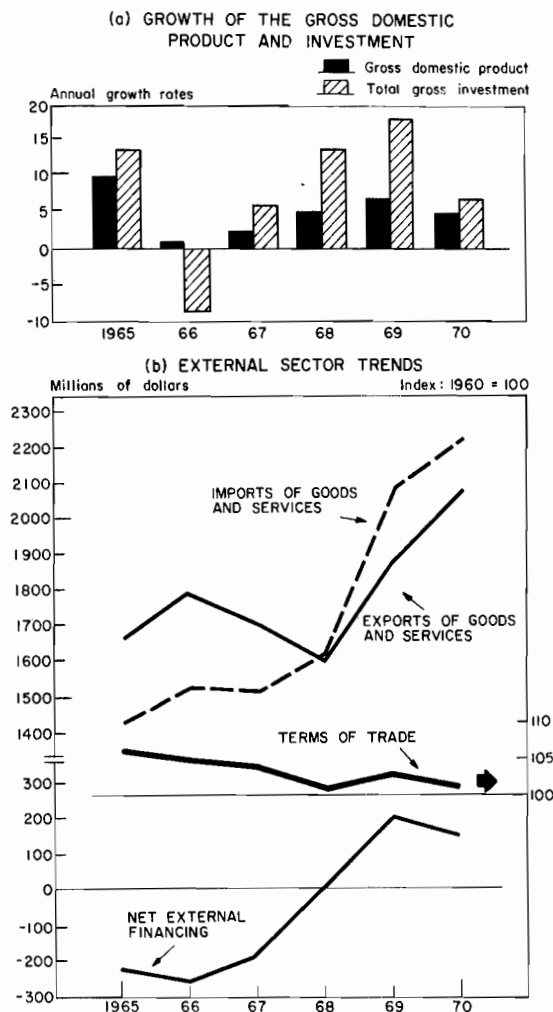
As regards the external sector, exports of goods amounted to 1,790 million dollars at current prices and imports of goods to 1,483 million, which represents increases of 11 per cent and 8.2 per cent respectively over the previous year. Taking into account the unfavourable balance reflected by debt servicing and profit and interest payments, there was a deficit of 160 million dollars on current account; but the balance of payments showed a surplus of 114 million dollars as a result of the greater inflow of non-compensatory capital.

In the public sector, the deficit in the national budget amounted to 7.3 per cent of government expenditure, which, although higher than in 1969 (6.7 per cent), was still within reasonable limits.

The monetary restrictions imposed resulted in a drop in the liquidity coefficients. The average annual real wages of unskilled workers—unmarried workers, and workers with a standard-size family—rose by 4.4 and 2.4 per cent over the average for the previous year; but if the period from December 1969 to December 1970 is considered instead of the average, there were decreases of 5.7 and 6.6 per cent, respectively. Lastly, three different draft development plans were presented by the National Development Council (CONADE) during the year owing to changes in its leadership.

¹³ The values in the text and the tables are expressed in pesos *moneda nacional* (m/n). They are converted to Act 18188 pesos at the rate of 100 pesos m/n to the peso.

Figure II. Argentina: 1965–1970
Natural scale



2. TOTAL SUPPLY AND DEMAND

(a) Total supply

The growth rate of the gross domestic product in 1970 was 4.8 per cent, which is equal to a per capita increase of 3.3 per cent; the former is slightly higher than the average rates recorded in the period 1965–1968, but lower than that attained in 1969 (see tables 20 and 21).

Table 20. Argentina: total supply and demand, 1965 and 1968-1970

	Thousands of millions of pesos min at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970	1965	1968	1969	1970	1965-1968	1969	1970
<i>Total supply</i>											
Gross domestic product	1,268.9	1,353.4	1,463.7	1,527.1	110.1	109.5	111.1	110.6	2.2	8.1	4.3
Imports ^a	1,152.5	1,236.1	1,317.7	1,381.1	100.0	100.0	100.0	100.0	2.4	6.6	4.8
<i>Total demand</i>											
Exports ^a	116.4	117.3	146.0	146.0	10.1	9.5	11.1	10.6	0.3	24.5	—
	1,269.0	1,353.4	1,463.6	1,527.1	110.1	109.5	111.1	110.6	2.2	8.1	4.3
<i>Total investment</i>											
Gross fixed investment	201.6	248.8	293.0	308.7	17.5	20.2	22.2	22.4	7.3	17.8	5.4
Construction	85.4	114.1	132.1	147.3	7.4	9.2	10.0	10.7	10.1	15.8	11.5
Public	28.6	42.5	53.8	62.1	2.5	3.4	4.1	4.5	14.1	26.6	15.4
Private	56.8	71.6	78.3	85.2	4.9	5.8	5.9	6.2	8.0	9.4	8.8
Machinery and equipment	116.2	134.7	160.9	161.4	10.1	10.9	12.2	11.7	5.0	19.4	0.3
<i>Total consumption</i>											
General government	87.4	94.7	95.3	95.8	7.6	7.7	7.2	7.0	2.7	0.6	0.5
Private	819.4	872.9	915.6	948.3	71.1	70.6	69.5	68.7	2.1	4.9	3.6

SOURCE: For 1965-1969, Central Bank; for 1970, preliminary report of the Ministry of Economic Affairs and Labour. ^a Goods and services, excluding factor payments.

Table 21. Argentina: gross domestic product at factor cost, by sector of economic activity

Sector	Thousands of millions of pesos min at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970	1965	1968	1969	1970	1965-1968	1969	1970
Agriculture	183.5	177.0	184.8	187.7	17.3	15.6	15.3	14.8	0.1	4.4	1.6
Mining	14.9	19.9	21.0	23.1	1.4	1.7	1.7	1.8	10.1	5.5	10.0
Manufacturing	368.7	398.1	426.8	452.2	34.9	35.1	35.3	35.7	2.6	7.2	6.0
Construction	35.4	50.4	57.6	65.6	3.4	4.4	4.8	5.2	12.5	14.3	13.9
<i>Subtotal goods</i>	602.5	645.4	690.2	728.6	57.0	56.9	57.1	57.5	2.3	6.9	5.6
Electricity, gas and water	19.4	24.2	26.4	29.1	1.8	2.1	2.2	2.3	7.6	9.1	10.3
Transport and communications	78.6	83.8	88.7	93.1	7.4	7.4	7.3	7.3	2.2	5.8	5.0
<i>Subtotal basic services</i>	98.0	108.0	115.1	122.2	9.2	9.5	9.5	9.6	3.3	6.6	6.2
Commerce and finance	197.1	209.2	228.7	236.9	18.6	18.4	18.9	18.7	2.0	9.3	3.6
Government	69.8	72.1	72.6	73.1	6.6	6.4	6.0	5.8	1.1	0.7	0.7
Ownership of dwellings	19.3	21.4	...	...	1.8	1.9	...	...	3.5	...	...
Miscellaneous services	71.3	78.2	81.1	84.1	6.7	6.9	6.7	6.6	3.1	3.7	3.7
<i>Subtotal other services</i>	357.5	380.9	404.4	416.7	33.7	33.6	33.4	32.9	2.1	6.2	3.0
<i>Total product</i>	1,058.1	1,134.5	1,209.6	1,267.5	100.0	100.0	100.0	100.0	2.3	6.6	4.8

SOURCE: For 1965-1969, Central Bank; for 1970, preliminary report of the Ministry of Economic Affairs and Labour.

A sectoral analysis shows that manufacturing grew by 6 per cent. There were rapid increases, mainly in the chemical, metal, and electrical machinery and equipment industries; but only the chemical and electrical machinery and equipment industries showed higher growth rates than in 1969 (see table 22).

Table 22. Argentina: gross manufacturing product
(Growth rates)

	1969	1970
Total manufacturing	7.2	6.0
Food, beverages and tobacco	5.7	3.7
Textiles, made-up goods and leather products	2.3	0.2
Chemicals	10.9	13.3
Stone, clay, glass and pottery	5.6	5.1
Metal-transforming, excluding machinery	16.6	11.3
Manufacture of motor vehicles	9.6	2.2
Machinery, excluding electrical machinery	6.5	1.6
Electrical machinery and equipment	6.6	23.5
Other	5.0	4.3

SOURCE: Provisional estimates of the Central Bank.

In the chemical industry, this was due to accelerated import substitution, and in the electrical machinery and equipment industry to the increase in demand resulting from the plans to expand public energy and telecommunications facilities. In contrast, smaller increases were observable in food, beverages and tobacco, textiles and made-up textile goods, and leather products. If individual products are considered, the production of pig iron rose by 40 per cent owing to more intensive import substitution; while the manufacture of motor vehicles, which had reached the figure of 218,500 units in 1969, increased by only 2 per cent.

Agriculture grew by 1.6 per cent, with crop

and stock farming following sharply diverging trends, since the former rose by 6.9 per cent and the latter declined by 3.9 per cent. The forestry, hunting and fishing product increased by 3 per cent.

The results obtained in agriculture mainly reflect the bumper wheat and maize crops, which were 22.3 and 36.4 per cent larger than in the previous crop year (see table 23). In stock farming, on the other hand, cattle-breeding declined by 4.2 per cent, owing to a drop in slaughtering compared with the previous year (see table 24). There was also a decrease in the value added in respect of sheep (down by 3.6 per cent), goats and horses (down by 2.6 per cent), and milk production declined by 11 per cent. Increases were recorded in wool (2 per cent), pigs (3.1 per cent) and home-farm activities (3.4 per cent).

The mining and quarrying product increased by 10 per cent; in particular, liquid fuels rose by 9.2 per cent, and the production of solid fuels, stone, clay and sand, and metalliferous ores also followed a favourable trend.

Construction grew by about 14 per cent, as a result of the increase in private housing construction and of public sector water, electric power and road projects.

Basic services rose by 6.2 per cent and "other services" by 3 per cent; the fastest growth (10.3 per cent) was recorded by electricity, gas and water (see table 21).

Imports of goods amounted to 1,483 million dollars at current prices, an increase of 8.2 per cent over the previous year; in real terms, however, they remained at the same level as in 1969.

(b) Total demand

The rate of growth of total demand gradually declined in 1970. The deceleration mechanism which was originally linked to economic policy

Table 23. Argentina: trends in principal agricultural commodities, 1964/1965 to 1969/1970
(Thousands of tons)

Commodity	1964/1965	1967/1968	1968/1969	1969/1970
Wheat	11,260.0	7,320.0	5,740.0	7,020.0
Maize	5,140.0	6,560.0	6,860.0	9,360.0
Linseed	815.0	385.0	570.0	640.0
Oats	804.5	690.0	490.0	425.0
Rice	267.6	282.9	345.0	407.0
Alfalfa	5,508.0	5,404.0	6,165.0	5,622.8
Sorghum	857.0	1,897.0	2,484.0	3,820.0
Sunflower seed	757.0	940.0	876.0	1,140.0
Sugar-cane	13,100.0	9,500.0	9,800.0	9,555.0
Cotton	457.0	230.0	304.0	444.0
Tobacco	52.5	62.0	52.0	71.0
Wine grapes	2,236.5	2,455.8	2,013.8	2,607.3

SOURCE: Ministry of Agriculture and Livestock.

Table 24. Argentina: cattle, sheep and pigs slaughtered, 1965 and 1968-1970
(Tons carcass weight)

	1965	1968	1969	1970*
<i>Cattle</i>				
For export	502,181	574,000	760,000	688,842
For consumption	1,492,915	1,971,800	2,075,000	2,027,800
TOTAL	1,995,096	2,545,800	2,835,000	2,716,642
<i>Sheep and pigs</i>				
For export	44,271	66,305	63,575	62,396
For consumption	331,231	66,305	319,881	325,200
TOTAL	375,502	400,610	383,456	387,596

SOURCE: National Meat Board.
* Provisional estimates.

decisions, based on the prevailing social and institutional climate and the decline in exports, was decisively influenced, towards the end of the period, by the contraction in the supply of livestock. The key value of this variable, in terms of its impact on current business, is fully substantiated by the fact that it was responsible for eliminating consumption and exports as dynamic factors of development, just when it was most important for them to expand.¹⁴

Thus, the main spur to the growth of total demand came from investment in construction, which rose by 11.5 per cent (the increase had been 15.8 per cent in 1969). This rate is the outcome of an increase of 15.4 per cent in the public sector and 8.8 per cent in the private sector. Meanwhile, investment in equipment was only 0.3 per cent higher than in 1969; this low rate is mainly attributable to the 5.9 per cent drop in purchases of transport equipment, which was barely offset by the increase of 3.7 per cent in expenditure under the head of machinery, repairs, etc.

Consumption grew by 3.3 per cent, which reflects a rise of 0.5 per cent in the public sector and 3.6 in the private sector. Private consumption expanded in the first half of the year and contracted in the second half, mainly owing to the decline in the real value of wages in the last quarter; the biggest drop was in the durable goods sector.

Exports of goods amounted to 1,790 million dollars at current prices, i.e., 11 per cent more than in 1969; calculated in pesos (moneda nacional) at 1960 prices, the increase was 7.6 per cent (see table 20).

3. THE PUBLIC SECTOR

The Treasury recorded a deficit of 59,300 million pesos (compared with 47,200 million in 1969), which amounted to 7.3 per cent of total

government expenditure (see table 25). Current income increased by nearly 19 per cent, mainly as a result of the taxes which came into operation during the year. These taxes were levied on the motor-vehicle inventory and unwarranted increases in net worth, which brought in 23,400 and 57,000 million pesos, respectively. Current expenditure rose by a little over 16 per cent, and capital expenditure by 13.4 per cent.

When it came to covering the deficit, the situation with regard to treasury bills was

Table 25. Argentina: movement of treasury funds, 1968-1970
(Thousands of millions of pesos (m/n))

Item	1968	1969	1970
<i>Income</i>	575.8	657.8	764.0
Current income	505.2	572.0	680.2
Taxes	431.3	498.2	605.9
Profit tax	83.4	99.3	114.3
Sales tax	80.1	93.0	97.8
Consolidated income tax	52.8	59.5	64.3
Import-export taxes	118.1	138.2	142.4
Other taxes	97.0	108.0	186.9
Other current income	73.9	73.8	74.3
Capital income	70.6	85.8	83.8
<i>Expenditure</i>	634.2	705.8	814.8
Current expenditure	444.7	506.0	588.3
Wages, salaries and social security payments	222.4	270.0	315.3
Goods and services	58.5	60.3	57.1
Other current expenditure	163.8	175.7	215.9
Capital expenditure	189.5	199.8	226.5
Real investment	33.8	43.3	54.2
Financial investment	55.9	65.5	70.9
Amortization of public debt	42.1	42.7	46.4
Transfer payments	57.7	48.2	54.9
<i>Other income—other expenditure</i>	8.6	0.8	-8.5
<i>Deficit</i>	-49.8	-47.2	-59.3
<i>Financing</i>	49.8	47.2	59.3
Central Bank	34.7	33.8	50.2
Consolidated Official Account Fund	-0.3	7.9	16.1
Other financing	15.4	5.5	-7.0

SOURCE: Ministry of Economic Affairs and Labour, *Informe Económico*.

¹⁴ Ministry of Economic Affairs and Labour, *Anticipo del Informe Económico*, 1970 and fourth quarter, p. 4.

somewhat different from the year before, since 10,000 million pesos' worth had to be sold, compared with 4,000 million in 1969. This made it necessary to draw much more heavily on credit from the Central Bank and the Consolidated Government Accounts Fund (Fondo Unificado de Cuentas Oficiales). On the other hand, it was possible to reduce the treasury transfers to public enterprises by 5.6 per cent, owing to their growing ability to finance their own activities (see table 25).

4. THE MONETARY POSITION

The monetary policy was more restrictive in 1970 than in 1969. Although the means of payment in the hands of private persons increased by 17 per cent, compared with 10.7 per cent in 1969, the rise in prices was considerably greater. Considering that there was a real increase of 5 per cent in the product and of more than 20 per cent in prices, there must have been a 26 per cent increase in demand for money. In other words, there was a 7 per cent drop in liquidity, in terms of the ratio of the means of payment in the hands of private persons to the gross domestic product (see table 26). Heavy restrictions were imposed on credit to the private sector, which increased by only 15 per cent; this was not only 26 per cent lower than in 1969, but also less than the rise in prices. To improve the situation, it was decided that the banks' minimum cash holdings should be reduced by 1.5 per cent in the last few months, and an attempt was made to facilitate foreign exchange operations in order to increase the volume of external loans, which were channelled mainly to large-scale enterprises.

5. INCOME, EMPLOYMENT AND PRICES

The 7 per cent wage increase which had been approved the year before came into effect on 1 March 1970, and a further increase of 7 per cent, with a minimum rise of 2,500 pesos, on 1 September 1970. With these adjustments, the real average wage for the whole year is estimated to have risen, compared with the average for 1969, by 4.4 per cent for unmarried workers and 2.4 per cent for workers with standard-size families; but the trend in the last three

months brought the real wage down by 5.7 and 6.6 per cent, respectively, for the two categories considered, over the period from 31 December 1969 to 31 December 1970 (see table 27). To remedy this situation, it was decided that the minimum wage should be raised to 33,000 pesos as from 1 January 1971, that the differential according to area (*quita zonal*) should be reduced, and that there should be an over-all wage increase of 6 per cent. Meetings of joint committees of workers and employers were convened as from 1 February 1971 to draw up new collective work contracts; these committees had not met since the beginning of 1966. It was stipulated by law that—as a general rule—the increases resulting from collective contracts should be in line with over-all policy, which provides for a 10 per cent increase in prices between December 1970 and December 1971.¹⁵ Accordingly, firms were not permitted to pass on to the consumer, through higher prices, more than a 10 per cent increase in their wage costs, which would be offset by the productivity increase envisaged. As regards pensions, the minimum payable was increased, and smaller adjustments were made up the scale as the size of the pensions increased.

There was a general rise in unemployment between October 1969 and October 1970. According to provisional estimates, it increased from 4 to 5 per cent in Greater Buenos Aires, from 3.2 to 4.9 per cent in Córdoba, and from 2.8 to 3.3 per cent in Mendoza. On the other hand, it dropped from 5.5 to 5.1 per cent in Rosario and from 11.4 to 10.6 per cent in Tucumán; in both cases, however, the rate was relatively high, as it was also in Comodoro Rivadavia (7 per cent), Posadas (6.8 per cent) and La Plata (5.7 per cent) in October 1970.

The cost of living soared in 1970, and by the end of December it was 21.7 per cent higher than on 31 December 1969; wholesale prices went up by 26.5 per cent. The previous year, they had risen by 6.7 and 7.3 per cent, respectively (see table 27). Taking the annual average

¹⁵ This estimate may be adjusted since the cost-of-living increase in January 1971 was already 5.5 per cent.

Table 26. Argentina: money supply, 1965 and 1968–1970

	End-year balances (thousands of millions of pesos (m/n))			Annual growth rates		
	1968	1969	1970	1968	1969	1970
Private money supply . . .	1,105.0	1,223.1	1,430.0	26.8	10.7	17.0
Slow-moving deposits . . .	575.4	680.1	830.0	35.1	18.2	22.0
Loans to the private sector . .	1,179.5	1,488.8	1,711.0	44.2	26.2	15.2

SOURCE: Central Bank.

Table 27. Argentina: prices and costs and real wages
(Annual growth rates)

	Annual averages			December		
	1968	1969	1970	1968	1969	1970
<i>Prices and costs</i>						
Cost of living	16.2	7.6	12.8	9.6	6.7	21.7
Wholesale prices	9.6	6.1	14.1	3.9	7.3	26.5
Construction costs	7.6	9.5	11.7	4.3	11.1	12.6
<i>Real wages</i>						
Unmarried worker	-5.1	2.1	4.4	-2.6	13.0	-5.7
Worker with standard-size family	-3.1	8.5	2.4	0.2	16.8	-6.6

SOURCE: Ministry of Economic Affairs and Labour.

rates, the increases were between 13 and 14 per cent. An important factor in these increases was the rise in meat prices, which in the case of some cuts was over 100 per cent between December 1969 and December 1970. In contrast, clothing, general expenses and household expenditure went up by 9.4, 12.6 and 7.1 per cent, respectively, reflecting the moderate rise in the prices of industrial goods and some services. Annual average wholesale prices increased by 14.1 per cent. In particular, non-agricultural goods—except for food and beverages—went up by 5 per cent; and construction costs rose by 11.7 per cent. Thus, there was a sharp change in relative prices, which favoured agricultural products over industrial goods. Moreover, the profits accruing to the primary producing sector were unevenly distributed, since crop prices remained at the same level while livestock prices rose by about 70 per cent. Prices of imported goods rose by 18 per cent, which reflects the dual effect of the rise in domestic prices and the currency devaluation in June.

6. THE EXTERNAL SECTOR

The balance of payments showed a surplus of 114 million dollars in 1970, in spite of a deficit of 160 million dollars on current account, as a result of a substantial inflow of capital, which included 59 million dollars' worth of Special Drawing Rights assigned to Argentina. This was reflected in an increase of about 75 million dollars in its international assets (see table 28).

Exports of goods amounted to 1,790 million dollars, or 11 per cent more than in 1969. Only a small part of this increase is attributable to prices, since the index of unit value in 1970 was only 2.8 per cent higher than in 1969. In particular, cereal exports amounted to over 10 million tons, which was the peak figure for the decade. Meat exports were also high—345 million dollars—exceeding the previous year's figure by 2.7 per cent; this was due to higher prices, since exports decreased 8.2 per cent in volume.

In contrast, the value of wool exports fell 11.4 per cent, as a result of the depression on the world market. There was an upsurge in non-traditional exports, which rose to 382.4 million dollars; the 22 per cent increase over 1969 is accounted for by increases in electrical machinery and equipment and products of the curing and tanning industries. The total value of non-traditional exports in 1968 and 1969 was 271 and 313 million dollars, respectively.

Imports of goods amounted to 1,483 million dollars, or 8.2 per cent more than in 1969. The index of their unit value was 4.9 per cent higher than in 1969, and they included a larger proportion of capital goods in 1970.

7. DEVELOPMENTS IN ECONOMIC POLICY

The salient economic policy developments in Argentina include a law designed to encourage the purchase of locally produced goods, the establishment of a national development bank, and the provision of incentives to exports and investment.

By virtue of the "buy domestic products" act, the public administration, autonomous and decentralized bodies and public enterprises are required to purchase locally produced goods and materials and, with some exceptions, to contract the services of local construction firms or suppliers. Moreover, the National Development Bank was established, mainly, to finance large-scale electric power projects, basic industrial projects and industrial modernization programmes which involve the conversion, reorganization and merging of enterprises; its resources are to come from a special fund that is to be set up with resources obtained from a percentage of wages and salaries, taxes on credit from financial institutions, and the proceeds of sales of securities on the domestic and external market. An export promotion scheme was introduced, which provides for a drawback of a proportion of the sales value, according to the degree of processing and competitiveness of the

Table 28. Argentina: balance of payments, for selected years
(Millions of dollars)

	1960	1965	1968	1969	1970 ^a
<i>Current account</i>					
Exports of goods and services	1,238	1,656	1,567	1,836	2,030
Goods f.o.b.	1,079	1,493	1,368	1,612	1,790
Services	159	163	199	224	240
Imports of goods and services	-1,379	-1,379	-1,441	-1,896	-2,037
Goods f.o.b.	-1,099	-1,043	-1,017	-1,371	-1,483
Services	-280	-336	-424	-525	-554
Net external investment income	-57	-53	-141	-159	-152
Net private transfer payments	-7	-4	-2	-1	-1
Balance on current account	-205	220	-17	-220	-160
<i>Capital account</i>					
Net external financing	205	-220	17	220	160
External non-compensatory capital	565	-244	120	318	
Direct investment	332	43	-8	-11	
Long- and medium-term loans	257	151	274	434	
Amortization payments	-42	-426	-202	-221	
Short-term liabilities	17	-14	58	119	274
Official transfer payments	1	2	-2	-3	
Domestic non-compensatory capital or assets	-8	20	-72	-31	
Errors and omissions	-177	94	119	-145	
Compensatory movements (increase -)	-175	-90	-150	78	-114
Balance-of-payments loans, trade arrears or deferred payments, IMF position and other liabilities of the monetary authorities	202	107	26	1	...
Amortization payments	-71	-129	-132	-154	...
Movement of gold and foreign exchange reserves (increase -)	-306	-68	-44	231	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

^a Preliminary estimates based on data supplied by the Central Bank of Argentina.

product concerned. Special drawbacks are provided for companies exporting over 40,000 dollars' worth of goods a year, which may be as much as 40 per cent of the increases they achieve in the volume exported annually as from 1971. In order to encourage capital formation by enterprises, it was decided to reduce the tax on earnings for reinvested profits; and with the same end in view, the authorized deduction in the sales tax was raised from 15 to 30 per cent for capital goods.

As regards planning, three draft development plans were published by the National Development Council, under different heads. Although the basic studies are practically the same, different approaches are adopted to national development, which are reflected above all in the different growth rates envisaged for investment and the product. Tables 29 and 30 show the differences in the growth of some of the variables.

*Barbados*¹⁶

1. RECENT ECONOMIC TRENDS

The first estimates for the gross domestic product at current factor cost indicate an in-

¹⁶ Unless otherwise stated, all values are expressed in East Caribbean dollars. Two East Caribbean dollars are equal to 0.50 United States dollar.

Table 29. Argentina: annual growth rates of certain key items, according to draft plans presented in 1970

	Actual rates 1970-1969	Plan I 1970-1974	Plan II 1971-1975	Plan III 1971-1975
Gross domestic product	3.6	5.6	7.8	7.0
Exports	5.2	6.7	12.0	9.2
Unemployment rate (target for final year)		3.3	1.3	1.4
Agriculture, forestry, hunting and fishing	2.2	3.8	5.5	4.6
Construction	5.0	4.4	7.8	7.1
Manufacturing	4.3	7.1	9.2	8.4
Energy and fuel	7.1	8.0	9.6	9.2
Trade	3.0	4.8	7.0	6.4
Transport and communications	4.7	6.3	12.5	10.6
Services	1.2	—	—	—
Other services	3.0	5.6	8.2	7.0

SOURCE: National Development Council.

crease of almost 12 per cent in 1970. In real terms this means about a 2 per cent growth rate, since domestic prices rose by about 9 per cent over the year. The growth of the product in 1970 does not compare favourably with the 3 per cent rate registered in 1969, when the price index rose at a slower pace (see table 31).

Although all sectors contributed to the overall growth of product, the largest increases were

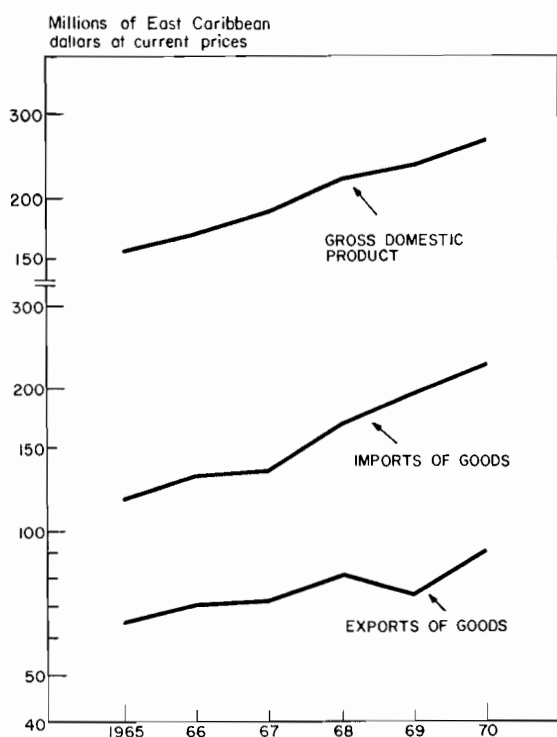
Table 30. Argentina: annual growth rates of gross domestic investment, according to development plans presented in 1970

Year	Gross domestic investment	Construction	Domestic equipment	Imported equipment
Actual rates 1960-1969	3.8	4.2	3.2	4.1
Plan I 1967-1969-1974	7.5	6.4	7.6	9.9
Plan II 1970-1975	11.4	7.8	10.9	19.4
Plan III 1970-1975	10.5	7.0	10.7	17.1

SOURCE: National Development Council.

Figure III. Barbados: 1965-1970
Semi-logarithmic-scale

EVOLUTION OF THE GROSS DOMESTIC
PRODUCT AND INVESTMENT



in government services, personal services, transport, public utilities and sugar. The sugar sector showed an increase of 13.6 per cent, which marked a partial recovery from the sharp decline recorded in the previous two years (18.5 per cent and 12.6 per cent).

The increased value of sugar production was the result of both an expansion in the volume of production and higher prices, which brought prosperity to one broad sector of the economy. Apart from sugar, the agricultural sector is relatively small, but it has registered steady growth; in the last five years it has generated about 6 per cent of the gross domestic product.

Preliminary results of the 1970 population

census show that average annual growth since 1960 has been only 0.26 per cent. Therefore the per capita gross domestic product in 1970 is likely to be about 1,080 dollars (in 1960 it was 516). This, together with the significant increases in income from tourism—estimated at over 60 million dollars in 1970—explains the pressures on price levels and imports.

Trends in the export sector improved in 1970 as a result of increased production in agriculture and manufacturing. Imports also rose, especially imports of manufactures (largely machinery and equipment), but at a slower pace than exports. This fact, coupled with the net inflow on the services and capital accounts, would seem to indicate a considerable improvement in the balance-of-payments situation.

2. AGRICULTURE

This sector was the most important until 1967, and it used to generate 25.3 per cent of the gross domestic product. The decline in sugar production has changed the situation; but even so, in 1970 the agricultural product rose to 43.8 million dollars, accounting for 16.8 per cent of the gross domestic product. This is an increase of 12 per cent over 1969, and it was achieved despite the fires in the cane-fields during the year.

The remainder of the sector grew steadily throughout the 1960s: while it accounted for only about 24 per cent of agricultural production in 1965, it is estimated to have generated 35 per cent of the gross agricultural product in 1970. Recently a great deal of attention has been given to agricultural studies and diversification programmes, and this is helping to reduce dependence on sugar.

3. OTHER SECTORS

All the other sectors grew in 1970, but the most dynamic growth was registered in government, and transport and public utilities. In line with the policy of encouraging the diversification of agriculture, expanding tourism and speeding up manufacturing, government services have provided the main impetus for infrastructural development. In order to implement this policy, the Government increased its capital expenditure from 14 per cent in the 1968-1969 fiscal year to 21 per cent in 1970-1971. It is estimated that this sector will account for at least 16 per cent of the gross domestic product in 1970, compared with 14.8 per cent in 1969. Transport and public utilities are estimated to have increased by 13 per cent and services by 15 per cent in 1970, both undoubtedly stimulated by the rapid growth in

tourist expenditure in the island. Manufacturing has ventured into new fields, but the impact of the new industries is still insignificant, and the share of this sector is less than 10 per cent.

4. THE EXTERNAL SECTOR

Data for 1969 show that the deficit on merchandise trade was more than 120 million dollars (in 1968 it was 88 million). Provisional estimates for 1970 indicate that the deficit will probably be about the same as in 1969 and will not continue to rise, as a result of the improvement in sugar exports and other manufactures during the first half of 1970. Final figures on the first half of the year show that total exports increased faster than imports.

The growth of exports was largely the result of improvements in food products and manufactures, and sugar and its by-products were important factors in determining the value of food exports. Up to June 1970, sugar exports were 6,000 tons lower than the total for 1969, but the value of exports was almost 2.5 million dollars higher. In 1970 exports of manufactured goods, especially transport machinery and equipment, continued the upward trend initiated in 1967 and their share in total export earnings steadily increased (see tables 32 and 33).

The share of food in total imports continued to decline, while imports of manufactures rose as a result of the larger amounts of machinery and capital goods required for the growing tourist industry, for new development projects and for investment in agricultural and industrial import substitution projects (see table 34).

The big deficit on merchandise trade that is expected for 1970 (about 130 million dollars) will require substantial inflows on the services and capital accounts if the international reserves are not to come under heavy pressure. The data available show that the foreign exchange earnings generated by tourism on the travel and transport accounts continue to rise. Net foreign financial assets dropped in 1969, which indicates that international reserves had to be drawn upon, but according to the data for the first half of the year, the situation has improved somewhat.

The growth in the tourist industry involves a vicious circle; while it produces a steady inflow of foreign exchange, it also puts great pressure on imports. The capital requirements for the construction of hotels and tourist infrastructure cannot be met from internal sources. Thus the relative dependence on imports can be reduced only if production is diversified enough to satisfy the needs of tourism.

Barbados' trade with the other CARIFTA

countries has always been considerable; in 1969, for example, it accounted for 11 per cent of total imports and 19 per cent of exports. Imports continued to be higher than exports in 1970, which indicates that the gap between the two is widening. It should be mentioned that re-exports constitute a large proportion of Barbados' exports to CARIFTA countries (37 per cent in 1969), because it has traditionally provided storage space for many of the smaller CARIFTA territories (see table 35).

Bolivia

1. RECENT ECONOMIC TRENDS

In 1970 the Bolivian economy made a partial recovery from the sluggish growth of the previous year. The gross domestic product grew by 5.2 per cent, and although this was an improvement on the 4.5 per cent recorded in 1969, it was still some way below the rate of 6.8 per cent for the period from 1965 to 1968.

If circumstances had been normal, the growth of the product would have been appreciably higher because of the notable recovery in important sectors such as agriculture, manufacturing and mining; however, the sharp drop in petroleum production, following suspension of sales to the United States (which were only resumed at the end of the year), had an adverse effect on the mining sector. This was made worse by the fall in government income from petroleum royalties consequent upon the drop in production, the hold-up in the project for the construction of a gas pipeline to the Argentine frontier, and a diminution in the inflow of foreign capital with a resulting drop in construction (see table 36).

If it had not been for the fall in petroleum sales, there would have been more than the 9.6 per cent increase in the value of exports, since metals, especially antimony and wolfram, once again commanded high prices on the world market.

The value of imports increased by 5.5 per cent, that is, at a slower rate than exports, and this, together with a smaller outflow in profit and interest payments on foreign capital, brought about a considerable reduction in the deficit on current account. At the same time there was a similar reduction in the inflow of capital, with the result that the balance of payments showed only a small surplus, comparable with those of the previous two years.

Up to September 1970 the international financial institutions had authorized only three loans to Bolivia, totalling 2.8 million dollars, which does not compare favourably with the 28

Table 31. Barbados: gross domestic product by sector of economic activity, 1966-1970

Sector	Millions of East Caribbean dollars at current prices					Percentage of total					Annual growth rates				
	1966	1967	1968	1969	1970 ^a	1966	1967	1968	1969	1970 ^a	1966	1967	1968	1969	1970 ^a
Agriculture	43.4	47.8	41.7	39.1	43.8	25.6	25.3	19.2	16.7	16.8	5.3	10.1	-12.8	-6.2	12.0
Sugar	32.0	35.1	28.6	25.0	28.4	18.9	18.6	13.2	10.7	10.9	1.6	9.7	-18.5	-12.6	13.6
Other agricultural commodities	11.4	12.7	13.1	14.1	15.4	6.7	6.7	6.0	6.0	5.9	15.2	11.4	3.1	7.6	9.2
Manufacturing and mining	17.3	18.6	21.0	22.8	24.8	10.2	9.8	9.7	9.8	9.5	6.8	7.5	12.9	8.6	8.8
Construction	15.3	16.4	20.0	21.4	23.5	9.0	8.7	9.2	9.2	9.0	2.7	7.2	22.0	7.0	9.8
Distribution	37.3	39.2	50.0	54.4	58.2	22.0	20.7	23.1	23.3	22.3	4.8	5.1	27.6	8.8	7.0
Transport and public utilities	10.3	14.6	18.2	21.3	24.1	6.1	7.7	8.4	9.1	9.2	11.4	41.7	24.7	17.0	13.1
Ownership of dwellings	6.8	7.3	8.0	8.4	8.9	4.0	3.9	3.4	3.6	3.4	4.6	7.4	9.6	5.0	6.0
Services	17.9	19.5	27.8	31.7	36.4	10.6	10.3	12.8	13.6	13.9	5.3	8.9	42.6	14.0	14.8
Government	21.3	25.8	30.0	34.5	41.4	12.6	13.6	13.8	14.8	15.9	21.0	21.1	16.3	15.0	20.0
TOTAL	169.6	189.2	216.7	233.6	261.1	100.0	100.0	100.0	100.0	100.0	7.2	11.6	14.5	7.8	11.8

SOURCE: Official publications and data provided by the Economic Planning Unit. ^a ECLA estimates.

Table 32. Barbados: value and composition of exports, including re-exports

SITC sections	Value (Millions of East Caribbean dollars)					Percentage of total				
	1966	1967	1968	1969	1970 ^a	1966	1967	1968	1969	1970 ^a
0 Food	45.8	47.6	43.2	41.2	37.2	66.6	66.6	58.8	55.5	67.1
1 Beverages and tobacco	3.9	3.5	3.4	3.5	1.9	4.9	4.9	4.7	4.7	3.4
2 Crude materials, inedible, except fuels	0.2	0.4	0.4	0.3	0.1	0.6	0.6	0.5	0.4	0.2
3 Mineral fuels and lubricants	11.9	10.9	13.1	9.1	3.4	17.0	15.2	17.8	12.2	6.1
4 Animal and vegetable oils and fats	0.3	0.1	0.1	—	—	0.2	0.2	0.1	—	—
5 Chemicals	1.5	1.9	2.5	2.6	1.5	2.2	2.6	3.4	3.5	2.7
6 Manufactured goods	2.6	2.3	2.5	2.9	1.8	3.8	3.9	3.3	3.9	3.3
7 Machinery and transport equipment	1.5	2.0	4.6	9.0	6.2	2.2	2.8	6.2	12.1	11.2
8 Miscellaneous manufactured articles	1.5	2.1	2.9	4.8	2.8	2.2	2.8	4.0	6.5	5.1
9 Miscellaneous transactions and commodities	0.6	0.6	0.9	0.8	0.4	0.9	0.9	1.2	1.1	0.7
TOTAL	70.0	71.5	73.5	74.3	55.4	100.0	100.0	100.0	100.0	100.0

SOURCE: Barbados Overseas Trade Reports (annual and quarterly issues) and ECLA estimates. ^a January to June 1970.

Table 33. Barbados: exports of selected commodities, 1967-1969
(Thousands of East Caribbean dollars)

Commodities	Units	1967		1968		1969		1970 ^a	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Sugar	Thousands of tons	175	36,631	158	36,195	135	26,843	129	29,234
Fancy molasses	Thousands of gallons	1,821	1,639	2,408	2,393	2,191	2,412	1,112	1,223
Other molasses	Thousands of gallons	7,351	2,137	4,519	1,148	4,916	1,082	7,431	892
Rum	Thousands of gallons	819	2,947	834	2,912	663	2,938	226	1,354
Lard and margarine	Thousands of pounds	1,999	984	2,360	1,111	2,934	1,379	1,460	693
Laundry soap	Thousands of pounds	149	41	391	81	654	139	502	112
Edible oil	Thousands of gallons	48	118	7	16	—	—	—	—
Sugar confectionary	Thousands of pounds	541	211	666	274	843	364	396	170
Biscuits	Thousands of pounds	984	279	—	—	1,084	366	644	243
Clothing, except furs ^b	—	—	887	—	1,508	—	—	—	—
Shellfish	Thousands of pounds	2,524	4,268	2,599	7,286	2,548	7,237	1,318	3,819

SOURCE: Barbados Overseas Trade Reports and data supplied by the Barbados Statistics Office.

^a January to June.
^b Including re-exports.

Table 34. Barbados: value and composition of imports

SITC sections	Value (Millions of East Caribbean dollars)							Percentage of total		
	1966	1967	1968	1969	1970 ^a	1966	1967	1968	1969	1970 ^a
0 Food	34.1	32.5	38.6	42.4	24.0	26.0	24.3	23.0	21.8	20.7
1 Beverages and tobacco	2.4	2.3	3.3	3.8	3.1	1.8	1.8	2.0	2.0	2.7
2 Crude materials, inedible, except fuels	4.4	4.9	5.9	6.3	3.3	3.4	3.7	3.5	3.2	2.8
3 Mineral fuels and lubricants	13.1	11.6	16.6	14.8	8.3	10.0	8.7	9.9	7.6	7.2
4 Animal and vegetable oils and fats	0.8	1.1	1.6	2.2	1.4	0.6	0.8	1.0	1.1	1.2
5 Chemicals	9.8	10.9	12.3	14.4	9.1	7.5	8.2	7.3	7.4	7.9
6 Manufactured goods	27.2	27.2	31.5	40.1	24.0	20.7	20.3	18.8	20.6	20.7
7 Machinery and transport equipment	22.3	25.7	35.1	40.8	26.9	17.0	19.2	20.9	21.0	23.2
8 Miscellaneous manufactured articles	13.1	13.8	17.5	23.8	12.9	10.3	10.3	10.4	12.2	11.1
9 Miscellaneous transactions and commodities	4.0	3.8	5.1	6.1	2.9	3.0	2.9	3.3	3.1	2.5
TOTAL	131.1	134.1	167.5	194.6	115.9	100.0	100.0	100.0	100.0	100.0

SOURCE: Barbados Overseas Trade Reports (annual and quarterly issues) and ECLA estimates.

^a January and June 1970.

Table 35. Barbados: trade with CARIFTA countries
(Thousands of East Caribbean dollars)

Year	Imports	Exports
1967.	13,051	10,294
1968.	16,823	11,749
1969.	21,103	14,200
1970 ^a	19,799	11,768

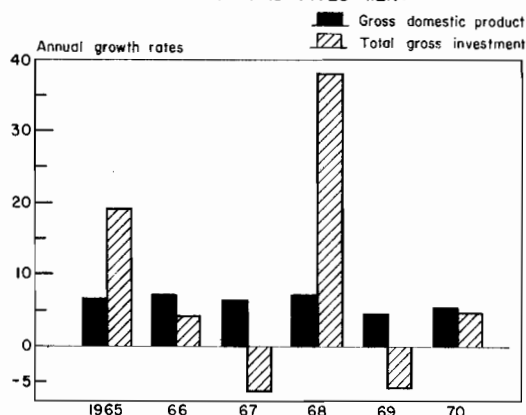
SOURCE: Official trade reports and preliminary data supplied by the Barbados Statistics Office.

^a January to September 1970.

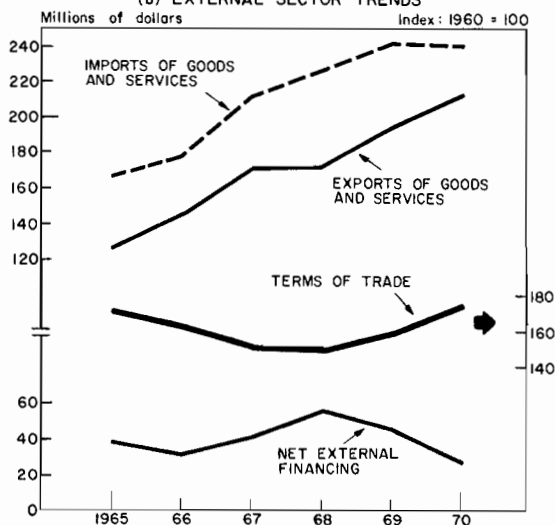
Figure IV. Bolivia: 1965–1970

Natural scale

(a) GROWTH OF THE GROSS DOMESTIC
PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



and 48 million loans granted in 1968 and 1969 respectively. However, credits were obtained from different sources, among others a 27.5 million dollar loan from the USSR, repayable over ten years, to finance manufacturing and petroleum projects.

There was a partial recovery of total fixed investment, which increased by 4.7 per cent in

1970, a very low rate compared with the 14.6 per cent for 1965–1968. While private consumption expenditure rose by only 4.1 per cent, general government expenditure shot up by 16 per cent, thereby accelerating the already rapid growth of expenditure recorded in 1969 (see table 37).

In 1969 public saving increased substantially thanks to the larger profits earned by public enterprises. During the first half of 1970 there was a considerable increase in revenue from customs duties and consular taxes, as a result of the higher rate applied to exports of ores from December 1969. However, there was a parallel reduction in income from taxes and royalties on petroleum, estimated at over 40 million pesos. Current expenditure increased during the first half of the year by about 27 per cent, and servicing payments on the public debt were three and a half times higher, so that the public debt must have expanded considerably during 1970.

During the year there were some changes in economic policy affecting the organization of the administration and relating to economic problems. Among the former there were administrative reforms which established a hierarchy of ministers; for this purpose, in addition to the usual specialized portfolios, a minister of State and two new ministers of planning and of finance with broad powers were appointed. This was done with a view to ensuring that economic policy should be consonant with social and political policy. There was also a reorganization of the financial system; the Bank Authority (Superintendencia de Bancos) is no longer a separate entity and has become the supervisory department of the Central Bank. In the fiscal field a start was made with the task of overhauling the tax machinery, with a view to simplifying the taxation system and particularly reducing tax evasion, which amounts to an estimated 40 to 70 per cent of total taxable income; to this end an exoneration was granted for some past tax offenses. Another measure to rationalize the administration consisted in placing a ceiling on the salaries paid to civil servants so as to establish a more equitable relationship between those earned by senior officials in the central administration and those of senior staff in public enterprises.

Two of the most important events in the economic field were the nationalization of the two largest private sugar companies, and the upward adjustment of wages in the nationalized mining industry. The latter meant that miners' wages were restored to the levels obtaining before the cut in 1965, when they were reduced

because of the enormous deficits of the Bolivian Mining Corporation (Corporación Minera de Bolivia—COMIBOL).

2. TRENDS IN PRODUCTION

(a) *Agriculture*

Nineteen seventy was a good year for agriculture; potatoes recovered from the severe setback suffered in 1969 and the production of wheat, barley, sugar-cane, bananas, yucca, cotton and coffee continued to improve. Only maize and vegetables showed a slight drop. Agricultural production increased by 5 per cent, a relatively satisfactory rate compared with the fall of 3.4 per cent in 1969 and the slow growth recorded in previous years, which did not always keep ahead of population growth.

Imports have made up for low domestic production of certain items; about 30 million dollars' worth of food, beverages and tobacco were being imported a year. At present nearly 40,000 tons of wheat and 110,000 tons of flour a year are being imported.

For some years, incentives to production have been provided under specific programmes which have enabled the country to become self-sufficient in rice, sugar and cotton and to boost its coffee production. Furthermore, credit to the agricultural sector has gradually been increased; between 1963 and 1969 it tripled, and now one fifth of all bank credit to the private sector goes to agriculture, but public investment in agriculture is still small.

(b) *Mining*

Mining output in 1970 rose by 7.6 per cent, considerably less than the rates of 11.8 per cent registered in 1969 and 15 per cent per year in the three-year period from 1965 to 1968. The slackening of the growth rate was entirely due to the fall in petroleum production, estimated at about 29 per cent, since mining production grew by 18.7 per cent under the stimulus of excellent prices abroad and the COMIBOL policy of developing the mining of ores other than tin. In 1969, 29 per cent of the value of COMIBOL's output was derived from these ores; in 1964 the figure was only 13 per cent.

The Banco Minero, which is responsible for backing about two thousand producers in small-scale mining, made an effective contribution to the growth of production; in 1969 it increased its volume of credits by about 30 per cent, to a total of about 33 million pesos. Meanwhile, public investment in mining increased from some 30 million pesos in 1967 to 111 million in 1969; by contrast, private investment dropped over 70 per cent during the latter year.

Towards the end of 1970 the National Smelting Company (Empresa Nacional de Fundición) managed to put the Vinto tin smelter into operation, after overcoming a great many financial difficulties; the plant will shortly be producing 7,500 tons of electrolytic tin and about 800 tons of tin alloys. In addition, an antimony smelter is to be installed with a capacity for 6,000 tons of antimony and 1,000 tons of alloys, and work is continuing on the bismuth smelter.

In November a decree was signed making the State the sole owner of all the refineries and smelters that are planned, and the sole authority to decide upon their installation.

The Banco Minero and COMIBOL came to an agreement with the Soviet Union on sales of refined tin and tin concentrates, and an initial agreement was signed for Bolivia to supply 800 tons of tin and 2,400 tons of concentrates. Negotiations with Argentina are under way for the sale of iron ore from Mutún to the Somisa iron and steel works.

(c) *Petroleum*

The nationalization of the Gulf Oil Company's facilities caused an appreciable drop in production and exports of petroleum from October 1969 onwards. In 1970 petroleum production fell by about 29 per cent; however, refining for the domestic market continued to expand at an annual rate of 5.3 per cent and natural gas production rose to 390 million cubic metres in the first half of the year, whereas in 1969 the entire output was only 266 million.

In September 1970 the compensation payable to the Gulf Oil Company for the expropriation of its facilities was fixed at 78.6 million dollars. Payments on this sum out of sales of petroleum exports will begin in 1975, or earlier if Bolivia starts to export natural gas to Argentina. Payment is conditional upon Bolivia obtaining a 23 million dollar loan from IBRD for the construction of a gas pipeline to the Argentine frontier.

The Bolivian Petroleum Corporation (Yacimientos Petrolíferos Fiscales Bolivianos—YPFB) has extended its prospecting for new oil fields—as far as its finances will allow—from the Santa Cruz area towards the Altiplano and the Beni River, in an effort to increase their limited reserves.

3. EXTERNAL TRADE

The sudden drop in petroleum exports—estimated to have been about half their 1969 value—partially cancelled out the extraordinary growth recorded in sales of ore, except tin ore,

Table 36. Bolivia: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of pesos at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a
Agriculture	1,530.3	1,615.2	1,560.2	1,638.2	28.3	24.7	23.0	22.9	1.8	-3.4
Mining	552.4	841.0	941.0	1,012.5	10.2	12.9	13.9	14.1	15.0	11.8
Manufacturing	707.3	871.1	832.7	945.1	13.1	13.3	12.3	13.2	7.2	-4.4
Construction	303.3	319.5	339.9	326.3	5.6	4.9	5.0	4.6	1.7	6.4
Subtotal goods	3,093.3	3,646.8	3,673.8	3,922.1	57.3	55.8	54.1	54.8	5.6	0.7
Electricity, gas and water	71.9	106.9	111.7	119.0	1.3	1.6	1.6	1.7	14.1	4.5
Transport and communications	462.8	548.3	584.5	599.1	8.6	8.4	8.6	8.4	5.8	6.6
Subtotal basic services	534.7	655.2	696.2	718.1	9.9	10.0	10.2	10.0	7.0	6.3
Commerce and finance	556.8	753.2	783.3	780.2	10.3	11.5	11.6	10.9	10.6	4.0
Government	467.3	565.7	590.6	644.9	8.7	8.6	8.7	9.0	6.6	4.4
Ownership of dwellings	273.4	347.1	369.0	378.6	5.1	5.3	5.4	5.3	8.3	6.3
Miscellaneous services	472.8	575.0	677.9	718.6	8.7	8.8	10.0	10.0	6.7	17.9
Subtotal other services	1,770.3	2,241.0	2,420.8	2,522.3	32.8	34.2	35.7	35.2	8.2	8.0
TOTAL	5,440.9	6,635.4	6,934.0	7,294.6	100.0	100.0	100.0	100.0	6.8	4.5

Source: For 1965 to 1968, ECLA estimates based on official data supplied by the Planning Office; for 1969 and 1970, ECLA estimates based on preliminary data from the same source.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 37. Bolivia: total supply and demand

	Millions of pesos at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a
Total supply	7,546.2	9,283.3	9,703.2	10,084.7	131.1	132.2	132.2	130.7	7.1	4.5
Gross domestic product	5,757.1	7,021.0	7,336.9	7,718.4	100.0	100.0	100.0	100.0	6.8	4.5
Imports ^b	1,789.1	2,262.3	2,366.3	2,366.3	31.1	32.2	32.2	30.7	8.1	4.6
Total demand	7,546.2	9,283.3	9,703.2	10,084.7	131.1	132.2	132.2	130.7	7.1	4.5
Exports ^b	884.3	1,340.2	1,405.5	1,341.5	15.4	19.1	19.2	17.4	14.9	4.9
Total investment	1,125.4	1,516.3	1,425.3	1,490.9	19.5	21.6	19.4	19.3	10.4	-6.0
Gross fixed investment	970.6	1,461.9	1,286.5	1,347.0	16.9	20.8	17.5	17.5	14.6	-12.0
Public	400.6	742.7	...	...	6.9	10.6	...	...	22.8	...
Private	570.0	719.2	...	...	9.9	10.2	...	...	8.0	...
Construction	600.5	622.0	...	...	10.4	8.9	...	...	1.2	...
Machinery and equipment	370.1	839.9	...	...	6.4	12.0	...	...	31.5	...
Total consumption	5,536.5	6,426.8	6,872.4	7,252.3	96.2	91.5	93.6	94.0	5.1	6.9
General government	649.8	754.0	824.1	956.0	11.3	10.7	11.2	12.4	5.1	9.3
Private	4,886.7	5,672.8	6,048.3	6,296.3	84.9	80.8	82.4	81.6	5.1	6.6

Source: 1965-1968: ECLA, on the basis of official data supplied by the Planning Office; 1969 and 1970: ECLA estimates based on preliminary data from the same source.

^a Preliminary.
^b Goods and services, excluding factor payments.

with the result that total exports of goods increased by an over-all figure of 10 per cent. Tin has been declining in importance compared with other mining products since 1965, initially as a result of the rapid increase in petroleum production, and subsequently in that of other ores. In 1970 the estimated value of exports rose by about 5 per cent; this was entirely due to a rise in prices, since the volume remained unchanged.

Between 1965 and 1967 petroleum sales increased from 700,000 dollars to 23 million, and they remained at that level for the next two years. But exports to the United States were suspended at the end of 1969, as a result of the nationalization of the Gulf Oil Company's plant, and were not resumed until September 1970, when the volume exported was much smaller.

Exports of ores, apart from tin, doubled in value between 1965 and 1969 owing to an increase of 54 per cent in volume and 33 per cent in prices. In 1970 the export value of these products seems to have increased by about 50 per cent as a result of an extraordinary rise in prices, particularly of antimony and wolfram, estimated at about 40 per cent.

While there was a 9.6 per cent rise in exports of goods and services, imports rose 5.5 per cent.

In addition the net outflow of profit and interest payments was reduced to half, with the result that the deficit on current account fell from 46 million dollars in 1969 to 27 million in 1970 (see table 38).

However, there was a parallel and equal decrease in the net inflow of non-compensatory capital so that the balance-of-payments surplus was only 0.4 million dollars, that is much the same as in 1969, although it includes the 4.9 million in Special Drawing Rights allocated to Bolivia in 1970, of which it was able to use 2.2 million.

Brazil

1. RECENT ECONOMIC TRENDS

Brazil's economic growth seems to have followed roughly the same pattern in 1970 as in 1969. Ministry of Finance estimates for both years point to a rise in the gross domestic product of slightly more than 9 per cent (see table 39).¹⁷

¹⁷ The estimates for 1969 have not yet been corrected by the Fundação Getulio Vargas, which is responsible for keeping the national accounts, but they may be over-estimated as regards certain sectors; for example, the data on agricultural production published by the Instituto Brasileiro de Geografia indicate a somewhat lower growth rate (see note to table 40).

Table 38. Bolivia: balance of payments
(Millions of dollars)

	1960	1965	1968	1969	1970 ^a
<i>Current account</i>					
Exports of goods and services	57.8	125.8	170.2	192.3	210.7
Goods f.o.b.	54.4	115.5	157.1	180.1	198.0
Services	3.4	10.3	13.1	12.2	12.7
Imports of goods and services	-89.7	-161.7	-202.6	-215.9	-227.7
Goods f.o.b.	-68.2	-126.6	-161.5	-174.0	-184.0
Services	-21.5	-35.1	-41.1	-41.9	-43.7
Net external investment income	1.2	-3.6	-23.6	-23.6	-11.4
Net private transfer payments	0.2	1.1	0.1	1.2	1.0
Balance on current account	-30.5	-38.4	-55.9	-46.0	-27.4
<i>Capital account</i>					
Net external financing	30.5	38.4	55.9	46.0	27.4
External non-compensatory capital	32.7	53.2	66.3	57.5	27.8
Direct investment	16.5	12.5	6.5	-92.0	
Long- and medium-term loans	12.8	25.6	65.7	136.6	
Amortization payments	-11.4	-9.7	-12.6	-15.1	
Short-term liabilities	2.0	9.9	0.1	-1.1	
Official transfer payments	12.8	14.9	6.6	29.1	
Domestic non-compensatory capital or assets	-1.8	-2.2	-3.6	-2.0	-0.4
Errors and omissions	-3.1	1.3	-6.6	-9.1	
Compensatory movements (increase -)	2.7	-13.9	-0.2	-0.4	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	0.2	14.3	11.3	
Amortization payments	-3.7	-1.1	-3.8	-9.2	
Movements of gold and foreign exchange reserves (increase -)	5.3	-13.0	-10.7	-2.5	

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

^a ECLA estimates.

The country's industrial growth, reckoned to be about 10 per cent, is largely attributable to the motor-vehicle, construction and chemical industries, though not to the same extent as in the past. The demand generated by public investment programmes in energy, transport and communications continued to have a significant effect on the metal-transforming, electrical and communications industries.

Despite the sharp drop in coffee production (over 30 per cent) and the severe drought that spoilt the main crops in the Nordeste, the estimated growth rate in the agricultural sector was 7 per cent (see table 40).

The external sector maintained an extremely high level of both real and financial transactions. The value of exports of goods rose by nearly 17 per cent to 2,700 million dollars, about 430 million of which was accounted for

by manufactures. Imports of goods also increased in f.o.b. value to 2,280 million dollars, more than 14 per cent higher than in 1969. The capital inflow, estimated at over 1,400 million dollars, appears to have been very high again, resulting in a fairly substantial net balance on capital account and amply exceeding the 387 million dollar deficit on current transactions. Consequently, Brazil further increased its foreign exchange reserves, now estimated at some 1,200 million dollars.

The large balance-of-payments surplus also helped to maintain a state of high liquidity and to finance the growing volume of loans to households, government and enterprises, which in turn continued to encourage the expansion of aggregate demand. Loans from the commercial banks and financial agencies to the private sector (enterprises and households) rose by over 35 per cent, compared with a 19.3 per cent increase in the general price index and a 24 per cent rise in the money supply.

For the first time since 1964, the upward adjustment of wages was larger than the rise in the cost of living and represented a real increase of between 2 and 5 per cent for the main categories of urban workers.

Private investment in both fixed and financial assets continued to rise under the effect of a series of tax and financial incentives designed to promote capital formation in virtually every sector.

2. MAJOR SECTORS OF PRODUCTION

(a) Agriculture

Data are available only on the main crops, for there is no accurate information on live-stock production.

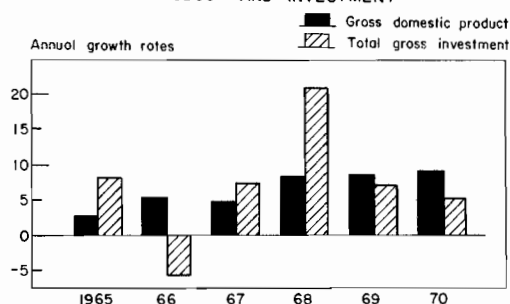
The main feature of 1970 was the serious drought that affected the Nordeste and brought down production of the principal crops, although taken all in all, the Nordeste's poor performance was more than offset by the excellent crops in the Centro-Sul where the production of rice, sugar-cane, beans and maize was up by more than 20 per cent and that of pepper, soya beans and wheat by over 40 per cent. Thus, in spite of a big drop in the principal export crops, such as coffee (down by 30 per cent) and cocoa (down by 16 per cent), the Centro-Sul's total agricultural production rose by 10 per cent, which gave the sector as a whole an over-all growth rate of slightly over 6 per cent (see table 41).

Brazilian agriculture continued to follow its cyclical pattern of ups and downs, particularly as regards its staple export crops, which suf-

Figure V. Brazil: 1965-1970

Natural scale

(a) GROWTH OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS

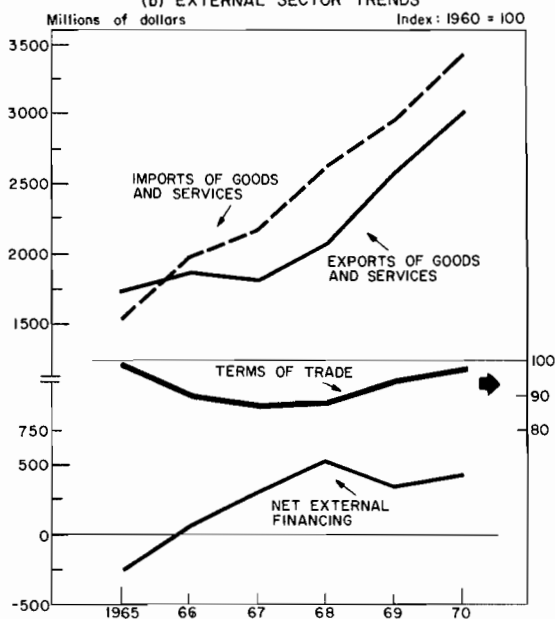


Table 39. Brazil: total supply and demand

	Millions of new cruzeiros at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968 ^a	1969 ^a	1970 ^a	1965	1968 ^a	1969 ^a	1970 ^a	1965-1968 ^a	1969 ^a
Total supply	3,577.2	4,346.8	4,717.5	5,151.3	104.1	106.0	106.0	106.2	6.7	8.5
Gross domestic product	3,434.7	4,100.4	4,448.9	4,849.3	100.0	100.0	100.0	100.0	6.1	8.5
Imports ^b	142.5	246.4	268.6	302.0	4.1	6.0	6.0	6.2	20.0	9.0
Total demand	3,577.2	4,346.8	4,717.5	5,151.3	104.1	106.0	106.0	106.2	6.7	8.5
Exports ^b	196.0	245.3	294.1	300.9	5.7	6.0	6.6	6.2	7.8	2.3
Total investment	621.5	759.6	812.7	856.6	18.1	18.5	18.3	17.7	3.9	7.0
Gross fixed investment	488.4	726.7	782.7	876.6	14.2	17.7	17.8	18.1	14.2	7.7
Public	146.7	181.1	...	...	4.3	4.4	...	...	7.3	...
Private	341.7	545.6	...	...	9.9	13.3	...	...	17.0	...
Total consumption	2,759.7	3,341.9	3,610.7	3,993.8	80.3	81.5	81.1	82.4	6.6	8.0
General government	394.3	471.7	499.1	552.5	11.5	11.5	11.2	11.4	6.2	5.8
Private	2,365.4	2,870.2	3,111.6	3,441.3	68.8	70.0	69.9	71.0	6.7	8.4

SOURCE: For 1965-1968: ECLA, on the basis of data supplied by the Fundação Getúlio Vargas (*Conjuntura Econômica* No. 6, 1970); for 1969 and 1970: ECLA estimates, on the basis of sectoral production data and other preliminary information supplied by official agencies.

^a Preliminary.
^b Goods and services, excluding factor payments.

Table 40. Brazil: gross domestic product, by sector of economic activity

	Millions of new cruzeiros at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968 ^a	1969 ^a	1970 ^a	1965	1968 ^a	1969 ^a	1970 ^a	1965-1968 ^a	1969 ^a
Agriculture	695.8	722.4	758.5	811.6	23.5	20.4	19.9	19.4	1.3	5.0
Mining	15.3	23.1	25.8	25.8	0.5	0.7	0.6	0.6	14.7	11.7
Manufacturing	652.6	849.1	940.8	1,036.8	22.0	24.0	24.5	24.7	9.2	10.8
Construction	29.2	39.4	42.2	48.5	0.9	1.1	1.1	1.2	10.5	7.1
Subtotal goods	1,392.9	1,634.0	1,767.3	1,922.7	47.0	46.2	46.0	45.8	5.5	8.2
Electricity, gas and water	69.0	88.3	98.0	107.6	2.3	2.5	2.6	2.6	8.6	11.0
Transport and communications	209.7	262.3	292.9	336.8	7.1	7.4	7.6	8.6	7.7	11.7
Subtotal basic services	278.7	350.6	390.9	444.4	9.4	9.9	10.3	10.6	7.9	11.5
Commerce and finance	591.3	715.5	...	...	20.0	20.2	...	...	6.6	...
Government	228.9	273.2	...	...	7.7	7.7	...	...	6.1	...
Ownership of dwellings	94.5	112.9	...	...	3.2	3.2	...	...	6.1	...
Miscellaneous services	376.1	451.7	...	...	12.7	12.8	...	...	6.3	...
Subtotal other services	1,290.8	1,553.3	1,680.6	1,826.7	43.6	43.9	43.8	43.6	6.4	8.2
TOTAL	2,969.6	3,545.2	3,846.5	4,192.7	100.0	100.0	100.0	100.0	6.1	8.5

SOURCES: For 1965-1968: ECLA, on the basis of data supplied by the Fundação Getúlio Vargas (*Conjuntura Econômica* No. 6, 1970); for 1969: ECLA, on the basis of preliminary data supplied by the Fundação Getúlio Vargas (*Conjuntura Econômica* No. 6, 1970). The information on the growth of the agricultural sector was corrected in the light of fresh information published by the Instituto Brasileiro de Geografia e Estatística (*Anuário Estatístico do Brasil* 1970). For 1970: preliminary estimate based on the figures for agricultural and industrial growth given by

the Minister of Finance in his speech of 7 January 1971. Growth of other sectors estimated on the basis of partial information supplied by official agencies.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.

^a Preliminary.

Table 41. Brazil: estimated agricultural production, 1970

	Production (thousands of tons)		Percentage variation	Value at 1969 prices (millions of new cruzeiros)	
	1969	1970		1969	1970
Cotton	2,110	2,166	2.6	1,048.7	1,076.2
Rice	6,394	7,484	17.0	1,690.9	1,979.1
Bananas ^a	463	488	5.3	565.2	595.2
Cocoa ^b	190	160	-15.8	393.7	331.6
Coffee ^c	2,567	1,792	-30.2	2,039.3	1,423.8
Sugar-cane	75,247	91,123	21.1	1,241.6	1,503.5
Coconut ^d	656	667	1.6	112.7	114.6
Beans	2,200	2,305	4.8	1,060.2	1,110.7
Maize	12,693	15,375	21.1	1,730.1	2,095.6
Cassava	30,074	31,206	3.8	1,136.2	1,179.0
Groundnuts	754	875	16.0	267.2	310.0
Oranges	14,484	16,663	15.0	344.7	396.6
Potatoes	1,507	1,574	4.5	317.9	332.2
Pepper	14	15	3.5	30.0	31.1
Sisal	311	325	4.5	78.0	81.6
Soya beans	1,057	1,462	38.3	265.2	366.9
Wheat	1,088	1,550	42.5	474.9	676.6
TOTAL			6.3	12,822.1	13,634.9
TOTAL excluding coffee			13.3	10,782.8	12,211.1

SOURCE: Results of sampling supplied by the production statistics department (SEP).

^a Millions of stems.

^b Data supplied by the executive committee of the cocoa plan (Comisión Ejecutiva del Plan de Recuperación Económico-Rural del Cultivo del Cacao (CEPIAC)).

^c Data supplied by the Brazilian Coffee Institute.

^d Millions of coconuts.

ferred from bad weather and from the drought in the Nordeste, and the other cash crops reacted with extreme sensitivity to prevailing prices and credit facilities. The policy of minimum prices and greater credit facilities was again very helpful for cash crop growers in the Centro-Sul, but no way has yet been found of regulating the production of export crops satisfactorily, or of marketing and storing the staple crops for domestic consumption.

(b) Industry

Following the slight decline in the fourth quarter of 1969, which dropped the sector's estimated growth rate for the year to just over 11 per cent, manufacturing industry recovered during 1970. Compared with the same period in the previous year, January to November indicated an estimated growth of around 10 per cent. As in the past three years, the most dynamic sectors were the transport equipment, construction and chemicals industries, the first of which expanded by 15.5 per cent and the other two by 17.4 per cent (see table 42).

Once again, the slowest-growing sector was textiles, clothing and footwear, which registered a growth rate of less than 3 per cent. The food industry followed the same trend as the agricultural sector. Although the sale and production of electrical household appliances fell off dur-

ing the first nine months of the year, the electrical industry was not greatly affected, as it is far more dependent upon sales of basic equipment and of the inputs needed for the expansion programme in the energy and communications sectors.

The large-scale public and private investment programmes continued to influence the metal-transforming industry, which is being subsidized in priority sectors and areas by a number of public agencies, including the Industrial Development Council. During the year these

Table 42. Brazil: quantum indexes of industrial production, January to November 1970
(Base: January to November 1969)

Type of industry	Index ^a
Processing of non-metallic minerals	117.4
Metallurgy, metal-transforming, electrical and communications equipment	108.3
Transport materials and equipment	115.5
Paper and paper products	111.6
Rubber	121.3
Chemicals, cosmetics, soap and candles, plastic products	117.4
Textiles and clothing	102.8
Food, beverages and tobacco	109.0
TOTAL processing industry	110.2

SOURCE: Brazilian Statistical Institute.

^a Data subject to correction.

agencies approved over a thousand million dollars in fiscal and financial subsidies for industrial projects.

The main industrial subsidies included: exemption of the machinery and equipment industry from domestic taxes; lifting of import duties on equipment not produced domestically; tax exemptions and tax credit for exports of manufactures; and special credit terms for renewals of equipment by small and medium-sized enterprises.

In the motor-vehicle industry, the main production increases in 1970 were in new models of passenger cars and station wagons, while that of jeeps, lorries and buses declined. More than 60 per cent of the 400,000 vehicles produced in 1970 were various models of passenger cars and slightly under 10 per cent heavy lorries and buses.

As to the iron and steel sector, plans are currently being made for expanding capacity with State and foreign capital. Scheduled investment for 1971 is around 700 million cruzeiros (about 140 million dollars). If the 10 per cent growth rate over the same period in 1969 registered between January and October 1970 was kept up for the rest of the year, production of steel ingots should have exceeded 5 million tons for the year.

Output of cement rose to nearly 9 million tons, 15 per cent more than the year before, which means that it grew at roughly the same rate as construction. In addition to the public works programmes, which were stepped up in 1970, private construction continued the expansion that began in 1967. The construction of urban dwellings depends on the financial system sponsored by the National Housing Bank (Banco Nacional de Habitação). Housing loans operate on the basis of tied saving and, in recent years (1968-1970), increasing use has been made of building societies' operations on the financial market.

3. THE EXTERNAL SECTOR

In 1970, the external sector witnessed the accentuation of the trends that had been developing since 1968. Exports were 16.8 per cent higher, there was a major inflow of non-compensatory capital, and the final large surplus swelled Brazil's foreign exchange reserves even further. Imports, on the other hand, followed a somewhat different trend and increased more slowly, leaving a surplus on merchandise account over 400 million dollars for 1970 (see table 43). Expenditure on government transport services, travel and "other services" stayed at more or less the same level as in previous years (about 465 million dollars),

Table 43. Brazil: balance of payments, 1960-1970
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	1,459	1,747	2,076	2,579	2,987
Goods f.o.b.	1,270	1,596	1,881	2,311	2,700
Services	189	151	195	268	287
Imports of goods and services	-1,786	-1,280	-2,322	-2,602	-3,032
Goods f.o.b.	-1,293	-941	-1,855	-1,993	-2,280
Services	-493	-339	-467	-609	-752
Net external investment income	-194	-259	-305	-346	-351
Net private transfer payments	-13	39	5	14	9
Balance on current account	-534	247	-546	-355	-387
<i>Capital account</i>					
Net external financing	534	-247	546	355	387
External non-compensatory capital	233	135	718	1,039	1,022
Direct investment	138	154	135	207	
Long- and medium-term loans	351	266	466	904	
Amortization payments	-370	-274	-381	-425	
Short-term liabilities	97	-47	481	337	
Official transfer payments	17	36	17	16	-635
Domestic non-compensatory capital or assets	-38	-8	-132	-13	
Errors and omissions	10	-30	2	-24	
Compensatory movements (increase -)	329	-344	-42	-647	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	403	454	239	63	...
Amortization payments	-50	-576	-215	-188	...
Movements of gold and foreign exchange reserves (increase -)	-24	-222	-66	-522	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

while remittances of profits on external investment were still substantial, amounting to 350 million dollars. The net result of current transactions was therefore a deficit of 387 million dollars.

As for the capital account, which is not shown in detail in table 43, there are indications of a considerable drop in direct investment and a sharp increase in medium- and long-term loans and credits.¹⁸

The net movement of capital is therefore estimated at over 800 million dollars which leaves a balance-of-payments surplus of approximately 635 million dollars, bringing Brazil's foreign exchange reserves up to around 1,200 million dollars at the beginning of 1971.

Manufactures continued to be one of the fastest growing export items in the merchandise trade and were up 70 per cent on 1969; they now represent 16 per cent of the total value of exports of goods (430 million dollars). Meat exports also increased considerably (70 per cent) to a value of 70 million dollars while iron, manganese and niobium ores exceeded 230 million dollars and maize, whose exports doubled in value, brought in more than 70 million dollars. As for traditional exports, coffee declined in volume but, as the price rose, the total value for the year was slightly above that of the previous year (just over 800 million dollars). Soluble coffee exports made steady progress on foreign markets and exceeded 40 million dollars in value. Cocoa exports were down in volume and prices fell even more, which meant that they earned nearly 30 per cent less than in 1969.

¹⁸ According to information supplied by the Central Bank, loans amounted to around 1,400 million dollars, including both suppliers' credits and direct financing of enterprises.

Of Brazil's imports, the biggest increases were in petroleum, as a result of the decline in domestic production during 1970, chemical and pharmaceutical products and capital goods. On the other hand, wheat imports contracted by over 30 per cent following an increase in production in the south.

The short-term external debt rose steadily and, by the end of 1970, was already much larger than the country's foreign exchange reserves as of that date.

4. THE DOMESTIC FINANCIAL SITUATION

A high level of liquidity was maintained in 1970 throughout the economy, with a notable expansion of credit in the private sector. The national debt was at the lowest level for the past ten years and was completely covered without increasing the money in circulation, and the rate of inflation, though still around 20 per cent, was slightly lower than the year before.

Although the Treasury showed a small surplus at the end of October 1970, as it did for the same period in 1969, its estimated deficit at the end of the financial year was 740 million cruzeiros, which accumulated during the closing months owing to the extension of the period fixed for paying taxes and to the settlement of outstanding government debts. This is becoming standard practice for stimulating economic activity during the last quarter of the year. Central government revenue increased 38 per cent at current values and a little over 15 per cent in real terms, thanks largely to a more than proportional increase in taxation on electric power and other unclassified items of income (see tables 44 and 45).

Credit operations with Treasury funds resulting from the sale of government securities and

Table 44. Brazil: income and expenditure of the Central Government, 1969 and 1970
(Millions of cruzeiros at current January 1969 prices)

	Current value		Constant value		Percentage increase 1970 1969
	1969	1970	1969	1970	
<i>Income</i>	13,953.1	19,193.8	11,824.7	13,632.0	15.4
Taxes on	13,576.9	17,315.7	11,505.4	12,296.1	6.9
Processed goods	6,357.5	8,143.1	5,392.0	5,793.6	7.5
Income	3,597.5	4,628.2	3,050.7	3,285.3	7.7
Imports	1,115.3	1,371.9	934.2	967.9	3.6
Electric energy	216.6	434.4	189.2	313.5	65.7
Ores and minerals	40.5	62.4	35.5	40.9	15.2
Flat rate on fuels and lubricants	2,249.5	2,675.7	1,903.8	1,894.9	-0.5
Other	376.2	1,878.1	319.3	1,335.9	318.4
<i>Expenditure</i>	14,708.9	19,932.1	12,465.2	14,156.3	13.5
Deficit	-755.8	-738.3	-640.5	-524.3	-18.1

SOURCE: Central Bank.

Table 45. Brazil: financing of the Central Government surplus or deficit, January to October, 1969-1970
(Millions of cruzeiros at January 1969 prices)

	Current value		Constant value		Percentage variation compared with 1969
	1969	1970	1969	1970	
Income	11,501.0	15,159.2	9,914.7	10,937.4	10.3
Expenditure	11,420.3	15,109.9	9,845.1	10,901.8	10.7
Deficit (-) or surplus (+)	80.7	49.3	69.6	35.6	-48.9
Financing of the deficit (+) or surplus (-)	-80.7	-49.3	-69.6	-35.6	48.9
Liabilities of the monetary authorities	-1,748.2	-1,719.8	-1,507.7	-1,241.9	-17.6
Central Bank	-1,082.9	-1,436.7	-933.9	-1,037.5	11.1
Banco do Brasil (deposits)	-665.3	-283.1	-573.8	-204.4	-64.4
Liabilities to the public	1,667.5	1,670.5	1,438.1	1,206.3	-16.1
Credit operations on real estate	1,394.7	1,512.0	1,202.9	1,091.8	-9.2
Deposits by tax-payers	272.8	158.5	235.1	114.5	-51.3

SOURCE: Central Bank.

from compulsory deposits brought in more than 2,000 million cruzeiros, which not only covered the entire deficit but also enabled the Central Bank and the Banco do Brasil to withdraw a considerable amount of money from circulation.

As in the past, therefore, the public sector again helped to reduce the extra money put into circulation because of financial pressure from the external and private sectors. Consequently, though the monetary authorities increased their issues by only 22 per cent, their loans to the private sector rose by almost 40 per cent, so that there was no more than a 24 per cent increase in the money supply.

Bank credit to the private sector was up by over 30 per cent and the credit granted by institutions outside the commercial banks by even more (40 per cent in the case of financial institutions and 78 per cent in the case of investment banks). The net result was that, in real terms, liquidity grew rather faster than aggregate demand.

The financial pressure deriving from the increasing tendency of both enterprises and households to borrow in order to finance private investment and purchases of consumer goods, thus steadily pushing up demand, still seems to be the main cause of inflation, which makes it impossible to curb the rising trend of the general price index to any appreciable extent. In 1970 the index rose by 19.3 per cent, following increases of 20.9 per cent in the cost-of-living index for Guanabara, 18.5 per cent in wholesale prices on the domestic market and 18.7 per cent in the cost of construction. The 20.9 per cent rise in the cost of food in Guanabara was nonetheless lower than that of the previous year (24.2 per cent). Clothing and housing also registered slightly lower price increases, unlike public services, medical and

health services and household goods, which continued to rise at the same rate.

Incentives to private investment, intended to maintain an accelerated growth rate, were not limited to the extension of credit by the commercial banks but included countless tax exemptions and special official and external credit arrangements. Tax incentives ranged from rebates on taxes on goods in transit and on imports to exemptions of taxes on the earnings of enterprises so as to increase their investment capital, personal income tax deductions to encourage the purchase of securities, and credits for the payment of certain taxes.

Financial incentives included the creation of a large number of special funds attached to public development agencies, and special terms for obtaining external resources.

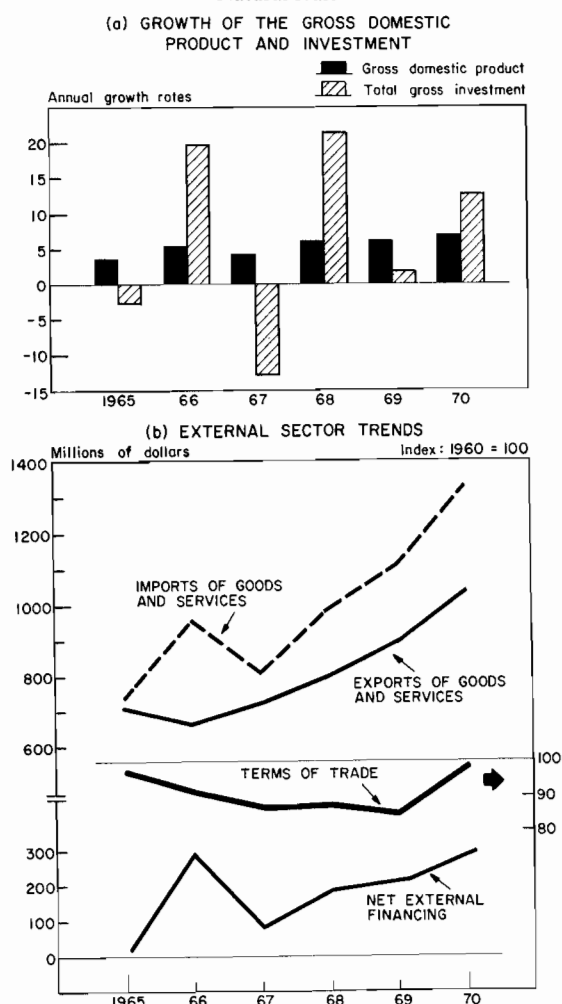
The expansion of financial activities outside the banking system, which have sprung up as a result of the systematic introduction of new incentives, has brought a steady increase in the volume of non-monetary financial assets in circulation and has encouraged speculation on the stock exchange. As in the past two years, the Rio de Janeiro and São Paulo exchanges recorded a very large volume of business, the over-all value of transactions in 1970 amounting to 4,600 million cruzeiros (about 1,000 million dollars).

Colombia

1. RECENT ECONOMIC TRENDS

In 1970 the gross domestic product grew by about 7 per cent, which was higher than the previous year's 6.2 per cent and the 5.2 per cent average for the period 1965-1968. This increase is presumably due in part to the rise in the value of exports as a result of the sharp upturn in coffee prices, combined with a substantial increase in the volume of imports, which in its turn was reflected in greater in-

Figure VI. Colombia: 1965-1970
Natural scale



vestment and a larger supply of industrial raw materials. From the sectoral standpoint, agriculture continued its moderate growth at a rate of 4.5 per cent. There were increases in the production of coffee, cocoa, bananas, barley, maize and sorghum, and decreases in cotton, wheat and rice. Manufacturing grew by 10.7 per cent thanks to an adequate supply of inputs and the relatively high level of demand, while construction rose by 4.2 per cent, i.e., more slowly than in the previous five-year period. As to domestic prices, the annual average price index rose by just over 7 per cent over 1969 (see tables 46 and 47).

In the fiscal sector, there was a significant increase in government investment (which exceeded the previous year's figure by almost one third, at current prices) and more external credit was available to finance it.

The external sector shows an increase of 19

per cent in the value of exports of goods—in dollars at current prices—which reflects the higher prices of coffee exports, whose volume remained virtually unchanged. The value of imports of goods rose by 26.7 per cent, thanks to the lifting of certain restrictions. The deficit on current account amounted to 284 million dollars, but with the net inflow of capital and the use of Special Drawing Rights the balance of payments showed a surplus of 35 million dollars (see table 50 below).

2. MAIN PRODUCTION SECTORS

In the last few years agriculture has grown more slowly than the total product. The rate of 4.5 per cent in 1970 was the result of uneven trends in output of the principal crops. Production of coffee, the main crop, amounted to some 8.5 million sacks; cocoa output rose 17 per cent to about 18,000 tons; but only 130,000 tons of cotton were produced in 1970 compared with an estimated 140,000 tons in 1969. Since more than half of the country's cotton production is consumed by Colombia's expanding textile industry, the exportable surpluses are likely to diminish. As regards grains, production of wheat and rice declined—the wheat crop was the smallest in 20 years—and that of barley, maize and sorghum increased. Output of fats was stimulated by development measures and in 1970 it amounted to 115,000 tons. Other important agricultural commodities were bananas, production of which rose 3 per cent, and potatoes, which recovered from the decline in 1969. Cattle slaughtering increased by about 15 per cent.

In mining, the larger petroleum output failed to offset the decline in all other mining products except iron ore, and there seems to have been a net drop in the total for the sector.

In manufacturing, preliminary estimates indicate a growth of about 10.7 per cent. Total production consisted of non-durable consumer goods (55 per cent), intermediate goods (32 per cent), durable consumer goods (6 per cent), capital goods (4 per cent) and other products (3 per cent). Some important projects have been promoted recently: the caustic soda plant in Mamonal, and in petrochemicals, the plant operated by Monómeros Colombo-Venezolanos Ltda. for the production of caprolactam. In the metal-transforming sector, measures have been taken to promote the motor-vehicle industry, which produced nearly 18,000 units in 1970 compared with 9,000 in 1968. In particular, the installation of the Sociedad de Fabricación de Automóviles S.A. in Envigado (Antioquia) was completed; half of its capital is owned by the Industrial Development Institute, which plans

Table 46. Colombia: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of pesos at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a
Agriculture	9,810.2	11,401.9	11,801.0	12,332.0	31.1	31.0	30.2	29.5	5.1	3.5	4.5
Mining	1,200.3	1,129.8	1,321.9	1,279.6	3.8	3.1	3.4	3.1	-2.0	17.0	-3.2
Manufacturing	5,685.9	6,660.4	7,159.9	7,926.0	18.0	18.1	18.3	18.9	5.4	7.5	10.7
Construction	1,029.1	1,613.1	1,782.5	1,857.4	3.3	4.4	4.6	4.4	16.2	10.5	4.2
Subtotal goods	17,725.5	20,805.2	22,065.3	23,395.0	56.2	56.6	56.5	55.9	5.5	6.1	6.0
Electricity, gas and water	344.9	443.2	474.2	531.1	1.1	1.2	1.2	1.3	8.7	7.0	12.0
Transport and communications	2,260.0	2,599.7	2,760.9	3,208.7	7.2	7.1	7.1	7.2	4.8	6.2	9.7
Subtotal basic services	2,604.9	3,042.9	3,235.1	3,559.8	8.3	8.3	8.3	8.5	5.3	6.3	10.0
Commerce and finance	5,261.6	6,150.6	...	...	16.7	16.7	...	...	5.3	...	...
Government	1,846.8	2,040.1	...	...	5.9	5.5	...	...	3.4	...	...
Ownership of dwellings	1,852.8	2,226.4	...	...	5.9	6.0	...	...	6.3	...	...
Miscellaneous services	2,214.9	2,529.7	...	...	7.0	6.9	...	...	4.5	...	...
Subtotal other services	11,176.1	12,946.8	13,782.7	14,882.1	35.5	35.1	35.3	35.6	5.0	6.5	8.0
TOTAL	31,453.0	36,665.7	38,939.0	41,664.7	100.0	100.0	100.0	100.0	5.2	6.2	7.0

SOURCE: For 1965 to 1969, ECLA estimates based on official statistics of the Banco de la República de Colombia; for 1970, ECLA estimates based on preliminary data quoted by the Planning Office in *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Colombia* (CIAP/462).

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 47. Colombia: total supply and demand

	Millions of pesos at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a	1970 ^a
Total supply .	37,738.4	44,572.6	47,414.5	51,278.7	112.1	113.7	113.9	115.1	5.7	6.4	8.1
Gross domestic product .	33,659.8	39,214.5	41,645.8	44,561.0	100.0	100.0	100.0	100.0	5.2	6.2	7.0
Imports ^b .	4,078.6	5,358.1	5,768.7	6,717.7	12.1	13.7	13.9	15.1	9.5	7.7	16.4
Total demand .	37,738.4	44,572.6	47,414.5	51,278.7	112.1	113.7	113.9	115.1	5.7	6.4	8.1
Exports ^b .	4,802.2	5,796.7	6,451.9	6,485.8	14.3	14.8	15.5	14.6	3.9	11.3	0.5
Total investment .	6,005.8	7,606.3	7,750.8	8,719.6	17.8	19.4	18.6	19.6	8.2	1.9	12.5
Gross fixed investment .	5,158.3	6,831.2	7,548.5	8,341.1	15.3	17.4	18.1	18.7	9.8	10.5	10.5
Public ^c .	883.2	1,912.5	...	...	2.6	4.9	...	...	29.5	...	...
Private ^c .	5,122.6	5,693.8	...	...	15.2	14.5	...	...	3.6	...	...
Construction .	3,034.0	4,387.5	...	...	9.0	11.2	...	...	13.1	...	...
Machinery and equipment .	2,124.3	2,443.7	...	...	6.3	6.2	...	...	4.8	...	...
Total consumption .	26,930.4	31,169.6	33,211.8	36,073.3	80.0	79.5	...	...	5.0	6.6	8.6
General government .	2,161.2	2,457.6	2,560.8	2,683.7	6.4	6.3	6.1	6.0	4.4	4.2	4.8
Private .	24,769.2	28,712.0	30,651.0	33,389.6	73.6	73.2	73.7	74.9	5.0	6.8	8.9

SOURCE: For 1965-1969, ECLA, on the basis of data supplied by the Banco de la República de Colombia; for 1970, ECLA estimates based on preliminary data quoted by the Planning Office, *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Colombia* (CIAP/462).

^a Preliminary.
^b Goods and services, excluding factor payments.
^c Including increases in stocks.

to produce 15,000 motor vehicles annually. In addition, work proceeded on the project to set up a motor-vehicle engine plant at Duitama (Boyacá), a joint undertaking of the Industrial Development Institute and the Renault company. Moreover, the assembly of railway wagons, the production of parts and components, and the building of fishing vessels were stepped up. At a different level is the programme to establish five development poles for artisan-type industry, the first of which was opened in mid-1970 at Chamba (Tolima). The quality and low cost of some industrial products have made it possible to export them in considerable quantities, e.g., textiles and, on a lesser scale, some manufactures of the wood, metal-transforming and chemical industries.

3. THE PUBLIC SECTOR

The national government accounts reveal a significant increase in investment (at current prices), which was nearly one third up on the previous year's level. Since current expenditure grew slightly faster than current income (by 24 and 22 per cent, respectively), the final deficit was nearly 85 per cent higher than in 1969. It is expected that more external credit will be used to cover this deficit (see table 48). Government investment expenditure accounted for only one quarter of total public investment, which also included investment by autonomous and State enterprises. An analysis of the nature of this investment shows that it is almost equally distributed between investment in physical assets and investment for development purposes. Two thirds of the investment in physical assets is covered by resources from the national budget and external credit; on the other hand, half the investment for development purposes is covered by special funds, and only 37 per cent by budget resources and domestic credit (see table 49).

4. THE EXTERNAL SECTOR

The most striking feature of the external sector was the increase in the value of exports by nearly 19 per cent in terms of dollars at current prices. This increase is attributable to higher prices, since the volume grew by only 0.6 per cent. In particular, the price of coffee rose 35 per cent, while oil prices fell 1.6 per cent. As regards the value of Colombia's secondary exports—i.e., other than coffee and petroleum—there was a decline in cotton, sugar and bananas, but this did not cancel out the increases in the other export items, especially meat, textile and plastic products, footwear and electrical appliances. Imports of goods, in dollars at current prices, rose by 26.7 per cent, after the partial lifting of the restrictions imposed in the previous three-year period. Since there was also an increase in net profit and interest payments, the deficit on current account was 284 million dollars, as against 210 million the year before. Colombia's net capital inflows are estimated at 319 million dollars, so that the balance of payments reflected a surplus of 35 million, which includes the use of all the 21 million dollars' worth of Special Drawing Rights assigned to it (see table 50).

5. PROGRESS IN PLANNING

In 1970, the National Planning Department presented the economic and social development plan and the public investment plan for the period 1970–1973.

The basic objective of Colombia's economic and social policy is to improve the well-being of the whole community, which in its turn is linked to the production and distribution of goods and services and the use of the factors of production, particularly labour. Therefore, the attainment of these objectives depends on the rate of growth of the national product and the general distribution of income and employment.

Table 48. Colombia: operations of the Central Government
(Millions of pesos)

	1960	1965	1969	1970
Current income	2,139	3,948	9,581	11,691
Current expenditure	1,264	3,010	6,418	7,955
Surplus (+) or deficit (–)	+ 875	+ 938	+ 3,163	+ 3,736
Investment	811	1,330	3,987	5,261
Surplus (+) or deficit (–)	– 64	– 392	– 824	– 1,521
Financing the deficit or absorption of the surplus	64	392	824	1,521
Net external credit	– 20	85	1,270	1,745
Net domestic credit (individuals)	147	7	336	13
Net registered domestic credit of the Banco de la República	103	468	– 166	– 207
Capital resources			2	
Variation in cash reserves			7	
Floating capital		2	47	

SOURCE: Departamento Nacional de Planificación, *Plan de Desarrollo Económico y Social 1970–1973*, vol. 1, chap. II, table 2.

The focal point of the proposed policy is employment. In this respect, it is held that there would only be conflict between present employment and growth if institutional or social restrictions caused saving to decline as employment increased or income distribution improved. This contradiction would be avoided, however, if a growth rate of about 7.5 per cent were achieved, thus permitting the absorption of the new labour force. The effects of this growth target were calculated on the basis of a demand model by means of which the main macro-economic variables were projected. Thus, pub-

lic expenditure should grow, in real terms, at an annual rate of 8 per cent, the increase in prices should be not more than 7 per cent annually and the flexibility of the exchange rate should be maintained. As regards domestic saving, a slight increase over the past rate would be necessary (from 18.4 per cent of the product in 1960-1968 to 19.4 per cent in 1970-1973); a cumulative balance-of-payments deficit of only 2.9 million dollars would be expected for the period 1970-1973, which presupposes an annual growth of 8.7 per cent for imports.

Table 49. Colombia: Central Government investment in physical assets and for development, by source of financing, 1970

(Millions of pesos)

	Investment in physical assets	Development investment	Total
National Budget . . .	3,409	2,118	5,527
Reserves . . .	468	108	576
External credit . . .	3,725	875	4,600
Domestic credit . . .	771	1,711	2,482
Transfer payments . . .	384	102	487
Miscellaneous . . .	2,077	5,360	7,437
TOTAL . . .	10,834	10,274	21,109

SOURCE: Departamento Nacional de Planificación, *Plan de Desarrollo Económico y Social 1970-1973*, chap. XI, table 1A.

The public investment plan includes projects which require disbursements of 20,700 million pesos at current prices in 1970, rising to 28,350 million in 1973. To arrive at this figure, account was taken of the domestic saving capacity, the possible availability of external saving and the policy measures contained in the over-all plan for this period. In line with these over-all trends, the effects on employment and income redistribution were taken into account in each case. Of the total investment at the beginning of the period (1970), 34.5 per cent would be used for physical infrastructure, 44.9 per cent for developing productive activities and 20.6 per cent as a direct contribution to social development. By the end of the period covered by the plan

Table 50. Colombia: balance of payments, for selected years
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	589	709	788	877	1,014
Goods f.o.b.	495	591	609	672	799
Services	94	118	179	205	215
Imports of goods and services	-634	-653	-866	-950	-1,137
Goods f.o.b.	-496	-430	-615	-648	-821
Services	-138	-223	-251	-302	-316
Net external investment income	-40	-79	-113	-144	-170
Net private transfer payments	—	4	3	7	9
Balance on current account	-85	-19	-188	-210	-284
<i>Capital account</i>					
Net external financing	85	19	188	210	284
External non-compensatory capital	31	12	263	319	319
Direct investment	3	10	48	54	
Long- and medium-term loans	35	116	221	288	
Amortization payments	-26	-41	-94	-100	
Short-term liabilities	14	-81	60	42	
Official transfer payments	5	8	28	35	319
Domestic non-compensatory capital or assets	14	-17	-34	-14	
Errors and omissions	44	67	12	-45	
Compensatory movements (increase -)	-4	-43	-53	-50	-35
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	47	62	45	...
Amortization payments	-60	-92	-38	-55	...
Movements of gold and foreign exchange reserves (increase -)	56	2	-77	-40	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

(1973), the proportions would be 30.5, 46.3 and 23.2 per cent, respectively. In a sectoral analysis, two thirds of total investment in 1970 would be channelled into transport (15.7 per cent), agriculture (36 per cent) and energy (13.4 per cent). According to projections up to 1973, the amounts allocated to transport and energy would drop, while investment in agriculture, manufacturing and environmental sanitation would rise. As to financing, an external contribution is envisaged of around 20 to 22 per cent of total investment in the four years covered by the plan. It will also be necessary to use internal credit, which would cover about 13 per cent of investment. In addition, an increase in the rates of several taxes and an adjustment in the petroleum companies' exchange rate are envisaged.

Costa Rica

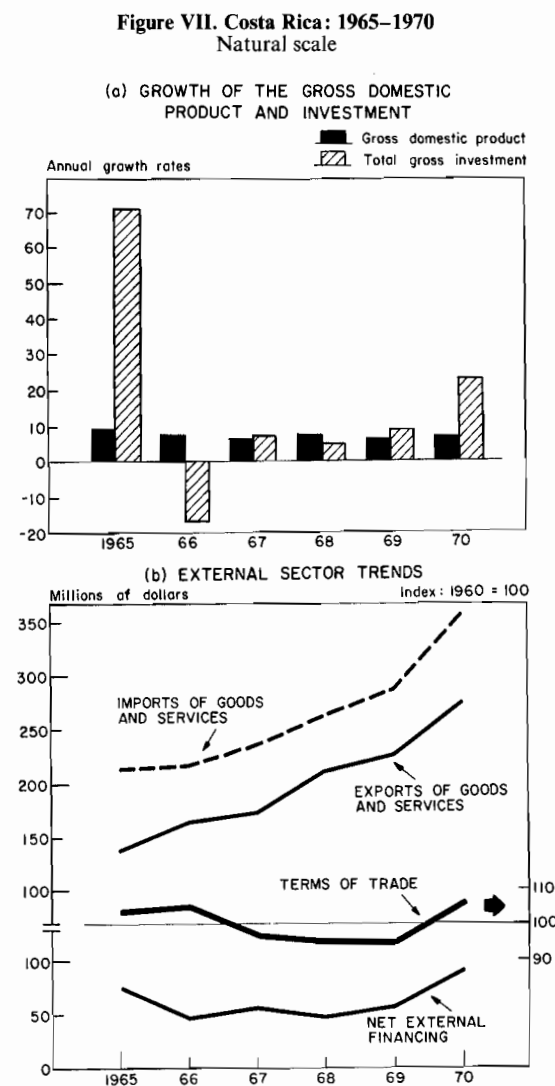
1. RECENT ECONOMIC TRENDS

Costa Rica enjoyed a fairly satisfactory economic growth in 1970, maintaining the trend it had followed over the past six years. The gross domestic product rose by about 7.5 per cent, which is slightly higher than the average annual rate for the period 1965–1969 (see table 51).

On the supply side, the main impetus was provided by agriculture—based mainly on banana and coffee production—and by the dynamic growth of manufacturing, construction, transport and communications, and energy. Factors influencing demand, in addition to the highly favourable export prices, were the stepping up of investment and the high consumption levels. Total demand thus expanded by 10.3 per cent, easily outstripping the gross domestic product and causing some maladjustment which had to be corrected by a marked rise in imports of goods and services (see table 52).

Apart from the boom in exports, which increased by 19.1 per cent in terms of constant prices, there was an unusually sharp rise in prices (7.9 per cent). These developments seem to be associated with the rapid economic development achieved in recent years, which has begun to create disequilibria and strains between the production sector and the structure of demand.

In this respect, the favourable trend of external demand was probably at the basis of the flow of resources into the external sector. Higher relative prices attracted private investment into activities such as the production of bananas, livestock for export, coffee and some manufactures and away from certain basic consumer goods. In this respect, the accelera-



ted growth of agriculture is attributable above all to export crops, while the average growth in crop production for domestic consumption was slower than population growth. In other words, the concentrated flow of resources to certain sectors resulted in a supply which met the requirements of external demand rather than those of the home market.

During 1970, Costa Rica maintained the accelerated growth of domestic demand deriving mainly from larger export earnings, which rose by 22.2 per cent (in terms of current prices) and whose multiplier effect pushed up gross fixed investment by 11.8 per cent and consumption by 8.2 per cent. Public investment, because of its growth and composition, also brought greater pressure to bear on supply (see table 52).

Table 51. Costa Rica: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of colones at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970	1965	1968	1969	1970	1965-1968	1969	1970
Agriculture	842.3	992.1	1,037.7	1,121.2	24.9	23.9	23.5	23.6	5.6	4.6	8.0
Manufacturing ^a	591.9	793.5	858.6	931.0	17.5 ^a	19.1 ^a	19.4 ^a	19.6 ^a	10.3 ^a	8.2 ^a	8.4 ^a
Construction	181.2	200.8	214.2	233.1	5.4	4.8	4.8	4.9	3.5	6.7	8.8
Subtotal goods	1,615.4	1,986.4	2,110.5	2,285.3	47.8	47.8	47.7	48.1	7.1	6.2	8.3
Electricity, gas and water	54.4	72.4	80.5	90.1	1.6	1.7	1.8	1.9	10.0	11.2	11.9
Transport and communications	150.3	184.6	199.3	216.6	4.5	4.4	4.5	4.6	7.1	8.0	8.7
Subtotal basic services	204.7	257.0	279.8	306.7	6.1	6.2	6.3	6.5	7.9	8.9	9.6
Commerce and finance	511.2	645.6	698.7	752.3	15.1	15.6	15.8	15.8	8.1	8.2	7.7
Government	371.6	471.5	507.0	541.5	11.0	11.4	11.5	11.4	8.3	7.5	6.8
Ownership of dwellings	314.4	342.8	356.1	367.1	9.3	8.3	8.1	7.7	2.9	3.9	3.1
Miscellaneous services	360.1	447.6	471.0	498.8	10.7	10.8	10.6	10.5	7.5	5.2	5.9
Subtotal other services	1,557.3	1,907.5	2,032.8	2,159.7	46.1	46.0	46.0	45.4	7.0	6.6	6.2
TOTAL	3,383.8	4,168.5	4,446.0	4,779.1	100.0	100.0	100.0	100.0	7.2	6.7	7.5

SOURCE: ECLA estimates based on official statistics.

Note: The figures for each sector do not necessarily add up exactly to the total product

because the sectoral figures and the total were calculated separately.

^a Including mining.

Table 52. Costa Rica: total supply and demand

	Millions of colones at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Total supply	5,033.7	6,134.8	6,588.2	7,267.9	132.6	131.1	132.0	135.5	6.8	7.4	10.3
Gross domestic product	3,797.5	4,678.1	4,989.6	5,363.4	100.0	100.0	100.0	100.0	6.7	6.7	7.5
Imports ^b	1,236.2	1,456.7	1,598.6	1,904.5	32.6	31.1	32.0	35.5	9.7	9.7	19.1
Total demand	5,033.7	6,134.8	6,588.2	7,267.9	132.6	131.1	132.0	135.5	6.7	6.7	10.3
Exports ^b	759.2	1,222.9	1,299.1	1,385.2	20.0	26.1	26.0	25.8	5.1	6.2	6.6
Total investment	1,045.7	975.9	1,062.4	1,308.7	27.6	20.9	21.3	24.4	-6.7	8.9	23.2
Gross fixed investment	830.3	879.5	960.4	1,073.7	21.9	18.8	19.2	20.0	1.9	9.2	11.8
Public	220.0	158.3	175.2	...	5.8	3.4	3.5	...	-10.4	10.7	...
Private	610.3	721.2	785.2	...	16.1	15.4	15.7	...	5.7	8.9	...
Construction	385.4	431.0	460.0	503.2	10.2	9.2	9.2	9.4	3.8	6.7	9.4
Machinery and equipment	444.9	448.5	500.4	570.5	11.7	9.6	10.0	10.6	0.3	11.6	14.0
Total consumption	3,228.8	3,936.0	4,226.7	4,574.0	85.0	84.1	84.7	85.3	3.9	7.4	8.2
General government	499.2	608.0	665.5	725.4	13.1	13.0	13.3	13.5	6.8	9.3	9.0
Private	2,729.6	3,327.2	3,561.2	3,848.6	71.9	71.1	71.4	71.8	3.9	7.0	8.1

SOURCE: ECLA estimates based on official data.

^a Preliminary.

^b Goods and services, excluding factor payments.

Thus, a sizable imbalance is observable between domestic supply, which is growing at a comparatively sluggish pace, and the highly dynamic behaviour of demand. Therefore, the 7.9 per cent price rise in 1970 seems to be the outcome of these trends; it was especially marked in the case of agricultural products for domestic consumption, whose prices rose 27 per cent in the course of the year.¹⁹ Other circumstances were also instrumental in pushing up prices at a more rapid pace; the tariff surcharges established in the San José Protocol, the introduction three years ago of new taxes on consumption, and the increase in the minimum wage. Thus, in spite of the large amount spent on purchases abroad, the above factors produced inflationary pressures, which are not very common in the Costa Rican economy.

As part of this system of operation, the Government has prepared an eight-year programme designed to improve agricultural productivity, particularly of small farmers and co-operatives, the aim being to increase the production of basic grains, tropical crops, dairy products and pigs. Easier access to credit and technical assistance are important factors in the promotion of these activities. However, the effects of these measures are unlikely to be felt before the medium term, or for quite a long time. It is, therefore, a matter of urgency to establish machinery which will prevent credit from expanding too much or being channelled into activities that are not directly productive, while at the same time an attempt should be made to eliminate part of the excess liquidity and, above all, to bolster public saving. Otherwise, the deterioration in the external sector position may make it necessary to adopt measures which will slow down Costa Rica's development and, in the long run, have the opposite effect.

The exceptionally high level reached by imports in 1970 (335 million dollars) seems to be due to two types of factor: structural, deriving from the organization of production and foreign trade, and temporary, forming part of the high liquidity conditions prevailing in the economy since 1967.

It is not unlikely that stocks have been accumulated or unusually large purchases made partly in view of the expectations aroused by the promulgation of the San José Protocol, the removal of barriers to external purchases through the adoption of a single exchange rate

at the end of 1969, and more liberal credit terms.

2. THE FISCAL SITUATION, CREDIT EXPANSION AND ECONOMY POLICY

The pressures on the financial situation of the central government were not so heavy as they had been in the three previous years, owing to the rapid increase in the current income of the central government (23.4 per cent up to October 1970). Total expenditure, while pursuing and even intensifying (13.6 per cent) the upward trend followed in previous years, expanded much less than current income. As a result, the total deficit was reduced by 25 per cent in 1970, to approximately 93 million colones (see table 53).

The monetary expansion, the improvement in world coffee prices, more efficient administrative control and the growth of imports were other factors which accounted for the marked increase in indirect tax revenue, which was basically responsible for the rapid growth of current income. In fact, while direct taxes declined from 122 to 111 million colones,²⁰ indirect taxes rose from 346 to 490 million (by 41 per cent). The revenue from consumer taxes (which rose by 47 per cent), sales taxes (18 per cent), import duties (50 per cent) and taxes on coffee increased from 1.8 million to about 38 million colones, owing to the appreciable rise in world prices and improved tax collection.

Although only incomplete data are available, it would seem that central government current expenditure continued to rise rapidly and that real investment expenditure increased by about 14 per cent, mainly as a result of the expansion of infrastructural works.

During 1970, the fiscal deficit was increasingly covered by credit obtained from external sources. In contrast with the previous year, when recourse was had mainly to internal loans, the central government, by speeding up the negotiations under way and initiating new ones, succeeded in appreciably increasing the share of external capital (50 per cent) and in some degree alleviating the pressure on domestic resources. The larger inflow of funds was also due to fiscal adjustments and an improvement in the balance-of-payments position over the past three years.

As in 1969, the domestic resources were obtained mainly from private saving, tapped by means of sales of bonds subject to repurchase

¹⁹ Some of the measures taken by the Government to provide greater incentives through price increases are partly aimed at encouraging domestic production of essential products, particularly milk and basic grains.

²⁰ The decrease of 11 million colones in direct taxes was essentially attributable to administrative questions connected with land taxes, most of which were transferred to the municipalities.

agreements. At the end of October sales of bonds amounted to about 124 million colones. Moreover, progress continued in the programmes for the administrative re-organization and improvement of the public finances, which resulted in advances of a different kind, notably a decrease in the floating debt, more liberal regulations governing Treasury bills, and an increase of about 35 million colones in available cash holdings (see table 53).

From 1965 onwards a fairly restrictive credit policy was followed on account of balance-of-payments difficulties. A different policy seems to have been followed in 1970, however, as is shown by the fact that credit grew by 11.3 per cent, reaching a level of about 1,548 million colones. The ceilings on a certain proportion of bank loans were raised somewhat and everything seems to indicate that the operations not subject to any control continued to increase. Agricultural and manufacturing credit, therefore, rose much more rapidly than in 1969 (by 7.5 and 16.2 per cent, respectively), thus stimulating the development of production in these sectors. Livestock credit, while expanding at a slower rate (13.9 per cent, compared with 16.5 per cent in 1969), remained fairly high. Lastly, there were considerable increases in credit

extended to the trade (19.8 per cent), services (14.2 per cent) and housing (13.5 per cent) sectors, which was in contrast to the sluggish growth—and even contractions—in earlier periods.

More credit for the private sector also meant that, in spite of the high liquidity coefficients prevailing since 1967, the banks had to resort to rediscount operations, which had greatly diminished in previous years. Operations for 70.7 million colones were affected up to October 1970 (compared with 15.6 million in 1969), another reason for this being the slow growth of deposits.

The strengthening of credit partly explains why the expansion of the money supply should have come mainly from internal sources, while external transactions and losses of reserves had essentially constricting effects. The money supply grew by 11 per cent, a net result of the increase in domestic funds (19.1 per cent) and the contraction in external funds (down by 14 per cent). This once again confirms, from a different angle, that the more liberal bank credit policy favoured the emergence of pressures on existing real resources which the increase in domestic supply was unable to offset.

Table 53. Costa Rica: Central Government income and expenditure and financing of the deficit, 1966–1970
(Millions of colones)

	1966	1967	1968	1969	September	
					1969	1970
<i>Current account</i>						
Current income	521.7	541.1	639.0	719.8	481.5	594.3
Current expenditure	530.4	583.9	609.6	710.8	...	...
Current saving	-8.7	-42.8	29.4	9.0	...	...
<i>Capital account</i>						
Total	145.3	163.7	175.8	178.7	...	...
Real investment	64.1	72.1	59.1	63.5	...	...
Financial investment	2.6	4.7	4.5	2.0	...	...
Amortization	73.9	68.8	80.9	75.4	...	...
Transfer payments	4.7	18.1	31.3	37.8	...	...
Difference	154.0	206.5	146.4	169.7	...	...
Extra-budgetary expenditure	5.5	7.4	8.8	24.1	22.3	9.6
Total deficit	159.5	213.9	155.2	193.8	123.4	92.8
Thirteenth month and other adjustments	11.1	4.4	7.4	-11.0	-43.4	-32.0
Adjusted deficit	170.6	218.3	162.6	182.8	80.0	60.8
<i>Financing of the adjusted deficit</i>						
External credit	34.8	33.6	6.7	18.4	17.6	30.7
Domestic credit	141.8	162.6	164.3	128.7	55.6	56.4
Direct credit	2.0	3.0	22.2	1.7	—	—
Floating debt	19.3	39.8	42.3	-32.6	53.1 ^a	-76.6 ^a
Sales of bonds	73.0	66.9	103.6	185.6	127.8	123.9
Treasury bills	50.6	50.4	—	-27.5	30.5	-13.1
Other (net)	-3.1	2.5	-3.8	1.5	11.4 ^b	22.2 ^b
Other special income	-6.0	22.1	-8.4	35.7	6.8	-26.3

SOURCE: Ministry of Finance, Planning Office and Central Bank.
^a Including drafts and obligations payable and authorized floating debt.

^b Including deposits, funds belonging to third parties and other liabilities, overdrafts, accounts receivable, special fund and miscellaneous.

3. THE EXTERNAL SECTOR AND THE BALANCE OF PAYMENTS

The deficit on current account was appreciably larger (32 per cent) than in 1969, conservative estimates putting it close to 75 million dollars. Net capital inflows were insufficient to cover it, since for the first time since 1967 there was a drop of some 15 million dollars in the net international reserves, which included the use of nearly all the 4.2 million units of Special Drawing Rights assigned to Costa Rica.

Although exports increased at a rapid rate (22.2 per cent), the vigorous growth of imports (23.7 per cent) was responsible for accentuating the external disequilibrium. Even though purchases of goods and services had grown at consistently high rates in the last few years, the

combination of other factors operating in 1970, as mentioned above, helps to explain the situation. Thus, the unfavourable trade balance of about 335 million dollars could not be fully offset by exports or by net inflows of capital (see table 54).

Banana sales continued to soar, reaching a level of 63 million dollars and steadily gaining on coffee, Costa Rica's main export item. The rise in banana sales is due to the larger volume exported: 42.3 million boxes, or an increase of 22 per cent over 1969. The provision of credit, combined with favourable world prices and favourable natural conditions for banana cultivation, has been the mainspring of the production boom in the last few years. Negotiations are now under way with Japanese investors with

Table 54. Costa Rica: balance of payments, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^a
<i>Current account</i>					
Exports of goods and services	163.4	173.5	207.1	227.4	277.8
Goods f.o.b.	135.7	143.3	170.0	189.6	237.1
Services	27.7	30.2	37.1	37.8	40.7
Imports of goods and services	-201.0	-215.5	-240.0	-271.0	-335.2
Goods f.o.b.	-162.1	-173.7	-193.7	-221.5	-281.3
Services	-38.9	-41.8	-46.3	-49.5	-53.9
Net external investment income	-14.9	-17.0	-18.6	-16.4	-21.5
On direct investment	-7.1	-9.1	-10.8	-9.1	...
Other	-7.8	-7.9	-7.8	-7.3	...
Net private transfer payments	5.0	4.5	3.8	3.8	4.5
Balance on current account	-47.5	-54.5	-47.7	-56.3	-74.4
<i>Capital account</i>					
Net external financing	47.5	54.5	47.7	56.3	74.4
Non-compensatory external financing	49.8	66.5	53.5	68.9	...
Direct investment	14.6	15.7	4.5	24.1	...
Long- and medium-term loans	25.4	19.6	20.9	14.1	...
Official	2.3	3.7	-4.3	0.3	...
Income	8.4	7.6	4.2	15.1	...
Amortization payments	-6.1	-3.9	-8.5	-14.8	...
Private	23.1	15.9	25.2	13.8	...
Income	37.7	36.3	50.2	23.1	...
Amortization payments	-14.6	-20.4	-25.0	-9.3	...
Short-term liabilities	6.3	26.9	23.3	26.1	...
Official transfer payments	3.5	4.3	4.8	4.6	4.9
Non-compensatory domestic capital and assets	-6.9	-10.5	-15.2	-8.5	...
Long term	-0.3	-0.6	-1.8	-5.1	...
Short term	-6.6	-9.9	-13.4	-3.4	...
Errors and omissions	0.1	15.5	17.4	12.5	...
Compensatory financing (increase -)	4.5	-17.0	-8.0	-16.6	...
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	32.2	8.9	3.5	5.3	...
Amortization payments	-29.7	-24.5	-10.0	-15.3	...
Gold and foreign exchange (increase -)	2.0	-1.4	-1.5	-6.6	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22 and the Central Bank.

^a Preliminary figures.

^b Estimates.

a view to obtaining up to 5 million dollars in financing for independent producers.

However, the floods which affected the banana plantations at the end of 1970 may well bring down exports by over 8 million boxes in 1971.

Coffee exports amounted to about 70 million dollars, even though no advantage was taken of the high world prices, since the volume of exports declined by 3.9 per cent despite a rise of 30.6 per cent in average world market quotations. There seems to be some interest in developing programmes for improving the yields of small- and medium-size coffee plantations through the adoption of more sophisticated techniques and methods, which will make it possible in future to take advantage of improvements in world prices without the risks involved in extending the cultivated area.

Since the world supply of cocoa grew faster than demand there was a drop in international prices. Costa Rica's sales fell from 7.1 million dollars in 1969 to only 1.8 million in 1970, not only for the above reason but also because there was a decline in production owing to resources being switched to the production of other crops that were favoured by the trend of relative prices, such as bananas (see table 55).

Although the volume of exports of livestock and fresh meat was the same as in 1969 (16.8 thousand tons), the rise in world prices brought the total value of sales up to 17.6 million dollars. Lastly, exports of manufactures, more of which went to the Central American Common Market, increased more rapidly as intra-regional trade relations gradually reverted to normal. Exports of manufactures from January to August 1970 amounted to 32.3 million dol-

lars, a 22.2 per cent increase over 1969. Especially noteworthy were the increments in sales of clothing; refrigerators; gasoline, diesel and other petroleum fuels; cellophane, and paper and paperboard articles; electric cells and batteries; footwear; and radio and television sets.

As regards the structure of imports, it is quite probable that the stepping up of industrial activities favoured an increasing volume of imports of capital goods and inputs of raw materials, and that the high level of government investment, especially in transport, contributed to the substantial increase in imports of capital goods for that sector. Moreover, the coming into force of the San José Protocol must have induced Costa Rica to increase its imports, particularly of consumer goods.

Although there are no complete or detailed data available on the capital account, some general developments may be outlined. First, as mentioned above, the net capital inflows were insufficient to cover the deficit on current account, and this seems to have been mainly due to the inadequate net inflow of private capital. In spite of the more intensive use of import financing of different kinds, including speculative financing, and a small increase in direct investment, the inflow of capital was not large enough to counterbalance the outflow of short-term capital and the cost of purchases abroad.

There was, moreover, a smaller increase in the inflow of capital in the public sector in general. In the first nine months of the year, it had increased by only about 20 million dollars, compared with 25.6 million in 1969, a decline which must be ascribed mainly to the policy of reducing the indebtedness of the national bank-

Table 55. Costa Rica: total exports of main products, 1966-1970

Product	1966	1967	1968	1969	1970 ^a	Annual percentage growth rate				
						1967	1968	1969	1970	
Millions of dollars										
Bananas	29.2	30.9	42.8	51.5	63.0	5.8	38.5	20.3	22.9	
Coffee	52.6	54.8	55.3	55.8	70.0	4.2	0.9	0.9	25.4	
Cocoa	3.1	3.1	3.0	7.1	1.8	—	—3.2	136.7	74.6	
Fresh meat	5.5	8.6	12.0	15.1	17.6	56.4	39.5	25.8	16.6	
TOTAL	135.7	143.3	170.0	189.6	237.1	5.6	18.6	11.5	25.1	
Millions of dollars at 1960 prices										
Bananas	26.7	27.6	41.1	50.6	61.7	3.4	48.9	23.1	21.9	
Coffee	51.6	62.3	64.5	63.7	61.2	20.7	3.5	1.2	3.9	
Cocoa	3.8	3.6	2.6	4.5	1.5	5.3	27.8	73.1	66.7	
Fresh meat	4.2	6.1	8.6	9.9	9.9	45.2	41.0	15.1	—	
TOTAL	131.7	144.7	175.3	189.6	204.4	9.9	21.1	8.2	7.8	

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

ing system, since on the whole inflows to the rest of the public sector increased, in particular the National Housing and Town Planning Institute, the Universidad de Costa Rica, the Costa Rican Electric Power Institute and the Cartago Municipal Electricity Authority (Junta Administrativa de Servicios Eléctricos Municipal de Cartago—JASEC).

The balance-of-payments prospects are somewhat uncertain. The expected drop in banana sales owing to the flooding of the banana plantations at the end of 1970 may have an adverse effect on exports in 1971.

Similarly, if the present declining trend in prices of the type of coffee sold by Costa Rica continues, the larger quota which has been assigned to it for the period 1970–1971 (63,438 tons) may be appreciably reduced. Added to this are the difficulties besetting the Common Market, which may also hamper sales of manufactures to other countries in the area.

As regards imports, it is to be hoped that the circumstances or the speculative factors occurring in 1970 will disappear and that a slower economic development in 1971 will ease the existing pressure on external purchases. Nevertheless, if the high liquidity rates, the accelerated growth of government expenditure and the liberal credit policy were to continue, the growth of imports might gain momentum, which would result in bottlenecks and pressures on current external transactions.

Chile

1. RECENT ECONOMIC TRENDS

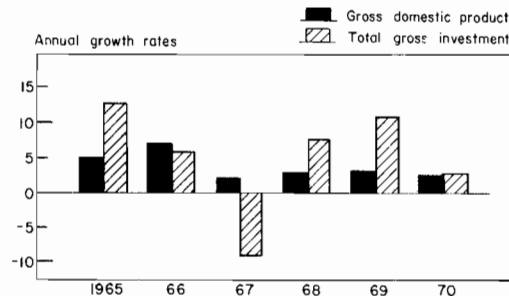
In 1970 Chile's gross domestic product grew by 2.5 per cent, i.e., at a slightly higher rate than its population, an estimated 2 per cent or so a year. The Chilean economy is therefore still growing at the same slow rate as it has been since 1967 (the growth rates for the past years being 2.3 per cent in 1967; 2.9 per cent in 1968; and 3.1 per cent in 1969). Real income increased by only 1.4 per cent in 1970, since the terms-of-trade effect worsened as a result of the fall in copper prices on the world market.

Trends in the goods-producing sectors show a recovery in agricultural production due to good weather, though not in livestock production, and the increase in manufacturing and especially in mining was very small. Construction grew at a faster pace than in 1969 thanks to the expansion of the public works programme. In the service sectors there was a marked rise in the production of electric power, while commerce slackened (see table 56).

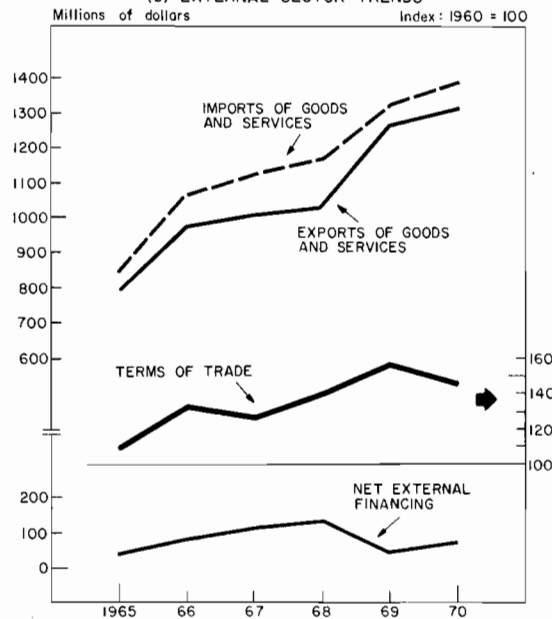
Figure VIII. Chile: 1965–1970

Natural scale

(a) GROWTH OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



Domestic demand expanded at a slower rate than during the previous year. Gross fixed investment was again its most dynamic component, showing a rise of 5 per cent, with increases of 4.5 per cent in machinery and equipment and 5.5 per cent in construction. Total consumption rose by 2.6 per cent.

In the external sector, the main features were, first, the fall in world prices for copper, which slowed down the growth of exports, and, second, the increase in imports. However, there was a significant reduction in net remittances of profits and interest, so that the increase in the deficit on current account between 1969 and 1970 was within reasonable bounds. Thanks to this and to the smaller net inflow of non-compensatory capital, the balance-of-payments surplus was 123 million dollars in 1970, 60 million less than the final figure for 1969.

The government sector current expenditure grew more than current income, which meant that government saving remained at the same level and was not enough to cover investment, which rose slightly, thus increasing the government deficit.

Lastly, as to relative prices the consumer price index went up 34.9 per cent during the year, compared with 29.3 per cent in 1969; on the other hand the wholesale price index figures were 33.7 per cent in 1970 and 39.4 per cent in 1969.

2. MAJOR PRODUCTION SECTORS

Production in the agricultural sector rose by 6 per cent as a result of the 13 per cent increase in crop farming, which reflects a recovery in crop production after the prolonged drought of the last few years. Cereals, pulses, potatoes and industrial crops showed increases of 15, 40, 13 and 35 per cent, respectively, while grape production remained at the same low level as the previous year.

In contrast to the increased production of nearly all crops, there was a 1 per cent decline in livestock production, which can be explained by an estimated drop of over 5 per cent in meat production (cattle and pigs), offset to some extent by small increases in the production of poultry and eggs and by a 9 per cent increase in milk production.

Mining more or less stagnated in 1970; there was a drop in production of all the important items, with the exception of small- and medium-scale copper mining, which increased by about 7 per cent. The output of large-scale copper mining fell by 1.5 per cent owing to technical problems and a few brief strikes in the Chuquicamata and El Teniente mines, while the effect of the new investment programme was felt only in the El Salvador mine and, in the last quarter, the El Teniente mine. Coal and nitrate production dropped substantially, by 12 and 14 per cent respectively, and the production of iron ore fell by 2 per cent. Crude petroleum production also declined by 7 per cent, as a result of the policy of maintaining reserves which means that output is regulated according to the results of new drilling and exploration.

Manufacturing production rose by a mere 0.8 per cent, and the sluggish trend shown by the industrial sector in the last few years was, therefore, accentuated. In the traditional industries production fell by 0.3 per cent as a result of substantial reductions in the output of food and beverages, but these were offset to some extent by increased production of clothing and

footwear. There was an estimated increase of 2 per cent for the intermediate industries as a whole, where quite large increases in the production of wood, chemicals and rubber were counterbalanced by decreased output of petroleum products and coal, non-metallic mineral products, and paper and pulp. The industries producing durable consumer goods showed an estimated increase of 1.4 per cent, mainly as a result of an expansion of motor-vehicle production.²¹

The construction sector is estimated to have grown by 5.5 per cent; this can be explained to a large extent by the tremendous impetus given to public works during the year and, to a lesser degree, to the construction of buildings other than housing, which rose in nominal value by 56 and 49 per cent respectively.²² These increases were offset to some extent by the drop in housing construction.

The increase in the volume of goods produced and in imports of goods would seem to indicate that there was an increment of 3.5 per cent in commerce. Electricity and gas production seems to have risen by 7.8 per cent.

3. TOTAL SUPPLY AND DEMAND

There was an increase of about 3 per cent in the supply of goods and services in 1970 compared with 1969. As in previous years, the 6 per cent growth of total imports was a basic factor in the evolution of total supply (see table 57).

On the demand side, exports grew by 6 per cent, slightly less than in 1969. Gross fixed investment rose by 5 per cent and its components—construction and machinery and equipment—by 5.5 per cent and 4.5 per cent, respectively. There was a drop in the growth rate of imports of capital goods compared with 1968 and 1969; the slower growth of such imports in 1970 is largely explained by the reduction in purchases of machinery and equipment under the expansion programme for the copper industry, which had already reached an advanced stage by the end of 1969.

²¹ The estimates of the variation in the level of manufacturing production during 1970 were based on the information available for the period from January to August. The average for these months was about 1.5 per cent above that of the same period for 1969. On the basis of incomplete and qualitative information for the period from September to December—when the new trends resulting from the election of a new President at the beginning of September began to make themselves felt—the increase for the whole year was estimated at 0.8 per cent.

²² To give an idea of the real implications of these figures, it may be noted that the value of the instalment of the Housing Corporation (CORVI), which is an indirect indication of the cost of construction, rose by 32 per cent between 1969 and 1970.

Table 56. Chile: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of escudos at 1960 prices					Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a		1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	501.1	593.8	572.2	606.7		10.2	10.8	10.1	10.4	5.8	-3.6	6.0
Mining	480.0	536.7	550.0	552.2		9.8	9.7	9.7	9.5	3.8	2.5	0.4
Manufacturing	1,245.6	1,425.1	1,470.7	1,482.5		25.3	25.8	25.9	25.5	4.6	3.2	0.8
Construction	236.8	220.0	229.7	242.3		4.8	4.0	4.0	4.1	-2.4	4.4	5.5
Subtotal goods	2,463.5	2,775.6	2,822.6	2,883.7		50.1	50.3	49.7	49.5	4.1	1.7	2.2
Electricity, gas and water	69.2	79.0	84.0	90.6		1.4	1.4	1.5	1.6	4.5	6.3	7.8
Transport and communications	519.3	561.9	583.8	594.3		10.5	10.2	10.3	10.2	2.7	3.9	1.8
Subtotal basic services	588.5	640.9	667.8	684.9		12.0	11.6	11.8	11.8	2.9	4.2	2.6
Commerce and finance	799.7	945.2	1,020.1	1,062.1		16.3	17.1	18.0	18.3	5.7	7.9	4.1
Government	240.2	261.7	272.7	276.2		4.9	4.7	4.8	4.7	2.9	4.2	1.3
Ownership of dwellings	255.3	270.0	273.1	274.2		5.2	4.9	4.8	4.7	1.9	1.1	0.4
Miscellaneous services	565.3	623.9	619.9	638.5		11.5	11.3	10.9	11.0	3.3	-0.6	3.0
Subtotal other services	1,860.5	2,100.8	2,185.8	2,251.0		37.9	38.1	38.5	38.7	4.1	4.0	3.0
TOTAL	4,813.9	5,426.4	5,595.3	5,735.2		100.0	100.0	100.0	100.0	4.1	3.1	2.5

SOURCE: For 1965 to 1969, ECLA estimates based on official ODEPLAN statistics; for 1970, ECLA estimates based on preliminary data supplied by ODEPLAN.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.

^a Preliminary figures.

Table 57. Chile: total supply and demand

	Millions of escudos at 1960 prices					Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a		1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Total supply	6,036.6	6,962.6	7,264.4	7,485.1		113.6	116.3	117.6	118.2	4.9	4.3	3.0
Gross domestic product	5,313.1	5,989.2	6,175.6	6,330.0		100.0	100.0	100.0	100.0	4.1	3.1	2.5
Imports ^b	723.5	973.4	1,088.8	1,155.1		13.6	16.3	17.6	18.2	10.4	11.8	6.1
Total demand	6,036.6	6,962.6	7,264.4	7,485.1		113.6	116.3	117.6	118.2	4.9	4.3	3.0
Exports ^b	746.6	799.1	854.8	906.4		14.0	13.3	13.8	14.3	2.3	7.0	6.0
Total investment	978.5	1,013.4	1,122.2	1,152.5		18.4	16.9	18.2	18.2	1.2	10.7	2.7
Gross fixed investment	855.6	947.4	983.3	1,032.5		16.1	15.8	16.0	16.3	3.4	3.8	5.0
Public	...	...	...	...		...	...	...	...	...	...	...
Private	...	...	...	...		...	...	...	...	...	...	...
Construction	510.7	484.6	515.8	544.2		9.6	8.1	8.4	8.6	-1.7	6.4	5.5
Machinery and equipment	344.9	462.8	467.5	488.3		6.5	7.7	7.6	7.7	10.3	1.0	4.5
Total consumption	4,311.5	5,150.1	5,287.4	5,426.2		81.1	86.0	85.6	85.7	6.1	2.7	2.6
General government	538.0	619.8	644.0	...		10.1	10.3	10.4	...	4.8	3.9	...
Private	3,773.5	4,530.3	4,643.4	...		71.0	75.6	75.2	...	6.3	2.5	...

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by ODEPLAN; for 1970:

ECLA estimates.

^a Preliminary.

^b Goods and services, excluding factor payments.

Total consumption grew by 2.6 per cent, that is, at a rate similar to that of the previous year. According to the incomplete information available, the consumption of the public sector grew faster than total consumption, largely owing to the significant increase in real wages and salaries paid by the central government. Central government current expenditure rose by about 20 per cent in real terms, while current income rose by approximately 15 per cent, mainly as a result of higher taxation, a larger share in large-scale copper mining, and roughly equal increases in revenue from almost all the important direct and indirect taxes. Thus government saving remained at about the same level as the previous year, and as there was a moderate increase in government investment, the government sector finished the year with an increased deficit. Eighty per cent of the deficit was financed by internal loans and the remaining 20 per cent from external credit.

4. EXTERNAL SECTOR AND BALANCE OF PAYMENTS

The expansion in external trade that has been going on in recent years continued in 1970, although it levelled off somewhat. While exports of goods and services increased slightly, imports grew by 10 per cent, or 110 million dollars. However, it should be noted when considering the structure of the balance-of-payments current account, that the increase in earnings from exports of goods and services (27.5 million) was quite small, but there was a 59 million drop in remittances of profits. This drop was due to the State acquiring a larger share of the capital of large-scale copper mining enterprises and the new tax on the over-price of copper, which has been in force since the second quarter of 1969. The net result was that the deficit on current account rose to 74.5 million dollars—compared with 50 million in 1969—and this, coupled with a net inflow of non-compensatory capital amounting to 197.7 million dollars, produced a balance-of-payments surplus for the third year in succession. In 1970 the surplus was 123 million dollars, including 22 million of IMF Special Drawing Rights (see table 58).

The slow growth in the value of exports of goods in 1970 was largely due to the 0.8 per cent drop in the value of copper exports, as a consequence of a 6.6 per cent drop in the average price of copper, which fell from 65.4 dollar cents per pound in 1969 to 61.1 cents in 1970 (the quotation for the end of December 1970 was 47 cents).

The other important mining exports, such as

iron ore, nitrate and molybdenum, showed a combined increase of a little over 10 million dollars.

Exports of manufactures, to a value of about 107 million dollars, showed an increase of 10 per cent compared with the previous year. The largest increases were in chemical products, paper and pulp, basic metal products and electrical goods, although this was tempered by a 3.3 million reduction in exports of fish meal. Lastly, the value of exports of agricultural and fisheries products rose by 2.3 million dollars in 1970.

The growth of imports of goods was mainly due to the marked increase (about 15 per cent) in imports of intermediate products, principally fuels, motor-vehicle parts and other manufactures which together rose by over 60 million dollars. Imports of both durable and non-durable consumer goods also rose significantly (by over 10 per cent compared with the previous year).

In imports of capital goods the increase was not so large (about 5 per cent) owing to a substantial drop (about 35 million) in imports of machinery and equipment for copper mining which offset the considerable increase in traditional imports of capital goods.

5. PRICE TRENDS IN 1970

The 1970 consumer price index shows that domestic prices soared once again; the rise was 34.9 per cent,²³ compared with 29.3 per cent in 1969. The rises in the prices of the main components of the index were 40.4 per cent for food; 28.7 per cent for housing; 28.7 per cent for clothing, and 35.1 per cent for "other items".

The wholesale price index did not follow the same trend. The rise over the past year (December 1969 to December 1970) was 33.7 per cent, compared with 39.4 per cent in 1969. The rise in the general index in 1970 is explained by an increase of 33.9 per cent in prices of locally produced products, and 33.5 per cent in those of imports. Among locally produced products there were price increases of 35.4 per cent for agricultural commodities, 22.1 per cent for mining products and 34.2 per cent for manufactures.

It can be seen, therefore, that over the past year there were no significant changes in the relative price levels of the goods included in the wholesale price index, except for the real drop

²³ Increase registered between December 1960 and December 1970 in the new index calculated by the National Statistical Institute with the base December 1969 = 100.

in those of mining products. This trend is confirmed if the average monthly figures in the wholesale price index for 1969 and 1970 are compared.

In its anti-inflationary policy, the Government strove mainly to prevent prices from rising more than they had in the previous year. With this aim in view, it continued with the application of measures similar to those described in the *Economic Survey* of 1969, in accordance with the basic "gradualist" approach to halting inflation that Chile has been following since 1965.

It is interesting to note that the new departure in exchange policy which meant that the official exchange rate of the dollar remained the same throughout the last five months of the year, in contrast with its oscillations over the past five and a half years, apparently had little stabilizing effect. Between December 1969 and August 1970, the bank rate for the dollar (selling) rose by 23 per cent, and there was a very similar rise (23.3 per cent) in wholesale import prices during the same period; but between

August and December 1970 these prices rose by 8.2 per cent, in spite of the fact that the dollar rate did not change.

6. SALIENT FEATURES OF THE NEW GOVERNMENT'S ECONOMIC POLICY

According to one of its members, the main aim of the new Government's economic programme is to transform the traditional capitalist and dependent pattern of development, and in its stead to lay the foundations for a socialism whose characteristics and standards will be determined by the wishes of the Chilean people.²⁴

To achieve this purpose, three priority fields of action have been singled out for economic policy.

The first is the restructuring of the economic system in three areas of ownership—State,

²⁴ See the statement made by Mr. Pedro Vuskovic, the Minister for Economic Affairs, Development and Reconstruction, to the CIAP Sub-Committee in Washington, D.C., on 22 February, 1971.

Table 58. Chile: balance of payments
(Millions of dollars)

	1960	1968	1969	1970 ^a
<i>Current account</i>				
Exports of goods and services	550.5	1,030.0	1,261.0	1,288.5
Goods f.o.b.	480.0	914.0	1,129.0	1,145.5
Services	70.5	116.0	132.0	143.0
Imports of goods and services	-663.2	-954.0	-1,098.0	-1,209.0
Goods f.o.b.	-507.4	-730.0	-850.0	-928.0
Services	-155.8	-224.0	-248.0	-281.0
Net external investment income	-64.6	-215.0	-220.0	-161.0
Net private transfer payments	12.7	6.0	7.0	7.0
Balance on current account	-164.6	-133.0	-50.0	-74.5
<i>Capital account</i>				
Net external financing	164.6	133.0	50.0	74.5
External non-compensatory capital	82.6	355.0	208.0	197.7
Direct investment	29.0	109.0	-6.0	
Long- and medium-term loans	50.5	291.0	344.0	
Amortization payments	-41.5	-109.0	-159.0	
Short-term liabilities	10.2	63.0	26.0	-123.2
Official transfer payments	34.4	1.0	3.0	
Domestic non-compensatory capital or assets	8.7	-15.0	10.0	
Errors and omissions	45.6	-88.0	15.0	
Compensatory movements (increase -)	45.1	-119.0	-183.0	-123.2
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	59.9	62.0	43.0	
Amortization payments	-31.4	-98.0	-95.0	
Movements of gold and foreign exchange reserves (increase -)	16.6	-83.0	-131.0	

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 21; for 1969: Central Bank.

^a ECLA estimates.

semi-public and private—so that economic policy-making and development planning should be entirely in the hands of the State. These three areas have been further defined. The area of State ownership would comprise existing and future public enterprises, the national and foreign monopolies that are to be expropriated, especially in the sectors of basic resources, banking and finance, industry, distribution and foreign trade, and all activities that are of strategic importance for the country's development. The semi-public sector would comprise enterprises financed by a combination of national and foreign private capital and State capital, which would be managed and run jointly. The area of private ownership would cover most of the existing firms, and their treatment would be in accordance with the law on private industrial and commercial property.

The second priority field is income redistribution; a vigorous programme of income redistribution is to be carried out for the benefit of the lowest income groups, which would mean that Chile would be able to sustain its economic development under new patterns of industrialization.

The third priority is the speeding up of agrarian reform and making it more fundamental and far-reaching, because of the conditions in which most rural workers live and the obstacles to the development of agricultural production.

In addition, the basic lines of short-term economic policy have also been indicated in what has been called "the economic plan for 1971".²⁵ This plan includes the basic elements of policies for the following: revival of the economy; employment; wage increases; containment of inflation; foreign trade; participation of private enterprise in national development; and the way in which the structural changes will be initiated.

The revival and employment policies play a central part in the "mobilization programmes" that have been drawn up. These should lead to a substantial expansion of domestic demand, since the Government intends to make a substantial increase in public investment in housing, public works, and agrarian reform and, in general, all investment by public enterprises. Furthermore the

redistribution of income, and the increase in exports to be expected from the incentives that are to be adopted, should increase demand.

The anti-inflationary strategy is based on an incomes policy which consists in financing a substantial part of the wage increases while reducing the amount of earnings per unit produced, which means that the rises in prices of goods and services must be kept considerably below the wage and salary increases granted during the year. The proper handling of supply and the co-ordination of the different financial policies are important factors in this strategy. In the latter connexion, it has been stated that the policy of periodic downward adjustments of the exchange rate will be discontinued in view of favourable balance-of-payments forecasts.

Ecuador

1. RECENT TRENDS

The Ecuadorian economy appears to have expanded considerably during 1970, with a growth rate of the gross domestic product of about 9.5 per cent (see tables 59 and 60). This boom is largely the result of an increase in the value of exports and new petroleum investment, involving the construction of infrastructure and facilities at this stage. Several factors with a tremendous multiplier effect were therefore acting in combination. On the one hand, the economy of Ecuador has always been very sensitive to external stimuli, and during the last decade its growth has been closely linked to export agriculture: in 1970 the value of exports of goods increased by 24 per cent, making up for the 10.7 per cent fall suffered in the previous year. In addition, there was an inflow of 70 million dollars in foreign investment, largely for the purpose of constructing the infrastructure needed for petroleum development. This work is being carried out under the agreement signed by the Government of Ecuador with Texaco-Gulf in June 1968; an oil pipeline is being laid and a road from the oil fields to Puerto Esmeraldas is under construction. The pipeline, which will be 503 kilometres long, should be completed by the end of 1972 and will have a capacity of 250,000 barrels per day; it is therefore hoped that it will be possible to begin exporting petroleum in 1972. Meanwhile heavy investment is planned for the period from 1970 to 1972, and the total for the three-year period is expected to reach 200 million dollars.

Favourable trends were recorded in the major sectors of production. Export agriculture developed satisfactorily, especially the production of bananas, coffee and cocoa.

²⁵ See *Exposición sobre la política económica del gobierno y del estado de la hacienda pública* (Statement on the Government's economic policy and the state of the public finances) made by Mr. Américo Zorrilla, the Minister of Finance, to the Budget Committee on 27 November 1970. Dirección de Presupuestos, Ministerio de Hacienda, folleto No. 118.

Table 59. Ecuador: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of sucres at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a	1970 ^a
Agriculture	5,411	5,697	6,010	...	33.9	31.3	31.2	...	1.7	5.5	...
Mining	327	405	424	...	2.0	2.2	2.2	...	7.4	4.7	...
Manufacturing	2,754	3,086	3,205	3,577	17.3	16.9	16.6	16.9	3.9	3.6	11.6
Construction	658	836	871	956	4.1	4.6	4.5	4.5	8.3	4.2	9.8
Subtotal goods	9,150	10,023	10,510	...	57.3	55.0	54.5	...	3.1	4.9	...
Electricity, gas and water	225	288	319	...	1.4	1.6	1.7	...	8.6	10.8	...
Transport and communications	605	661	698	...	3.8	3.6	3.6	...	3.0	5.6	...
Subtotal basic services	830	949	1,017	...	5.2	5.2	5.3	...	4.6	7.2	...
Commerce and finance	2,189	2,477	2,650	...	13.7	13.6	13.7	...	4.2	7.0	...
Government	1,166	1,538	1,654	...	7.3	8.4	8.6	...	9.7	7.5	...
Ownership of dwellings	1,033	1,135	1,181	...	6.5	6.2	6.1	...	3.2	4.1	...
Other	1,593	2,102	2,261	...	10.0	11.5	11.7	...	9.7	7.6	...
Subtotal other services	5,981	7,252	7,746	...	37.5	39.8	40.2	...	6.6	6.8	...
TOTAL product	15,962	18,225	19,273	21,104	100.0	100.0	100.0	100.0	4.5	5.7	9.5

Source: For 1965 to 1969, ECLA estimates based on official figures supplied by the Central Bank; for 1970, estimates by the Secretariat of the Organization of American States based on incomplete provisional data from the National Planning Board, published in *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo del Ecuador* (CIAP/481).

Note: The annual growth rates of the gross domestic product do not correspond to those in

table 60 because the concepts are not the same (one set of figures is at factor cost and the other at market prices); also, the absolute figures at constant prices were calculated by applying a single deflator to the figures at current prices which was developed by the Central Bank for application to the principal macroeconomic aggregates.

^a Provisional.

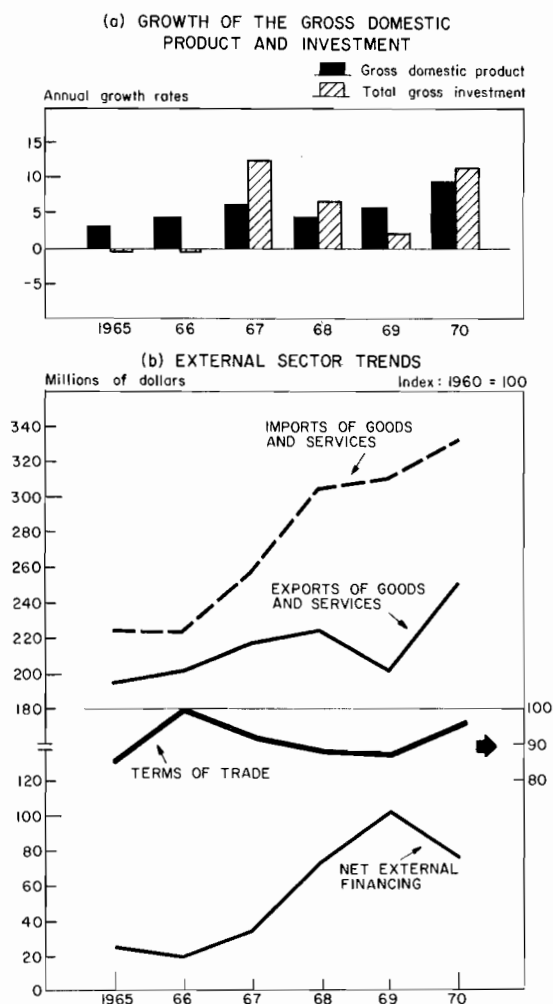
Table 60. Ecuador: total supply and demand

	Millions of sucres at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a	1970 ^a
Total supply	20,619	24,600	25,740	27,937	118.8	122.2	120.8	119.8	6.1	4.6	8.5
Gross domestic product	17,351	20,131	21,305	23,325	100.0	100.0	100.0	100.0	5.1	5.8	9.5
Imports ^b	3,268	4,469	4,435	4,612	18.8	22.2	20.8	19.8	11.0	-0.8	4.0
Total demand	20,619	24,600	25,740	27,937	118.8	122.2	120.8	119.8	6.1	4.6	8.5
Exports ^b	3,659	4,039	3,548	3,956	21.1	20.1	16.6	17.0	3.3	-12.2	11.5
Total investment	2,328	2,799	2,866	3,200	13.4	13.9	13.5	13.7	6.3	2.4	11.7
Gross fixed investment	2,008	2,399	2,457	...	11.6	11.9	11.5	...	6.1	2.4	...
Public	778	910	...	...	4.5	4.5	...	...	5.4	...	...
Private	1,230	1,489	...	...	7.1	7.4	...	...	6.6	...	...
Construction	1,431	...	...	...	8.2	...	...	...	...	...	...
Machinery and equipment	577	...	...	...	...	...	...	...	...	...	...
Total consumption	14,632	17,762	19,326	20,781	84.3	88.2	90.7	89.1	6.6	8.8	7.5
General government	2,369	2,973	...	...	13.6	14.8	...	...	7.9	...	...
Private	12,263	14,789	...	...	70.7	73.5	...	...	6.4	...	...

Source: For 1965 to 1969, ECLA estimates based on official figures supplied by the Central Bank; for 1970, for the product and investment, OAS estimates (see table 50); for the other items, ECLA estimates based on incomplete data in process of revision.

^a Provisional.
^b Goods and services, excluding factor payments.

Figure IX. Ecuador: 1965-1970
Natural scale



Wheat, oilseeds and tobacco crops increased and agricultural production for domestic consumption rose, with the exception of rice production. Industry was stimulated by the general revival of activity due to the petroleum infrastructure works. In addition, work has begun on the preparation of projects connected with the Andean Group market. The Andean Development Corporation has submitted a project for a joint Colombian and Ecuadorian cement plant, with a capacity of 300,000 tons per year, and the manufacture of telephones and electronic equipment is being considered, together with the initiation of a petro-chemicals industry. Here also, the new drive in petroleum boosted construction.

Table 61 shows the cash reserve situation on the country's general budget. It should be noted that the deficit, which rose to 16 per cent of

total expenditure in 1967, increased to one third of the total expenditure in 1968 and declined to one quarter in 1970; over the period from 1967 to 1970 regular income grew at a rate of 15.4 per cent, while total expenditure rose by almost 20 per cent. The financing of the deficit in 1970 has been left to the Central Bank to a far greater degree than in previous years. The net indebtedness, including the domestic and external debt, has a minus sign because of the heavy amortization payments.

It is estimated that the annual price average for Quito in 1970 was 4.3 per cent higher than in 1969, when the increase recorded was 6.3 per cent. Taking the index for low- and medium-income families in Quito, prices rose 8.2 per cent between the end of October 1969 and the end of October 1970.

2 THE EXTERNAL SECTOR

The value of exports of goods—in dollars at current prices—increased by about 24 per cent, a recovery after the fall of 10.7 per cent in 1969. The notable increase was largely due to the rise in world prices for coffee and bananas; and even the significant drop in cocoa prices was partially offset by the increase in the volume of exports. The value of banana and coffee exports rose by 22 and 90 per cent respectively. As imports of goods and services grew by about 6 per cent, the balance-of-payments deficit on current account decreased from 102.7 million dollars in 1969 to 78.4 million dollars in 1970.

On capital account there was a significant increase in direct foreign investment, which showed a steady rise from 7.4 million in 1965 to 50 million in 1969 and 70 million in 1970. This increase was offset by an appreciable net outflow of short-term private capital; while net long-term loans remained at the same level as in 1969, there was a small balance-of-payments surplus of 2.7 million dollars, which includes nearly all the 4.2 million dollars of Special Drawing Rights (see table 62).

3. ECONOMIC POLICY MEASURES

Among the economic policy measures adopted, one of the most important is the decision to allow only the Central Bank to purchase and sell foreign currency; also, in August the multiple exchange rate system was dropped and the sucre devalued from 18 to 25 to the dollar. At the same time the "monetary stabilization taxes" (*gravámenes de estabilización monetaria*) were abolished, the prior deposits for non-priority imports were gradually reduced, and an additional *ad valorem* tax of 20 per cent was imposed on these imports. With regard to taxation, some new taxes were introduced, such as the 4 per cent tax on commercial transactions,

Table 61. Ecuador: general state budget, cash reserves position
(Millions of sucres)

	1967	1968	1969	1970 ^a
Regular income	2,340	2,556	2,926	3,600
Services budget	1,734	1,631	1,794	...
Development budget	606	925	1,132	...
Total expenditure ^b	2,786	3,777	4,205	4,800
Services budget	1,793	2,141	2,531	...
Development budget	993	1,636	1,674	...
Deficit	456	1,221	1,279	1,200
Financing of the deficit	456	1,221	1,279	1,200
Net indebtedness	112	378	162	-54
Net internal debt	278	556	426	480
Net external debt	166	176	131	
Amortization payments	332	354	395	534
Consolidated Central Bank debt and/or overdrafts	10	429	447	1,162
Other loans ^c	308	411	669	28
Use of cash reserves	16	3	1	64

SOURCE: *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo del Ecuador*, (CIAP/481), p. 29, based on data provided by the Budget Office and the National Planning and Co-ordination Board.

^a Estimates.

^b Excluding amortization payments on the public debt.

^c Basically drawings on the accounts for the following financial year and contributions from special accounts.

Table 62. Ecuador: balance of payments for selected years
(Millions of dollars)

	1960	1965	1968	1969	1970 ^a
<i>Current account</i>					
Exports of goods and services	154.9	196.6	225.1	203.1	248.8
Goods f.o.b.	146.3	180.7	210.7	188.1	233.0
Services	8.6	15.9	14.4	15.0	15.8
Imports of goods and services	-152.3	-201.0	-277.7	-283.7	-300.7
Goods f.o.b.	-109.8	-155.2	-212.7	-220.0	-235.0
Services	-42.5	-45.8	-65.0	-63.7	-65.7
Net external investment income	-22.8	-25.0	-27.1	-26.9	-31.0
Net private transfer payments	1.4	2.2	4.7	4.8	4.5
Balance on current account	-18.8	-27.2	-75.0	-102.7	-78.4
<i>Capital account</i>					
Net external financing	18.8	27.2	75.0	102.7	78.4
Non-compensatory external financing	28.0	30.4	72.0	78.7	...
Direct investment	8.0	7.4	29.2	50.0	70.0
Long- and medium-term loans	24.6	22.9	49.7	36.0	20.0
Amortization payments	-9.4	-9.7	-16.8	-16.7	
Short-term liabilities	-1.0	2.7	1.4	0.2	-8.9
Official transfer payments	5.8	7.1	8.5	9.2	
Non-compensatory domestic capital or assets	-10.5	-1.5	-4.7	-1.7	29.4
Errors and omissions	-2.3	-13.8	-3.6	-3.7	
Compensatory movements (increase --)	3.6	12.3	11.3	-3.7	-2.7
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	0.8	11.8	9.7	18.0	...
Amortization payments	—	-2.2	-10.7	13.5	...
Gold and foreign exchange reserves (increase --)	2.8	2.7	12.3	8.2	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 21.

^a ECLA estimates.

the 5 per cent tax on exports of handicrafts, 10 per cent taxes on bananas and shrimps, and 15 per cent on other products. However, at the same time a tax credit (*abono tributario*) was introduced to stimulate non-traditional exports.

Some institutional changes took place, affecting the organization of the economy, such as the creation of the Foreign Trade and Integration Institute (Instituto de Comercio Exterior e Integración), the Ministry of Production—which will co-ordinate agricultural and industrial production policies—and the Ministry of Natural Resources and Tourism; and in January 1971 the State Petroleum Corporation was established. It is responsible to the last-mentioned Ministry and will be able to operate singly, on its own account, or jointly with local or foreign private investors.

El Salvador

1. RECENT ECONOMIC TRENDS

The 4.3 per cent growth of the gross product in 1970 was better than the slow pace in 1969, but it still fell short of the 5.3 per cent attained for the three-year period 1965–1968. The sharp upturn in agricultural production and a notable increase in the purchasing power of exports were the main causes of the recovery of other variables, such as imports, investment and private consumption (see tables 63 and 64).

Despite the fall in the volume of exports for the second successive year, the exceptional conditions prevailing on the international coffee market enabled the economy to recover its external purchasing power after the significant drop of the previous year, owing, in part, to the renewed upswing in private consumption (6.6 per cent) and to the fact that imports were growing at a faster pace than the product.

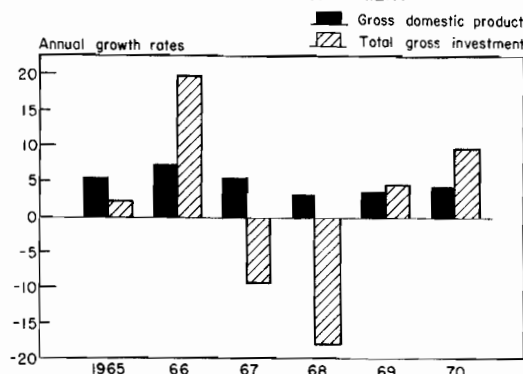
Private investment grew by 5.7 per cent to around 214 million colones, but was still short of the levels achieved at the beginning of the five-year period, as a direct result of the current sluggishness of industry. The 1970 increase was reflected in a greater inflow of domestic capital and must be attributed, in part, to investment in the Acajutla refinery—which stopped production in the last few months of 1969—and to financial incentives for the construction of housing.

Public investment remained practically stationary at the 1969 level. In addition to the slowness with which new projects were generated, and of the arrangements for obtaining foreign loans (which has been a matter of complaint for the last few years) the country was in financial difficulties for much of the year which were barely solved in the last quarter.

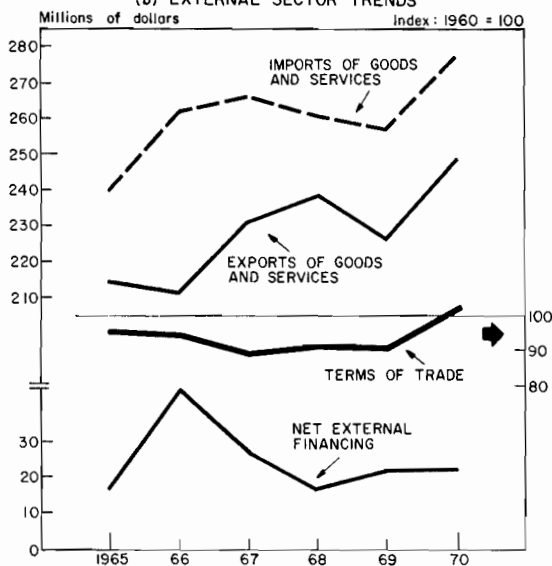
Figure X. El Salvador: 1965–1970

Natural scale

(a) GROWTH OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



Stocks of goods doubled in 1970, mainly owing to the large volume of coffee from the 1969–1970 crop that was not placed on the market because, among other things, the quota granted to El Salvador under the International Coffee Agreement was not large enough to encourage further production (see table 63).

2. PRODUCTION

Agricultural production was favoured by excellent weather conditions, which generated a big harvest for domestic consumption. In addition, the continuation of development programmes—technical assistance, improved seeds and fertilizers, and credit incentives to producers—together with the financial backing of the supply authority (Instituto Regulador de Abastecimientos), led to considerable increases in the production of nearly all the important basic foods, including sugar cane.

Table 63. El Salvador: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of colones at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a
Agriculture	513.2	563.3	578.6	619.1	28.6	26.9	26.7	27.4	3.1	2.7	7.0
Mining	2.8	2.8	2.8	3.0	0.2	0.1	0.1	0.1	—	—	7.1
Manufacturing	293.0	369.1	378.8	386.8	16.3	17.6	17.5	17.1	8.0	2.6	2.1
Construction	72.4	68.3	72.0	76.3	4.0	3.3	3.3	3.4	-1.0	5.4	6.0
Subtotal goods	881.4	1,003.5	1,032.2	1,085.2	49.1	48.0	47.7	48.0	4.4	2.9	5.1
Electricity, gas and water	28.9	41.9	44.3	47.8	1.6	2.0	2.0	2.1	13.2	5.7	7.9
Transport and communications	93.6	119.6	122.5	125.2	5.2	5.7	5.7	5.7	8.5	2.4	2.2
Subtotal basic services	122.5	161.5	166.8	173.0	6.8	7.7	7.7	7.7	9.6	3.3	3.7
Commerce and finance	425.5	491.1	502.3	518.1	23.7	23.5	23.2	22.9	4.9	2.3	3.1
Government	140.6	163.5	180.0	185.8	7.8	7.8	8.3	8.2	5.1	10.1	3.2
Ownership of dwellings	92.4	103.3	106.3	109.9	5.1	4.9	4.9	4.9	3.8	2.9	3.4
Miscellaneous services	133.5	168.4	178.0	187.8	7.4	8.1	8.2	8.3	8.0	5.7	5.5
Subtotal other services	792.0	926.3	966.6	1,001.6	44.1	44.3	44.6	44.3	5.4	4.4	3.6
TOTAL	1,815.3	2,117.4	2,190.1	2,284.9	100.0	100.0	100.0	100.0	5.3	3.5	4.3

SOURCE: For 1965 to 1968: ECLA on the basis of data of the Banco Central de Reserva; for 1969-1970: ECLA estimates.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 64. El Salvador: total supply and demand

	Millions of colones at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a
Total supply	2,532.3	2,914.4	2,972.2	3,110.8	128.1	126.4	124.5	124.9	4.8	2.0	4.7
Gross domestic product	1,977.4	2,306.5	2,386.8	2,489.9	100.0	100.0	100.0	100.0	5.3	3.5	4.3
Imports ^b	554.9	607.9	585.4	620.9	28.1	26.4	24.5	24.9	3.1	-3.7	6.1
Total demand	2,532.1	2,914.4	2,972.2	3,110.8	128.1	126.4	124.5	124.9	4.8	2.0	4.7
Exports ^b	530.3	613.7	583.0	561.7	26.8	26.6	24.4	22.6	5.0	-5.0	-3.7
Total investment	307.0	271.9	283.7	311.6	15.5	11.8	11.9	12.5	-4.0	4.3	9.8
Gross fixed investment	296.3	265.0	269.4	280.8	15.0	11.5	11.3	11.3	-3.7	1.7	4.2
Public	83.6	63.8	67.4	67.2	4.2	2.8	2.8	2.7	-8.6	5.6	-0.3
Private	212.7	201.2	202.0	213.6	10.8	8.7	8.5	8.6	-1.8	0.4	5.7
Construction	116.5	117.2	123.6	131.0	5.9	5.1	5.2	5.3	0.2	5.5	6.0
Machinery and equipment	179.8	147.5	145.8	150.8	9.1	6.4	6.1	6.1	-6.4	-1.2	3.4
Total consumption	1,695.0	2,028.8	2,105.5	2,237.5	85.7	88.0	88.2	89.9	6.2	3.8	6.3
General government	166.3	206.5	224.7	231.9	8.4	9.0	9.4	9.3	7.5	8.8	3.2
Private	1,528.7	1,822.3	1,880.8	2,005.6	77.3	79.0	78.8	80.6	6.0	3.2	6.6

SOURCE: For 1965-1968: ECLA, on the basis of official statistics supplied by the Banco Central de Reserva; for 1969-1970: ECLA estimates.

^a Preliminary.
^b Goods and services, excluding factor payments.

The increased maize and bean harvests are of special importance. Apart from being larger than the 1969 harvests (by 32 and 18 per cent, respectively), they reflect a growing trend towards relieving the pressures on the country's capacity to import. The progress made in the cultivation of marginal land which, from 1965 onwards, was made free for other crops as the profitability of cotton cultivation fell, has enabled El Salvador to more than satisfy the current levels of domestic demand for maize,²⁶ and considerably to narrow the gap between domestic production and consumption of beans. In the case of beans, favourable prices on the world market acted as an additional stimulus to import substitution. The sorghum crop was up by 15 per cent compared with 1969, again reflecting the effects of the development programme and the good weather that prevailed during the crop year.

It should be mentioned, however, that the trend towards self-supply of maize, beans and sorghum—which has been strengthened by the problems connected with trade in basic commodities within the Common Market—makes the prospects for complementarity with the other Central American countries more remote for the time being, seeing that El Salvador is fundamentally an exporter of manufactures in the context of intra-regional trade.

In contrast to the growth of the above activities, there was a decline in the volume of rice production for the second successive year compared with 1968, when there was a bumper crop which was difficult to market.

Agricultural production for export grew less than production for domestic consumption as a whole. However, the increase in coffee output helped significantly to remedy the weakness of the agricultural sector during the past two years.

The two principal agricultural export products—coffee and cotton—showed signs of embarking on a new phase of development in 1970. The coffee harvest for 1969/1970 was outstanding (144,000 tons), mainly because of favourable natural conditions and the continuous introduction of improved farming techniques.

Cotton production is beginning to recover from the crisis that hit it in the mid-1960s. Although recovery has been somewhat slow, it is the result of a whole series of measures which have included, more recently, direct financial support to cotton-growers. In 1970, the area

sown for the next year's harvest was larger, but the area under cotton was still less than for the crop year 1964/1965, which was the record year in El Salvador's cotton production.

Apart from agriculture, the other sectors that have the largest share in generating El Salvador's gross domestic product made no significant contribution to the expansion of the economy in 1970 (see table 63). It is estimated that the growth rate of manufacturing industry declined again, thus confirming the recessive trend in industry that is mainly due to the recent difficulties experienced in the Common Market.

Exports to the rest of Central America were less in 1970 than in 1969, accentuating the decline of the latter year. El Salvador increased its exports to Nicaragua and Costa Rica, and to Guatemala in particular, but these increases, which were partly due to the disposal of 1969 stocks, were not enough to offset the effects of the interruption of trade with Honduras (see table 65). Thus, the fact that most exports of manufactures go to the Common Market imposed such severe limitations on the growth of the sector that they even offset the incentives provided by the expansion of the domestic market, which in its turn was due to the improvement of agriculture and the favourable price ratio in the coffee industry.

The slackening of the rate of expansion of El Salvador's manufacturing sector stems primarily from the development of competitive activities in the region which have tended to saturate the Central American market with certain articles (especially ready-made clothing and footwear). Fiscal incentives, one of the principal instruments of regional industrial policy, have not yet been applied in accordance with the new line of action laid down in the Central American Integration Agreement of March 1969, a line aimed at preventing the countries from competing with each other in the incentives they grant to attract investment. In El Salvador, this circumstance coincides with the termination of incentives to a large number of industries that were initiated between 1960 and 1962 under the first law on industrial development; as a result, a climate of uncertainty, naturally discouraging to private investment, has been created.

Specific action was taken in 1970, particularly in the institutional field, to deal with some of the problems connected with the diversification of agriculture and the misuse of land. A drainage and irrigation law was passed to solve the legal problems that have held up the construction of irrigation works and the distribu-

²⁶ The last crop probably provided a surplus of 60,000 tons, part of which was to be exported the following year.

Table 65. El Salvador: Foreign trade, 1966-1970

	1966	1967	1968	1969	1970 ^a	Annual growth rates			
						1967	1968	1969	1970
Millions of dollars									
Exports	209.4	228.6	234.7	223.9	245.2	9.2	2.7	-4.6	9.5
Goods	189.5	207.9	211.7	202.2	222.7	9.7	1.8	-4.5	10.1
Services	19.9	20.7	23.0	21.7	22.5	4.0	11.1	-5.7	3.7
Imports f.o.b.	252.6	255.3	250.0	248.4	265.9	1.1	-2.1	-0.6	7.0
Goods	201.5	205.5	198.2	192.8	205.4	2.0	-3.6	-2.7	6.5
Services	51.1	49.8	51.8	55.6	60.5	-2.5	4.0	7.3	8.8
Millions of dollars at 1960 prices									
Exports	212.9	238.9	247.0	235.7	226.9	12.2	3.4	-4.6	-3.7
Goods	193.4	218.8	225.2	215.1	206.2	13.1	2.9	-4.5	-4.1
Services	19.5	20.1	21.8	20.6	20.7	3.1	8.5	-5.5	0.5
Imports f.o.b.	242.9	238.7	242.7	236.5	248.5	-1.7	1.7	-2.6	5.1
Goods	193.8	192.1	192.4	183.6	192.0	-0.9	0.2	-4.6	4.6
Services	49.1	46.6	50.3	52.9	56.5	-5.1	7.9	5.2	6.8
Millions of dollars									
Exports f.o.b.	189.5	207.9	211.7	202.2	222.7	9.7	1.8	-4.5	10.1
To the Central American Common Market	58.6	79.2	85.0	74.8	71.7	35.2	7.3	-12.0	-4.1
To the rest of the world	130.9	128.7	126.7	127.4	151.0	-1.7	-1.6	0.6	18.5
Imports c.i.f.	220.0	223.9	215.6	210.9	224.1	1.8	-3.7	-2.2	6.3
From the Central American Common Market	52.0	54.5	65.1	60.2	58.6	4.8	19.4	-7.5	-2.7
From the rest of the world	168.0	169.4	150.5	150.7	165.5	0.8	-11.2	0.1	9.8
Balance	-30.5	-16.0	-3.9	-8.7	-1.4	—	—	—	—
With the Central American Common Market	6.6	24.7	19.9	14.6	13.1	—	—	—	—
With the rest of the world	-37.1	-40.7	-23.8	-23.3	-14.5	—	—	—	—

^a Estimates.

SOURCE: ECLA, on the basis of official statistics.

tion of irrigation water. Under this law, land which is essential for the construction of irrigation and drainage works, the exploitation of the soil and the subsoil and the construction of means of access to such works, for the drainage of marshes and for flood control may even be expropriated. So as to ensure equitable distribution of the benefits of the measures taken by the Government in this area and to ensure efficient use of the infrastructure works and any diversification projects that may be initiated, the law also empowers the Government to restrict the size of estates within maximum and minimum limits, and to expropriate and redistribute land.

Another important measure connected with the diversification of agriculture, and accessorially with support for industry, is the agricultural development project that has been started in the Zapotitán valley, one of the aims of which is to make the country less dependent on external supplies of fruit and vegetables. This project, which is intended to increase the number of hectares under irrigation, is part of a programme for using basic resources to develop intensive agriculture and livestock production. It has not yet been put into operation on a large enough scale to tap El Salvador's potential for increasing the productivity of its natural resources. According to some estimates, there are 300,000 hectares of potentially cultivable land which could be made fit for use by irrigation and drainage. The portion of this area that has been studied sufficiently to permit its full use and justify supplementary support from foreign sources of financing is still very small—4,300 hectares in the Zapotitán valley.

In 1970, a new law on export promotion was passed, the trade promotion machinery set up the year before was strengthened, and the exchange restrictions on foreign capital were eased in respect of the remittance of net profits, the repatriation of funds derived from the total or partial liquidation of enterprises (in accordance with the proportion of shares held by foreign investors), receipts from the sale of shares and other securities, and capital gains on such transactions. This last measure brought conditions in El Salvador into line with those prevailing in the other countries of the Central American Common Market in this respect. Attention was also paid to the legal form in which industrial and services enterprises were to be organized. A change in the commercial code was approved, making it easier to set up companies by limiting the liability of shareholders or partners to the amount of the assets they have invested in the company.

Lastly, it is estimated that the value added by

commercial activities grew at a somewhat faster pace than in 1969 (3.3 compared with 3.1 per cent), thanks to the favourable trends in agricultural output for domestic consumption and the increase in imports of goods, thus compensating for the slackening in the pace of industrial development (see table 63).

3. THE EXTERNAL SECTOR

According to provisional balance-of-payments estimates, the deficit on current transactions with other countries fell from 23 to around 22 million dollars in 1970. The net inflow of non-compensatory capital more than made up for the deficit on current account, and hence the net external position of the monetary authorities was improved by 17.5 million dollars, which included a 13.3 million increase in foreign exchange reserves and 4.2 million in the form of Special Drawing Rights, all of which were used.

The value of exports of goods and services increased by 9.5 per cent, but their volume again fell, being nearly 10 per cent less than in 1968 (see tables 65 and 66).

Coffee exports declined in volume for the third successive year. The large volumes of coffee produced for export in recent years have not been matched by similar increases in El Salvador's quota under the International Coffee Agreement. The quota was increased by 10,000 tons in 1970 in view of the upward trend in prices on the international markets; however, prospects of higher prices seem to have led to the holding back of coffee sales and thus to a reduction of exports this year.²⁷ However, El Salvador managed to solve its problem of surplus stocks to a certain extent by selling 8,700 tons to new markets.

There was a significant increase in the volume of cotton exports, which benefited from a rise in prices. Sugar exports also recovered, mainly as a result of an increase of nearly 18 per cent in El Salvador's quota for the United States market. This helped to relieve the problem of the unsold surplus stocks, which had accumulated in previous years as a result of good cane harvests.

The fall in sales to the other Central American countries was estimated at 4.1 per cent at current prices. However, there was a considerable improvement in exports to Costa Rica and

²⁷ The export quota for the 1969/70 crop year was originally 93,200 tons; with subsequent *pro rata* and selective adjustments, the final quota came to 103,700 tons. The initial quota for 1970/71 is likely to be 109,600 tons, but the trends that are beginning to emerge in the prices of the type of coffee marketed by El Salvador may lead to its reduction to about 96,000 tons.

Table 66. El Salvador: balance of payments, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Current account</i>					
Exports of goods and services	209.4	228.6	234.7	223.9	245.2
Goods f.o.b.	189.5	207.9	211.7	202.2	222.7
Services	19.9	20.7	23.0	21.7	22.5
Imports of goods and services	-252.6	-255.3	-250.0	-248.4	-265.9
Goods f.o.b.	-201.5	-205.5	-198.2	-192.8	-205.4
Services	-51.1	-49.8	-51.8	-55.6	-60.5
Net external investment income	-7.6	-8.6	-8.2	-8.3	-9.0
On direct investment	-5.9	-6.5	-6.1	-6.1	...
Other	-1.7	-2.1	-2.1	-2.2	...
Net private transfer payments	6.5	7.7	6.0	9.8	8.0
Balance on current account	-44.3	-27.6	-17.5	-23.0	-21.7
<i>Capital account</i>					
Net external financing	44.3	27.6	17.5	23.0	21.7
External non-compensatory capital	29.9	31.6	17.7	30.1	29.0
Direct investment	8.5	9.8	8.2	7.0	9.0
Long- and medium-term loans	24.7	17.0	4.9	6.3	14.0
Official	4.6	2.4	3.0	4.3	2.4
Inflows	7.4	3.5	6.6	7.6	...
Amortization payments	-2.8	-1.1	-3.6	-3.3	...
Private	20.1	14.6	1.9	2.0	11.6
Inflows	21.9	16.7	4.6	5.7	...
Amortization payments	-1.8	-2.1	-2.7	-3.7	...
Short-term liabilities	-6.6	0.6	2.2	13.1	2.4
Official transfer payments	3.3	4.2	2.4	3.7	3.6
Domestic non-compensatory capital or assets	0.4	-1.2	-1.4	-1.1	...
Long-term	-0.6	-0.6	-1.6	-2.2	...
Short-term	1.0	-0.6	0.2	1.1	...
Errors and omissions	1.8	-4.0	2.0	-14.7	10.2 ^c
Compensatory movements (increase --)	12.2	1.2	-0.8	8.7	-17.5 ^c
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	20.3	1.0	8.1	13.3	...
Amortization payments	-2.5	-1.8	-1.7	-2.8	...
Movements of gold and foreign exchange reserves (increase --)	-5.6	2.0	-7.2	-1.8	...

SOURCE: International Monetary Fund, Banco Central de Reserva and ECLA estimates.

^a Preliminary figures.

^b Estimates.

^c Includes 4.2 million dollars in Special Drawing Rights.

Nicaragua, countries with which El Salvador has had a favourable trade balance in recent years, and trade with Guatemala was in balance (see table 65).

At the same time, imports of goods and services increased by 7 per cent at current prices, reversing the downward trend of the last two years.

According to available information on capital movements, the over-all picture of external financing in 1970 showed no changes in respect of net inflows of non-compensatory funds. Long-term financing grew as a result of greater utilization of resources by the decentralized public sector; for instance, loan operations on the domestic market were speeded up by such institutions as the national housing association (Financiera Nacional de la Vivienda) and the rural workers' welfare association (Adminis-

tración del Bienestar Campesino), but at the same time there was a reduction in the inflow of funds, which in 1969 had provided a large measure of support to banking activities.

On the other hand, there was a large increase in the movement of capital under the heading "Errors and omissions".

4. PUBLIC FINANCE, MONEY AND CREDIT

Fiscal policy in recent years has tended to make direct taxation more stringent in order to compensate for the decline in revenue from taxes on foreign trade. Some attention has been focused on the improvement of tax collection, especially in the case of income tax. However, the measures that have had the greatest impact on the growth of central government income in recent years are those adopted in the field of indirect taxation. In this connexion, mention

should be made of the surcharge of 30 per cent on customs duties provided for in the San José Protocol and imposed by El Salvador in 1969, and the change in the level of stamp duties. These two measures and the increase in revenue from the tax on coffee exports were mainly responsible for the increase of 7 per cent in current income in 1970 (see table 67).

Central government current expenditure increased at an average rate of 7.3 per cent between 1965 and 1968, while there was practically no change in the levels of current income during the period. Consequently, there was a continuous decline in saving, from 50 million colones in 1965 to 15 million in 1968. Government spending grew rapidly in 1969 and 1970 (by 8 and 10 per cent, respectively), as a result of defence expenditure and the need to provide assistance for the refugees. Saving, which had recovered slightly in 1969, fell again in 1970, to a level estimated to be about one fifth of the 1965 figure.

Tax revenue continues to depend on external sector trends, either through direct export and import taxes, or through indirect taxes on consumption and other domestic transactions. This situation has inevitably robbed investment programmes of continuity and delayed

projects financed by external aid when there has been a slump in foreign trade, as in 1968 and 1969.

The main objectives of monetary policy in 1970 were to increase foreign exchange reserves and to ensure the continuance of the selective credit system which was put into operation between 1966 and 1968.

Thanks to the favourable conditions on the international coffee market, the weakening of demand for public sector credit—mainly owing to the slow growth of capital formation—and the repatriation of private capital, it was very easy to achieve the first objective. As regards the second, Central Bank credit policy and discount operations tended to favour agricultural and industrial exports.

As planned, less credit was granted to the private sector than in 1969 (it increased by 7.6 per cent compared with 9.8 per cent). The main support for growth was provided by the increase in savings and time deposits. Thus, semi-liquid domestic funds were used to meet long-term foreign obligations, which had grown fairly rapidly between 1967 and 1969.

As internal credit grew more slowly in 1970, the amount of extra money put into circulation

Table 67. El Salvador: current Central Government receipts and expenditure, 1966–1970
(Millions of colones)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Current income</i>	219.5	221.2	224.8	243.7	261.0
Tax revenue	207.3	208.0	212.4	231.2	248.0
Direct taxes	39.1	44.1	59.6	65.1	57.0
Income tax	33.8	37.9	44.4	38.1	...
Property tax	5.3	6.2	15.2	17.7	...
Emergency taxation	—	—	—	9.3	...
Indirect taxes	168.2	163.9	152.8	166.1	191.0
On imports	62.7	59.4	52.9	57.2	56.0
On exports	33.7	31.1	24.4	27.4	46.0
On consumption	55.3	56.4	57.6	60.7	63.0
Other	7.4	7.4	7.6	9.8	10.0
Stamp duties	9.1	9.6	10.3	11.0	16.0
Non-tax revenue	7.3	8.1	7.4	7.1	...
Transfer payments and other receipts	4.9	5.1	5.0	5.4	...
<i>Current expenditure</i>	185.4	189.6	210.0	227.4	250.0 ^c
Operating expenditure	133.7	140.7	153.8	170.1	...
Wages and salaries	112.3	119.1	125.2	131.1	...
Goods and services	21.4	21.6	28.6	39.0	...
Current transfer payments	49.9	47.6	54.5	55.3	...
To the private sector	16.5	16.6	17.7	18.3	...
To the public sector	30.8	30.5	35.4	35.9	...
To the external sector	2.6	0.5	1.4	1.1	...
Interest on public debt	1.8	1.3	1.7	2.0	...
<i>Current saving</i>	34.0	31.6	14.8	16.2	11.0

SOURCE: Ministry of Finance.

^a Preliminary.

^b Estimate.

^c Including expenditure under previous budgets.

was smaller. Given the growth of the real product and the rising trend of domestic prices, the over-all liquidity of the economy appears to have declined slightly compared with 1969.

*West Indies Associated States*²⁸

1. RECENT ECONOMIC TRENDS

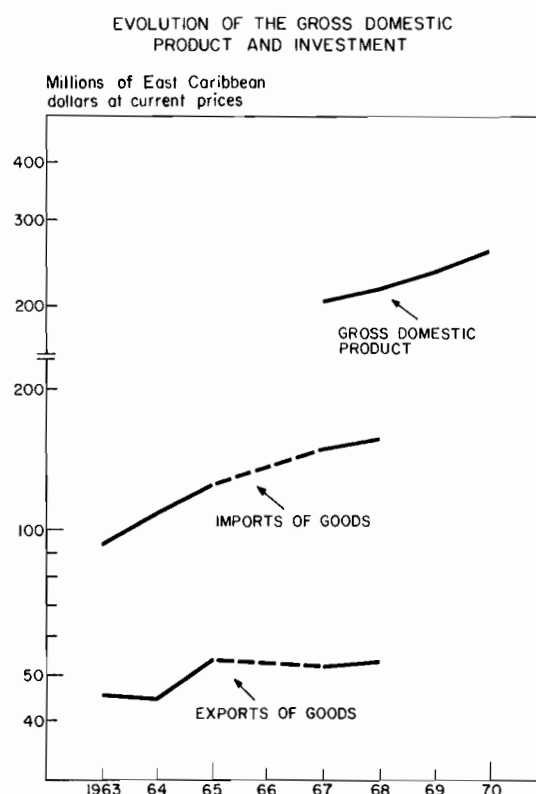
The West Indies Associated States are all members of the Caribbean Free Trade Association (CARIFTA) within which they comprise the more closely-knit East Caribbean Common Market (ECCM). In terms of economic activity, these islands are primarily producers of agricultural commodities, concentrating on bananas and sugar, for metropolitan markets. There is little mining and quarrying and the manufacturing sector is also small. Their economy is very much dependent on foreign trade since imports and exports together account for more than 90 per cent of their gross domestic product. The islands have traditionally been producers and exporters of primary products. Their domestic markets are small and they have few natural resources.

The estimated gross domestic product at current factor cost rose from 147 million dollars in 1961 to 237 million in 1969, an average annual growth rate of over 6 per cent. The estimated increase for 1970 was 10 per cent (see table 68).

Economic expansion was irregular during the past decade but tended to increase gradually from an average annual rate of less than 6 per

²⁸ Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent, referred to in this study as either (ECCM) or Associated States. Unless otherwise stated, values are given in East Caribbean dollars: two Eastern Caribbean dollars equal one dollar.

Figure XI. The West Indies Associated States: 1963-1970
Semi-logarithmic-scale



cent for the first five years to one of over 7 per cent for the remaining five. Using mid-1961 population data and the preliminary figures of the 1970 census, however, estimates of the per capita gross domestic product showed an increase from 332 to 520 dollars, owing to rising production and slow population growth (see table 69).

Table 68. West Indies Associated States: gross domestic product at factor cost
(Millions of East Caribbean dollars)

	1962	1967	1968	1969	1970	Percentage of total		
						1962	1967	1968
Export agriculture	28.5	34.0	55.7	...	...	18.9	16.6	25.6
Other agriculture	23.0	20.7				15.2	10.1	
Mining and manufacturing	5.1	8.7	10.3	...	...	3.4	4.3	4.7
Construction	16.3	26.4	31.0	...	...	10.8	12.9	14.2
Distribution	21.9	28.5	31.0	...	...	14.5	13.9	14.2
Transport, storage and communications	3.9	7.6	7.2	...	...	2.6	3.7	3.0
Services	12.9	24.1	83.5	...	...	8.5	11.8	38.3
Ownership of dwellings	12.7	15.9				8.4	7.8	
Government	26.8	38.6	...	...	...	17.7	18.9	...
TOTAL	151.1	204.5	218.7	(237)^a	(260)^a	100.0	100.0	100.0

SOURCE: United Nations, *Yearbook of National Accounts Statistics* 1969, vol. II, and information collected by ECLA.

^a ECLA estimates.

Table 69. West Indies Associated States: selected economic indicators, 1960 and 1970

	1960	1970
Population (census)	430,900	475,100 ^a
Annual growth rate (1960–1970)	—	0.98%
Land area (sq. miles)	1,187	1,187
Density of population (persons per sq. mile)	363	400.3
Per capita gross domestic product (East Caribbean dollars)	341.4 ^b	521.9
Imports as a percentage of gross domestic product	59.1	71.2 ^c
Exports as a percentage of gross domestic product	29.5	24.3 ^c

^a Including estimate for Antigua.

^b Figure for 1961.

^c Figure for 1968.

2. AGRICULTURE

The relative share of the agricultural sector in the gross domestic product is estimated to have dropped from 34 per cent in 1962 to under 25 per cent in 1970. Traditional agricultural exports to metropolitan countries represent the sector's principal activity and have accounted on average for almost 18 per cent of the total gross domestic product. Their value rose by over 25 per cent between 1962 and 1970, and the production of bananas, now the main export product, had more than doubled by 1968. Sugar, which had previously been the most important product, has dropped off in recent years to the point where it now accounts for only 11 per cent of total exports.

Other staple crops are spices, sea island cotton, copra, cocoa and citrus fruit, but all of these except the last three have declined considerably in importance. The chief producers of bananas, cocoa, copra, nutmeg and mace are Dominica, Grenada, St. Lucia and St. Vincent. Most of the sugar now comes from St. Kitts, though Antigua and St. Lucia started growing it for export much earlier.

An attempt is being made to diversify agri-

cultural production in all the islands, and considerable progress has been made with forestry in Dominica which now exports lumber.

3. TOURISM

The small size and limited natural resources of the islands are compensated for by their natural beauty and by the proximity of the high-income countries of North America. Inevitably, considerable emphasis has to be placed on tourism as a vehicle for promoting economic development. Between 1963 and 1969, the number of tourists, excluding cruise-ship passengers, increased from 68,000 to 162,000, or 136 per cent, while expenditure on tourism rose annually at an average rate of 11 per cent to an estimated 39 million dollars in 1969. Although the average length of stay—and therefore the average expenditure—per tourist in each individual island has been reduced, this has been offset by the practice of including visits to several islands in a single trip to the area (see table 70).

The expansion in tourist earnings has brought greater requirements in terms of investment capital and agricultural and manufactured goods, most of which have to be imported, and this results in the loss of much of the income from tourism. The tourist industry nonetheless acts as a powerful stimulus for other sectors, particularly construction, agriculture and manufacturing.

4. OTHER SECTORS OF ECONOMIC ACTIVITY

Under the impetus of the tourist trade, the Governments have launched accelerated construction programmes, with emphasis on hotels and infrastructural projects, including airports. The central government sector itself has expanded to more than 19 per cent of the gross domestic product and has taken the lead in promoting constructional and manufacturing activity. Construction has therefore come to account for over 14 per cent of the gross domestic product. Some growth is evident in

Table 70. East Caribbean Common Market Countries: selected data on tourism, 1963–1969

	Units	1963	1964	1965	1967	1968	1969
Number of tourists ^a	Thousands	68.5	49.0	106.4	127.7	143.1	161.9
Estimated expenditure	Thousands of East Caribbean dollars	...	23.3	26.0	31.5	...	39.0
Per capita expenditure	Caribbean dollars	...	248.1	244.4	246.5	...	240.7
Tourist accommodation ^b	Number of beds	2,290	2,594	2,648	...	3,991	4,107

SOURCE: *Abstract of Statistics of Leeward and Windward Islands and Barbados*, No. 2 Statistical Series: 1966; *Report of the Caribbean Travel Association 1968*; United Nations, *Tourism in the Eastern Caribbean Islands*, final draft of a paper by the Department of

Economic and Social Affairs, Centre for Development Planning, Projections and Policies.

^a Excluding cruise-ship passengers.

^b First-class hotels and guest-houses only.

the manufacturing sector, which is currently diversifying its production, but it still generates only a small part (about 5 per cent) of the product. It should be noted that under the system of classification adopted by these territories, agriculture includes sugar-milling and cotton-ginning, and manufacturing covers mostly tobacco products, beverages and some food processing.

Distribution, public utilities and rent of dwellings have not kept pace with the growth in the rest of the economy. The services sector, however, has expanded much more quickly, partly because of the increase in tourism and the rapid transformation of consumption patterns that seem so characteristic of developing countries undergoing accelerated urbanization.

5. FOREIGN TRADE

Thanks to the existence of traditional links, the United Kingdom buys almost 70 per cent of the Associated States' exports and supplies them with some 30 per cent of their imports.

Next in order of importance is trade with the CARIFTA countries, followed by the United States and Canada. Trade with continental Latin America is still negligible; while imports from the United States and Canada have continued to increase, the area's exports to those countries have declined considerably during the decade.

Intra-ECCM trade is still very small, amounting to less than 2 per cent of the total. The main flows of trade are from St. Vincent to St. Lucia and Grenada, St. Kitts to Dominica, and Dominica to Antigua and St. Vincent. Most of this trade involves perishable foods, certain beverages, copra and edible oils. Re-exports of foreign merchandise between the territories are

substantial and derive from trans-shipment of cargo carried by ocean-going vessels. Trade between the Associated States themselves is hampered by the similarity of their output, the small size of their markets and the inadequate transport facilities.

The main trend is for imports to grow more rapidly than exports, with the result that there is a consistently large deficit on merchandise trade with all the major trading partners. Some of the visible trade deficit is being offset by the earnings of the fast-expanding tourist industry (see table 71).

Table 71. West Indies Associated States: value of total trade for selected years, 1960-1968
(Thousands of East Caribbean dollars)

Year	Imports	Exports	Balance
1960	78,649	39,257	39,392
1961	87,676	41,415	46,261
1963	94,432	45,701	48,731
1964	109,647	46,887	62,760
1965	125,029	53,400	71,629
1967	149,011	51,662	97,349
1968	155,759 ^a	53,234 ^a	102,525

SOURCE: Official trade reports of member territories.

^a The figures for Antigua and St. Vincent refer to 1967 as those for 1968 are not available.

The Associated States still depend largely upon income from food exports, which made up 87 per cent of the total in 1960, though this share has now dropped to 80 per cent. Bananas have replaced sugar as the major export commodity and currently account for about 50 per cent of total exports; exports of manufactured goods other than food have more than doubled and now represent more than 10 per cent of the total (see table 72).

Table 72. West Indies Associated States: major export crops
(Thousands of East Caribbean dollars)

Commodity	Unit	1960		1965		1968	
		Quantum	Value	Quantum	Value	Quantum	Value
Bananas	Tons	88,926	11,792	178,862	22,183	182,116	27,069
Cocoa	Tons	2,223	2,648	2,978	2,365	1,932	2,157
Arrowroot	Tons	3,129	1,437	2,627	1,280	1,262 ^a	386
Nutmeg and mace	Tons	717	3,165	1,681	5,763	1,492	3,017
Sweet potatoes	Thousands of pounds	5,399	163	5,079	153	...	...
Sugar	Tons	67,283	12,918	46,227	10,118	34,104	5,790
Copra	Tons	4,576	1,542	5,433	1,865	4,601	1,875
Citrus fruit	Tons	862	182	2,171	245	2,733	435
Lime juice	Gallons	400,000	671	428,755	707	252,866	656
Coconut oil	Thousands of pounds	2,087	554	2,580	681	...	...
Lime oil	Pounds	28,283	388	28,260	277	17,946	208
Cotton (sea island)	Pounds	827,127	378	349,441	456	87,315	76

SOURCE: Official trade reports of member territories; *The West Indies and Caribbean Yearbook, 1970* (Thomas Skinner and Co., Ltd., London).

^a Crop year data.

On the import side, purchases of food have risen by about 70 per cent, manufactures by 90 per cent and fuels and lubricants by over 150 per cent in the past ten years.

Guatemala

1. RECENT ECONOMIC TRENDS

The growth rate of the gross domestic product in 1970 showed a satisfactory rise of 5.1 per cent, only very slightly lower than the previous year's increase of 5.6 per cent. In all sectors except agriculture and commerce the growth rate of production was lower than in the previous year; agricultural production rose by 3.8 per cent, an improvement on the last few years, and commercial activity continued to show a growth rate of about 6 per cent. On the other hand the growth in total demand, mainly

due to higher levels of investment and private consumption, led to a substantial increase in imports, since there was only a small expansion of domestic supply (see tables 73 and 74).

Manufacturing production continued to increase at the fairly rapid rate of 8 per cent, in response to the incentives provided by domestic and regional demand; however, it did not reach the high rates of 9 per cent or more recorded in previous years.

The growth rate of construction, which increased considerably in 1969 (by about 10 per cent) was no more than 4 per cent during 1970, in spite of the greater impetus of public and private capital formation.

Electric power generating capacity expanded by 60 MW with the construction of the Jurún Marinalá hydroelectric power station, the first unit of which went into operation at the end of 1969 with 20 MW of installed capacity, followed by the remaining units at the beginning of 1970. This meant an increase in production of 9 per cent for the sector, slightly less than the previous year, owing to the fact that the hydroelectric plant replaced some of the energy previously generated at higher cost by thermoelectric plants. Public supply generation by thermoelectric plants fell from 409 GWh in 1969 to 280 GWh in 1970.

The increase in the generation of electric power during the last two years has made a big contribution towards overcoming one of the principal difficulties that has hampered economic development in general. It is obviously extremely important that the studies for the Atitlán project, which will generate approximately 400 MW, should be completed as soon as possible.

As a result of the government policy of allocating more funds for investment there was only a moderate increase in expenditure on services (public administration and defence), which rose by 3.7 per cent compared with almost 9 per cent in the previous year. "Other services" continued to expand at a rate that was only just above that of population growth (see table 73).

The increase in agricultural production (3.8 per cent) indicated a partial recovery after the decline registered in 1969 as a result of bad weather, but it failed to reach the 5.6 per cent increase registered in 1968. Cotton production fell sharply, mainly owing to the steady reduction of the area sown to cotton over the past few years; this can be attributed to the low returns on this crop, which requires continuing technical assistance and strong financial support to improve yields.

Figure XII. Guatemala: 1965-1970
Natural scale

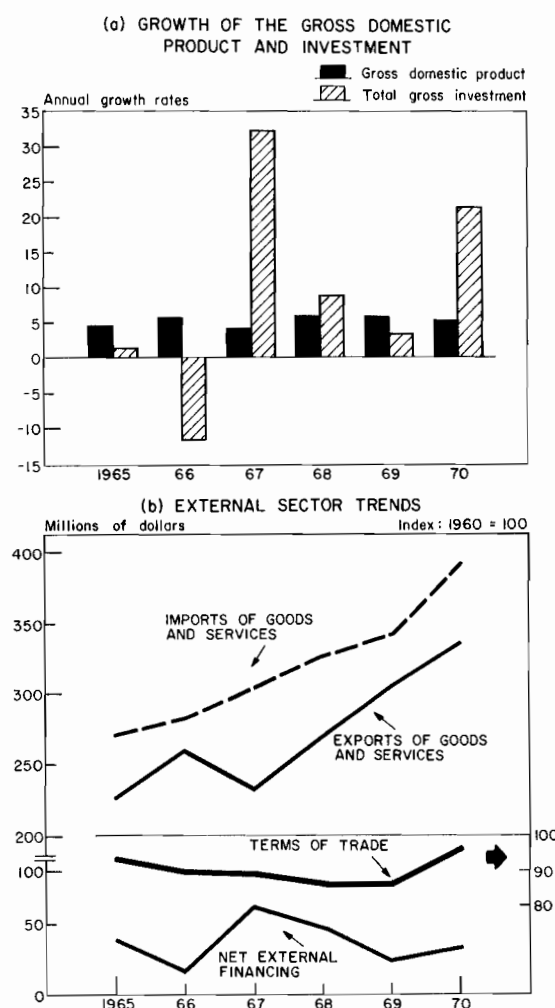


Table 73. Guatemala: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of quetzales at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a	1970 ^a
Agriculture	360.6	399.3	411.4	427.0	28.9	27.6	26.9	26.6	3.4	3.0	3.8
Mining	1.5	1.2	1.2	1.6	0.1	0.1	0.1	0.1	-7.2	—	33.3
Manufacturing	146.8	191.6	208.8	225.5	11.8	13.2	13.7	14.0	9.3	9.0	8.0
Construction	23.1	26.0	28.6	29.7	1.8	1.8	1.9	1.8	4.0	10.0	3.8
Subtotal goods	532.0	618.1	650.0	683.8	42.6	42.7	42.6	42.5	5.1	5.2	5.2
Electricity, gas and water	12.7	16.5	18.6	20.3	1.0	1.1	1.2	1.3	9.1	12.7	9.1
Transport and communications	58.4	63.2	67.9	69.9	4.6	4.3	4.4	4.3	2.7	7.4	2.9
Subtotal basic services	71.1	79.7	86.5	90.2	5.7	5.5	5.7	5.6	3.9	8.5	4.3
Commerce and finance	405.5	482.8	511.5	542.6	32.6	33.3	33.4	33.8	6.0	5.9	6.1
Government	66.5	74.8	81.2	84.2	5.3	5.2	5.3	5.2	4.0	8.6	3.7
Ownership of dwellings	99.4	109.3	112.5	115.7	7.9	7.5	7.3	7.2	3.2	2.9	2.8
Miscellaneous services	73.1	83.5	87.4	90.8	5.8	5.8	5.7	5.6	4.5	4.7	3.9
Subtotal other services	644.5	750.4	792.6	833.3	51.7	51.8	51.7	51.8	5.2	5.6	5.1
TOTAL	1,254.5	1,457.2	1,539.1	1,617.3	100.0	100.0	100.0	100.0	5.1	5.6	5.1

SOURCE: From 1965 to 1970, ECLA estimates based on official Banco de Guatemala statistics.
 Note: The figures for each sector do not necessarily add up exactly to the total product

because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 74. Guatemala: total supply and demand

	Millions of quetzales at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1965	1968	1969 ^a	1970 ^a	1965-1968	1969 ^a	1970 ^a
Total supply	1,589.5	1,841.8	1,935.0	2,053.3	117.9	117.6	117.0	118.2	5.0	5.1	6.1
Gross domestic product	1,348.0	1,565.7	1,653.6	1,737.7	100.0	100.0	100.0	100.0	5.1	5.6	5.1
Imports ^b	241.5	276.1	281.4	315.6	17.9	17.6	17.0	18.2	4.6	1.9	12.2
Total demand	1,589.5	1,841.8	1,935.0	2,053.3	117.9	117.6	117.0	118.2	5.0	5.1	6.1
Exports ^b	225.4	282.6	315.9	310.8	18.5	18.0	19.1	17.9	7.8	11.8	-1.6
Total investment	158.7	201.8	208.3	252.8	11.8	12.9	12.6	14.5	8.3	3.2	21.4
Gross fixed investment	150.5	198.1	211.9	234.1	11.2	12.7	12.8	13.5	9.6	7.0	10.5
Public	31.2	40.6	43.0	47.6	2.3	2.6	2.6	2.7	9.2	5.9	10.7
Private	118.7	157.5	168.9	186.5	8.8	10.1	10.2	10.7	9.9	7.2	10.4
Construction	61.8	70.9	...	...	4.6	4.5	...	...	4.7	...	...
Machinery and equipment	88.1	127.2	...	...	6.5	8.1	...	...	13.0	...	...
Total consumption	1,205.4	1,357.4	1,410.8	1,489.7	89.4	86.7	85.3	85.7	4.0	3.9	5.6
General government	91.3	97.6	106.7	110.5	6.8	6.2	6.4	6.4	2.2	9.3	3.6
Private	1,114.1	1,259.8	1,304.1	1,379.2	82.6	80.5	78.9	79.4	4.2	3.5	5.8

SOURCE: For 1965-1970: ECLA, on the basis of official statistics supplied by the Banco de Guatemala.
^a Preliminary.
^b Goods and services, excluding factor payments.

The expansion of crop production for domestic consumption continued to keep pace with population growth; the over-all increase is a reflection of the increase in the production of maize and bean, two of the most important products.

The commercial sector grew a little more than in 1969 (6.1 per cent) as a result of the relative recovery of agricultural production and the considerable increase in imports.

The growth of the domestic product described above and the substantial rise in purchases abroad resulted in a much larger total supply of goods and services than in 1969 (an increase of 6.1 per cent). The most dynamic factor in total demand was fixed capital formation, both public and private, which increased by over 10 per cent. Private consumption grew at a rate that was well above those of the last few years, but the same cannot be said of general government, whose policy of restricting current government expenditure, which was followed throughout the year, brought down the sector's rate of expansion considerably.

The smaller output of cotton in 1970 was reflected in a fall in cotton exports, which was not offset by the more favourable trends in production of other important export products; this led to a 1.6 per cent drop, at constant prices in total exports of goods and services.

The Guatemalan economy completed a relatively satisfactory three-year period of growth in 1970 (at about 5.5 per cent per year), which can be attributed to strong external demand and changes in official policy, which had a favourable effect in channelling domestic and foreign resources into development. However, obstacles and disequilibria of different kinds made their appearance, the most striking of which were difficulties in maintaining a satisfactory export rate and in collecting enough fiscal revenue to ensure continuity in the preparation and implementation of projects.

Further discouraging features were the sluggish and inadequate growth of agricultural production, and the meagre short-term prospects of expansion in manufacturing, which cannot be achieved without an expansion of the domestic market or better export performance.

These factors have led the authorities to adopt the development plan for the next five years (1971-1975) as government policy. This plan was drawn up by the Economic Planning Office and it attaches primary importance to development of the agricultural sector. Among the measures suggested are expansion of technical assistance and development services, intro-

duction of modern farming methods, and improvement of marketing systems. The establishment of the Agricultural Development Bank (Banco de Desarrollo Agrícola) and the Agricultural Marketing Institute (Instituto de Comercialización Agropecuaria) and reorganization of the Ministry of Agriculture are the first institutional measures to be taken under the plan. It is hoped, through these measures, to raise the levels of living of a substantial section of the population and get the country's exports on their feet.

The mining programme, focused on nickel production, can also help to push up external earnings, as can the plan for encouraging tourism outlined in the development plan, and the projects aimed at increasing sales to the Common Market. Finally, the development plan includes procedures and measures to ensure satisfactory levels of expenditure and promote public saving, so that the public sector can provide the social and economic infrastructure that is considered essential if the country's growth rate is to be accelerated.

2. TRENDS IN GOVERNMENT INCOME AND EXPENDITURE

Fiscal policy continued to be aimed at improving tax collection and curtailing current expenditure, with the result that the central government saving on current account increased and the budget deficit was appreciably reduced.

Although public expenditure did not increase so much as in the previous year, a relatively large rise was recorded. Central government expenditure reached the figure of 173 million quetzales, with an annual increase of over 5 per cent (half of that registered in 1969). The highest rise was in investment expenditure (10.6 per cent), which totalled nearly 39 million quetzales, though this was still far below the level reached in the mid-1950s and also below the amount laid down in the development plans. The largest outlay was once again on roads, followed by agrarian and economic and social development (12 million quetzales). This, together with the continued decline in other public works expenditure exemplifies the changes in the structure of central government investment. Expenditure on electrification also fell as electrical projects were completed. If the trends started in 1968 continue, substantial increases in investment are to be expected in the future, when current income rises and progress is made in the preparation and efficient implementation of projects.

As a result of the austerity programme, cur-

rent expenditure rose by only 3.6 per cent. Operating costs actually rose somewhat higher (4.5 per cent), but the final result reflects the reduction in transfer payments other than service payments on the public debt, which was the only expenditure item to rise rapidly (9 per cent).

Encouraging features of the trends in current expenditure are that administrative costs were kept to their previous level while there was an increase in expenditure for social and cultural purposes.

Current income increased by 10 per cent to about 165 million quetzales as a result of the rise in tax revenue (10 per cent) and non-tax income (13 per cent). The rise in tax revenue was due to administrative and technical improvements in the system of tax collection, and to the substantial growth of imports. The charges collected under the San José Protocol probably amounted to a substantial sum, nearly 7 million quetzales, as it came into full operation during the last few months of the year.

Although tax collection has risen in the last few years, the coefficient is still only 8 per cent, which is very low in relative terms.

Saving on current account showed a new increase during the year; however, a large part of the government deficit had to be met with external resources, totalling about 21 million quetzales.

3. MONEY AND PRICES

Monetary and credit trends clearly reflect the slackening off in Guatemala's growth rate. The total credit extended by the banking system was appreciably lower than in 1969, despite the strengthening of its credit expansion capacity. Deposits in time and savings accounts, for which the legal cash ratio requirement is lower, rose by about 40 per cent up to September, compared with the same period in 1969; however, according to provisional information, credit to the private sector rose at a rate of only 5.5 per cent, half that recorded in 1969, and the government's net credit also grew at a slower rate.

The money supply increased by about 6 per cent, which was less than the gross product at current prices, so that the ratio between these two variables continued to fall.

With regard to prices the variations in some indices deserve special attention. The statistics available indicate that the retail price index for basic necessities rose by 3 per cent, much more than in any of the past few years, mainly because of the 5 per cent increase in food prices.

Furthermore, the wholesale price index for local products (also in the capital) rose by nearly 4 per cent, the combined outcome of a similar increase in prices of foods and beverages and an 11 per cent increase in fuel prices. These price movements probably reflect the combined effect of slow growth in supply of agricultural products for the domestic market, and the direct and indirect results of higher prices for imports.

4. EXTERNAL TRADE AND BALANCE OF PAYMENTS

For the first time in the last five years, prices on the world market were particularly favourable for the over-all development of Guatemala's exports. While the volume of goods exports fell by 10.5 per cent, their value rose by 8.5 per cent. Although this increase in exports is quite large, it is not larger than in the last two years (see table 75).

Coffee exports rose 21 per cent, which was the result of better world prices since the volume of exports fell nearly 5 per cent. The export quota for 1970/1971 was fixed at 117,000 tons, 9,000 tons more than for 1969/1970 and this, together with the price incentive, will almost certainly lead to a larger volume of exports in 1971.

There was a considerable drop in the volume of cotton exported (37 per cent), which was accompanied by a fall in terms of value. Since 1966, the best year for exports (44 million quetzales), there has been a downward trend, except for a temporary recovery in 1968 and 1969; prices have continued to be higher than in 1966, which means that the reasons for the decline are to be found not so much in a possible weakness of demand as in production problems, such as high overheads, pests, etc.

The strong upward trend in banana sales which started in 1968 was interrupted in 1970. The total value was almost exactly the same as for 1969, which is abnormal in view of the favourable conditions of demand and prices prevailing throughout this year, and can only be explained by production difficulties.

The value of exports of fresh meat has been rising owing to increases in the volume of sales and in prices. Although the amount exported in 1970 was only 4.3 per cent higher than in 1969, the average export price rose by over 14 per cent, and foreign sales reached 13 million quetzales. There is an internal quota system for meat exports which is an indication of quite serious shortages in domestic supply. It has not yet been possible to implement a programme for the expansion of livestock production to

Table 75. Guatemala: total exports of main products, 1966-1970

	1966	1967	1968	1969	1970 ^a	Average annual growth rates			
						1967	1968	1969	1970
Millions of quetzales									
Coffee	100.1	68.4	73.4	81.5	98.6	-31.7	7.3	11.0	21.0
Cotton	44.2	30.4	40.1	39.3	24.5	-31.2	31.9	-2.0	-37.7
Bananas	10.5	9.2	14.1	18.9	19.0	-12.4	53.3	34.0	0.5
Fresh meat	5.3	8.0	8.6	11.1	13.0	50.9	7.5	29.1	17.1
Sugar	6.0	8.9	8.0	6.7	8.9	48.3	-10.1	-16.2	32.8
Cardamom	2.4	2.3	1.9	2.5	3.1	-4.2	-17.4	31.6	24.0
Fish and shrimp	0.8	2.2	0.9	1.7	2.1	175.0	-59.1	88.9	23.5
Essential oils	1.7	2.1	1.7	1.8	1.9	23.5	-19.0	5.9	5.6
Chicle, raw and semi-processed	0.4	1.8	1.7	1.7	1.7	350.0	-5.6	—	—
Soluble coffee	0.9	1.2	1.2	1.4	1.2	33.3	—	16.7	-14.3
TOTAL	228.7	203.9	233.4	262.5	284.8	-10.8	14.5	12.5	8.5
Millions of quetzales at 1960 prices									
Coffee	102.0	75.8	88.0	93.0	88.4	25.7	16.1	5.7	-4.9
Cotton	44.0	28.4	32.2	36.4	22.8	35.5	13.4	13.0	-37.4
Bananas	7.6	6.3	10.3	13.0	13.0	-17.1	63.5	26.2	—
Fresh meat	2.2	3.3	3.5	4.6	4.8	50.0	6.1	31.4	4.3
Sugar	5.1	6.0	5.5	4.5	6.0	17.6	-8.3	18.2	33.3
Cardamom . . . . .	...	...	...	...	...	...	...	...	...
Fish and shrimp	0.6	1.9	0.7	1.1	...	216.7	-63.2	57.1	...
Essential oils	1.9	2.2	1.4	1.2	...	15.8	-36.4	-14.3	...
Chicle, raw and semi-processed	0.4	1.6	1.5	2.2	...	300.0	-6.2	46.7	...
Soluble coffee	1.9	2.3	2.3	2.9	...	21.1	—	26.1	...
TOTAL	238.2	214.6	251.0	279.3	266.2	-9.9	17.0	11.3	-10.5

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

meet domestic and foreign demand, although the first steps have been taken to give producers financial assistance.

As the unit value of sugar exports did not vary during 1970, the substantial increase of 33 per cent in sales was due to an expansion in the volume of exports, made possible by the larger quota (4,600 tons) for the United States market and increased sales on other markets.

Exports to Central America rose by 16 per cent, exceeding the growth rate registered in 1969. Guatemala stepped up trade mainly with El Salvador and Honduras, taking advantage of the vacuum caused by the interruption of trade relations between the two countries.

Income from exports of services rose considerably (22 per cent) largely as a result of increased earnings from tourism and transport.

Imports of goods and services rose about 16 per cent in 1970. The larger commodity purchases (14.5 per cent) were associated with the liquidation of stocks accumulated since 1968, and especially in 1969, which had slowed down the growth rate of imports. Then, in contrast to what happened in previous years, no restrictions were applied; in fact the lifting of measures imposed successfully since 1967—

which were intended to reduce the expenditure on travel²⁹—gave rise to an extraordinary increase in expenditure on services, from 58 to 72 million quetzales, in contrast to the previous year which showed a drop in such expenditure.

On the imports of goods side consumer goods increased by over 12 per cent, in line with the trends for private consumption, and raw materials rose by 16 per cent, which is connected with the return to normal stock levels and the expansion of the industrial sector (see table 76). There was also a considerable increase in external purchases of fuels and lubricants. The lowest growth rate was registered in imports of construction materials; however the satisfactory levels of investment achieved during the year led to a rise of nearly 13 per cent in imports of machinery, equipment and tools.

In spite of the higher level of exports, the increase of imports and growing external factor payments caused a deficit of 35 million quetzales on current account, 67 per cent higher than in the previous year (see table 77).

²⁹ A ceiling of 50 dollars per day and 25,000 per year was established and travel deposits were required in national currency in an amount equal to 100 per cent of the foreign exchange requested.

Table 76. Guatemala: imports of goods, by economic group, 1969 and 1970

	Millions of quetzales		Percentage of total		Percentage variation
	1969	1970	1969	1970	1969-1970
Total	269.1	311.5	100.0	100.0	15.8
Consumer goods	80.1	90.1	29.8	28.9	12.5
Non-durable	55.0	61.4	20.4	19.7	11.6
Durable	25.1	28.7	9.3	9.2	14.3
Raw materials	95.7	111.1	35.6	35.7	16.1
Metals	11.3	12.0	4.2	3.9	6.2
Non-metals	84.4	99.1	31.4	31.8	17.4
Fuels and lubricants	13.4	19.9	5.0	6.4	48.5
Construction materials	18.1	19.6	6.7	6.3	8.3
Capital goods					
Machinery, equipment and tools	58.9	66.4	21.9	21.3	12.7
For agriculture	5.7	6.9	2.1	2.2	21.1
For industry	37.5	44.2	13.9	14.2	17.9
For transport and communications	15.7	15.3	5.8	4.9	-2.5
Miscellaneous	2.9	4.4	1.1	1.4	51.7

SOURCE: ECLA, on the basis of official statistics.

Table 77. Guatemala: balance of payments, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Current account</i>					
Exports of goods and services	257.9	232.7	266.8	303.2	334.4
Goods f.o.b.	228.7	203.9	233.4	262.5	284.8
Services	29.2	28.8	33.4	40.7	49.6
Imports of goods and services	-262.6	-281.3	-296.2	-298.5	-348.1
Goods f.o.b.	-201.8	-226.5	-237.6	-240.9	-275.8
Services	-60.8	-54.8	-58.6	-57.6	-72.3
Net external investment income	-18.6	-20.8	-27.7	-37.5	-40.2
On direct investment	-18.0	-18.2	...	...	...
Other	-0.6	-2.6	...	...	...
Net private transfer payments	6.2	7.4	8.8	12.2	18.7
Balance on current account	-17.1	-62.0	-48.3	-20.6	-35.2
<i>Capital account</i>					
Net external financing	17.1	62.0	48.3	20.6	35.2
External non-compensatory capital	10.4	48.7	52.8	34.1	48.2
Direct investment	14.5	18.2	22.8	23.0	22.4
Long- and medium-term loans	14.1	27.5	25.1	25.1	28.3
Official	0.3	16.5	12.1	11.4	9.5
Inflows	11.7	28.2	24.8	33.4	33.5
Amortization payments	-11.4	-11.7	-12.7	-22.0	-24.0
Private	13.8	11.0	13.0	13.7	18.8
Inflows	31.2	37.8	38.7	16.7	23.5
Amortization payments	-17.4	-26.8	-25.7	-3.0	-4.7
Short-term liabilities	-21.4	1.0	2.3	-15.5	-3.5
Official transfer payments	3.2	2.0	2.6	1.5	1.0
Domestic non-compensatory capital or assets	1.7	0.4	1.6	—	0.3
Long-term	1.3	0.3	2.0	0.1	0.2
Short-term	0.4	0.1	-0.4	-0.1	0.1
Errors and omissions	-1.7	10.3	-6.3	-1.0	3.0
Compensatory movements (increase -)	6.7	2.6	0.2	-12.5	-16.3
Balance-of-payments loans, trade arrears, deferred payments, IFM position and other liabilities of the monetary authorities	8.7	12.4	5.7	6.0	5.5
Amortization payments	-9.1	-2.7	-4.3	-8.2	-15.8
Movements of gold and foreign exchange reserves (increase -)	7.1	-7.1	-1.2	-10.3	-6.0

SOURCE: International Monetary Fund, Banco Central de Guatemala and ECLA estimates.

^a Preliminary figures.
^b Estimates.

During the year the use of suppliers credits for renewing stocks reached very high levels. As to long- and medium-term non-compensatory loans, the official sector's net indebtedness decreased in 1970, totalling only 9.5 million quetzales, as a result of increased amortization payments while utilization remained unchanged. In the private sector however, net indebtedness rose appreciably, by comparison with 1969, from 14 to 19 million quetzales, as the increased investment during the year was financed to a substantial extent by credit. Direct investment remained at much the same level in the last two years.

To sum up, the net inflow of non-compensatory capital rose by 41 per cent as compared with 1969, to about the same level as in 1967; this meant that the gold and foreign exchange reserves could be increased for the fourth year in succession by about 6 million dollars, in spite of the high level of amortization payments (15.8 million dollars) paid to the International Monetary Fund by the Central Bank. The 6 million dollar increase in the reserves includes 4.2 million allocation of Special Drawing Rights of which it was possible to use 2.2 million.

Guyana³⁰

1. RECENT ECONOMIC TRENDS

Guyana's gross domestic product, valued at current factor cost, is estimated to have increased by 6.4 per cent. This rate indicates a slackening in the economic growth recorded since 1965 (7.5 per cent), particularly in relation to the 1969 rate of 8.4 per cent (see table 78).

The drop in production of the sugar industry was mainly responsible for the slower growth of the product and, because of its inter-industry links, the growth rates of both agriculture and manufacturing also declined.

In mining, transport, construction and the government sector, the product also grew more slowly than in 1969. Construction and mining, which have been the two most dynamic sectors since 1965, expanded slightly less rapidly than in 1969. Mining now accounts for 19.8 per cent, and construction 8.7 per cent, of the gross domestic product.

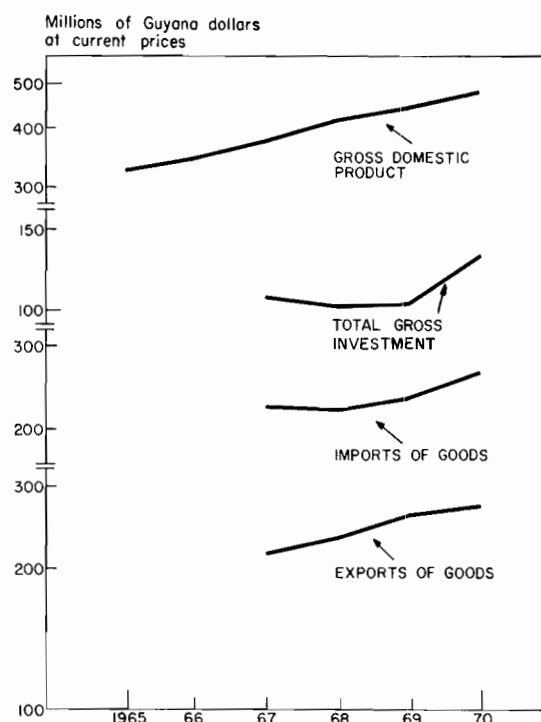
Gross capital formation increased by only 4 per cent in 1969, but preliminary estimates indicate a 25 per cent increase in 1970, largely as a result of a 50 per cent rise in public investment. Consumption expenditure grew by 6

³⁰ Unless otherwise stated, all the values are expressed in Guyana dollars: two Guyana dollars are equal to one United States dollar.

Figure XIII. Guyana: 1965-1970

Semi-logarithmic-scale

EVOLUTION OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



per cent over the same period, so that total domestic demand went up by just over 10 per cent (see table 79).

In the last few years domestic prices have been fairly stable. The increases in the price index for urban consumers have not exceeded 2.5 per cent annually in the last five years. Therefore, it is estimated that the economy has grown, in real terms, by more than 4 per cent annually since 1965, and that in 1970 the gross product increased at about the same rate.

As regards foreign trade, the marked rise in imports of goods in 1970, especially consumer goods, which exceeded the growth of exports, sharply reduced the trade surplus compared with 1969, which resulted in an equally sharp rise in the deficit on current account.

2. MAIN PRODUCTION SECTORS

Mining and quarrying remained the dominant sector of the economy, a position it has held since 1968. Its production grew by 8.7 per cent in 1970, which is less than the rate recorded in the last five-year period.

Output of bauxite and alumina, the main products of this sector, increased significantly

Table 78. Guyana: gross domestic product at current factor cost, by sector of economic activity, 1966-1970

Sector	Millions of Guyana dollars					Percentage of total					Annual growth rates				
	1966	1967	1968	1969 ^a	1970 ^b	1966	1967	1968	1969	1970	1966	1967	1968	1969	1970
Agriculture	63.5	69.3	70.5	79.0	82.0	18.3	18.3	17.1	17.7	17.2	-7.3	9.1	1.7	12.1	3.8
Fishing and forestry	15.6	14.5	15.3	15.9	16.8	4.5	3.8	3.7	3.6	3.5	20.0	-7.1	5.5	3.9	5.7
Mining and quarrying	58.9	66.5	79.4	86.7	94.2	17.0	17.6	19.3	19.4	19.8	9.1	12.9	19.4	9.2	8.7
Manufacturing	42.4	46.7	49.7	53.0	55.2	12.2	12.3	12.1	11.9	11.6	-0.8	10.1	6.4	6.6	4.2
Transport and communications	23.7	24.6	25.9	27.6	28.7	6.8	6.5	6.3	6.2	6.0	11.2	3.7	5.3	6.6	4.0
Construction	21.8	25.3	30.0	35.4	41.6	6.3	6.7	7.3	7.9	8.7	27.4	16.0	18.6	18.0	17.5
Commerce	42.1	44.7	51.3	52.9	55.2	12.1	11.8	12.4	11.8	11.6	6.8	6.1	14.8	3.1	4.3
Ownership of dwellings	35.3	36.8	38.3	39.7	41.7	10.2	9.7	9.3	8.9	8.8	9.9	4.2	4.1	3.7	5.0
Financial and other services	43.7	50.1	51.9	56.8	60.3	12.6	13.2	12.6	12.7	12.7	8.7	14.6	3.6	9.4	6.2
Government	347.0	378.5	412.3	447.0	475.7	100.0	100.0	100.0	100.0	100.0	5.6	9.1	8.9	8.4	6.4
TOTAL															

SOURCE: *Economic Survey of Guyana, 1969*, and information supplied by the Statistical Bureau.

^a Provisional figures.
^b Preliminary estimates.

Note: Totals may not add up to the sum of the sectoral figures because of rounding.

Table 79. Guyana: consumption and investment expenditure, 1967-1970
(Millions of Guyana dollars)

	1967	1968	1969 ^a	1970 ^b
<i>Total consumption</i>	336.6	360.7	395.2	418.9
Private	270.0	289.2	315.0	335.1
Public	66.6	71.5	80.2	83.8
<i>Total investment</i>	109.8	102.3	104.7	132.9
Changes in stocks	4.8	6.3	5.0	8.3
Gross fixed capital investment	105.0	96.0	99.7	124.6
Private	77.8	58.4	59.3	64.6
Public	27.2	37.6	40.4	60.0
<i>Domestic demand</i>	446.4	463.0	499.9	551.8

SOURCE: *Economic Survey of Guyana, 1969*, and data supplied by the Statistical Bureau.

^a Provisional figures.

^b Preliminary estimates.

during the first half of 1970, particularly of dried bauxite, which showed an increase of 14.6 per cent over the same period in 1969. Everything seems to indicate that this trend continued throughout 1970. Exports of these two products soared in the first half of the year. Together they accounted for nearly 54 per cent of the total value of exports, compared with 47 per cent in the first half of 1969.

A point worth noting is that between January and July 1970 exports of calcined bauxite and alumina increased by 36 and 34 per cent respectively compared with the same period in 1969, while exports of dried bauxite dropped sharply, which is an indication that more bauxite is being processed locally (see table 80).

A review of the preliminary data for 1970 shows that agriculture is still the most important economic sector, notwithstanding the rapid increase in the share of mining in the total gross domestic product. Agriculture, fishing and forestry together contributed 99 million dollars to the gross domestic product in 1970.

Substantial increases in fishing and timber production and a particularly good rice harvest, which was 28 per cent above the 1969 level, helped to offset the significant decline of nearly 18 per cent in sugar-cane production. In terms of value, the rice industry's output rose 37 per cent, owing to higher prices.

There were also increases in several minor crops in 1970, which will help to diversify agricultural production with a view to import substitution, mainly in respect of foodstuffs, and opens up possibilities of exporting to neighbouring countries.

Manufacturing output is estimated to have grown by about 4.2 per cent in 1970, which compares unfavourably with the 6.6 per cent rise in 1969 and the increases obtained in the two previous years. Consequently, the share of manufacturing in the total gross product declined. The slower growth of manufacturing output in 1970 was mainly the result of a drop in the production of sugar and sugar products, which normally account for nearly 30 per cent of the value added by manufacturing.

In contrast, part-year data show a general increase in the production of several traditional manufacturing industries in 1970; rice processing, for example, grew by 28 per cent, following upon a 19 per cent contraction in 1969. This is explained by the fact that, as the diversification and import substitution programmes have gained momentum, the growth of manufacturing activities other than sugar production has been large enough to more than offset the decline in the production of sugar and sugar products.

Construction shows an estimated increase of

Table 80. Guyana: mining and quarrying production and exports, 1966-1970
(Thousands of tons)

Product	Production					Exports				
	1966	1967	1968	1969	1970 ^a	1966	1967	1968	1969	1970 ^b
Dried and other bauxite	1,596	1,799	1,934	2,105	1,161	1,531	1,824	1,778	2,097	737
Calcined bauxite	504	471	587	644	354	492	459	587	651	446
Alumina	287	273	265	298	158	297	269	244	295	196

SOURCE: *Economic Survey of Guyana, 1969*, and data supplied by the Statistical Bureau.

^a January-June.

^b January-July.

17.5 per cent in value added; it continues to be the most dynamic sector and represented 8.7 per cent of the total gross product. The major stimulus in 1970 came from government activity rather than the mining sector, where investment has dropped since the completion of the major expansion projects. The sharp upturn in construction is closely linked to substantial investment in road building and other infrastructure projects.

3. SOME RECENT TRENDS IN ECONOMIC POLICY

In addition to the usual measures for promoting import substitution industries, such as the granting of fiscal incentives and favourable customs tariffs, the Government of Guyana has adopted two principal lines of action in its economic policy. First, it recently opened negotiations with a view to acquiring a majority share in the important bauxite industry and, secondly, it has launched a nation-wide programme to boost co-operative enterprises.

With respect to the bauxite industry, the rationale is that it is necessary for the State to secure more control over the use of domestic resources and to ensure that the earnings from this industry will play a bigger part in financing domestic investment. Steps have been taken to promote co-operative enterprises, also with

capital formation in view. Institutions have been set up to encourage and tap saving, in order to make more funds available to co-operative enterprises on more favourable terms and to induce wider entrepreneurial participation in economic activity.

4. THE EXTERNAL SECTOR

In 1968 and 1969, trade in goods produced a surplus of approximately 15 and 20 million Guyana dollars, respectively; but in 1970 this surplus is estimated to have shrunk to 800,000 dollars, as a result of a bigger increase in imports (14 per cent) in relation to the 5.5 per cent growth of exports (see table 81).

From 1967 to 1969 the share of consumer goods in the composition of total imports rose from 32.7 to 35.4 per cent, while purchases of capital goods declined. These changes reflect the sharp upswing in imports of non-durable consumer goods and the fact that current investment is mainly in infrastructure and private construction projects, which have a smaller import content than other types of investment. This trend continued in 1970, since the structure of capital formation appears to have remained roughly the same.

Exports are estimated to have grown by 5.5 per cent to more than 269 million dollars,

Table 81. Guyana: balance of payments
(Thousands of Guyana dollars)

	1967	1968	1969	1970
<i>Current account</i>				
Goods				
Imports	-225,791	-219,911	-235,833	-268,700
Exports ^a	217,733	234,709	255,387	269,500
Net balance on merchandise account	-8,058	14,798	19,554	800
Services				
Transport	-3,167	-1,839	-2,000	-4,000
Freight and insurance on international maritime transport	1,000	1,200	1,300	1,300
Foreign travel	-5,613	-5,482	-5,500	-6,500
Investment income	-31,782	-30,207	-38,479	-38,400
Government transactions	-840	-3,259	-3,000	100
Other services	-944	-2,047	-2,000	-2,000
Net balance on services account	-41,346	-41,634	-49,679	-49,500
Net balance on goods and services accounts	-49,404	-26,836	-30,125	-48,700
Unilateral transfer payments	4,189	1,661	2,300	1,900
Balance on current account	-45,215	-25,175	-27,825	-46,800
<i>Capital account</i>				
Net capital movements	55,706	11,277	19,064	...
Private	34,492	4,427	12,176	...
Official	14,890	13,840	17,133	...
Unidentified	6,324	-6,990	-10,245	...
Balance (increase -)	-10,491	13,898	8,761	...

SOURCE: *Economic Survey of Guyana, 1969* and data supplied by the Statistical Bureau.

^a Adjusted for balance-of-payments purposes.

despite the decline in output of the sugar industry. The losses in sugar export earnings were more than offset by the increases in bauxite, alumina and rice exports. Data for the first half of 1970 show that the increases in bauxite and alumina exports were bigger than the drop in sales of sugar, rum and molasses, and most of the latter were effected in the earlier part of the year (see table 82).

Guyana is a member of the Caribbean Free Trade Association and carries on a considerable part of its merchandise trade (about 12 per cent) with other CARIFTA countries. In 1969, the first full year since the formation of CARIFTA, imports increased by 10 per cent and exports by 5 per cent. Part-year data for 1970 show that this trade grew more rapidly than in 1969, with imports about 30 per cent and exports 10 per cent above the figures for the same period in 1969 (see table 83).

Guyana is a net importer of services, and the projected balance on the services account is expected to remain at roughly the 1969 level (49 million dollars), an increase of nearly 20 per cent over the 1968 figure. Taking the goods and services accounts together, the net deficit for 1970 is expected to be 60 per cent higher than in 1969, so that the balance-of-payments deficit should exceed the 8.8 million dollars recorded in 1969. Moreover, it is estimated that government borrowing to help finance its greatly expanded capital budget in 1970 exceeded the 1969 level (see table 81).

Haiti

1. RECENT ECONOMIC TRENDS

According to provisional estimates, in 1970 the Haitian economy grew at about the same pace as in 1968-1969, at an annual average rate of 3.6 per cent. This led to a slight recovery in the level of per capita income, which had been steadily declining since the beginning of the 1960s (see tables 84 and 85). The main factors responsible for the improvement in 1970 were favourable weather conditions which boosted

agricultural output, a sizable increase in government investment, and a comparatively larger inflow of official transfers and non-compensatory capital which covered the

Figure XIV. Haiti: 1965-1970

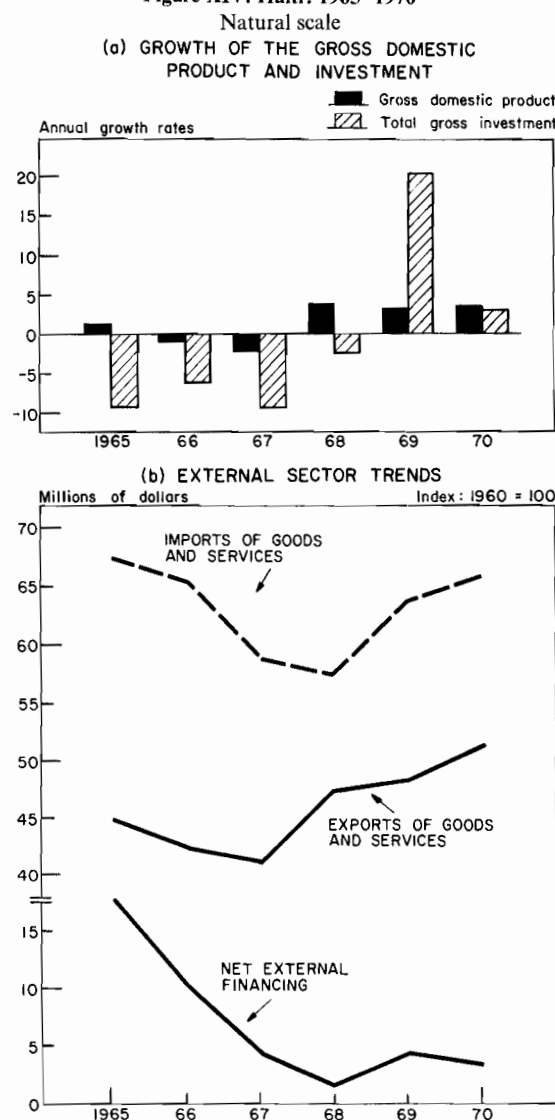


Table 82. Guyana: exports of selected products
(Millions of Guyana dollars)

Product	1966	1967	1968	1969	1970 ^a
Bauxite and alumina	79.4	82.8	100.2	120.3	60.0
Sugar, rum and molasses	61.4	72.6	79.0	89.6	24.2
Rice	21.2	25.2	26.1	19.7	11.3
Timber	3.6	2.7	2.8	2.5	1.5
Shrimp	6.5	6.0	6.7	7.6	5.2
Diamonds	5.1	6.1	4.7	3.8	2.0

SOURCE: *Economic Survey of Guyana, 1969* and data supplied by the Statistical Bureau.

^a January-July.

Table 83. Guyana: trade with CARIFTA countries
(Millions of Guyana dollars)

Year	Imports	Exports of domestic products
1967.	25.6	22.1
1968.	29.4	23.4
1969.	32.4	24.5
1969 ^a	17.2	15.3
1970 ^a	22.5	17.0

SOURCE: *Economic Survey of Guyana, 1969* and data supplied by the Statistical Bureau.

^a Provisional figures for January-July.

balance-of-payments deficit on current account and improved the external payments position.

As regards the different sectors of activity, agriculture made a certain amount of progress as a result of bigger harvests of cotton, sorghum, manioc and beans, which amply offset the stagnation in output of maize, cocoa and rice. As to export crops, coffee output continued to decline, and sisal output did not rise above the low level recorded in 1969. Sugar output expanded somewhat, probably owing to the expectations aroused by the forthcoming entry into operation of the Central Welsh sugar mill in the north and the Leogane mill in the west.

As regards mining production, bauxite and alumina seem to have remained at the high 1969 level, while copper output contracted somewhat.

Industry's performance was comparatively more dynamic growing by 6 per cent as opposed to the 5.6 per cent achieved in 1969. This reflects the sharp upturn in the output of flour, which, under the new administration of the flour plant, was almost treble the 1969 level, sugar (8.2 per cent), cement, textiles, cotton and beverages. Similarly, with the exception of essential oils, the export industries (assembly activities and local handicrafts) maintained the upward trend of recent years owing to the growth of external demand.

There was similar progress in construction and in transport and communications. In both these sectors, Government initiative played an important role in the establishment of industrial estates, incentives for expanding the hotel network, improving the highway system (from north to south), and increasing the capacity of the main port, the international airport and the telephone system.

With respect to energy, the hydroelectric power station at Peligre remains the most important development project and when the first generators are installed in the first half of 1971 it is anticipated that the installed capacity of the country will be more than doubled.

Lastly, the progress made in the goods-pro-

ducing sectors, the expansion of government investment and the boom in tourism had a favourable impact on the growth of the tertiary sector.

2. THE EXTERNAL SECTOR

The value of exports of goods increased by 4.4 per cent in 1970 compared with 1969. This increase was due to improved prices for coffee and sugar, and was achieved despite the fact that Haiti was unable to fill its international quotas for either of these products. Another contributory factor was the 13 per cent rise in revenue from tourism, while income from transfer payments remained at a positive figure (see table 86).

Despite this upward trend, income from exports was not enough to meet liabilities on current account, owing to the growing burden of servicing payments, especially external factor payments. Moreover, the policy of curbing imports was continued, with merchandise imports increasing by only 2.4 per cent. However, thanks to the increased inflow of official transfer payments and non-compensatory capital—to help finance the implementation of the projects included in the 1970–1971 economic and social action plan—it was possible to cover the deficit and improve the net external payments position, and also to utilize all the 2.5 million dollars' worth of Special Drawing Rights that were made available during the year.

3. THE 1970–1971 ECONOMIC AND SOCIAL ACTION PLAN

Efforts to strengthen the economic infrastructure have consisted in the formulation of annual operational plans containing a set of projects for each sector with their respective investment priorities.

According to the National Planning and Development Council (Conseil National de Développement et de Planification—CONADEP), which is responsible for drawing up these plans, the projects and investment scheduled for 1970 are designed to provide Haiti with a solid economic infrastructure, with the emphasis on energy, transport and communications, drinking-water supply and agriculture. Accordingly, the presentation of the budget has been modified. In addition to the annual operating budget, a more detailed development budget is drawn up which specifies the contribution to be made by each of the agencies of the public sector and by international agencies to the financing of the plans. The development budget increased much more than the operating budget in 1970, allocations rising

Table 84. Haiti: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of gourdes at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Agriculture	746.0	771.6	793.0	824.7	824.7	50.3	51.4	51.2	1.1	2.8	4.0
Mining	10.1	9.6	14.7	...	...	0.7	0.6	0.9	-1.7	53.1	...
Manufacturing	173.9	171.6	181.3	192.2	192.2	11.7	11.4	11.7	-0.4	5.7	6.0
Construction	24.4	20.3	22.8	...	...	1.7	1.4	1.5	-5.9	12.3	...
Subtotal goods	954.4	973.1	1,011.8	...	...	64.4	64.8	65.3	0.7	4.0	...
Electricity, gas and water	19.9	18.3	22.4	...	...	1.3	1.2	1.4	-2.8	22.4	...
Transport and communications	41.6	53.4	51.7	...	...	2.8	3.6	3.3	8.7	-3.2	...
Subtotal basic services	61.5	71.7	74.1	...	...	4.1	4.8	4.7	5.2	3.3	...
Commerce and finance	175.7	168.4	168.9	...	...	11.9	11.2	10.9	-1.4	0.3	...
Government	96.4	83.8	90.5	...	...	6.5	5.6	5.8	-4.5	8.0	...
Ownership of dwellings	140.9	149.4	152.9	...	...	9.5	9.9	9.9	2.0	2.3	...
Miscellaneous services	54.2	55.4	52.1	...	...	3.6	3.7	3.7	0.7	-6.0	...
Subtotal other services	467.2	457.0	464.4	...	...	31.5	30.4	30.0	-0.7	1.7	...
TOTAL	1,451.1	1,468.9	1,517.1	1,577.8	1,577.8	100.0	100.0	100.0	0.4	3.3	3.6

SOURCE: For 1965 to 1969: ECLA estimates based on official Planning Office statistics; for 1970: ECLA estimates based on incomplete data supplied by the Planning Office.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 85. Haiti: total supply and demand

	Millions of gourdes at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Total supply	1,891.0	1,868.5	1,943.5	2,007.0	2,007.0	118.6	115.8	116.6	-1.2	4.0	3.3
Gross domestic product	1,594.5	1,614.1	1,667.0	1,727.0	1,727.0	100.0	100.0	100.0	0.4	3.3	3.6
Imports ^b	296.5	254.4	276.5	280.0	280.0	18.6	15.8	15.4	-14.2	8.7	1.3
Total demand	1,891.0	1,868.5	1,943.5	2,007.0	2,007.0	118.6	115.8	116.6	-1.2	4.0	3.3
Exports ^b	206.5	227.5	240.5	246.5	246.5	12.9	14.1	14.4	3.3	5.7	2.5
Total investment	97.2	80.5	97.1	...	...	6.1	5.0	5.8	-6.1	20.6	...
Gross fixed investment . . . . .	...	...	...	...	...	...	...	...	...	...	...
Public . . . . .	...	...	...	...	...	...	...	...	...	...	...
Private . . . . .	...	...	...	...	...	...	...	...	...	...	...
Construction	50.6	42.1	47.3	...	...	3.2	2.6	2.8	-5.9	12.4	...
Machinery and equipment	46.6	38.4	49.8	...	...	2.9	2.4	3.0	-6.2	29.7	...
Total consumption	1,587.3	1,560.5	1,605.9	...	...	99.5	96.7	96.3	-1.7	2.9	...
General government	129.4	112.4	121.4	...	...	8.1	7.0	7.3	-4.6	8.0	...
Private	1,457.9	1,448.1	1,484.5	...	...	91.4	89.7	89.0	-0.7	2.5	...

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by the National Planning and Development Council (CONADEP); for 1970: ECLA estimates based on incomplete data from the same source.

^a Preliminary.
^b Goods and services, excluding factor payments.

by 69.6 per cent over the 1969 figure. Furthermore, the public agencies were restructured and some tax legislation was brought up to date (on income and property taxes). In this connexion, revenue from domestic taxation in the fiscal year 1970 was 38 per cent higher than in fiscal 1969.

Honduras

1. RECENT ECONOMIC TRENDS

The growth of goods and services by 4 per cent in 1970 marks the beginning of a return to more normal conditions after the sharp recession caused by natural disasters and the conflict with El Salvador in 1969.

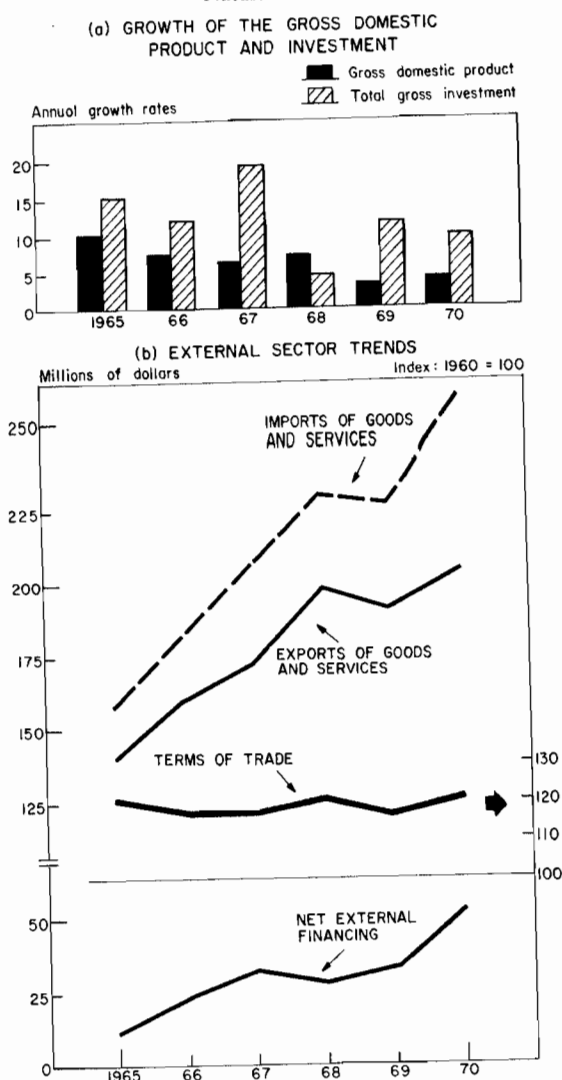
The signs of recovery are to be seen chiefly in the increases in private investment and, to a smaller extent, in private consumption, following the sluggish growth of 1969. The value of exports also showed a satisfactory upturn, mainly owing to high coffee prices, but they grew in volume by less than 1 per cent.

As regards supply, the rise in the growth rate of the product (it was 3.2 per cent in 1969) was dictated by the recovery of agricultural production, which carries a great deal of weight in the country's economy since, with the exception of transport and trade, the growth rate of the other sectors—although generally high—was less than for the previous year (see tables 87 and 88).

Even under the impetus of the rise in prices of exports, the growth of the economy in 1970 was not nearly so good as the annual average for the period 1965–1968. Moreover, there was an increase in the current account deficit on foreign transactions, particularly with Central America. In this connexion, the effect of the unfortunate happenings of 1969 should not be underestimated, in so far as they restricted the development of the Central American system, especially from the point of view of supply. Among other things, special mention should be made of the long time it has inevitably taken for banana export capacity to recover and the still unsolved problems in respect of the production and marketing of goods, particularly agricultural commodities, which used previously to be sold on the Salvadorian market.

Leaving aside the effects of the conflict with El Salvador, the relative loss of impetus in economic growth and the weakening of the external sector appear to be consonant with the levelling off of the boom in traditional exports which began in 1968, and with the reluctance to make changes that would permit

Figure XV. Honduras: 1965–1970
Natural scale



the allocation of more resources for the purposes of raising agricultural productivity, expanding the domestic market, making Honduras more competitive in the Common Market, and improving social and employment opportunities for broad groups of the population. There is no doubt that the obstacles to the development of the public sector, which used to be mainly administrative but are now rather financial in character, have delayed the application of the necessary measures.

Public investment, in the five-year period ending in 1970, was characterized by the growing emphasis placed on the development of the transport and energy infrastructure (50 per cent of total investment was absorbed by these sectors in 1966, 70 per cent in 1970). Apart from the high priority that obviously had to be

given to this type of expenditure, the criteria for the sectoral allocation of public investment seem to have been dictated by the over-concentration of technical and executive capacity, until very recently, in the transport and energy sectors, compared with the other sectors of government activity.

There was considerable effort to encourage capital formation in the public sector in 1967-1969, obviously, but in 1970 investment expenditure grew by only 8 per cent, a much lower rate than that recorded under the abnormal economic conditions of 1969 (see table 88). As in 1969, the development of the public investment programme came up against obstacles in the channelling of domestic resources, and priority had often to be given to programmes that could rely on a large volume of external financing. However, capital requirements again exceeded available saving, and this led to an increase in internal indebtedness.

The rise in public investment in 1970 above the already fairly high levels of 1969 (such investment being channelled mainly into projects that did not immediately increase the supply of goods), the reinvestment needs of the private sector and the growth of consumption (by 5.7 per cent compared with 1.7 in 1969), were all factors that increased the pressures on the

balance of payments; and they were reflected in the more than 12 per cent growth of imports at current values and in a drop of about 9.5 million dollars in the net international reserves of the banking system.

2. PRODUCTION

In 1970, agricultural activity grew at less than the historical rate, not counting the abnormal drop in 1969 (see table 87). However, the principal components of supply developed very differently, and the two main export crops accounted for a larger share of the agricultural product.

The expansion of banana production by 4 per cent is an indication of the enormous effort that was made to restore production capacity in this sector, an effort which had not yet been completely successful in 1970. The development programmes of the National Agrarian Institute (Instituto Nacional Agrario) were directed principally towards increasing the area sown, on the basis of a co-operative effort by independent producers, with technical and financial backing from the Government.

Coffee made a substantial contribution to the growth of the agricultural product. There was a 9 per cent increase in the volume of output

Table 86. Haiti: Balance of payments for selected years
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	54.4	44.9	47.4	48.4	51.0
Goods f.o.b.	38.1	37.8	36.3	36.6	38.2
Services	16.3	7.1	11.1	11.8	12.8
Imports of goods and services	-58.1	-62.2	-54.8	-60.6	-62.1
Goods f.o.b.	-43.4	-42.6	-38.7	-42.0	-43.0
Services	-14.7	-19.6	-16.1	-18.6	-19.1
Net external investment income	-4.1	-5.2	-3.1	-3.3	-3.8
Net private transfer payments	2.6	4.7	8.9	10.9	11.0
Balance on current account	-5.2	-17.8	-1.6	-4.6	-3.9
<i>Capital account</i>					
Net external financing	5.2	17.8	1.6	4.6	3.9
External non-compensatory capital	8.2	8.1	6.7	5.7	7.5
Direct investment	0.1	1.0	1.1	1.8	
Long- and medium-term loans	1.5	2.4	0.1	0.1	
Amortization payments	-0.3	-0.8	-0.3	-0.3	
Short-term liabilities	0.3	1.5	1.9	-0.8	
Official transfer payments	6.6	4.0	3.9	4.9	-3.6
Domestic non-compensatory capital or assets	-2.2	3.4	0.9	-0.8	
Errors and omissions	2.1	5.2	-5.1	0.8	
Compensatory movements (increase -)	-2.9	1.1	-0.9	-1.1	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	2.6	3.1	1.5	...
Amortization payments	-2.0	-2.3	-0.9	-2.0	...
Movements of gold and foreign exchange reserves (increase -)	-0.9	0.8	-3.1	-0.6	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 21.

Table 87. Honduras: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of lempiras at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Agriculture	327.1	371.8	368.1	376.1	37.7	34.9	33.4	4.4	-1.0	2.2
Mining	13.0	16.5	17.4	18.3	1.5	1.6	1.6	8.3	5.4	5.2
Manufacturing	116.8	158.8	170.8	179.6	13.5	14.9	15.5	10.8	7.6	5.2
Construction	38.8	58.5	66.5	71.5	4.5	5.5	6.0	14.7	13.7	7.5
Subtotal goods	495.7	605.6	622.8	645.5	57.2	56.9	56.6	6.9	2.8	3.6
Electricity, gas and water	6.2	8.8	10.2	10.6	0.7	0.8	0.9	12.4	15.9	3.9
Transport and communications	57.7	71.7	73.0	77.0	6.7	6.7	6.6	7.5	1.8	5.5
Subtotal basic services	63.9	80.5	83.2	87.6	7.4	7.6	7.6	8.0	3.4	5.3
Commerce and finance	139.2	172.8	177.5	185.4	16.1	16.2	16.1	7.5	2.7	4.5
Government	24.2	25.7	27.7	29.2	2.8	2.4	2.5	2.0	7.8	5.4
Ownership of dwellings	82.6	98.2	104.1	108.1	9.5	9.2	9.5	5.9	6.0	3.8
Miscellaneous services	60.7	81.5	85.5	89.8	7.0	7.7	7.8	10.3	4.9	5.0
Subtotal other services	306.7	378.2	394.8	412.5	35.4	35.5	35.9	7.2	4.4	4.5
TOTAL	870.0	1,066.6	1,100.6	1,144.6	100.0	100.0	100.0	7.0	3.2	4.0

SOURCE: For 1965 to 1969: ECLA estimates based on official Central Bank statistics; for 1970: ECLA estimates.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 88. Honduras: total supply and demand

	Millions of lempiras at 1960 prices				Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Total supply	1,218.2	1,563.6	1,606.6	1,686.3	129.0	135.1	134.2	135.9	8.7	5.4
Gross domestic product	944.4	1,157.1	1,193.1	1,241.2	100.0	100.0	100.0	100.0	7.0	4.0
Imports ^b	273.8	406.5	407.5	445.1	29.0	35.1	34.2	35.9	14.1	9.2
Total demand	1,218.2	1,563.6	1,606.6	1,686.3	129.0	135.1	134.2	135.9	8.7	5.4
Exports ^b	216.0	302.7	295.7	297.8	22.9	26.1	24.8	24.0	11.9	0.7
Total investment	159.8	223.4	250.1	274.1	16.9	19.3	21.0	22.1	11.8	9.6
Gross fixed investment	141.7	210.3	235.4	259.4	15.0	18.2	19.7	20.9	14.1	10.2
Public	23.3	49.9	78.2	84.5	2.5	4.3	6.6	6.8	29.0	56.7
Private	118.4	160.4	157.2	174.9	12.5	13.9	13.2	14.1	10.6	11.3
Construction . . . . .	...	...	...	...	...	...	...	...	...	...
Machinery and equipment . . . . .	...	...	...	...	...	...	...	...	...	...
Total consumption	842.4	1,037.5	1,054.8	1,114.4	89.2	89.7	88.4	89.8	7.2	5.7
General government	84.2	94.7	100.6	108.3	8.9	8.2	8.4	8.7	4.0	7.7
Private	758.2	942.8	954.2	1,006.1	80.3	81.5	80.0	81.1	7.5	5.4

SOURCE: For 1965 to 1969: ECLA, on the basis of data supplied by the Central Bank; for 1970: ECLA estimates.

^a Preliminary.
^b Goods and services, excluding factor payments.

compared with 1969, owing to the favourable ecological conditions that prevailed during the crop year. The sustained rise in international prices helped to improve the real income of producers and led to an increase in private consumption.

Livestock production grew by 3 per cent, more slowly than in the previous three-year period. There appear to be no major obstacles to speeding up the growth rate in the next few years, especially if the development programmes undertaken by the Rural Development Service (Dirección de Desarrollo Rural) are extended.

The upturn in output of the products mentioned above was offset to some extent by the insufficiency of agricultural production for domestic consumption and of cotton production. Total agricultural production for the domestic market remained at the 1969 levels. Although there was an increase in output of nearly all agricultural products, this barely compensated for the drop of nearly 12 per cent in the output of beans. Grain production, and bean production, are still suffering from the decline in agricultural activity in the border area with El Salvador, which also affects exports to the Common Market, since the marketing machinery has not yet been restored to normal. Moreover, there was a temporary shortage in the domestic supply of beans in 1970 owing to sales that had to be made to Central America in order to offset the imbalance in Honduras' trade with the region; an additional factor was probably the lack of storage facilities. All this caused prices to soar to three times their normal level. It should be mentioned that when the first stage of the project for silo construction was completed—under the Central American storage and price control programme—an additional capacity of 13,500 tons was made available, so that storage capacity has now practically doubled.

Cotton production dropped again in 1970. The area sown shrank by nearly 50 per cent. The trend towards reduction began in 1965 and was aggravated by the growing tendency of marginal producers to give up cotton growing, mainly owing to the drop in prices combined with the increased cost of inputs.

Manufacturing production grew by 5.2 per cent, less than in 1969. There was quite a large increase in the production of intermediate goods, such as chemicals and petroleum products, on which efforts towards import substitution have recently been concentrated.

In the other areas of domestic activity, there were increases in transport services (5.5 per

cent) and commerce (4.5 per cent), and a slackening of the growth rate of construction, which grew by only 7.5 per cent compared with increases of around 14 per cent in previous years; this appears to be a direct consequence of the falling off of public investment (see table 87).

3. THE EXTERNAL SECTOR

The increased current account deficit on foreign transactions was one of the important negative aspects of economic development in 1970. The deficit, which amounted to around 50 million dollars, was nearly 50 per cent greater than the previous year, amounting to about one quarter of the country's earnings from exports of goods and services (see table 89).

Total exports, which had fallen off in 1969, expanded by 7.2 per cent, mainly as a result of improved international prices, while imports of goods and services—which had been stagnant the previous year—grew more than 12 per cent, and net investment income increased by 20 per cent. This last component of current transactions was very close to the 1968 level, following the sharp decline in 1969 as a result of the loss of income from banana production.

On the other hand, there was a considerable net inflow of capital in the form of direct investment and official long-term loans. The former were nearly three times greater than in 1969, and reflect in particular the effect of the reinvestment in banana plantations. Credit expanded by around 4 million dollars (see table 89).

Despite the increased contribution to financing the balance of payments made by movements of non-compensatory capital, the current account deficit called for the use of compensatory financing on a larger scale than the previous year. Thus, the deficit on payments abroad was closed with a negative movement of net international reserves of around 16 million dollars. Compensatory financing was greater than appears from the balance-of-payments figures given in table 89, since the 3.2 million allocation of IMF Special Drawing Rights—of which it was possible to use 3 million—is counted as an increase in reserve stocks.

Of the main export products, there was a significant increase in the current values of coffee exports (see table 90). Prices rose continuously throughout the year, while the volume of exports grew by 12 per cent, on account of the general increase in quotas under the International Coffee Agreement, which benefited the Central American countries, and also because of the improved prospects for selling to non-traditional markets compared with the

Table 89. Honduras: balance of payments
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^a
<i>Current account</i>					
Exports of goods and services	157.5	170.6	196.5	188.0	201.5
Goods f.o.b.	144.5	155.9	180.9	172.2	185.1
Services	13.0	14.7	15.6	15.8	16.4
Imports of goods and services	-165.4	-182.7	-204.3	-206.8	-232.5
Goods f.o.b.	-138.0	-152.0	-169.4	-170.2	-193.4
Services	-27.4	-30.7	-34.9	-36.6	-39.1
Net external investment income	-15.5	-21.2	-23.2	-18.6	-22.4
On direct investment	-15.0	-20.5	-22.4	-17.8	-20.0
Other	-0.5	-0.7	-0.8	-0.8	-2.4
Net private transfer payments	0.4	0.5	3.0	3.5	3.1
Balance on current account	-23.0	-32.8	-28.0	-33.9	-50.3
<i>Capital account</i>					
Net external financing	23.0	32.8	28.0	33.9	50.3
External non-compensatory capital	21.1	35.1	30.6	31.5	45.7
Direct investment	8.2	8.8	14.4	6.1	17.2
Long- and medium-term loans	3.4	8.6	14.4	20.9	24.3
Official	3.2	7.7	14.6	20.6	24.0
Inflows	5.8	10.6	17.5	24.2	28.2
Amortization payments	-2.6	-2.9	-2.9	-3.6	-4.2
Private	0.2	0.9	-0.2	0.3	0.3
Inflows	0.6	1.5	0.5	1.1	1.2
Amortization payments	-0.4	-0.6	-0.7	-0.8	-0.9
Short-term liabilities	5.7	13.5	-1.4	1.4	1.7
Official transfer payments	3.8	4.2	3.2	3.1	3.0
Domestic non-compensatory capital or assets	-0.8	-7.4	1.0	-0.9	0.2
Long-term	-0.7	-2.9	-0.9	-0.9	-0.1
Short-term	-0.1	-4.5	1.9	—	0.3
Errors and omissions	6.7	6.5	2.5	-1.5	-11.5
Compensatory movements (increase —)	-4.0	-1.4	-6.1	4.8	16.1 ^c
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.0	—	0.5	1.7	...
Amortization payments	-1.0	-6.0	-0.1	—	—
Movements of gold and foreign exchange reserves (increase —)	-4.0	4.6	-6.5	3.1	...

SOURCE: International Monetary Fund, Central Bank and ECLA estimates.

^b Estimates.

^c Including 3.2 million dollars of Special Drawing Rights.

^a Preliminary figures.

Table 90. Honduras: Total exports of principal products

	1966	1967	1968	1969	1970 ^a	<i>Annual growth rates</i>			
						1967	1968	1969	1970
<i>Millions of dollars</i>									
Cotton	5.8	5.2	3.8	3.4	1.2	-10.3	-26.9	-10.5	64.7
Bananas	68.1	78.5	79.7	74.1	77.1	15.3	1.5	-7.0	4.0
Coffee	19.9	14.0	20.8	18.5	28.7	-29.6	48.6	-11.1	55.1
Timber	10.5	12.2	14.4	15.2	17.2	16.2	18.0	5.6	13.2
Fresh meat	3.9	4.3	4.6	9.0	9.2	10.3	7.0	95.7	2.2
TOTAL	144.5	155.9	180.9	172.2	185.1	7.9	16.0	-4.8	7.5
<i>Millions of dollars at 1960 prices</i>									
Cotton	6.0	5.5	3.3	3.2	1.2	-8.3	-40.0	-3.0	-62.5
Bananas	59.2	64.4	68.5	63.7	66.2	8.8	6.4	-7.0	3.9
Coffee	17.0	12.6	19.2	18.5	20.7	-25.9	52.4	-3.7	11.9
Timber	9.6	10.6	12.6	12.2	12.5	10.4	18.9	3.2	2.4
Fresh meat	4.2	4.5	4.7	7.8	8.1	7.1	4.4	66.0	3.8
TOTAL	121.4	131.0	147.1	143.5	144.6	7.9	12.3	-2.4	0.8

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

previous year. Honduras managed to sell around 77,700 sacks outside the Agreement, which made it possible to reduce accumulated surpluses and, in the longer term, may secure a new coffee market of great interest from the point of view of future supply.

It is estimated that banana exports grew by 4 per cent (3 million dollars), thanks to the increase in the volume of sales. The increase was below the 1967 and 1968 levels but signified a sharp recovery of supply capacity, and the prospects of development do not appear to be limited by demand and even less by internal conditions.

There were also upward movements in exports of timber, sugar, petroleum products, minerals and vegetable fats, and these products showed a combined increase of 7 million dollars. Meat exports increased by 2.2 per cent, as the quantitative restrictions on imports in the United States were eased (see table 90).

In contrast, there was a marked downturn in exports of cotton (from 3.4 million dollars in 1969 to 1.2 million), beans (from slightly more than 3 million dollars to 1.7 million), and other products which had shown considerable growth up to 1968: maize, toilet soap, footwear, cement and colouring materials, which mostly go to the Central American market.

With the further reduction of exports to Central America, the area market has come to take less than 10 per cent of Honduras' total

exports of goods, compared with one sixth or more prior to 1969. However, more purchases were made in the region and the trade deficit with the region increased by around 12 million dollars compared with 1969 and by around 16 million dollars compared with the year before the Common Market crisis. Meanwhile, the deterioration in the payments situation, the fact that the external trade deficit continued to grow and the fact that no agreement was reached in the negotiations on the reorganization of the Common Market, caused the Honduran Government temporarily to abandon the policy of free trade with Central America and the common tariff in respect of various essential goods.

4. PUBLIC FINANCES AND CREDIT

Estimated current central government income shows an increase of 9.7 per cent in 1970, which contrasts favourably with 1969. As regards tax revenue, which accounts for more than 90 per cent of current income, the 1970 increase was around 8 per cent, compared with slightly more than 3 per cent in 1969. On the other hand, the increase in current expenditure as a result of higher wages and salaries was roughly equal to the increase in income; nevertheless, savings rose from 35 to 38.5 million lempiras (see table 91).

The features of the economy in 1970, the system of tax administration and the effects of

Table 91. Honduras: Central Government current income and expenditure, 1966-1970
(Millions of lempiras)

Item	1966	1967	1968	1969 ^a	1970 ^b
<i>Current income</i>	118.5	126.8	145.3	152.2	166.9
<i>Tax revenue</i>	110.1	119.7	136.5	141.2	152.5
Direct taxes	28.3	35.5	40.9	44.3	44.2
On income	26.9	34.0	39.1 ^c	43.1 ^c	42.2 ^c
On property	1.4	1.5	1.8	1.2	2.0
Indirect taxes	81.8	84.2	95.5	96.8	108.3
On imports	40.5	41.1	43.5	39.4	44.0
On exports	5.1	4.4	6.5	5.6	5.9
Other	36.2	38.7	45.5	51.8	58.4
Non-tax revenue	5.5	4.8	4.5	5.8	8.1
Current transfer payments	2.9	2.3	4.3	5.3	6.3
<i>Current expenditure</i>	91.4	99.7	111.5	117.3 ^d	128.4
<i>Consumption</i>	82.3	88.5	99.7	105.5	115.4
Wages and salaries	60.7	66.0	72.7	72.5	77.6
Other	21.6	22.5	26.9	33.0	37.8
Transfer payments	5.1	6.9	7.0	6.0	6.5
Interest on the public debt	4.0	4.3	4.8	5.7	6.5
<i>Current saving</i>	27.1	27.1	33.8	34.9	38.5

SOURCE: Office of the Controller General and Planning Office.

^a Preliminary figures.

^b Estimate.

^c Including social security tax.

^d Not including expenditure financed through the issue of National Defence bonds.

the San José Protocol meant that the rise in income was based fundamentally on increased tax collection. While import duties rose by 12 per cent and taxes on domestic consumption by 13 per cent, income tax revenue fell by 2 per cent because of the delayed effects of the decline in income from banana sales in 1969. There was an increase in revenue from export duties, following the decline in 1969, but such revenue does not appear to have reached the levels of previous years, despite the fact that export values have shown a steady upward trend, except in 1969. This is probably partly due to the lifting of taxes in order to promote sales of coffee on non-traditional markets.

Efforts to increase tax income in the last five years resulted in central government income and savings developing at a faster pace, on average, than the product. However, the increased tax burden has not kept pace with the increase in public expenditure, and this was particularly notable in 1969 and 1970, when real investment grew substantially, both because of the need to speed up the rate of expansion of the infrastructure and to compensate for recessive economic trends.

The increased needs for additional financing from the public sector were met in 1969 and 1970 mainly by the judicious use of external loans, but as from the last quarter of 1969 there was a significant upturn in the support granted by the banking system. The net credit granted to the public sector by the banking system rose from 7.5 to 39.8 million lempiras between January and September 1970, compared with the same period in 1969.

Bank loans to the private sector increased by 17.3 per cent, compared with an increase of 23.5 per cent in 1969. In addition, in the last months of the year, the monetary authorities gradually raised the bank cash ratios from 20 to

25 per cent in respect of national currency liabilities and from 25 to 30 per cent in respect of foreign exchange liabilities.

However, there was probably no lack of bank financing for productive activities in 1970 as a whole; in particular, manufacturing industry received much more support than in previous years (see table 92).

In 1971, the national authorities plan to implement a series of measures as part of a medium-term plan to raise the level of tax revenue. They include measures to prevent tax evasion and closer control of taxes on real property, in addition to some improvements in administrative procedures to make tax collection more efficient. Lastly, if and when Honduras applies the Central American common tariff to all imports, the level of its income from foreign trade is bound to rise.

*Jamaica*³¹

1. RECENT ECONOMIC TRENDS

In 1970 Jamaica continued with the economic expansion that has been evident since 1968. Provisional estimates show that the gross domestic product at current factor cost increased by 10 per cent, that is at much the same rate as in the preceding two years (9.4 per cent in 1969 and 10.4 per cent in 1968). However, in 1970 there was a more rapid rise in consumer prices, which had an adverse effect upon the growth of the gross product in real terms.

³¹ Unless otherwise indicated, values are expressed in Jamaica dollars, which are equal to 1.20 United States dollars. In previous editions of the *Economic Survey*, the currency referred to in connexion with Jamaica was the Jamaica pound, which had the same value as the pound sterling. On 8 September 1969 the Jamaica dollar became the official currency, two Jamaica dollars being equal to one Jamaica pound. The previous parity with the pound sterling and the United States dollar was maintained.

Table 92. Honduras: distribution of bank credit, 1966-1970
(Millions of lempiras)

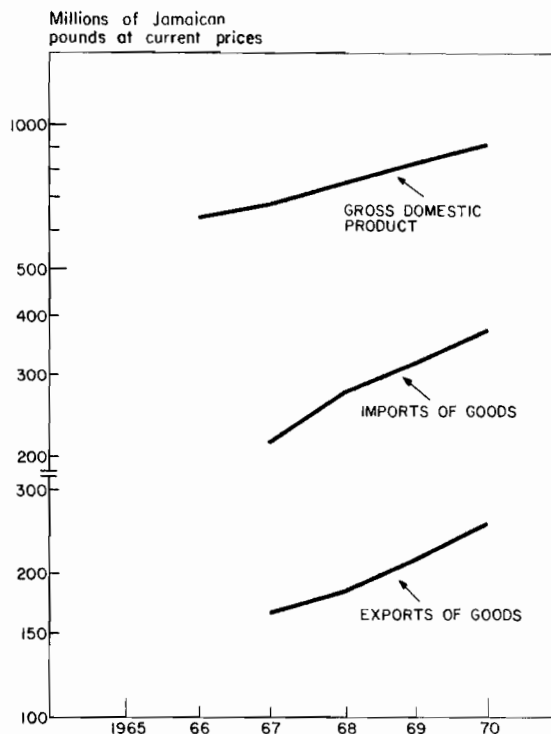
	End-year balances				September balance	
	1966	1967	1968	1969	1969	1970
Total	164.0	206.4	233.2	288.1	274.2	321.8
Agriculture	34.2	39.6	41.9	50.6	46.4	45.5
Coffee	10.3	12.3	12.1	13.3	11.9	11.3
Cotton	10.4	10.1	10.1	14.4	13.6	7.7
Other	13.5	17.2	19.7	22.6	20.9	26.5
Cattle-breeding	15.6	20.0	27.4	34.3	33.5	41.6
Industry	31.2	38.8	45.1	58.9	54.8	76.0
Trade	36.2	48.9	38.8	47.6	44.4	48.9
Consumption	8.3	12.9	14.3	17.0	15.4	20.2
Other	38.5	46.2	65.7	79.7	79.7	89.6

SOURCE: Central Bank, *Revista trimestral* and *Boletín Estadístico*.

Figure XVI. Jamaica: 1965-1970

Semi-logarithmic-scale

EVOLUTION OF THE GROSS DOMESTIC
PRODUCT AND INVESTMENT



Between 1960 and 1968 the gross domestic product grew at an annual rate of 7.3 per cent at current prices and 4.4 per cent at constant prices, which means a rise in the implicit price deflator of 2.8 per cent per year, a slightly higher rate than that recorded in the consumer price index. In 1969 the consumer price index rose by 6.3 per cent, which would indicate a decline in the total growth rate of the product as compared with the period from 1960 to 1968.

In the first nine months of 1970, consumer prices rose by 10.2 per cent compared with the same period in 1969, and it is expected that the gross product in terms of constant prices will be found to have remained practically stationary in 1970 or to have increased only very slightly.

Although there was growth in every sector of the economy, it was not evenly distributed. The expansion was mainly attributable to performance in mining and refining and the construction sector. Both sectors maintained the same rate of growth as in 1969, that is, 32 per cent and 12 per cent respectively. Public utilities, government and ownership of dwellings matched the over-all growth rate, while the remaining sectors registered lower rates, and in

agriculture the increase was less than 1 per cent (see table 93).

As a result, the main trends recorded since 1968 with regard to the relative shares of the sectors in the gross domestic product have become more pronounced. Between 1968 and 1970 the agricultural sector's share fell from 10.3 per cent to a little over 8 per cent, while the share of mining, quarrying and refining rose from 9.6 to 13.8 per cent.

On the other hand, in 1970 there would seem to have been a 13 per cent rise in the growth rate of investment expenditure compared with 1969.

2. MINING AND REFINING

Dynamic growth in the production of bauxite and alumina was responsible for the performance of the mining, quarrying and refining sector, and together they now account for over 91 per cent of its output. The installation of additional alumina production capacity has stimulated both sections of the industry, and by October 1970 alumina production was already 23 per cent more than the total output for 1969, and bauxite production was approaching the previous year's total. The next two largest industries in this sector, gypsum and petroleum, though less important economically, increased their output at an annual rate of over 20 per cent between 1967 and 1969, but the rate declined somewhat in 1970 (see table 94).

3. AGRICULTURE

In contrast to the mining sector, growth in agriculture was very slow. Agricultural output has been adversely affected by the prolonged drought which ended only in 1969. Although it began to grow again in 1970, the growth was too slow to constitute a recovery from the decline suffered in the previous two years. Although the volume of the sugar crop increased by 6 per cent, the low sugar content of the cane meant that there was only a 2 per cent increase in production. The other important export crop, bananas, fell sharply by an estimated 10 per cent, to which must be added the deterioration in its export price and severe marketing difficulties. Production for export used to be the dynamic component in the agricultural sector, especially livestock production, which started to grow significantly in 1969. There was no significant improvement in the other major crops in 1970.

4. MANUFACTURING

Since 1963 this sector has been the biggest contributor to the gross domestic product; in 1968 its relative share was 15.3 per cent. In 1969

Table 93. Jamaica: gross domestic product at current factor cost, by sector of economic activity

Sectors	Millions of Jamaica dollars				Percentage of total				Annual growth rates			
	1966	1968	1969 ^a	1970 ^b	1966	1968	1969	1970	1967	1968	1969	1970
Agriculture	75.1	77.5	74.7	75.1	11.6	10.3	9.0	8.2	3.6	-0.5	-3.6	0.5
Mining and petroleum extraction and refining	62.0	72.4	95.9	126.1	9.6	9.6	11.6	13.8	4.8	11.4	32.5	31.5
Construction	69.2	94.9	107.0	119.9	10.7	12.5	12.9	13.1	4.1	11.6	5.0	6.3
Government	50.3	69.7	77.2	85.3	7.8	9.2	9.3	9.3	5.3	30.2	12.8	12.1
Transport and communications	48.5	57.8	61.1	64.1	7.5	7.6	7.4	7.0	1.1	11.0	11.0	10.8
Commerce	91.2	102.3	112.5	122.6	14.1	13.5	13.6	13.4	9.9	8.6	5.7	4.9
Manufacturing	99.2	115.3	121.1	128.7	15.4	15.3	14.6	14.1	3.2	8.7	10.0	9.0
Electricity, gas and water	9.0	10.0	11.1	12.3	1.4	1.3	1.3	1.3	10.5	7.0	10.6	7.8
Financial institutions	29.5	35.0	38.7	41.7	4.6	4.6	4.7	4.6	1.8	1.8	9.2	10.8
Ownership of dwellings	21.9	22.8	24.9	27.6	3.4	3.0	3.0	3.0	20.7	15.0	10.8	10.5
Others	90.1	99.1	103.9	109.1	13.9	13.1	12.6	12.0	4.9	5.0	4.8	5.0
TOTAL	646.0	756.9	828.2	912.5	100.0	100.0	100.0	100.0	6.1	10.4	9.4	10.2

SOURCE: Department of Statistics, Jamaica, *National Income and Product, 1969*.

^a Provisional figures.

^b ECLA estimates.

Table 94. Jamaica: mining and refining production

	Unit	1966	1967	1968	1969	1970
Bauxite	Thousands of tons	8,918	9,121	8,391	10,333	9,960 ^a
Alumina	Thousands of tons	789	815	910	1,153	1,417 ^a
Gypsum	Thousands of tons	190	184	206	251	146 ^b
Petroleum products	Millions of gallons	349	258	308	384	275 ^c

SOURCE: Department of Statistics, Jamaica, *National Income and Product, 1960*.

^a January to October.

^b January to June.

^c January to September.

manufacturing grew by 5 per cent and in 1970 by just over 6 per cent, which was substantially lower than the rate in some other sectors of the economy, so that its relative share declined to 14 per cent.

The decline in the relative share of manufacturing since 1968 is directly traceable to the performance of the sugar industry, including the important by-products, rum and molasses. However, this does not show the significant advances in chemicals, furniture and miscellaneous manufactures, nor the appreciable diversification and structural changes in production. In the last two years construction has been begun or operations have been started in several factories making paper products, furniture, plastics, synthetic textiles and chemical products or processed food products, and these operations have succeeded to some extent in offsetting the slowing down of activity in the sugar industry.

5. OTHER SECTORS

Growth in the construction sector remained at about the same level as in 1969, that is, 12 per cent, under the impact of the continuing expansion of alumina production capacity and hotel building. In addition, housing construction, expansion in public utilities and new factory

construction contributed strongly to the advance.

Taken as a whole, transport, communications and public utilities increased at a somewhat slower pace than the over-all growth rate during the last two years. However, communications and electricity have been expanding rapidly, as a result of investment in new facilities which came into operation in 1969 and 1970 and which made a considerable contribution to over-all growth.

6. THE EXTERNAL SECTOR

The rise in income from bauxite and alumina exports in 1969 was not large enough to prevent the trade gap, which was already large in 1968, from widening further. However, incomplete data for the first half of 1970 show that the gap is narrowing as a result of the continued expansion of export earnings from the products mentioned above (see table 95).

As far as other main commodities are concerned, sales of sugar and its by-products seem to be recovering from the decline they suffered in 1968 and 1969. Earnings from banana exports continued to fall, while exports of citrus, cocoa, coffee and spices as a group appear to have increased. Among the non-food exports, part-year data show a marked increase

Table 95. Jamaica: exports of selected products
(Millions of Jamaica dollars)

	1967		1968		1969		1970 ^a	
	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total	Value	Percentage of total
Total exports of domestic goods	160.7	100.0	179.2	100.0	205.2	100.0	124.4	100.0
Bauxite and alumina	78.9	49.1	88.9	49.6	116.8	56.9	65.5	52.8
Sugar, rum and molasses	34.6	21.5	37.7	21.0	38.8	18.9	27.1	21.8
Bananas	13.3	8.3	13.8	7.7	12.5	6.1	5.7	5.0
Citrus fruit, cocoa, coffee, pimiento, ginger, and their products	9.5	5.9	10.2	5.7	9.9	4.8	6.7	5.4
Manufactured goods (SITC sections 5-8)	13.6	8.5	16.6	9.3	17.2	8.4	8.1	6.2
Other	10.8	6.7	12.0	6.7	10.0	4.9	11.0	8.8

SOURCE: ECLA, on the basis of official foreign trade publications and data provided by the Department of Statistics, Jamaica.

^a January to June.

in chemicals, but "other manufactures" do not appear to have increased to any substantial extent.

On the import side, 1969 data show a leveling off of consumer goods imports, especially foodstuffs, which was partly offset by larger imports of consumer durables. Capital goods imports increased, especially transport equipment and office machinery, while imports of raw materials declined.

Jamaica's trade with the other CARIFTA countries is still only a very small part of its total trade, but it has increased over 80 per cent since 1967, and the available data indicate that it increased even faster in 1970 (see table 96).

Although exports grew more than imports in 1969, there was a fresh increase in the deficit on current account, albeit small; in addition the net inflow of private capital was sharply reduced, resulting in a balance-of-payments deficit of 11.2 million Jamaica dollars.

The information available for the first half of 1970 indicates that the deficit on current account remained at the same level as the previous year, although exports grew faster

than imports; however, an extraordinary inflow of capital, which in the first half of 1970 was already larger than the total for the previous year, would seem to indicate that there will be a large balance-of-payments surplus (see table 97).

Mexico

1. RECENT ECONOMIC TRENDS

According to preliminary figures, in 1970 the Mexican economy continued to develop at a

Table 96. Jamaica: trade with CARIFTA countries
(Thousands of Jamaica dollars)

Year	Imports	Exports of domestic goods	Total exports
1967	3,195	3,402	3,601
1968	3,159	5,283	5,899
1969	4,864	7,294	7,518
1969 ^a	2,483	2,964	3,072
1970 ^a	3,394	4,195	4,430

SOURCE: ECLA, on the basis of official foreign trade publications and data supplied by the Department of Statistics, Jamaica.

^a January to June.

Table 97. Jamaica: balance of payments
(Millions of Jamaica dollars)

	1967	1968	1969 ^a	1970 ^a January-June
<i>Current account</i>				
Goods				
Exports f.o.b. ^b	165.4	184.8	217.8	120.5
Imports f.o.b. ^b	217.2	276.9	319.4	167.0
Net balance on goods account	-51.8	-92.1	-101.6	-46.5
Services				
Transport	-23.8	-31.3	-34.9	-18.4 ^c
Merchandise insurance	-2.6	-3.2	-3.7	...
Foreign travel	49.2	63.0	65.4	39.0
Investment income	-36.0	-39.2	-44.6	-24.7
Government transactions	7.2	7.7	9.6	...
Non-merchandise insurance	-10.8	-11.5	-1.1	...
Other	5.4	7.8	10.1	...
Net balance on services account	-11.4	-6.7	0.8	-4.1
Net balance on goods and services	-63.2	-98.8	-100.8	-50.6
Transfer payments				
Private	12.8	13.3	14.7	5.3
Government	-2.8	-3.1	-3.8	...
Net transfer payments	10.0	10.2	10.9	5.3
Balance on current account	53.2	-88.6	-89.9	-45.3
<i>Capital account</i>				
Net capital movements	67.5	112.5	78.7	85.6
Government	5.0	12.6	12.2	...
Private	80.2	107.6	66.5	...
Unidentified	-17.7	-7.7		
Surplus or deficit (increase -)	-14.3	-23.9	11.2	-40.3

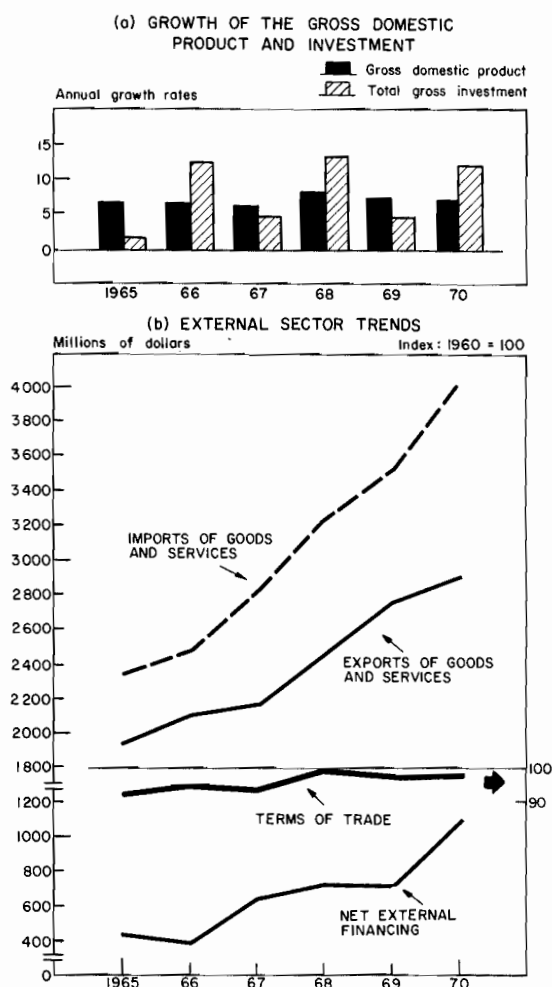
SOURCE: Central Planning Unit and Bank of Jamaica.

^a Provisional figures.

^b Adjusted to balance-of-payments basis.

^c All services except foreign travel and investment income.

Figure XVII. Mexico: 1965-1970
Natural scale



satisfactory pace (7.4 per cent), which was similar to that of the previous year and slightly higher than the average for the period 1960-1967. On the supply side, the main stimulus for growth came from the steady expansion of manufacturing (8.5 per cent), chiefly in the basic goods producing sectors, the expansion of construction (10 per cent) as a result of the high rate of capital formation, and the dynamism of the services sectors owing to the intensity of domestic activity and a sharp upsurge in imports and tourism. The relative recovery of agriculture—owing to the increase in output for domestic consumption—also helped to boost the growth rate (see tables 98 and 99).

On the demand side, the main impetus was provided by domestic components. External demand for goods and services rose by only 0.8 per cent, mainly because of the stagnation

of traditional exports, but domestic demand rose by 8.3 per cent. Gross fixed investment increased by 7.6 per cent owing to the growth of private investment. The most influential factor, however, was the increase of 8.4 per cent in consumption expenditure. The rapid expansion of general government expenditure, the rise in minimum wages approved at the end of 1969, the relative recovery of agriculture, the more rapid tempo of economic activity in recent years, the increased inflow of external capital—all were factors that played a significant role in the rapid rise of consumption expenditure. The net result was that domestic demand grew more rapidly than the product, creating a shortfall that had to be made good through a sharp increase in imports of goods and services. Owing to shortages in agricultural supply from the preceding crop year, the stagnation of iron ore production, the rise in incomes, and dependence on external factors stemming from the structure of production and foreign trade, imports of goods and services expanded by 10.5 per cent (see table 99).

The extraordinarily rapid growth of imports and the rise in the over-all consumer price index (6.4 per cent) would seem to reflect a number of disequilibria that have become apparent in the Mexican economy in recent years. Although purely temporary factors played their part in 1970—the contraction in the supply of basic goods for domestic consumption owing to unfavourable weather in the 1969/1970 crop year, and the anticipated effects of the new Labour Act, for example—the main responsibility lies elsewhere. For example, the rise in world prices for Mexico's imports and the increased cost of import substitution, which is requiring more complex and sophisticated technology, added to the rise in the minimum wage, are beginning to have an appreciable impact on production costs. Furthermore, certain policy changes to bring prices (for example steel prices and interest rates on capital) more into line with the real situation of the economy have also had an impact (see table 100).

Demand appears to have exerted less of an influence on prices than production costs, judging by the fact that the ratio of the money supply to the gross domestic product has shown a downward trend, or at least has been stationary, over the past two years. In this connexion, there does not appear to have been excessive internal pressure on the money supply, and it is to be hoped that price increases in 1971 will continue to be fairly independent of the degree of liquidity of the economy.

Table 98. Mexico: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of pesos at 1960 prices					Percentage of total					Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1970 ^a	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	30,121	32,450	32,856	...	...	14.8	13.0	12.2	...	...	2.5	1.3	...
Crop farming	19,889	20,456	20,030	20,431	...	9.7	8.2	7.5	7.1	...	8.7	-2.1	2.0
Livestock	9,001	10,663	11,468	...	...	4.4	4.3	4.3	...	...	5.8	7.5	...
Forestry	912	978	1,027	...	...	0.5	0.4	0.4	...	...	2.4	5.0	...
Fishing	319	353	331	364	...	0.2	0.1	0.1	0.1	0.1	3.4	-6.2	10.0
Mining	8,959	11,155	11,736	12,590	...	4.4	4.5	4.4	4.4	...	7.6	5.2	7.3
Manufacturing	43,846	56,826	61,475	66,700	...	21.5	22.7	22.9	23.2	...	9.0	8.2	8.5
Construction	8,534	11,844	12,943	14,237	...	4.2	4.7	4.8	4.9	...	11.6	9.3	10.0
Subtotal goods	91,460	112,275	119,010	127,629	...	44.8	44.9	44.3	44.4	...	7.1	6.0	7.2
Electricity, gas and water	2,384	3,640	4,239	4,985	...	1.2	1.4	1.6	1.7	...	15.2	16.5	17.6
Transport and communications	6,305	7,936	8,626	...	...	3.1	3.2	3.2	...	...	8.0	8.7	...
Subtotal basic services	8,689	11,576	12,865	14,249	...	4.2	4.6	4.8	5.0	...	10.0	11.1	10.8
Commerce and finance	63,907	77,984	85,157	...	...	31.3	31.2	31.7	...	...	6.9	9.2	...
Government	11,834	15,087	16,053	17,145	...	5.8	6.0	6.0	6.0	...	8.4	6.4	6.8
Ownership of dwellings	13,889	16,478	17,476	...	...	6.8	6.6	6.5	...	...	5.9	6.1	...
Miscellaneous services	14,229	16,752	17,645	...	...	7.0	6.7	6.6	...	...	5.6	5.3	...
Subtotal other services	103,859	126,301	136,331	145,498	...	50.9	50.5	50.8	50.6	...	6.7	7.9	6.7
TOTAL	203,385	249,921	268,053	287,376	...	100.0	100.0	100.0	100.0	...	7.1	7.3	7.4

SOURCE: For 1965 to 1969: ECLA estimates based on official Banco de México statistics; for 1970: ECLA estimates based on preliminary data supplied by the same source.
 Note: The figures for each sector do not necessarily add up exactly to the total product

because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 99. Mexico: total supply and demand

	Millions of pesos at 1960 prices					Percentage of total					Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1970 ^a	1970 ^a	1965-1968	1969	1970 ^a
Total supply	233,509	288,397	309,072	332,857	...	110.0	110.5	110.4	110.8	...	7.3	7.2	7.7
Gross domestic product	212,320	260,901	279,829	300,536	...	100.0	100.0	100.0	100.0	...	7.1	7.3	7.4
Imports ^b	21,189	27,496	29,243	32,321	...	10.0	10.5	10.4	10.8	...	9.1	6.4	10.5
Total demand	233,509	288,397	309,072	332,857	...	110.0	110.5	110.4	110.8	...	7.3	7.2	7.7
Exports ^b	20,702	23,908	26,250	26,456	...	9.7	9.2	9.4	8.8	...	4.9	9.8	0.8
Total investment	40,196	53,686	58,249	62,909	...	18.9	20.6	20.7	20.9	...	10.1	8.5	8.0
Gross fixed investment	35,633	48,686	51,315	55,215	...	16.8	18.7	18.3	18.4	...	11.0	5.4	7.6
Public . . . . .	...	15,870	18,166	19,583	...	...	6.1	6.5	6.5	...	...	14.4	7.8
Private . . . . .	...	32,816	33,149	35,632	...	...	12.6	11.8	11.9	...	...	1.0	7.5
Construction . . . . .	...	...	...	...	...	...	...	...	...	...	...	...	...
Machinery and equipment . . . . .	...	...	...	...	...	...	...	...	...	...	...	...	...
Total consumption	172,611	210,803	224,573	243,492	...	81.3	80.8	80.3	81.0	...	6.9	6.5	8.4
General government	15,329	19,617	20,879	22,299	...	7.2	7.5	7.5	7.4	...	8.6	6.4	6.8
Private	157,282	191,186	203,694	221,193	...	74.1	73.3	72.8	73.6	...	6.7	6.5	8.6

SOURCE: ECLA, on the basis of official data.

^a Preliminary.

^b Goods and services, excluding factor payments.

Table 100. Mexico: price indexes, 1963-1970
(1954 = 100)

Year	Wholesale prices			Cost of food	Workers' cost of living
	General index	Consumer goods	Production goods		
1963	142.1	145.2	137.8	156.6	159.6
1964	148.1	151.9	143.0	163.8	163.1
1965	150.9	155.4	144.6	166.5	169.1
1966	152.8	158.4	145.1	172.8	176.3
1967	157.2	164.4	147.2	177.2	181.6
1968	160.2	168.1	149.3	182.8	185.9
1969	163.7	172.0	152.2	184.9	190.6
1970 ^a	174.1	185.3	158.6	192.1	...

SOURCE: Banco de México, S.A.

^a Preliminary figures.

Credit policy reflected a desire to prevent further pressure on monetary and exchange stability, as is demonstrated by the relatively less intense growth of the supply of credit. Financing made available by the banking system to enterprises, private individuals and the Federal Government, as indicated by the end-year balances, increased by 16 per cent in 1970, compared with 20 per cent in 1969. Financing consisted mainly in transactions in federal government securities and in commercial credit (see table 101).

Current account saving by the public sector, according to incomplete data, increased somewhat (11 per cent) in 1970, mainly owing to the consolidation of the measures taken in 1969 to improve the State's capacity to collect revenue, and the stimuli offered by the rapid growth of the economy. The increase in the current account surplus is a measure of the efforts made, mainly by the Federal Government; it is estimated that Federal Government saving rose by 19 per cent in 1970, while saving by enter-

prises, the decentralized agencies and the Federal District remained at virtually the same level as before. Although government investment did not expand as much as in 1969 (8 per cent as opposed to 14 per cent) it is still possible that such growth as there was, together with the magnitude of repayments in respect of the public debt, will mean a significant rise in the fiscal deficit.³² Hence, it is probable, given that there is a desire to avoid pressure on domestic resources, that it will be necessary to make massive use of external resources, especially in view of the fact that imports by the public sector in 1970 were more than 35 per cent up on the 1969 level (see table 102).

2. PRODUCTION

Agriculture's performance was an improvement over 1969, although it did not achieve the

³² Preliminary estimates place the fiscal deficit at close to 13,000 million pesos, as against an average of 9,900 million over the four preceding years.

Table 101. Mexico: total bank financing, 1966-1970
(Thousands of millions of pesos)

	1966	1967	1968	1969	1970 ^a
<i>End-year balance</i>	104.6	121.1	138.8	167.2	194.5
Enterprises and individuals	77.2	91.0	103.6	124.8	146.7
Federal Government	27.4	30.1	35.2	42.4	47.8
<i>Net annual variations</i>	17.3	16.5	17.7	28.5	27.2
Enterprises and individuals	10.3	14.0	12.5	21.2	21.9
Securities	0.3	1.1	0.9	0.9	0.8
<i>Credit</i>	10.1	12.9	11.7	20.3	21.1
Trade	3.1	3.3	3.9	7.2	5.3
Production	7.0	9.5	7.8	13.1	15.8
Industry	4.6	7.7	6.3	11.7	13.1
Agriculture (including livestock)	1.9	1.3	1.3	0.9	1.3
Mining	0.4	0.5	0.2	0.5	1.4
Federal Government	6.9	2.7	5.1	7.3	5.3
Securities	6.1	3.1	4.7	7.7	5.4
Credit	0.8	-0.4	0.4	-0.4	-0.1

SOURCE: Banco de México, S.A.

^a Preliminary figures.

Table 102. Mexico: imports of goods, 1966-1970
(Millions of pesos)

	1966	1967	1968	1969	1969 January to November	1970
Total	20,064.5	21,823.2	24,500.5	25,949.3	23,558.4	27,850.0
Government	3,465.5	5,083.6	4,707.2	5,211.1	4,678.1	6,321.4
Private	16,599.0	16,739.6	19,793.3	20,738.2	18,880.3	21,528.6

SOURCE: Ministry of Industry and Trade.

growth levels of the early 1960s. The recovery of output (2 per cent) exactly counterbalanced the contraction in 1969 caused by unfavourable weather, as a result of which it was necessary to import wheat and especially maize—some 800,000 tons—generating a trade deficit in respect of these cereals for the first time since 1963.

The growth of agriculture in 1970 was due in the main to a recovery in the production of basic grains and to the by now traditional expansion of important domestic consumption items such as feed grains, sesame and rice. A contributory factor was the measures taken to compensate for the serious losses of the previous harvest, and the use of storage water from irrigation systems.

Maize output for the 1970/1971 crop year is expected to be above 9.3 million tons, which after domestic requirements have been satisfied should yield an exportable surplus of some 800,000 tons.

With respect to sugar, the continuation of distortions in the production structure, which are responsible for the cost problems referred to earlier, placed a ceiling on the output of sugar cane from the 1970/1971 harvest, which is roughly what happened in the preceding crop year also.

The increase in exports of tobacco (28 per cent) was not enough to raise production above the stagnation level caused by the saturation of the domestic market.

The production index for the 1970/1971 crop year covering export products again declined owing to the sharp contraction in the output of cotton and coffee. Cyclones affected part of the cotton crop and as a result of uncertainty about world prices and rising production costs, 422,000 hectares were sown, as compared with 544,000 hectares in the preceding crop year. It is estimated that output of cotton fibre will be down about 16 per cent over 1969/1970 (when output was already 29 per cent lower than in 1968/1969).

Despite the uncertainties about the United States market, tomato output rose by 20 per

cent. Tomatoes were exported to both the United States and Europe, which, for a time at least, removed the threat—which has hung over producers in recent years—that the United States market would be closed to Mexican tomatoes.

The prolonged drought, which has continued unbroken since 1969 in the northern part of the country, affected livestock output, but nevertheless exports of cattle on the hoof and in carcase increased, mainly owing to the drought emergency, which forced stock breeders either to export their animals or to slaughter them.

Although the campaigns to eradicate pests and diseases—including the laboratory programme initiated three years ago—have produced good results, losses are still on a substantial scale. Noteworthy, too, is the fact that per capita meat consumption has remained constant, with only consumption of chicken and fish showing slight increases in recent years.

Under other livestock, 50,000 stud sheep and goats were purchased to improve breeds. With respect to poultry-farming, the daily output of eggs rose from 16 million in 1969 to 18 million in 1970, produced in some 30,000 farms by a stock of poultry that rose from 140 million units in 1969 to 147 million in 1970.

In contrast with the sluggishness of agriculture, the goods-producing sectors maintained the dynamic pace that has characterized them throughout the 1960s. One exception was the marked contraction in output and exports of sulphur; but the remainder of industrial activity (manufacturing, petroleum, electric power and construction), stimulated by the steady growth of domestic demand, was vigorous enough to speed up the rate of growth of the industrial product.

The upward trend of prices was aggravated by a number of factors, chiefly the rise in minimum wages (an average of 16 per cent) approved in December 1969 for the period 1970-1971.

The magnitude of the increase in costs is attributable not only to the direct effect of the increased wage bill but also to the delayed

effect, because of the way increases filter through the whole interdependent structure of industry, of purchases of goods and services from the other sectors, apart from the impact of the change in the minimum wage on the entire salary scale. Similar effects were caused by the revision of labour contracts from mid-1969 onwards and the rise in prices of domestically produced inputs and capital goods, notably the rise in the price of steel (approximately 8 per cent) authorized in December 1969.

The pressure on costs was also aggravated by the rise in prices for manufactures imported by industry, as a result of the inflation affecting most of the exporting countries. Similar effects were caused by the 2 and 3 point increases in the prime interest rates charged by banks throughout the year, and the restrictions that were imposed on credit in order to reduce inflationary pressures.

Against this background of rising costs and the corresponding increases in the prices of goods—which could adversely affect Mexico's capacity to compete—it is noteworthy that manufacturing output expanded at roughly the same pace as in 1969. Provisional estimates indicate that the 8.5 per cent increase in the manufacturing product was mainly due to the expansion of basic industries, since the import substitution process has the stimulus of very favourable domestic prices. The main branches responsible for growth were those connected with capital formation (cement, machinery, transport equipment) and some producing intermediate goods (chemicals). There was also a rapid rise in the production of foodstuffs, beverages and tobacco. This is an indication of the high level of consumption expenditure which, despite increases in supply, including that of consumer durables (stoves, refrigerators and electrical appliances), led to substantial price increases (see table 103).

During 1970, the iron and steel industry's output of basic items expanded by 9 per cent. With the exception of pig iron, which contracted by 3 per cent, output increased considerably, ingots heading the list with an 11.7 per cent increase. There was substantial growth too in the output of rolled products (10.4 per cent as opposed to 7 per cent in 1969), stimulated by the intense activity of construction and the demand for consumer durables. In general terms, and as a result of the increase in domestic consumption, exports of steel products contracted. The rapid growth of the iron and steel industry during the 1960s—at present satisfying approximately 93 per cent of domestic demand compared with less than 83

per cent in 1960—appears, however, to have begun to exert relatively serious pressures on the supply of nationally produced raw materials. The unusually large imports of scrap, pig iron and iron alloys in 1970 were partly responsible, although another contributory factor was the temporary suspension of mining at the iron ore deposits in the state of Durango.

In the chemical industry, output of sulphuric acid and caustic soda expanded rapidly (14 and 6.7 per cent respectively), but output of ammonium sulphate and calcium superphosphate contracted, owing to the slackening of domestic demand for fertilizers because of poor harvests and the high cost of inputs. The over-all growth of the chemical industry (almost 11 per cent) is attributable to the dynamism of the petrochemical branch. Total output of basic petrochemical products expanded by 12.2 per cent, and installed capacity also expanded with the entry into operation of an ethylene purifying plant with an annual capacity of 14,000 tons and an ethylbenzene plant with an annual capacity of 39,500 tons.³³

The transport sector expanded by close to 15 per cent in 1970. This was attributable to the strong recovery in the production of rolling stock—up by almost 100 per cent compared with the contraction of 30 per cent in 1969—partly owing to increased exports. Another contributory factor was the expansion of the motor-vehicle industry, even though one of the eight enterprises suspended operations. It is estimated that the total number of vehicles assembled rose by 13.2 per cent. This was attributable to the output of passenger cars (118,200 units), which was well above the figure for 1969, for the output of lorries fell from 60,700 units assembled in 1969 to 53,200 in 1970. It should be noted that measures were applied in 1970 to reduce the balance-of-payments pressures caused by the high import content of the motor-vehicle industry and to promote greater utilization of installed capacity. Essentially, the maintenance of the basic production quotas for each plant were made conditional upon its gradually increasing the ratio of exports to imported supplies, which was fixed for each of the enterprises in the industry. Under this system—which covers all vehicles except lorries and certain types of bus—it is expected that imports and exports will

³³ An acrylonitrile plant (annual capacity 24,000 tons) and a polyethylene plant (annual capacity 51,000 tons) are due to go into operation in the relatively near future. Under construction are a number of plants to produce butane-butadiene, butadiene, ethylene oxide, paraxylene, ethane, ethylene, vinyl chloride monomer and perchloroethylene.

Table 103. Mexico: gross domestic product of manufacturing industry, 1966-1970
(Thousands of millions of pesos at 1960 prices)

	1966	1967	1968	1969	1970 ^a	Annual growth rate		
						1967	1968	1969
<i>Total</i>		53.1	58.6	63.4	68.8	7.1	10.4	8.2
Food, beverages and tobacco	49.6	16.2	17.4	18.5	19.9	5.9	7.4	6.3
Textiles, footwear and clothing	15.3	8.4	9.1	9.6	10.1	10.5	8.3	5.5
Paper and paper products	7.6	1.6	1.7	1.9	2.1	14.3	6.3	11.8
Printing and publishing	1.4	1.2	1.3	1.4	1.5	—	8.3	7.7
Chemicals and petrochemicals	1.2	6.4	7.4	8.4	9.3	12.3	15.6	13.5
Non-metallic ores	5.7	2.3	2.6	3.0	3.4	15.0	13.0	15.4
Basic metals and metal products	2.0	5.5	6.1	6.6	7.2	5.8	10.9	8.2
Construction of machinery	5.2	4.3	5.3	5.2	5.8	-2.3	23.3	-1.9
Construction of transport equipment	4.4	3.2	3.6	4.1	4.7	6.7	12.5	13.9
Other metal-transforming industries	3.0	4.0	4.2	4.6	4.8	5.3	5.0	9.5
	3.8							4.3

SOURCE: Banco de México, S.A.

^a Estimates.

be in balance in the motor-vehicle industry by 1978 at the latest.

3. FOREIGN TRADE AND THE BALANCE OF PAYMENTS

An important feature of the Mexican economy in 1970 was the sharp rise in the current account deficit in the balance of payments. The deficit amounted to 1,100 million dollars in 1970, as compared with 731 million in 1969, and represented 76 per cent of the current value of merchandise exports and slightly more than 3 per cent of the gross domestic product. This rise was attributable to the deficit on the commercial balance (415 million dollars) and the increase in outflows under the head of servicing payments (700 million). The stagnation of

merchandise exports, together with the vigorous expansion (15 per cent) of merchandise imports, was not offset by the traditional surplus (540 million) on the services account. The impact of the increase in servicing payments (16 per cent) and their magnitude in absolute terms become apparent if it is realized that, when added to estimated outflows in respect of repayments of capital, they are very close to being equal to the total value of merchandise exports (see table 104).

The current value of merchandise exports remained virtually unchanged, owing to the decline in exports of traditional products, which was barely offset by the improved performance of certain goods, chiefly manufactures. Cotton exports contracted considerably (46 per cent)

Table 104. Mexico: balance of payments, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969	1970 ^a
<i>Current account</i>					
Exports of goods and services	2,136	2,165	2,448	2,719	2,875
Goods f.o.b.	1,199	1,152	1,258	1,435	1,445
Services	937	1,013	1,190	1,284	1,430
Imports of goods and services	-2,133	-2,324	-2,648	-2,862	-3,290
Goods f.o.b.	-1,619	-1,767	-1,968	-2,089	-2,400
Services	-514	-557	-680	-773	-890
Net external investment income	-394	-473	-551	-602	-700
On direct investment	-277	-322	-368	...	...
Other	-117	-151	-183	...	...
Net private transfer payments	-5	5	13	14	15
Balance on current account	-396	-627	-738	-731	-1,100
<i>Capital account</i>					
Net external financing	396	627	738	731	1,171
External non-compensatory capital	451	638	523	708	
Direct investment	183	130	227	302	
Long- and medium-term loans	160	367	318	451	
Official	57	110	120	...	
Inflows	196	264	268	...	
Amortization payments	139	154	148	...	
Private	103	257	198	...	
Inflows	449	575	622	...	
Amortization payments	346	318	424	...	
Short-term liabilities	104	139	-22	-45	
Official transfer payments	4	2	—	—	
Domestic non-compensatory capital or assets	75	-89	-219	101	-71
Long-term	-25	13	2	-1	
Short-term	100	-102	-221	102	
Errors and omissions	-148	162	528	-101	
Compensatory movements (increase -)	18	-84	-94	-23	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	20	—	—	21	...
Amortization payments	-32	-13	-38	...	...
Movements of gold and foreign exchange reserves (increase -)	30	-71	-56	-44	...

SOURCE: International Monetary Fund, Banco de México, S.A. and ECLA estimates.

^a Estimates.

because of poor harvests (partly attributable to losses caused by pests and storms and also to price increases). The story was the same with sugar exports, which contracted by 1 per cent and were not large enough to fill the United States quota, despite the fact that there was a slight improvement in world prices.

For the second year in succession the value of sulphur exports fell (by 26 per cent in 1969 and 61 per cent in 1970). This was partly due to policies to give priority to domestic needs through the establishment of strict requirements governing the exploration of deposits, fulfilment of these requirements being a precondition for the granting of export quotas. As a result there were conflicts with the enterprises producing sulphur, culminating in the closure of Gulf Sulphur in early 1970.

Tomato exports grew by 28.7 per cent despite the drop in world prices and the restrictions imposed by the United States in the early part of the year, which were later dropped when tomato producers in Florida lost part of their crops owing to bad weather. Improved access also made it possible to export to the European market.

Among agricultural exports, the most thriving were strawberries (21 per cent), coffee (18 per cent) and meat (9 per cent), and among mining exports, lead (16 per cent) and zinc (14 per cent). Exports of cattle on the hoof rose (at lower prices, however, because they had to be disposed of in huge quantities owing to the drought), and exports of shrimp recovered to show a 35 per cent improvement over 1969.

On the manufacturing side, exports of certain manufactures expanded rapidly, notably electrical machinery and equipment (70 per cent), iron sheets (35 per cent), parts for machinery (34 per cent) and motor-vehicle parts (53 per cent). The most dynamic markets for manufactures were not the same as in 1969, for exports to ALALC countries over the first eleven months of the year were barely 4 per cent higher than in the same period in 1969 (see table 105).

The estimates available indicate that revenue from tourism and border transactions expanded

by 13 per cent, compared with 8 per cent in 1969, which can be attributed in part to income accruing from the World Cup football championship. In contrast, expenditure by national tourists abroad continued the rising trend of recent years.

Another important factor in the deterioration of the payments position, as noted earlier, was the considerable growth of imports. This growth was due to the high rate of public capital formation, the rapid tempo of economic activity, the need for irreplaceable intermediate goods, supply shortfalls in certain sectors and the pressure of consumer demand.

Imports by the public sector are estimated to have risen by 35 per cent (10.7 per cent in 1969), consisting essentially of equipment and installations for the underground railway in the capital³⁴ (see table 102). As to the shortfalls in domestic supply, notable among agricultural imports were the sizable purchases of basic grains and oil seeds owing to the contraction in the production of the former and the long standing production problems of the latter. With respect to mining, imports of scrap iron virtually doubled owing to the prolonged stoppage of iron ore production at the Durango mine.

The high level of imports is also attributable to the considerable expansion of the border industries, which doubled in number between July 1969 and the end of 1970. Since imports comprise unprocessed articles and the necessary capital equipment for processing them, the net balance on operations showed a deficit because imports were 50 per cent higher than exports. This situation should change in the near future as capital equipment needs decline and the exports of these industries, which already total close to 250 million pesos per year, gradually increase.

It should also be noted that the increase in income generated by the rapid tempo of economic activity was channelled towards im-

³⁴ Although imports by the public sector accounted for only one quarter of the total, they had an obvious impact on the current account deficit.

Table 105. Mexico: trade with the ALALC countries
(Millions of pesos)

	1966	1967	1968	1969	1969	1970
					January to November	
Imports	435.8	482.1	535.7	647.8	596.2	688.5
Exports	803.2	715.0	778.0	1,076.9	1,005.2	1,046.2
Balance	367.4	232.9	242.3	429.1	409.0	357.7

SOURCE: Ministry of Industry and Trade.

ports of consumer goods, which to some extent alleviated the strong pressures on domestic prices.

Some data on banking and financial developments indicate that the way in which the current account deficit was financed was different from earlier years. It is estimated that the total amount of recorded funds used, both public and private, was equal to or less than in 1969, but the data give the impression that movements of short-term capital and non-recorded funds under the head of errors and omissions were the main source of financing for the deficit and that they generated an over-all balance-of-payments surplus of 71 million dollars (see table 104).

Nicaragua

1. RECENT ECONOMIC TRENDS

The gross domestic product rose 4.6 per cent in 1970, which, though a little better than the year before, showed no change in the relatively slow economic growth that has characterized the past five years (see table 106).

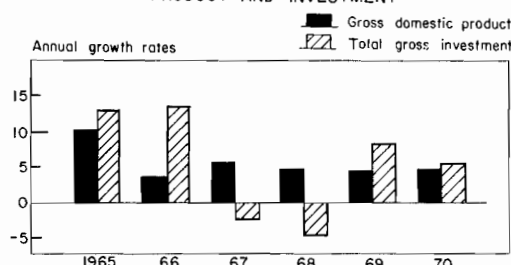
Most of the economic activity of recent years has come from the booming manufacturing sector (11.6 per cent growth rate), which has offset the virtual stagnation of agricultural production (down by 0.5 per cent), caused mainly by the decline in cotton. The construction sector also did well, expanding by 15.1 per cent. As regards expenditure, the fairly low increase in private investment and government consumption was offset by the remarkable expansion of public investment, and by the fact that exports did better than in 1969 and private consumption rose by 6.4 per cent (see table 107).

The excellent performance of the manufacturing industry in 1970 was largely due to increased external demand and to the recovery of private consumption, which made it possible to maintain the rapid growth rate of about 12 per cent that industry has shown since 1968.

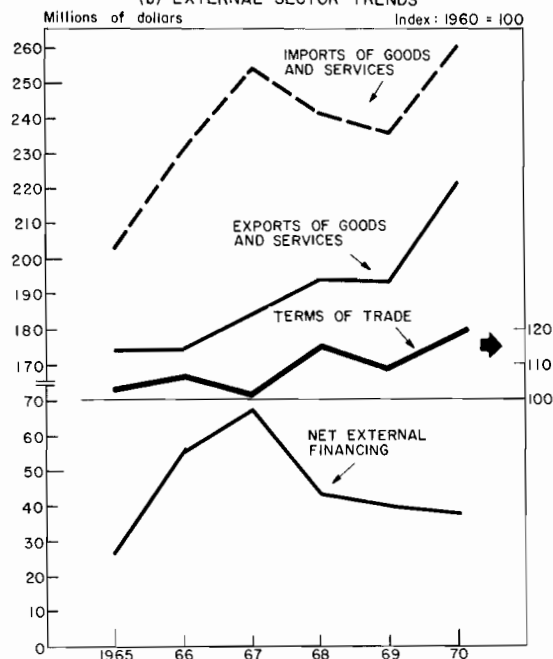
The manufacturing boom can largely be attributed to the economic policy of the last few years under which a number of ambitious projects were carried out. Similarly, the formulation and implementation of these projects is also largely responsible for improving the country's balance of trade with the rest of Central America. More recently, however, the financial and technological requirements and the lead times of these projects have made it necessary to encourage the establishment of small- and medium-capacity enterprises bringing more immediate advantages in terms of import substitution and the supply of products that are

Figure XVIII. Nicaragua: 1965-1970
Natural scale

(a) GROWTH OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



directly related to the vertical integration of large-scale projects. The new slant given to industrial development is particularly apparent in the financial programmes and arrangements that now tend to favour this kind of enterprise, such as the programme of loans to small-scale industry, artisan-type industry and small trade businesses which was initiated towards the end of 1968 with an initial outlay of 3.5 million dollars by the Banco Nacional. The latter's loans to small scale industry rose from 327,000 dollars in 1968 to 1,258,000 in 1970.

As regards the progress made in the large-scale projects, the caustic soda and chlorine plant further boosted its sales on the regional market in 1970, as a result of the decline in stocks previously accumulated in Central America. Another positive factor was the expansion of the polyvinyl chloride plant so as to

Table 106. Nicaragua: Gross domestic product at factor cost, by sector of economic activity

Sector	Millions of córdobas at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1970 ^a	1965	1968	1969 ^a	1965-1968	1969 ^a	1970 ^a
Agriculture	1,302.0	1,288.3	1,327.3	1,320.3	34.9	30.7	30.3	29.0	-0.3	3.0	-0.5
Mining	58.3	57.8	52.4	52.4	1.6	1.4	1.2	1.1	-0.3	-9.3	—
Manufacturing	416.2	577.0	649.7	725.2	11.2	13.7	14.8	15.9	11.5	12.6	11.6
Construction	131.4	150.5	161.5	185.9	3.5	3.6	3.7	4.1	4.6	7.3	15.1
Subtotal goods	1,907.9	2,073.6	2,190.9	2,283.8	51.2	49.3	50.1	50.1	2.8	5.7	4.2
Electricity, gas and water	60.4	101.8	105.9	109.2	1.6	2.4	2.4	2.4	19.0	4.0	3.1
Transport and communications	202.9	225.4	232.4	246.0	5.4	5.4	5.3	5.4	3.6	3.1	5.9
Subtotal basic services	263.3	327.2	338.3	355.2	7.1	7.8	7.7	7.8	7.5	3.4	5.0
Commerce and finance	702.7	798.0	819.6	864.4	18.9	19.0	18.7	19.0	4.4	2.6	5.5
Government	295.2	386.4	393.7	402.3	7.9	9.2	9.0	8.8	9.4	1.9	2.2
Ownership of dwellings	285.3	315.4	323.8	332.4	7.7	7.5	7.4	7.3	3.4	2.7	2.7
Miscellaneous services	272.7	301.3	309.4	321.0	7.3	7.2	7.1	7.0	3.4	2.7	3.7
Subtotal other services	1,555.9	1,801.9	1,846.5	1,920.1	41.7	42.9	42.2	42.1	5.0	2.5	4.0
TOTAL	3,733.0	4,242.6	4,427.5	4,629.1	100.0	100.0	100.0	100.0	4.4	4.4	4.6

SOURCE: For 1965 to 1969: ECLA estimates based on official Central Bank statistics; for 1970: ECLA estimates.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.
^a Preliminary figures.

Table 107. Nicaragua: total supply and demand

	Millions of córdobas at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969 ^a	1970 ^a	1970 ^a	1965	1968	1969 ^a	1965-1968	1969 ^a	1970 ^a
Total supply	5,393.0	6,142.3	6,267.5	6,610.5	132.6	132.9	129.9	125.1	4.4	2.0	5.5
Gross domestic product	4,066.6	4,621.7	4,823.1	5,042.7	100.0	100.0	100.0	100.0	4.4	4.4	4.6
Imports ^b	1,326.4	1,520.6	1,444.4	1,567.8	32.6	32.9	29.9	25.1	4.7	-5.1	8.5
Total demand	5,393.0	6,142.3	6,267.5	6,610.5	132.6	132.9	129.9	125.1	4.4	2.0	5.5
Exports ^b	1,158.3	1,181.4	1,190.2	1,239.0	28.5	25.6	24.7	24.6	0.7	3.9	4.1
Total investment	842.4	890.9	963.2	1,014.3	20.7	19.3	20.0	20.1	1.9	8.1	5.3
Gross fixed investment	753.0	789.1	859.0	914.3	18.5	17.1	17.8	18.1	1.6	8.9	6.4
Public	177.9	187.3	189.7	218.2	4.4	4.1	3.9	4.3	1.7	1.3	15.0
Private	575.1	601.8	669.3	696.1	14.1	13.0	13.9	13.8	1.6	11.2	4.0
Construction	271.0	307.0	...	...	6.7	6.6	...	...	4.2	...	...
Machinery and equipment	479.4	470.4	...	...	11.8	10.2	...	...	-0.6	...	...
Total consumption	3,392.3	4,070.0	4,114.1	4,357.2	83.4	88.1	85.3	86.4	6.3	1.1	5.9
General government	384.7	497.4	509.1	521.8	9.5	10.8	10.6	10.3	8.9	2.4	2.5
Private	3,007.6	3,572.6	3,605.0	3,835.4	73.9	77.3	74.7	76.1	5.9	0.9	6.4

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by the Central Bank; for 1970: ECLA estimates.

^a Preliminary.
^b Goods and services, excluding factor payments.

obtain more complex products for flooring and similar uses.

An important new industry involving the use of the country's own raw materials was a plant producing plain fabrics made from a mixture of synthetic fibres and cotton, which required an investment of around 68 million córdobas; the plant, which uses cotton as a raw material, has an annual capacity of 10.2 million yards and is expected to sell about 60 per cent of its output abroad. Another industrial project based on locally produced raw material is the enlargement of a plant producing wood for industrial purposes so as to manufacture plywood as well, to which consideration is to be given.

Another activity connected with the basic sector is the salt factory, which is estimated to require an investment of over 8 million córdobas and which will produce 20,000 tons of crude industrial salt annually to supply the soda and chlorine plant.

Finally, thanks to the upward trend of private consumption, a number of manufacturers of traditional goods, such as food, textiles, clothing and footwear, also enlarged their plants and so contributed to the growth of the manufacturing sector.

The agricultural sector, by contrast, suffered a slight recession. The modest improvement in the production of livestock and of products for domestic consumption and the recovery of coffee could not counterbalance the steady decline of the cotton industry (see table 106).

In order to deal with the long-standing factors that have adversely affected the output of cotton, such as the rising cost of production (pest and disease control, insecticides, bad weather) and the growing popularity of synthetic fibres, the subsidized exports of industrialized countries and the advent of new techniques, the Government has endeavoured to boost cotton-growing by offering preferential financial and technical assistance to the more efficient farmers who have been producing at least 32 quintals of raw cotton per *manzana* (1.7 acres) for the last few years. These cotton-growers can obtain up to 1,120 córdobas per *manzana* in credit, and they are given special terms for the settlement of their arrears.

In spite of this, cotton production continued to decline during 1970. The area under cultivation was almost 20 per cent (22,800 hectares) less than for the last crop year (1968/1969) and the yield per unit 10 per cent less, mainly because of plant diseases and pests and an unfavourable pattern of rainfall. Although the area sown to cotton has steadily dwindled

prospects look brighter for 1970. Good weather during the initial stage of cultivation, combined with the credit measures described above, give grounds for hoping that the yield will be similar to that of the past two years. Despite the better yield, however, the total output is likely to be down again owing to the reduction of the area under cotton, and this will probably affect the growth of the economy as a whole.

The national coffee programme, initiated in 1966 for the renovation and replanting of coffee plantations and which has now been extended to some 8,500 *manzanas* out of a target of 60,000, together with better world prices, helped to improve yields in the 1969/1970 crop year and to increase output by about 15 per cent, which is more than in any of the past five years. The crop year 1970/1971 is expected to beat all past records, even that of 1964/1965, with an estimated production of about 37,800 tons.

A number of new products (tobacco, cocoa, groundnuts and kenaf) have been tried, with promising results. There was an increase of nearly 25 per cent in the area sown to American-type tobacco, and a similar increase is expected for 1970/1971. The cocoa-groundnut pilot project was prepared in view of the probable decline in the supply of cotton seed for the manufacture of vegetable oil. Some 2,500 hectares have been sown so far and this is likely to be tripled during the next crop year. It is hoped to increase the area sown with kenaf to 3,000 hectares so as to satisfy the requirements of the sack industry.

The livestock industry grew at 6.8 per cent in 1970. As a result of the increase in Nicaragua's export quota to the United States, together with the development policy sponsored by the Government for the past five years through the National Development Institute, production has been stepped up and the yield and quality of the livestock have improved. With an eye to the demand for skimmed milk, a new milk improvement programme has also been introduced in the coastal area, mainly in the departments of Masaya, Managua and Granada.

Agricultural production for domestic consumption barely kept pace with population growth. Nevertheless, the supply of rice shot up rapidly (26.5 per cent) thanks to government-sponsored programmes and favourable weather conditions, and to the great success of new varieties of seed, such as IR8 (Filipino). Production of sesame, sugar-cane, maize and sorghum was up, but that of cotton seed declined owing to the drop in cotton production and that of beans failed to keep pace with population growth.

The accelerated growth rate of the construction industry helped to offset dwindling agricultural activity. Its 15.1 per cent growth was due to a series of housing projects and to the increase in public investment in electrification and road building.

Mining remained at the same level as in 1969, thereby halting the downward trend that began in 1966. Mining production is so small and costs have risen so much owing to the low metal content of the deposits that the ore has had to be exported without processing. The situation would seem to have improved, however, since the discovery of a mineral deposit (Vesubio) containing copper, lead and zinc and offering good prospects for commercial exploitation.

Basic services expanded faster than the year before (5 per cent as opposed to 3.4 per cent in 1969) thanks to the booming manufacturing and the stepping up of public investment. "Other services" also did better in 1970.

On the expenditure side, the most significant factor was the recovery of the purchasing power of exports, which improved by about 12 per cent. Thanks to higher world prices, mainly for coffee, and to the growth in the volume of exports of coffee, meat, sugar and manufactures, the value of exports rose sufficiently to offset the adverse trend of cotton sales.

The increase in income from external sources helped to push up consumption, particularly private consumption (up by 6 per cent) more rapidly than in the past two years.

The effect of the policy of curbing current expenditure was visible in the increase in public investment. The 15 per cent growth in government investment was mainly attributable to the continuation of projects designed to improve the infrastructure. For instance, the programmes sponsored by the national electricity authority (Empresa Nacional de Luz y Fuerza —ENALUF) during 1970 included: the termination of the 40 MW Managua thermal plant at a cost of 7.6 million dollars; the continuation of the 50 MW Santa Barbara hydroelectric project, which was 76 per cent completed at the end of 1970 and which will involve a total investment of 16.3 million dollars; and the construction of an eastern substation with a capacity of 15 mVA and with 55 kilometres of 69 KV cable stretching from Casa Colorada to San Rafael del Sur. Work went ahead on the rural electrification programme for the Chinandega, Rivas and Chontales, Boaco and Río San Juan areas, and a number of projects relating to transport, education and health (Managua sewerage system) were also carried out. The boom in exports was not accompanied

by a similar boom in private investment, which grew much more slowly than in 1969.

The increase in exports, public investment and over-all consumption brought about an 8.5 per cent growth of imports of goods and services (calculated at constant prices) in 1970, thereby reversing the downward trend of the two previous years (see table 107).

2. PUBLIC FINANCES AND CREDIT

The Government's credit policy was aimed once again essentially at relieving the pressure on the balance of payments, while its financial policy was to continue to curb current expenditure and step up capital investment.

Central government saving on current account almost tripled in 1970, jumping from 28 million córdobas to close on 80 million (January to October figures), thus continuing the trend that began in 1969. The 16.3 per cent increment in current income was the main reason for this, as it exceeded by far the 4.1 per cent rise in current expenditure.

The increase in imports and the generalization of the 5 per cent sales tax combined with the improvements in tax administration and collection to bring about this rise in current income. After two years of steady decline, revenue from direct taxes increased by nearly 15 per cent to somewhere around 100 million córdobas. Income from indirect taxes, especially on foreign trade and on consumption, continued to rise (15.7 per cent) and amounted to about 301 million cordobas. Finally, the current central government income was further boosted by means of the economic stabilization taxes and the income accruing from the application of the San José Protocol (see table 108).

Capital expenditure was almost 24 per cent higher, while current expenditure tended to maintain the fairly slow growth that it had shown for the past two years, despite the fact that transfer payments were up by 18.3 per cent and interest on the public debt by 8.4 per cent. There was virtually no change in wages and salaries and purchases of goods and services compared with the previous year. Real investment maintained its rapid upward trend (up by 23 per cent), as did capital transfers to official bodies (up by 49 per cent).

Despite the increase in total expenditure (9 per cent compared with the previous year's 7.7 per cent), the central government deficit was down by 13 per cent. In order to avoid an immediate strain on the balance of payments, this deficit was mainly financed with long-term

Table 108. Nicaragua: Central Government income and expenditure, 1966-1970
(Millions of cordobas)

	1966	1967	1968	1969	October	
					1969	1970
<i>Current income</i>	479.8	483.3	467.2	488.1	404.6 ^a	470.6 ^a
Tax revenue	418.3	434.6	418.1	421.5	346.6	400.4
Direct taxes	95.9	106.4	95.8	90.8	86.4	99.4
Income tax	61.3	69.5	52.3	50.1	45.3	48.4
Other	34.6	36.9	43.5	40.7	41.1	51.0
Indirect taxes	322.4	328.2	322.3	330.7	260.2	301.0
On exports	9.8	10.3	4.7	4.0	3.9	4.5
On imports	157.9	152.5	139.8	131.4	103.2	116.7
On consumption	137.0	144.0	152.4	165.9	143.0	168.9
Other	17.7	21.3	25.4	29.4	10.1	10.9
Non-tax revenue	62.8	47.1	38.9	47.5	29.0	35.6
Economic stabilization income	—	—	8.6	19.1	15.2	16.5
Non-budgetary income and adjustments	5.1	2.2	1.6	—	—	5.0
<i>Total expenditure</i>	551.9	610.9	556.7	599.4	477.8	520.7
<i>Current expenditure</i>	368.7	417.2	429.0	442.4	362.9	377.7
Wages and salaries	223.6	248.2	260.1	259.9	218.1	220.0
Goods and services	67.4	63.9	66.7	68.4	69.5	69.8
Transfer payments	61.8	89.1	81.7	85.2	63.5	75.1
Interest on the public debt	6.9	8.2	11.1	13.6	11.9	12.9
Other	9.0	7.8	9.4	15.3	—	—
<i>Capital expenditure</i>	183.2	193.7	127.7	157.0	114.9	143.0
Real investment	112.6	136.9	80.8	89.2	62.2	76.5
Financial investment	13.2	10.0	6.2	0.6	0.9	0.5
Transfers to official bodies	25.5	19.0	10.0	37.2	24.8	37.0
Amortization	31.9	27.8	30.7	30.0	27.0	29.0
External	6.3	14.2	16.9	18.4	18.2	18.5
Domestic	25.6	13.6	13.8	11.6	8.8	10.5
<i>Deficit^b</i>	-73.6	-126.0	-89.8	-111.5	-76.7	-66.4
<i>Financing</i>						
External credit	39.3	68.8	54.3	47.1	33.6	57.6
Domestic credit	10.8	38.9	45.8	53.6	14.9	17.6
Variations in cash reserves and liabilities	23.5	18.3	-10.3	10.8	28.2	-8.8

SOURCE: Central Bank

^a The total is greater than the sum of the individual figures because

it includes certain items relating to capital income.

^b Including other expenditure and adjustment.

external capital. External credit was used to cover about 87 per cent of the deficit.

The credit policy, which, as has already been pointed out, was designed to avoid any pressures that might deplete net foreign exchange reserves, involved, among other things, raising interest rates on both loans and deposits charged by the commercial banks. Total savings deposits had reached 245 million córdobas by October 1970—an increase of 11.4 per cent, which was appreciably higher than for the same period in 1969. Commercial bank credit to the private sector, meanwhile, continued the slow growth trend (about 3 per cent) observable since 1968.

Though the government credit policy no doubt succeeded in relieving the pressure on external payments, it also began to create problems that may well affect future production. One of the main reasons for this is the increase in the "frozen" portfolio, mainly be-

cause of loans that were made to cotton-growers which have not yet been repaid and which, at best, will only be recovered very slowly. This being the case, it would seem wise to introduce selective financial assistance programmes for the production of export products.

The money supply increased substantially (13 per cent by October). In view of the restrictions on domestic credit, most of this increase is due to the inflow of foreign exchange as a result of the recovery of exports.

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

The deficit on current account fell for the third year in succession and stood at around 37 million dollars. The net inflow of capital—up by 24 per cent—far exceeded that of 1969 and made it possible to increase the gold and foreign exchange reserves (see table 109).

In 1969, the reduction in the deficit on cur-

Table 109. Nicaragua: balance of payments
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Current account</i>					
Exports of goods and services	171.5	182.4	192.9	190.1	217.6
Goods	142.5	147.9	161.0	157.5	181.3
Services	29.0	34.5	31.9	32.6	36.3
Imports of goods and services	-212.6	-233.7	-214.3	-207.3	-230.2
Goods	-151.8	-172.2	-165.2	-158.4	-177.5
Services	-60.8	-61.5	-49.1	-48.9	-52.7
Net external investment income	-15.7	-18.7	-24.7	-25.0	-27.1
On direct investment	-14.9	-15.7	-18.9	...	...
Other	-0.8	-3.0	-5.8	...	...
Net private transfer payments	2.6	3.0	3.2	2.9	2.5
Balance on current account	-54.2	-67.0	-42.9	-39.3	-37.2
<i>Capital account</i>					
Net external financing	54.2	67.0	42.9	39.3	37.2
Non-compensatory external financing	58.1	38.9	54.9	36.0	44.6
Direct investment	12.2	14.5	16.4	12.0	15.0
Long- and medium-term loans	23.1	17.1	39.3	16.9	22.1
Official	11.1	4.4	12.6	5.6	...
Income	12.1	6.0	15.4	8.2	...
Amortization payments	-1.0	-1.6	-2.8	-2.6	...
Private ^c	12.0	12.7	26.7	11.3	...
Income	16.3	16.0	29.4	18.0	...
Amortization payments	-4.3	-3.3	-2.7	-6.7	...
Short-term liabilities	18.3	4.5	-3.9	3.5	4.0
Official transfer payments	4.5	2.8	3.1	3.6	3.5
Non-compensatory domestic capital and assets	-6.0	5.3	-7.3	-1.3	-1.0
Long-term	-1.6	-1.2	-1.8	-1.4	...
Short-term	-4.4	6.5	-5.5	0.1	...
Errors and omissions	4.5	5.5	-3.0	-1.6	2.8
Compensatory financing (increase -)	-2.4	17.3	-1.7	6.2	-10.2
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.8	—	19.8	1.5	...
Amortization payments	-3.5	-13.4	-0.5	-1.0	...
Gold and foreign exchange (increase -)	-0.7	30.7	21.0	5.7	...

SOURCE: For 1966 to 1969: International Monetary Fund; for 1970: Central Bank and ECLA estimates.

^a Preliminary figures.

^b Estimates.

^c Including autonomous government institutions.

rent account was due to the bigger drop in imports than in exports. In 1970, on the other hand, the deficit was reduced even further since the boom in exports more than made up for the revival of imports. The 14.5 per cent increase in exports was largely due to the rise in prices (estimated at 11 per cent), though there was also a significant improvement in the volume of coffee, meat and sugar exports and of sales to the Central American Common Market. The 11 per cent rise in imports stemmed from the increase in the volume of foreign credit made available to the public sector, the revival of exports, the satisfaction of deferred demand for consumer goods, and the greater flow of regional trade.

Cotton exports (33 million dollars) reached

their lowest point in recent years owing to the negative factors already mentioned (high costs, diseases and pests, and bad weather) from which crops have been suffering for almost five years. Consequently, there was a further decline of 28 per cent in the volume and consequently in the value of cotton exports (see table 110).

Coffee sales, on the other hand, rose to close on 34 million dollars in value, which means that coffee has now replaced cotton as Nicaragua's most important export. The exceptional rise in world coffee prices in 1970 coincided with a 20 per cent increase in the volume of Nicaragua's exports, so that the total value of coffee exports rose by nearly 67 per cent. Immediate prospects as regards coffee exports are favourable from

Table 110. Nicaragua: exports of main products, 1966-1970

Product	1966	1967	1968	1969	1970 ^a	Annual growth rates				
						1967	1968	1969	1970	
Millions of dollars										
Cotton	56.8	56.0	59.7	45.4	33.0	-1.4	6.6	-24.0	-27.3	
Coffee	21.8	21.1	22.7	20.6	34.4	-3.2	7.6	-9.3	67.0	
Fresh meat	10.2	12.5	15.9	20.8	27.2	22.5	27.2	30.8	30.8	
Sugar	2.1	5.9	5.5	8.3	11.0	180.9	-6.8	50.9	32.5	
TOTAL	142.5	147.9	161.0	157.5	181.3	3.8	8.9	-2.2	15.1	
Millions of dollars at 1960 prices										
Cotton	59.8	59.0	56.2	48.6	35.1	-1.3	-4.7	-13.5	-27.8	
Coffee	20.5	22.8	25.2	23.4	28.2	11.2	10.5	-7.1	20.5	
Fresh meat	8.5	9.8	11.5	13.5	16.6	15.3	17.3	17.4	23.0	
Sugar	1.7	4.6	4.1	6.1	7.6	170.6	-10.9	48.8	24.6	
TOTAL	142.5	146.4	147.7	148.6	153.6	2.7	0.9	0.6	3.4	

SOURCE: ECLA, on the basis of official statistics.

^a Preliminary figures.

the standpoint of supply, since the 1970/1971 crop is expected to set a record for the country and it is thought that 1971 exports may be about 15 per cent higher than in 1970.

The other export products also helped to make up for the decline of cotton sales. Thanks to the larger United States quotas and the better world prices, fresh meat brought in 27 million dollars, 31 per cent more than in 1969. Sugar exports earned 11 million dollars, following the increase in the United States quota from 54,661 to 63,224 tons (see table 110).

There was also a considerable improvement in Nicaragua's trade balance with the rest of Central America in 1970, thanks to an exceptional increase of about 50 per cent in its exports to those countries, in line with the trend that has been apparent since 1968. This was far more than the increase in its imports from the region (23 per cent), thus practically wiping out the deficit that appeared in the mid-1950s. The biggest increases in exports to Central America up to September were in chemicals and chemical products (56.3 per cent), food products (76.8 per cent), textiles (166 per cent), and footwear, clothing and similar articles (54.3 per cent).

As to capital movements, the net inflow of capital rose from 36 million dollars in 1969 to around 45 million in 1970, enabling the monetary authorities to add a further 10 million dollars to the net foreign exchange reserves, which include 3.2 million in Special Drawing Rights—2.2 million of which could be used. The revival of imports was reflected in more commercial credit, which rose from 2.7 to 4.9 million dollars, and in the country's stronger bargaining position in its negotiations for external resources to finance basic government projects. Lastly, a 25 per cent jump in direct

investment helped to improve Nicaragua's final balance-of-payments position.

Panama

1. RECENT ECONOMIC TRENDS

The Panamanian economy pursued the satisfactory growth trend it had shown in the 1960s. Preliminary estimates show that the gross domestic product rose by 8.6 per cent, compared with 7.2 per cent the previous year and 7.7 per cent annually over the period 1965-1968 (see table 111).

The main incentive to demand, as in 1969, was the accelerated growth of its internal components, since the rate for exports of goods and services (at constant prices) declined steadily from 10.9 per cent in 1965-1968 to 5.5 per cent in 1969 and 4.9 per cent in 1970. In both years domestic demand was buttressed by a large volume of external resources (mainly medium- and short-term loans) and credit operations by commercial banks increased rapidly. In contrast with the previous year, however, when capital formation in the public sector was virtually the only factor responsible for the expansion of expenditure, the strengthening of domestic demand in 1970 was based on both private expenditure and general government consumption expenditure (see table 111).

It should be noted that private investment, particularly in construction, was greatly stepped up (14.8 per cent)—with the return to normal of the political situation, the stimulus resulting from the sharp rise in public expenditure and, of course, the greater availability of financial resources.

Public consumption and investment expenditure, after growing at an exceptionally rapid rate in 1969 (24.5 per cent), had to be curtailed,

Table 111. Panama: total supply and demand

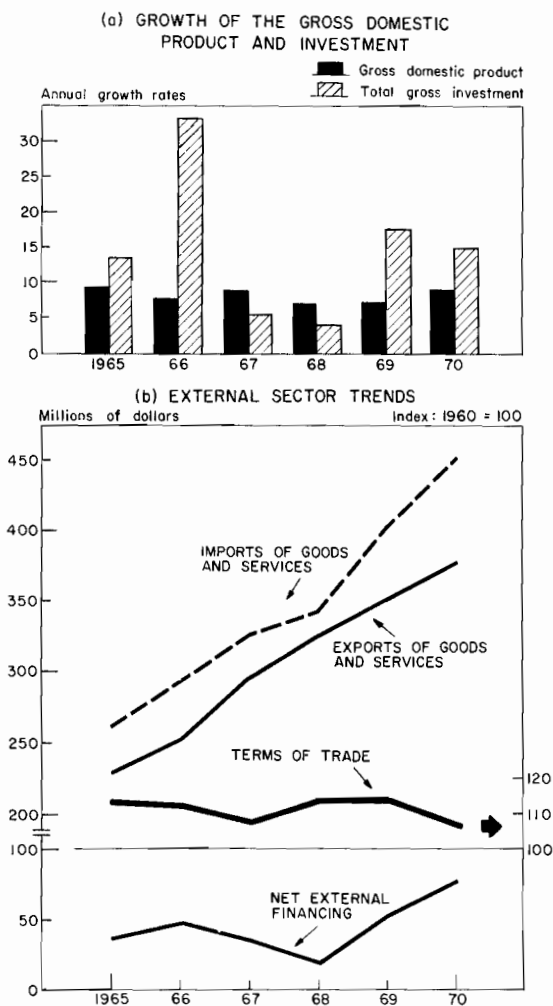
	Millions of balboas at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Total supply	851.0	1,070.1	1,162.4	1,264.8	1,264.8	137.9	138.8	140.6	140.9	7.9	8.8
Gross domestic product	617.3	771.2	826.6	897.7	897.7	100.0	100.0	100.0	100.0	7.7	8.6
Imports ^b	233.7	298.9	335.8	367.1	367.1	37.9	38.8	40.6	40.9	8.9	9.3
Total demand	851.0	1,070.1	1,162.4	1,264.8	1,264.8	137.9	138.8	140.6	140.9	7.9	8.8
Exports ^b	212.5	290.1	306.2	321.2	321.2	34.4	37.6	37.0	35.8	10.9	4.9
Total investment	112.8	165.5	194.4	223.0	223.0	18.3	21.5	23.5	24.8	13.7	14.7
Gross fixed investment	...	...	...	...	...	...	...	...	...	...	...
Public	21.7	30.0	50.4	58.0	58.0	3.5	3.9	6.1	6.5	11.4	15.1
Private	91.1	135.0	144.0	165.0	165.0	14.8	17.6	17.4	18.3	14.0	14.8
Construction	...	...	...	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...	...	...	...
Total consumption	525.7	614.5	661.8	720.6	720.6	85.2	79.7	80.1	80.3	5.3	8.9
General government	67.0	88.7	98.0	112.7	112.7	10.9	11.5	11.9	12.6	9.8	15.0
Private	458.7	525.8	563.8	607.9	607.9	74.3	68.2	68.2	67.7	4.7	7.8

SOURCE: For 1965-1969: Statistics and Census Office, Office of the Controller; for 1970: ECLA estimates based on preliminary data from the same source.

^a Preliminary.

^b Goods and services, excluding factor payments.

Figure XIX. Panama: 1965-1970
Natural scale



as was only to be expected, and brought within the limits imposed by the shortage of financial resources, projects and manpower. However, it continued to grow at an accelerated pace (15 per cent), acting as a spur to the rest of the economy. The expansion of expenditure was facilitated by a substantial increase in government income as a result of stricter control, changes in the customs tariff, and economic growth. Nevertheless, the financial position of the central government deteriorated, as shown by the size of the deficit and the accumulation of heavy medium- and short-term liabilities, which are quite a heavy burden.

The main impetus to supply came from the construction and services sectors, compensating for the slower growth of agriculture, whose main export item—bananas—was affected by adverse weather conditions. In terms of con-

stant prices imports of goods and services increased significantly in the last two years (12.3 and 9.3 per cent, respectively), stimulated by the growth of income, the steady expansion of domestic credit and the public sector's huge purchases of machinery, equipment and materials. The slackening off in the growth of imports in 1970 may be ascribed to the slower growth of total investment—which has a high import content—and to the larger share of the construction sector in total investment. In view of the stagnation of exports of goods, however, the balance-of-payments deficit on current account increased from less than 55 million dollars to over 76 million, which represents more than 20 per cent of the total value of exports of goods and services. Most of the deficit was covered by loans accorded to the public sector, and by external resources from foreign private banks.

2. PRODUCTION

The agricultural product grew by about 3.1 per cent, contrasting with the rates of 5.8 and 5.6 per cent recorded in 1968 and 1969, respectively. The smaller increase was due mainly to the drop in the production of bananas for export, and of milk, eggs and poultry. Banana plantations were affected by floods and adverse weather conditions, which caused considerable damage. The drop of about 2 per cent in production does not really reflect the seriousness of the situation, since larger harvests were expected in 1970.

In contrast, the rest of the agricultural sector—producing mainly for the home market—grew as steadily as it had the year before (by about 6 per cent), after showing only moderate increments for several years. Generally speaking, all agriculture for domestic consumption has benefited in the last two crop years, from comparatively favourable weather conditions and, in varying degrees, from the expansion of government programmes. The growth of production, which in the early 1960s had depended almost entirely on increasing the area under cultivation, may be ascribed since 1967 to improved yields in nearly all products, which in not a few cases have compensated for reductions in the cultivated area (see tables 112 and 113).

Rice, the principal crop consumed in the country and one of the basic components of the population's diet, increased at a satisfactory rate (5.8 per cent) in 1970, following a very modest growth (1.3 per cent) in 1969. The Government has encouraged production by means of credit, support prices, import quotas,

Table 112. Panama: gross domestic product at factor cost, by sector of the economic activity

Sector	Millions of balboas at 1960 prices					Percentage of total					Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1970 ^a	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	131.3	152.8	161.4	166.4	166.4	23.7	21.5	21.2	20.2	20.2	5.2	5.6	3.1
Mining	1.7	2.1	2.1	2.3	2.3	0.3	0.3	0.3	0.3	0.3	7.3	—	9.5
Manufacturing	88.5	121.0	131.5	142.9	142.9	15.6	17.0	17.3	17.3	17.3	11.0	8.7	8.7
Construction	34.5	45.8	50.1	56.5	56.5	6.1	6.5	6.6	6.8	6.8	9.9	9.3	12.8
Subtotal goods	256.0	321.7	345.1	368.1	368.1	45.0	45.3	45.4	44.6	44.6	7.9	7.3	6.7
Electricity, gas and water	14.5	18.9	19.5	20.6	20.6	2.6	2.7	2.5	2.5	2.5	9.2	3.2	5.6
Transport and communications	32.2	42.9	46.3	50.8	50.8	5.7	6.0	6.1	6.1	6.1	10.0	8.0	9.7
Subtotal basic services	46.7	61.8	65.8	71.4	71.4	8.2	8.7	8.6	8.6	8.6	9.8	6.5	8.5
Commerce and finance	73.8	91.2	99.0	111.9	111.9	13.0	12.8	13.0	13.6	13.6	7.3	8.6	13.0
Government	15.7	21.3	23.2	25.0	25.0	2.8	3.0	3.0	3.0	3.0	10.7	8.9	7.8
Ownership of dwellings	38.3	46.2	49.2	53.2	53.2	6.7	6.5	6.5	6.4	6.4	6.5	6.5	8.2
Miscellaneous services	86.4	101.8	106.9	119.4	119.4	15.2	14.3	14.1	14.5	14.5	5.6	5.0	11.7
Provision of services for the Canal Zone	51.4	65.7	71.4	76.8	76.8	9.0	9.3	9.4	9.3	9.3	8.5	8.7	7.6
Subtotal other services	265.6	326.2	349.7	386.3	386.3	46.7	46.0	46.0	46.8	46.8	7.1	7.2	10.5
TOTAL	568.3	709.6	760.7	826.1	826.1	100.0	100.0	100.0	100.0	100.0	7.7	7.2	8.6

Source: For 1965 to 1969: Statistics and Census Office, Office of the Controller General of the Republic; for 1970: ECLA estimates based on preliminary data from the same source.

^a Preliminary figures.

Table 113. Panama: volume of agricultural production, by main products

Product	Unit	1967	1968	1969	1970 ^a
Rice	Thousands of quintals	3,310	3,576	3,624	3,834
Maize	Thousands of quintals	1,955	1,842	1,924	2,011
Yams	Thousands of quintals	1,029	1,085	1,144	1,206
Potatoes	Thousands of quintals	139	165	174	184
Yucca	Thousands of quintals	2,242	2,362	2,488	2,621
Bananas	Thousands of stems	10,260	10,484	10,713	10,947
Oranges	Millions	2,487	2,509	2,531	2,553
Bananas	Millions	1,858	1,868	1,879	1,890
Coconuts	Millions	718	745	773	802
Beans	Thousands of quintals	131	112	109	106
Guandus	Thousands of quintals	350	344	338	332
Tomatoes	Thousands of pounds	58,438	69,243	82,046	97,216
Coffee	Thousands of quintals	123	107	129	148
Sugar-cane	Thousands of short tons	974	936	960	985

SOURCE: Statistics and Census Office, Office of the Controller General of the Republic.

^a Estimates.

storage facilities, technical assistance, etc., and a large part of it—which was formerly essentially for the producer's own consumption—has been modernized through mechanization, the use of selected seeds and, in general, the application of more efficient crop-farming techniques. For several years, Panama's rice output has satisfied its total domestic requirements, and there have even been small surpluses for export.

The cultivation of maize, which is fairly important as an input in livestock production and poultry farming, has increased at the fairly satisfactory average rate of 4.5 per cent over the past two years. Taking a long-term view, production seems to have remained at about the same level, as shown by the fact that in 1970 the harvest was only slightly bigger than in 1967, and it was repeatedly necessary to import. In this case, too, steps have been taken to encourage production and, in particular, to extend the use of selected seeds and fertilizers, which are already beginning to improve yields.

The bean crop continued to decline at an average annual rate of 2 per cent. In contrast with two decades ago, when output was considerable, the bulk of production comes now from subsistence farming or residual crops associated with other products. This is partly due to the fact that the population in urban areas—and even some rural areas—prefer imported varieties, which cost the country about half a million dollars annually in foreign exchange (see table 113).

Coffee output rose by 20 and 15 per cent in 1969 and 1970, respectively, easily recovering from the contraction in 1968. In general, the excellent weather conditions and the additional incentive of higher prices enabled Panama, for the first time, to take up the whole quota

assigned to it under the International Coffee Agreement. The reasons why coffee has not attained a more important place among Panama's export crops is that there is little suitable land available for extending this crop, and domestic production costs are relatively high.

In spite of the successive increases in its sugar quota on the United States market, Panama's limited refining capacity, among other factors, explains why sugar-cane production has grown only moderately in recent years. Provisional data indicate that the 1970 quota was not filled, since in the first nine months of the year total exports of raw and refined sugar—including small quantities for other markets—were barely over 31,000 tons. The construction of a sugar mill with a capacity of 60,000 tons in Varaguas province will do much to encourage the sowing of sugar-cane, thus improving production prospects.

As regards the rest of the locally consumed agricultural products, fruit (bananas, oranges, plantains and coconuts) showed a modest overall growth rate (2.6 per cent), while tubers (potatoes, yucca and yams) and tomatoes increased more sharply (5.4 and 18.5 per cent, respectively). Tomatoes have been acquiring increasing importance; gross output in 1970, in terms of 1969 prices, amounted to over 10 million dollars, which was exceeded only by bananas and rice. Vegetable-growing has been stimulated by urban growth, the installation of processing plants and brighter sales prospects in the Canal Zone market.

Livestock production declined slightly as a result of decreases in milk, eggs and poultry; on the other hand, cattle slaughtering rose by 9.8 per cent, exceeding the rate attained in 1969

(6.9 per cent). Pig slaughtering grew more slowly: 4.3 per cent, compared with 19.5 per cent in 1969; even so, it seems that the recovery which began in the mid-1960s after a fairly long period of stagnation, has been consolidated.³⁵ As regards livestock production, Panama continued to promote development programmes which included disease eradication and control, the use of bulls of a better genetic strain, the use of better stock management techniques and the provision of more credit.

Policies to promote agriculture include the rapid expansion of credit lines. In fact, loans granted in 1968 totalled over 27 million dollars, compared with 16 million in 1966. The share of credit extended by commercial banks—including government banks—in these totals rose from 13 million dollars in 1966 to 23.7 million in 1968, and—according to the incomplete data available—is estimated to have been nearly 34 million dollars in 1970.

The credit programme for small producers sponsored by the Ministry of Agriculture and Livestock has been bolstered by a new AID loan of 3.5 million dollars, part of which is intended to supplement the financing of technological development, technical education and marketing organization programmes. Moreover, the Economic Development Institute (Instituto de Fomento Económico—IFE) extended approximately 6 million dollars' worth of agricultural credit with funds obtained from IDB, which is 50 per cent more than the resources used for the same purpose in 1969.

The manufacturing product is estimated to have risen at a rate of 8.7 per cent, which is similar to the 1969 rate and contrasts unfavourably with the average annual rate of 11 per cent for the period 1965–1968. A number of circumstances are largely responsible for the slower growth in the last two years. First, the unsettled political situation in 1968 probably affected entrepreneurs' decisions in the following year. Secondly, a combination of different circumstances has had an unfavourable impact on manufacturing production.³⁶ Nevertheless, despite recent progress in certain activities, a loss of impetus was observable in the import substitution process, which had been fairly

intensive from 1957 to 1965. The subsequent expansion of manufacturing supply was probably due more to a passive response to the growth of local demand and better chances of selling on the Canal Zone market than to deliberate action by the public and private sectors to replace imports. In spite of the excellent possibilities of stepping up import substitution, special difficulties prevent the introduction of an essentially inward-directed growth strategy in Panama's case. These difficulties stem not only from the small size of the market and the country's limited technological capacity, but also from certain operational characteristics of the economy which make industrial investment less profitable and the implementation of decidedly protectionist and development measures less feasible. A number of mechanisms and economic policies which were used to promote industrial growth in the past now seem to be inadequate. It would therefore be necessary to chart a new industrial development strategy, and establish a group of measures and instruments which, without disregarding the special economic conditions prevailing in Panama, would ease the balance-of-payments pressures and mitigate the serious unemployment problem. In this respect, the policy of direct promotion—including financing with its own resources—which the Government is putting into practice with the Varaguas sugar mill and other smaller projects may constitute a good precedent;³⁷ but these and other no less important measures would no doubt be more consistent and effective if it were possible to integrate them in programmes of more general scope (see table 112).

Lastly, with the growth of construction (9.3 and 12.8 per cent in 1969 and 1970, respectively), the rapidly rising trend which predominated during most of the past decade was re-established.

Construction activities in the public sector grew less vigorously in 1970, but this loss of momentum was more than offset by the increase in private investment, which had remained practically at a standstill during the preceding years. In fact, in the first nine months of 1970 the value of private construction in the most important districts of Panama (according

³⁵ The stock of pigs is still below the 1960 figure, however, in spite of successive increases in the last few years.

³⁶ Panama's fish meal plant broke down and was out of commission for several months; its petroleum products plant has reached production levels that are very close to its full capacity; and an important footwear manufacturing firm closed down, which had repercussions on the leather industry.

³⁷ The projects which the Government expects to develop shortly include the assembly of electrical household appliances, the processing of fruit, tropical vegetables and copra; and the production of glucose, dextrose and glues from yucca. Also under study are certain industrial measures aimed at decentralizing new investment, including the location of industrial estates in the David, Chitre and Santiago areas.

to the building permits granted) was more than one third higher than for the same period in 1969.

3. PUBLIC FINANCES AND CREDIT

Fiscal policy continued to aim at improving the Government's capacity to collect fiscal revenue, which was reflected in 1970 in the rapid growth of regular income (20.4 per cent), although it was still insufficient to counteract the faster growth of total expenditure, so that the fiscal deficit rose by 15.4 per cent.

The continuity of the fiscal control procedures adopted in 1969, tariff changes—which affected income taxes, the distribution of dividends, patents, the production of cigarettes, and imports—the larger volume of imports and the sustained economic growth over the past few years are among the factors that have pushed up regular government income. In particular, tax revenue reached an approximate value of 129 million balboas, thanks mainly to the increases in revenue obtained from taxes on income (33 per cent), imports (21 per cent), production and sales (20 per cent) and consumption (43 per cent). Non-tax receipts, on the other hand, contributed little towards the rise in ordinary income.

Total expenditure continued to soar in 1970, and it changed appreciably in structure. First, with a view to eliminating unemployment and raising the purchasing power of public services, more funds were earmarked for public expenditure. Secondly, the high level of indebtedness recorded in 1969—without which the exceptionally high investment levels that year could not have been attained—combined with the increase in the balance-of-payments deficit in 1970 and the decrease in the number of available projects, were responsible for the slower growth of expenditure under the head of fixed investment, including transfer of capital to the rest of the public sector. With the high value of loans, therefore, amortization payments on the public debt rose by 70 per cent, while capital expenditure grew at a much slower rate than in 1969.

As in 1969, the government deficit was covered basically with external resources. It should be noted that external short-term liabilities represent a high proportion of the public debt, which provides grounds for thinking that amortization payments (about 26 million balboas) are likely to be twice as high in 1971.

Credit pursued the rapidly expanding trend (18.7 per cent) which was partially halted in 1968. Of the funds channelled to residents, the

lion's share went to trade (32 per cent). Although less important in volume, a steady flow of credit has been provided for agricultural and livestock development, as mentioned above.

Prices rose somewhat more sharply than the previous year. The low- and medium-income consumer price indexes rose by over 3 per cent during the first nine months of the year compared with the same period in 1969, largely because external inflationary pressures made themselves felt through trade in imported goods.

4. FOREIGN TRADE

The deficit on current transactions with other countries increased substantially in 1970, as a result of the stagnation of exports of goods and the upswing of external purchases. Although the income from services to the Canal Zone and the rest of the world—the Panamanian economy's main sources of foreign exchange—grew more than the previous year (10.8 per cent compared with just over 6 per cent), and payments on foreign capital seem to have declined, the net result of the two movements failed to offset the growth of the deficit in its foreign trade in goods (see tables 114 and 115).

Among the major export items, there was a slight fall (2 per cent) in banana sales and a fairly significant drop in exports of petroleum products (11 per cent), while shrimp exports remained relatively stable. A decline was also observable in sales to the Canal Zone. Lastly, there were decided increases in some non-traditional items. Exports of cattle and beef rose by 138 per cent and coffee sales by 63.6 per cent. Fish meal exports recovered once the plant had resumed its operations.

The recession in banana sales is explained chiefly by the adverse weather conditions which caused damage to the plantations. Although shrimp exports increased by 12 per cent in volume, their total value rose barely 3 per cent, apparently owing to a less favourable distribution by size and quality. Under the head of services, the largest increases were recorded in tourism (42 per cent) and wages and salaries earned by persons employed in the Canal Zone (10.7 per cent).

The over-all growth of purchases of goods was about 15 per cent. Although no detailed information is available, it can be affirmed that imports of capital goods increased rapidly as a result of the large-scale infrastructural programmes and the recovery of private investment. There were also significant increases in purchases of consumer goods, particularly

Table 114. Panama: exports of goods and services
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Total</i>	257.0	297.2	321.8	348.4	372.5
<i>Goods</i>	103.3	109.2	117.4	131.4	132.0
Bananas ^c	34.7	42.0	53.0	61.2	60.1
Cocoa ^c	0.2	0.2	0.2	0.4	0.4
Petroleum	25.9	22.9	18.9	24.1	21.4
Sugar	1.6	3.9	4.6	5.4	4.9
Shrimp	9.0	9.2	9.7	9.7	10.0
Fish meal	1.4	1.1	1.0	0.3	0.9
Coffee	0.6	1.4	0.6	1.1	1.8
Livestock and meat	1.8	1.4	1.7	1.3	3.1
Other sales to the Canal Zone	12.0	13.4	21.3	22.3	21.4
Other goods and adjustments	16.1	13.7	6.5	5.7	8.0
<i>Services</i>	153.7	188.0	204.4	217.0	240.5
<i>Travel</i>	45.3	56.7	59.4	65.3	80.3
Canal zone	20.5	30.7	33.9	35.8	38.3
Other countries	24.8	26.0	25.5	29.5	42.0
Transport (including sale of tickets)	16.0	19.6	26.3	26.6	27.0
Colon Free Zone (net)	10.0	16.6	18.2	18.5	20.0
Other services to the Canal Zone	66.9	72.3	78.7	86.2	93.4
Wages and salaries	58.1	63.8	70.0	75.0	83.0
Other	8.8	8.5	8.7	11.2	10.4
Other services and adjustments	15.5	22.8	21.8	20.3	19.8

SOURCE: For 1966-1969: Statistics and Census Office, Office of the Controller General of the Republic; for 1970: ECLA, on the basis of official statistics.

^a Preliminary figures.

^b Estimates.

^c Not including adjustments for revaluation.

Table 115. Panama: balance of payments position on current account, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 ^a	1970 ^b
<i>Exports of goods and services</i>	257.0	297.2	321.8	348.4	372.5
Goods f.o.b.	103.3	109.2	117.4	131.4	132.0
Canal zone	18.2	20.4	21.3	22.3	21.5
Rest of world	85.1	88.8	96.2	109.2	110.5
Services	153.7	188.0	204.4	217.0	240.5
Canal zone	87.4	103.0	112.5	122.0	131.8
Rest of world	66.3	85.0	91.9	95.0	108.8
<i>Imports of goods and services</i>	275.7	303.5	313.6	365.1	416.7
Goods f.o.b.	217.7	232.2	245.9	283.8	326.0
Canal Zone	3.0	3.1	3.7	3.4	3.0
Rest of world	214.7	229.1	242.2	280.4	323.0
Services	58.0	71.3	67.7	81.3	90.8
Canal Zone	4.4	4.5	2.3	2.2	2.3
Rest of world	53.6	66.8	65.4	79.1	88.5
Net external investment income	-23.4	-22.8	-23.6	-32.7	-28.2
Net private transfer payments	-6.1	-7.0	-6.1	-5.3	-4.0
<i>Balance on current account</i>	-48.2	-36.1	-21.5	-54.7	-76.4

SOURCE: Statistics and Census Office, Office of the Controller General of the Republic, and ECLA estimates based on official statistics.

^a Preliminary figures.

^b Estimates.

foodstuffs, and of intermediate products, while imports of crude petroleum and other fuels decreased.

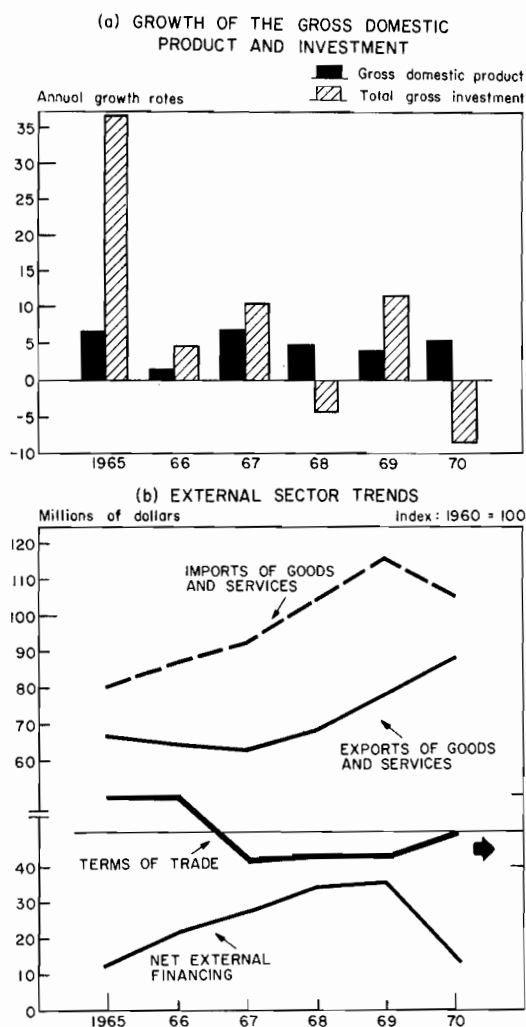
Paraguay

1. RECENT ECONOMIC TRENDS

Paraguay's gross domestic product grew by

5.3 per cent in 1970, representing a per capita increase of 2.1 per cent. The breakdown of this growth rate shows that the goods producing sector expanded by 5 per cent, basic services by 4.1 per cent and "other services" by 6.2 per cent. A notable feature was the recovery of the agricultural sector, which registered an average

Figure XX. Paraguay: 1965-1970
Natural scale



growth of 4.3 per cent, and even more for crops alone; this compares favourably with the 2.5 per cent growth rate for 1969 and that of 0.6 per cent between 1965 and 1968. Manufacturing expanded by 5 per cent, roughly as much as in past years, the greatest increases coming from the cement, wood and cold storage industries. There was a slight increase in consumption and a sharp drop in investment compared with the high level attained in 1969, when a number of large-scale projects had involved importing large quantities of capital goods (see tables 116 and 117).

In the external sector, exports of goods and services rose in value by 13 per cent, while corresponding imports declined by 11 per cent. The rise in the value of exports of goods from 55 to 66 million dollars came mainly from

increased sales of wood, meat, vegetable oils and hearts of palm; the decline in imports was mostly due to the above-mentioned reduction in demand for capital goods. On current account the balance of payments showed a deficit of 14.4 million dollars, less than half the previous year's.

As regards the fiscal situation, the central government budget left a deficit of 268 million guaraníes, compared with 149 million the year before. Finally, consumer prices dropped 0.9 per cent and minimum wage continued at the 1964 level, although there were upward adjustments in some cases of not more than 5 per cent.

2. THE MAJOR SECTORS OF PRODUCTION

The growth of 4.3 per cent in the agricultural sector was the outcome of increases of 5 per cent in crop farming, 3.6 per cent in livestock, 3 per cent in forest industries and 10 per cent in hunting and fishing. The largest crop increase was in soya beans (114 per cent), which more than doubled the 1969 output; rice was up by 39 per cent and the extra supply brought the price paid to farmers down by 20 per cent. Tartago crops increased 56 per cent as a result of rising external demand, and the production of sugar cane, which rose by 19 per cent, was enough to meet the demand of the sugar refineries. The better wheat yield in 1970 (870 kilogrammes per hectare) led to a 9.4 per cent increase in production despite a slight reduction in the area sown. Better prices also encouraged an extension of the area under maize, which led to an excellent crop (20 per cent more than the previous year) and a resumption of maize exports. Other products that did well were beans (24 per cent), onions (10 per cent), potatoes (15 per cent) and sorghum (52 per cent). Tobacco output, on the other hand, declined by 20 per cent, probably because the drop in prices in 1969 caused growers to reduce the cultivated area. Cotton was also down (7.5 per cent), owing to a sharp drop in the area sown which the better yield was unable to offset.

The growth rate of the livestock industry was 3.6 per cent and the number of cattle slaughtered came close to 700,000 head, of which 76 per cent was for domestic consumption, 16 per cent for canning and 8 per cent for the frozen foods industry. These figures indicate that the production of frozen meat quadrupled while that of canned meat declined, reflecting the trend of external demand. Prices reveal the same pattern; whereas the price of beef cattle for the canning industry stayed at the same level as in 1969, that of cattle to be slaughtered

Table 116. Paraguay: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of guaraníes at 1960 prices					Percentage of total					Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1970 ^a	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	16,171.9	16,465.6	16,874.7	17,617.4	17,617.4	38.2	34.9	34.4	34.1	34.1	0.6	2.5	4.3
Mining	85.0	47.5	51.7	55.8	55.8	0.2	0.1	0.1	0.1	0.1	-17.6	8.8	8.0
Manufacturing	7,492.6	8,690.2	9,147.3	9,604.7	9,604.7	17.7	18.4	18.6	18.6	18.6	5.1	5.3	5.0
Construction	1,112.3	1,361.5	1,503.5	1,676.4	1,676.4	2.6	2.9	3.1	3.2	3.2	7.0	10.4	11.5
Subtotal goods	24,861.8	26,564.8	27,577.2	28,954.3	28,954.3	58.8	56.4	56.2	56.0	56.0	2.2	3.8	5.0
Electricity, gas and water	304.4	389.3	480.8	573.6	573.6	0.7	0.8	1.0	1.1	1.1	8.6	23.5	19.3
Transport and communication	1,836.1	2,054.0	2,154.0	2,169.1	2,169.1	4.3	4.4	4.4	4.2	4.2	3.8	4.9	0.7
Subtotal basic services	2,140.5	2,443.3	2,634.8	2,742.7	2,742.7	5.0	5.2	5.4	5.3	5.3	4.5	7.8	4.1
Commerce and finance	7,482.0	8,534.0	8,951.8	9,390.4	9,390.4	17.7	18.1	18.2	18.2	18.2	4.5	4.9	4.9
Government	1,778.8	2,470.9	2,665.2	2,945.0	2,945.0	4.2	5.2	5.4	5.7	5.7	11.6	7.9	10.5
Ownership of dwellings	1,581.9	1,726.6	1,783.8	1,837.3	1,837.3	3.7	3.7	3.6	3.6	3.6	2.9	3.3	3.0
Miscellaneous services	4,459.3	5,370.7	5,453.5	5,857.1	5,857.1	10.5	11.4	11.1	11.3	11.3	6.4	1.5	7.4
Subtotal other services	15,302.0	18,102.2	18,854.3	20,029.8	20,029.8	36.2	38.4	38.4	38.7	38.7	5.8	4.2	6.2
TOTAL	42,242.6	46,999.7	48,960.2	51,555.1	51,555.1	100.0	100.0	100.0	100.0	100.0	3.6 ^b	4.2	5.3

SOURCE: For 1965 to 1969: ECLA estimates based on official Central Bank statistics; for 1970: ECLA estimates based on preliminary Central Bank statistics.

^a Preliminary figures.

^b The growth rate recorded here differs from that in the total supply and demand table because the figures for each sector do not necessarily add up exactly to the total product because they are measuring different concepts of the product being measured (one at factor cost and the other at market prices).

Table 117. Paraguay: total supply and demand

	Millions of guaraníes at 1960 prices					Percentage of total					Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1970 ^a	1970 ^a	1965-1968	1969	1970 ^a
Total supply	53,866.4	61,789.1	64,840.2	65,977.0	65,977.0	119.1	120.6	121.5	117.4	117.4	4.7	4.9	1.2
Gross domestic product	45,231.8	51,225.1	53,359.2	56,187.2	56,187.2	100.0	100.0	100.0	100.0	100.0	4.2	4.2	5.3
Imports ^b	8,634.6	10,564.0	11,481.0	9,789.8	9,789.8	19.1	20.6	21.5	17.4	17.4	7.0	8.7	-14.7
Total demand	53,866.4	61,789.1	64,840.2	65,977.0	65,977.0	119.1	120.6	121.5	117.4	117.4	4.7	4.9	1.2
Exports ^b	6,785.6	7,362.0	8,358.9	9,319.7	9,319.7	15.0	14.4	15.7	16.6	16.6	2.8	13.5	11.5
Total investment	6,669.3	7,357.7	8,225.0	7,517.7	7,517.7	14.7	14.4	15.4	13.4	13.4	3.3	11.8	-8.6
Gross fixed investment	6,243.7	7,025.9	7,806.4	7,041.4	7,041.4	13.8	13.7	14.6	12.5	12.5	4.0	11.1	-9.8
Public	938.0	3,436.5	2,873.0	...	...	2.1	6.7	5.4	...	...	55.0	-5.8	...
Private	5,731.3	3,921.2	5,352.0	...	...	12.7	7.6	10.0	...	...	-11.9	36.5	...
Construction	2,799.7	3,410.1	3,854.2	...	...	6.2	6.7	7.2	...	...	6.8	13.0	...
Machinery and equipment	3,444.0	3,615.8	3,952.2	...	...	7.6	7.1	7.4	...	...	1.6	9.3	...
Total consumption	40,411.5	47,069.4	48,256.3	49,139.6	49,139.6	89.3	91.9	90.4	87.5	87.5	5.2	2.5	1.8
General government	2,814.1	4,024.5	4,696.4	4,860.8	4,860.8	6.2	7.8	8.8	8.3	8.3	4.6	16.7	3.5
Private	37,597.4	43,044.9	43,559.9	44,278.8	44,278.8	83.1	84.0	81.6	78.8	78.8	4.7	1.2	1.7

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by the Central Bank; for 1970: ECLA, on the basis of preliminary data from the same source.

^a Preliminary.

^b Goods and services, excluding factor payments.

for freezing and domestic consumption went up.

Forest industries expanded a little more than 3 per cent. Production of timber was affected by the policy of restricting exports of undressed logs so as to encourage local saw-milling.

The growth rate of manufacturing was roughly the same as for the past five years (5 per cent). The meat industry did particularly well, and the notable increase in the volume of frozen beef more than made up for the decline in production of canned meat. The output of edible oils more than doubled, thanks to the modernization of the processing plants. There were further large increments in the production of processed rice, palm hearts and sugar; the increases in the output of beverages ranged from 25 per cent for beer down to 8 and 9 per cent for wine and spirits. The installation of a new cement factory in 1969 with an annual capacity of 100,000 tons pushed up production for 1970 by 68 per cent, making it possible to satisfy domestic demand and export the surplus; a second furnace, 100,000 tons in capacity, is currently under construction. The sectors that suffered the largest declines in production in 1970 were cotton, quebracho extract and maté.

Construction was up 11.5 per cent and basic services 4.1 per cent. Among the latter, there was a large increase in the generation of electric power (about 20 per cent), thanks to the increased output of the National Electricity Authority (Administración Nacional de Electricidad) whose Acaray River plant accounts for 80 per cent of the country's total installed capacity. Electricity rates were cut by 6 per cent. Activity in transport and communications was at the same level as the previous year.

3. PRICES, WAGES AND SALARIES

The consumer price index for Asunción fell by 0.9 per cent, responding to a drop of 2.1 per cent in foods and 0.3 per cent in household expenses, and to increases of 1.4 per cent in clothing and 0.3 per cent in miscellaneous expenses. The drop in the cost of food was due to a sharp increase in supply, and that of household expenses to cuts in electricity rates and in the price of charcoal. In 1969, the cost-of-living index rose by 2.3 per cent.

Although there was no change in the legal minimum wage established in 1964, workers in the following branches received wage increases as a result of the revision of collective contracts: services (4.9 per cent); manufacturing (4.1 per cent); transport, storage and com-

munications (2.7 per cent); construction (0.4 per cent). By contrast, the wages of persons employed in commerce, electricity, gas and water supply, and health services were unchanged.

4. PUBLIC INCOME AND EXPENDITURE

At the close of the 1970 financial year, the budget showed a deficit of 268 million dollars, compared with 149 million in 1969. Current government income amounted to 8,818.2 million guaraníes, 2.9 per cent above the 1969 figure, the main increases being under the headings "other income" and "domestic taxes". Expenditure was 4.2 per cent higher than the previous year and amounted to 9,086 million guaraníes: the biggest spenders were the Ministries of National Defence (18.5 per cent), Education and Culture (13.5 per cent), and the Interior (8.5 per cent) (see table 118).

Table 118. Paraguay: administration of the Central Government budget
(Millions of guaraníes)

	1969	1970
<i>Income</i>	8,567.4	8,818.2
Internal taxes	2,501.2	2,676.5
Customs duties	1,708.1	1,570.6
Exchange surcharge	999.2	916.5
Income tax	809.5	794.0
Other	2,549.4	2,860.6
<i>Expenditure</i>	8,716.2	9,086.1
Ministry of National Defence	1,590.2	1,684.2
Ministry of Education and Culture	1,171.8	1,230.5
Ministry of the Interior	725.2	776.6
Other	5,229.0	5,394.8
<i>Deficit</i>	-148.8	-267.9
<i>Financing:</i>		
Central Bank bonds and advances (net)	58.6	156.8
Use of agricultural surplus deposits	189.8	222.8
Changes in treasury deposits (increase -)	-42.8	-4.3
Changes in deposits under special legislation (increase -)	-56.8	-107.4
<i>Net monetary result</i>	90.5	105.3
Central Bank loans and deposits (net)	148.8	267.9
Adjustment to the government account at the Central Bank		
Changes in official deposits (increase -)	50.2	-69.0
Floating Treasury cheques (increase -)	60.2	-42.9
Floating cheques under special legislation (increase -)	-33.5	85.5
Changes in long-term debt	211.4	-74.4
Adjustment of short-term debt	-325.6	-96.4
Changes in other debts	-21.0	34.6

SOURCE: Central Bank.

5. THE EXTERNAL SECTOR

Exports of goods and services rose by 13 per cent while corresponding imports dropped by 11 per cent (see table 119). As a result, it was possible to reduce the balance-of-payments deficit on current account considerably, from 35 million dollars in 1969 to 14 million in 1970. The net inflow of non-compensatory capital amounted to 22.8 million dollars, which was substantially less than in 1968 and 1969. However, thanks to the reduction of the deficit on current account, Paraguay's balance of payments showed a surplus for the first time in four consecutive years: 8.4 million dollars, including 2.5 million of Special Drawing Rights.

The favourable trend of exports is mainly attributable to increased sales of processed and semi-processed agricultural products, such as sawnwood and other wood products, frozen meat, edible and industrial oils, palm hearts and other agricultural goods. Sales of frozen meat did particularly well, rising to over 4 million dollars in value, which more than made up for the 450,000 dollars decline in sales of canned meat and meat extract. Sawnwood and un-

dressed logs, tung oil, palm hearts, cotton fibres and coconut oil, along with cattle hides, and seeds, also increased their export earnings appreciably, totalling an additional 7 million dollars. The greater value of exports derived from a substantial increase in the volume of sales, plus a rise of around 3 per cent in the prices of exported goods.

The decline in imports was due to the completion of a number of investment projects requiring imported goods and of others that had gone beyond the machinery and equipment assembly stage; in addition, 1970 saw the end of the country's purchases of river and air transport equipment and a certain amount of import substitution took place in respect of some consumer durables and non-durables. The biggest drop was in imports of transport equipment and accessories, which fell by 4.1 million dollars, following the purchase in 1969 of two aircraft for the Paraguayan national airline. There was also a drop of about 3 million dollars in the value of imports of machinery, appliances and motors. Imports of food, beverages, textiles, manufactures, iron and

Table 119. Paraguay: balance of payments
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	43.6	66.4	67.5	78.0	88.2
Goods f.o.b.	37.3	60.8	50.0	55.2	66.0
Services	6.3	5.6	17.5	22.8	22.2
Imports of goods and services	-55.3	-76.9	-99.3	-109.0	-97.0
Goods f.o.b.	-44.7	-56.7	-74.0	-81.2	-72.0
Services	-10.6	-20.2	-25.3	-27.8	-25.0
Net external investment income	-1.5	-3.0	-5.1	-7.0	-7.5
Net private transfer payments	0.8	1.1	2.5	2.7	1.9
Balance on current account	-12.4	-12.4	-34.4	-35.3	-14.4
<i>Capital account</i>					
Net external financing	12.4	12.4	34.4	35.3	14.4
External non-compensatory capital	10.4	17.7	31.7	46.7	22.8
Direct investment	2.4	3.3	1.2	4.6	
Long- and medium-term loans	5.7	11.0	28.7	32.7	
Amortization payments	-1.8	-3.4	-5.2	-5.7	
Short-term liabilities	1.4	3.7	4.9	12.3	
Official transfer payments	2.7	3.1	2.1	2.8	
Domestic non-compensatory capital or assets	-0.6	-3.3	-3.9	-5.5	-8.4
Errors and omissions	-0.2	5.8	5.7	-7.3	
Compensatory movements (increase -)	2.8	-7.8	0.9	1.4	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	—	0.9	—	...
Amortization payments	-0.9	-3.5	-1.1	-1.3	...
Movements of gold and foreign exchange reserves (increase -)	2.6	-4.3	1.1	2.7	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

other metals and their products did not drop so sharply. Import items that increased in value included fuels and lubricants (about 2 million dollars more than in 1969), paper and paper-board products, and chemical and pharmaceutical products.

Peru

1. RECENT ECONOMIC TRENDS

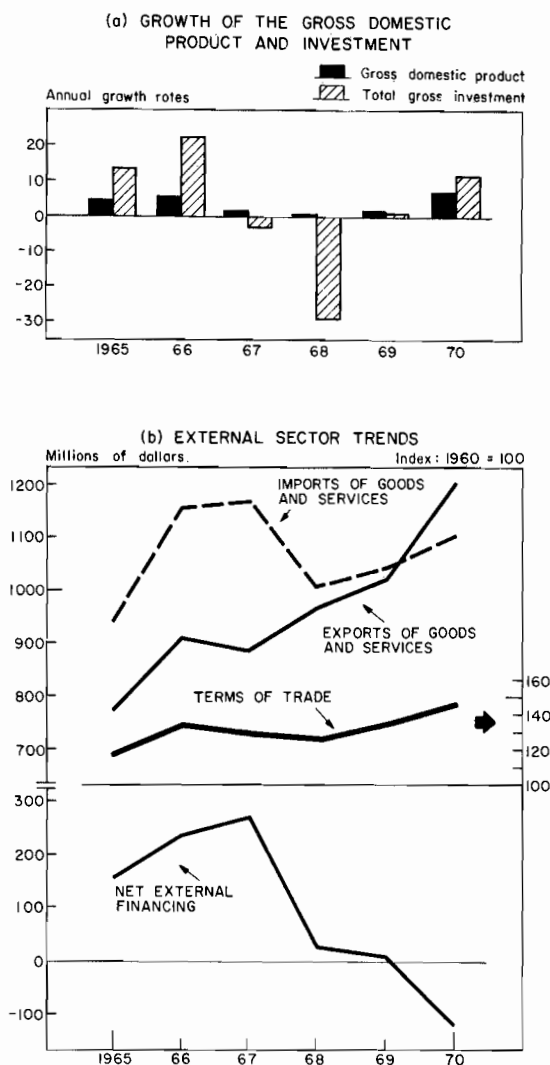
During the three-year period 1967–1969, the Peruvian economy grew at an over-all rate of barely 1.1 per cent a year. The situation appears to have changed radically in 1970, with the gross domestic product increasing by 7.3 per cent in real terms. First estimates gave a growth of 7 per cent, thanks to the rapid upswing in production of the fishing industry, increased public investment and more credit for manufacturing enterprises. However, many of the credits were not utilized, and an extensive area was devastated by an earthquake. For these reasons, at mid-year, a growth rate of around 6 per cent was expected for the product; but estimates were revised upwards in the second half of the year.

Although there is no doubt that both investment in manufacturing and foreign private investment showed little dynamism, the other economic indicators pointed to a substantial recovery. In particular, the fishing season began auspiciously, and there were prospects for another record catch. At the same time, public sector investment was extended to new regions and to projects that had been postponed. Moreover, foreign exchange control became total at mid-year: the purchase of foreign exchange assets was prohibited³⁸ and the conversion of existing foreign exchange holdings into national currency was made compulsory. In this way, a large volume of assets was made available to national financial intermediaries. In particular, it was possible to transfer funds for housing construction to the construction sector rapidly, causing a boom in that sector and in the industries that supply construction materials. Similarly, some of the national currency made available by the sale of foreign assets helped to swell consumer demand. All this tended to speed up the growth rate of imports of goods at the end of 1970, but as this did not occur until late in the year, bank deposits grew for most of the period, and, together with the transfer of personal foreign assets to the monetary sector, considerably increased net external reserves.

In view of this situation, it is estimated that

³⁸ There are some specific exceptions: the rule does not apply, for instance, to foreign technicians employed in Peru.

Figure XXI. Peru: 1965–1970
Natural scale



the gross domestic product grew by 7.3 per cent in 1970, which means a per capita growth rate of 4.1 per cent. These rates were close to, but not higher than, the rates for 1961 and 1962, but they were not determined by a large external debt or a large inflow of private capital as was the case in those years, but rather by certain dynamic centres of growth (see table 120).

As regards economic policy, it should be mentioned that agrarian reform continued; this was the subject of new legislation in June 1969 and was extended to new agricultural and cattle-breeding areas. Moreover, agricultural production increased for the second successive year.

On the other hand, foreign sales of fish meal

were placed in the hands of a public agency which serves as an intermediary between producers and foreign consumers, thus putting an end to the manoeuvres of speculators abroad. Moreover, with the increase in the prices paid by the blenders, an impetus was given to the production of substitutes, such as soya.

2. THE MAJOR PRODUCTION SECTORS

The high growth rate of the product in 1970 was primarily due to the boom in the fishing industry, which grew by 30.5 per cent and thus contributed to the 10.5 per cent growth rate of the manufacturing sector. Construction expanded by 13.9 per cent, after three successive years of outright decline. The other sectors grew at a fairly moderate rate, except for trade and finance, which increased by 7 per cent, and agricultural output, which rose by 7.4 per cent (see table 121).

(a) *Agriculture*

It was a good crop year. The rice harvest provided surpluses for export, whereas for several years previously it had been necessary to import rice. Output of potatoes also grew, and their price on the domestic market consequently fell. Sugar and coffee production also showed increases which enabled Peru to fill its international quotas.

Production of cereals decreased slightly, since the increase in some areas was not large enough to offset the losses in the area devastated by the May earthquake. In the case of wheat, for instance, production is estimated to have fallen by 135 million tons (5 per cent compared with the previous year). On the other hand, livestock production appears to have increased in the mountain areas.

The process of agrarian reform begun in June 1969 continued throughout 1970. At the end of the year, 921,000 hectares and 1 million head of cattle had been allocated to 51,560 individual farmers and co-operatives. The redistribution extended to milling facilities for grains, sugar mills and improvements in livestock. At the same time, public investment in technical assistance was continued, with very favourable initial results.

(b) *Fishing*

The boom in fishing was due both to ecological factors and to improved techniques. The closed-season system led to so great an increase in the shoals of anchoveta³⁹ that it was

possible to authorize the enterprises that had not made a normal catch to fish during the closed season.

Among the technical factors that help to explain the boom are the use of larger boats and more careful processing of anchoveta in the plants. This last factor accounted for the considerable increase in the production of fish oil, exports of which amounted to 35 million dollars. Lastly, the possibility is being considered of processing stick water, that is, the liquid squeezed out of the anchoveta, from which it might be possible to extract the equivalent of 20 per cent of Peruvian fish meal production.

The table fish industry has also grown. Some of this fish is frozen or canned for export. Six trawlers are in operation in the north and three bonito boats are being built. The Government has urged the formation of co-operatives among artisan fishermen and among larger companies; one such company re-opened a canning factory with capacity for 400,000 cases of canned fish.

Important events in the fishing sector were setting up of the National Fishmeal and Fishoil Marketing Company (Empresa Pública de Comercialización de Harina y Aceite de Pescado—EPCHAP) and the Public Services Fisheries Company (Empresa Pública de Servicios Pesqueros—EPSEP). The first has been made responsible for foreign sales, thus cutting out the foreign intermediaries who used to push up the price of the product. It has already begun to regulate stocks, and sales will be made on a c.i.f. basis; by eliminating f.o.b. sales, speculation with shipping documents is ruled out, thus preventing the ships from being dispatched to ports designated by the international intermediaries. In the few months it has been operating, the company has paid the producers a price roughly equivalent to the f.o.b. price and borne the other foreign marketing expenses. As to EPSEP, it has only had time to investigate the improvements that should be introduced in the production of table fish; although its activities are primarily aimed at satisfying and expanding domestic demand, the improvements it is proposing to introduce will make it possible to increase exports.

(c) *Mining*

In 1970, mining production grew by 3.8 per cent as a result of the steady growth of iron and steel output (5.4 per cent) and the recovery of copper (5.6 per cent), silver (4.3 per cent) and some other less important metals. Production of gold fell by 2.3 per cent, while that of lead, zinc and crude petroleum grew by less than the average for the sector.

³⁹ See ECLA, *Economic Survey of Latin America 1969* (United Nations publication, Sales No.: E71.II.G.1), p. 241.

Table 120. Peru: total supply and demand

	Millions of sales at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Total supply	101,280	107,870	108,755	115,412	130.0	127.9	127.3	125.9	2.1	0.8	6.1
Gross domestic product	77,914	84,309	85,426	91,662	100.0	100.0	100.0	100.0	2.7	1.3	7.3
Imports ^b	23,366	23,561	23,329	23,750	30.0	27.9	27.3	25.9	0.3	-10.0	1.8
Total demand	101,280	107,970	108,755	115,412	130.0	127.9	127.3	125.9	2.1	0.8	6.1
Exports ^b	17,527	20,140	19,508	20,124	22.1	23.9	22.8	22.0	4.7	-3.1	3.2
Total investment	17,452	14,730	14,879	16,694	22.5	17.5	17.4	18.2	-5.5	1.0	12.2
Gross fixed investment	15,636	13,855	13,994	...	20.0	16.4	16.4	...	-3.9	1.0	...
Public	5,381	2,931	3,252	...	6.9	3.5	3.8	...	-18.3	11.0	...
Private	10,255	11,482	9,897	...	13.2	13.6	11.6	...	3.8	-13.8	...
Construction	6,151	5,053	5,036	...	7.9	6.0	5.9	...	-6.3	-0.4	...
Machinery and equipment	9,485	8,802	8,958	...	12.2	10.4	10.5	...	-2.4	1.8	...
Total consumption	66,301	73,100	74,368	78,594	85.1	86.7	87.1	85.7	3.3	1.7	5.7
General government	7,569	8,323	8,302	8,634	9.7	9.9	9.7	9.4	3.2	-0.3	4.0
Private	58,732	64,777	66,066	69,960	75.4	76.8	77.3	76.3	3.3	2.0	5.9

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by the Ministry of Economy prepared from basis data supplied by the Banco Central de Reserva; for 1970: ECLA estimates.

^a Preliminary.

^b Goods and services, excluding factor payments.

Table 121. Peru: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of sales at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	14,435	14,416	14,426	15,490	20.2	18.7	18.4	18.4	-0.1	0.1	7.4
Mining	4,998	5,350	5,265	5,465	7.0	6.9	6.7	6.5	2.3	-1.6	3.8
Manufacturing	14,536	17,160	17,369	19,193	20.3	22.2	22.2	22.9	5.7	1.2	10.5
Construction	3,041	2,474	2,466	2,809	4.2	3.2	3.2	3.3	-6.6	-0.3	13.9
Subtotal goods	37,010	39,400	39,526	42,957	51.7	51.0	50.5	51.2	2.1	0.3	8.7
Electricity, gas and water	719	886	918	946	1.0	1.1	1.2	1.1	7.2	3.6	3.0
Commerce and finance	14,169	15,093	15,123	16,181	19.8	19.5	19.3	19.3	2.1	0.2	7.0
Government	5,657	6,347	6,473	6,732	7.9	8.2	8.3	8.0	3.9	2.0	4.0
Ownership of dwellings	4,755	5,212	5,373	5,540	6.6	6.7	6.9	6.6	3.1	3.1	3.1
Miscellaneous services	9,289	10,358	10,812	11,612	13.0	13.4	13.8	13.8	3.7	4.4	7.4
Subtotal other services	34,589	37,896	38,699	41,011	48.3	49.0	49.5	48.8	3.1	2.1	6.0
TOTAL product	72,342	78,279	79,316	85,106	100.0	100.0	100.0	100.0	2.7	1.3	7.3

SOURCE: ECLA estimates on the basis of information prepared by the Ministry of Economy on the basis of data provided by the Banco Central de Reserva.

^a Preliminary figures.

International prices were largely responsible for this situation; at the beginning of 1970 they were still high, but then began to fall, in some cases sharply, from November onwards. This does not apply to crude petroleum, which is intended for domestic consumption; production grew rather slowly, owing partly to the decline in extraction from the continental shelf.

The mining policy initiated the previous year was continued in 1970.⁴⁰ Under Government pressure, the enterprises with unworked concessions tried at the beginning of the year to keep to the work programmes laid down for them; but they could not meet their commitments, with the result that most of the concessions reverted to the State, as was the case with the copper mines at Michiquillay, Cerro Verde, Antamina and Quellaveco. The Government signed a contract with the Marcona Mining Company with a view to increasing iron and steel production from 8.8 to 10.5 million tons a year.

(d) *Manufacturing*

Manufacturing grew by 10.5 per cent, mainly as a result of increases in fishing, sugar refining (31 per cent) and, in the second half of the year, construction materials; shipbuilding and chemicals made a smaller contribution to this growth. The principal limiting factor was the stoppage of production and subsequent limited operation of the Chimbote steelworks, the electricity supply of which was cut off by the May earthquake.

In the first half of the year, manufacturing suffered generally adverse effects owing to low consumer demand as a result of the deflationary measures initiated in 1968. In the second half, recovery was hampered by the disincentives inherent in the law on industrial *comunidades** but became more broadly based as the year wore on. Apart from the activities mentioned above, the factors in the recovery were the increase in consumer demand and in tied credits for the purchase of durable goods, combined with a reduction of stocks. Thus, by the end of 1970, most branches of manufacturing were operating with a high coefficient of utilization of this installed capacity; they include durable goods assembly, textiles, and clothing.

3. THE EXTERNAL SECTOR

The development of the external sector was a

* *Translator's note*: The *comunidad* represents the workers in an enterprise and is entitled to acquire up to 50 per cent of its assets on their behalf.

⁴⁰ See ECLA, *Economic Survey of Latin America 1969*, op. cit., pp. 237 and 238.

decisive factor in the economic expansion of 1970. Exports increased much more than imports and, in addition, there was a favourable trend in current account services payments; all this resulted in a current account surplus of 126 million dollars (in 1969 there was a deficit of 10 million dollars). Income from official transfer payments and net inflows of government capital were not enough to compensate for the large outflows of private capital, and consequently the balance-of-payments surplus was only 72 million dollars (see table 122).

Peruvian exports followed a rising trend throughout the decade, which was interrupted only in 1969, when they levelled off at around 880 million dollars, or twice the 1960 level; the trend continued in 1970, when exports amounted to 1,058 million dollars, an increase of 177 million.

This new rise was determined by several factors. In agriculture, there was a rapid growth of sugar production, and a rise in the international prices and in the volume of coffee exports. Similarly, there was an increase in exports of agricultural products, green vegetables in particular, which are traditionally produced for internal consumption. The same is true of industrial exports, which, with the financial backing of the Banco Industrial, thus increased production lines by 55 in 1969 and by another 57 in 1970. The relatively high international prices of basic metals also helped to improve the position of mining exports, although prices fell during the year. Non-basic metals also showed a recovery, particularly ores containing magnesium, molybdenum, wolfram and arsenic.

But the major impetus to the growth of exports was provided by fish meal, fish oil and fish preserves, which had been in very short supply since 1960. The value of exports of fish oil—nearly 35 million dollars—was as much as or more than the value of such traditional Peruvian exports as sugar, lead, zinc, coffee and wool; the volume of fish oil exported rose by nearly 40 per cent and the international price by about 54 per cent. This upswing was due to the compulsory closed-season system and the rationalization of international trade through EPCHAP. From the time it began operating, EPCHAP managed to contain speculation, and prices returned to their normal level, though higher than the depressed levels of previous years. In 1970–1971, EPCHAP purchased fish meal and fish oil for the equivalent of 163 dollars a ton and sold them to the feed makers at c.i.f. prices, plus its commission of 3 per cent.

Table 122. Peru: balance of payments
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	494	772	963	1,019	1,192
Goods f.o.b.	444	685	846	881	1,058
Services	50	87	117	138	134
Imports of goods and services	-427	-845	-852	-885	-943
Goods f.o.b.	-327	-653	-659	-664	-717
Services	-100	-192	-193	-221	-226
Net external investment income	-55	-91	-142	-152	-148
Net private transfer payments	3	5	8	8	25
Balance on current account	15	-159	-23	-10	126
<i>Capital account</i>					
Net external financing (a + b + c + d)	-15	159	23	10	-126
External non-compensatory capital	12	200	71	29	
Direct investment	11	36	10	25	
Long- and medium-term loans	29	173	140	208	
Amortization payments	-36	-49	-120	-165	-54
Short-term liabilities	4	29	27	-62	
Official transfer payments	4	11	14	23	
Domestic non-compensatory capital or assets	1	-39	-30	16	
Errors and omissions	4	-40	-88	-68	
Compensatory movements (increase -)	-32	38	70	33	-72
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	60	110	100	...
Amortization payments	-15	-7	-51	-9	...
Movements of gold and foreign exchange reserves (increase -)	-17	-15	11	-58	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

The value of imports rose by 53 million dollars but, thanks to the good export performance, the trade balance showed a surplus of 341 million dollars, a record for Peru.

No final figures are yet available on current account service payments. The preliminary data point, however, to an increase in net freight and insurance payments, government transactions and "other services". On the other hand, net investment income fell from 152 million in 1969 to 148 million in 1970. Expenditure on travel is estimated to have brought in 1.2 million dollars, compared with the outflow of 4 million in 1969, as a result of the exchange control regulations, causing a drop in the number of Peruvians travelling abroad.

Private transfer payments tripled compared with 1969, reaching an estimated 25 million dollars. Official transfer payments in the form of foreign aid were exceptionally high as a result of the May earthquake.

4. ECONOMIC POLICY

The three most important aspects of economic policy in 1970 were the continuation of agrarian reform, the authorization and implementation of the law on industry, and the nationalization of the commercial banks.

The agrarian reform law of June 1969 continued to be applied in 1970. A start was made with handing over the big sugar latifundia of the north to the co-operatives set up by the workers on them; one estate to the north of Lima and another in Arequipa were also handed over. More large agricultural estates were taken over by the State on the coast and in the sierra. In accordance with the law, the State makes part payment in cash, the balance being paid in 20- and 25-year bonds, and sells the estates to the co-operatives, receiving payment over a period of 20 years, including a five-year grace period.

The approval of a general law on industry in 1970 and of the relevant regulations in January 1971 marks the beginning of a new phase of industrial policy aimed at bringing the manufacturing industry under close planning control, thus creating a direct link between incentives and priority growth targets. An attempt is also being made to prevent further foreign take-overs in the manufacturing sector, to which end industries producing basic inputs for manufacturing, agriculture and construction are reserved for the public sector, the share capital that may be held by foreign investors is controlled, and in particular, a deadline is set for the replacement of foreign by national capital.

Another very important provision of the new law is that which gives workers a share in the capital and management of firms, through a new legal body, the industrial *comunidad*. The firm will hand over up to 50 per cent of its net annual profits to this body, in the form of shares in the equity capital.

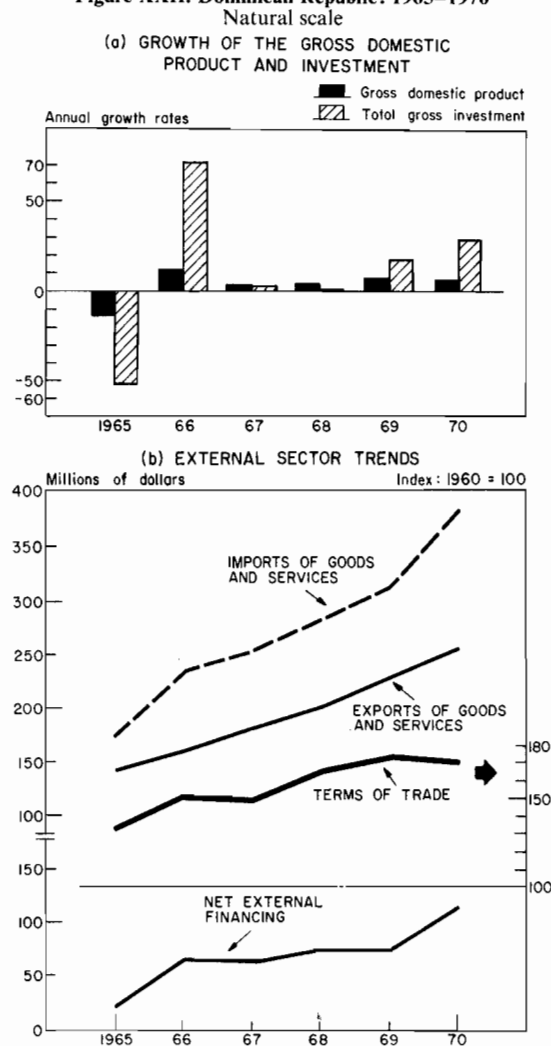
The policy of bank nationalization also continued in 1970, in accordance with legislation passed in 1969. The provision that banks must raise their capital to a minimum of 150 million soles led to reduced participation by foreign share-holders, which dropped in one case from 24.9 to 10.5 per cent. This measure is complemented by another, promulgated in November 1970, which prohibits foreigners from increasing the number of shares they hold in a bank, but if their profits or reserves are used for investment, the foreign investors are to receive compensation in the form of dividends on these amounts. At the same time, the Banco de la Nación, which is State-owned, has bought share capital in the big commercial banks, thereby obtaining control of two very large banks in which foreign interests had held 58 and 40 per cent of the capital since 1964 and 1968, respectively. Moreover, it acquired 85 per cent of the shares of one national bank.

Dominican Republic

1. RECENT ECONOMIC TRENDS

The gross domestic product grew at a rate of 6.5 per cent in 1970. The product therefore rose for the fifth year in succession, after the fall following the events of 1965. The main factor in this upward trend was the notable sugar harvest, which provided more than 1 million tons of centrifugal sugar, thereby bringing about important increases in agricultural production, refining and exports. There was also a 34 per cent rise in gross private investment, largely owing to the inflow of foreign capital for the Falconbridge ferro-nickel project. Manufacturing industry grew 13 per cent, as the process of import substitution progressed. In the mining sector prospecting for bauxite and copper continued, and progress was made in the construction of the ferro-nickel plant mentioned above (see tables 123 and 124). The value of exports and imports of goods and services rose by 12.8 and 21.7 per cent, respectively, and the balance-of-payments position on current account showed a deficit of 114.5 million dollars. One of the main events in the sphere of economic policy was the publication of a preliminary version of the National Development Plan for 1970-1974, which follows the same lines as the Economic and Social Development

Figure XXII. Dominican Republic: 1965-1970



Programme for 1968-1985. Two laws of great importance to agriculture were introduced at the end of 1969, one establishing the Price Stabilization Institute (Instituto de Estabilización de Precios) and the other on agricultural development.

In the public sector investment grew more than general government current consumption expenditure and there was a significant improvement in the financial management of public enterprises. Unemployment and underemployment—although not quantified accurately enough—continued to be one of the most serious problems, while prices remained at the same level as in 1969.

2. MAJOR SECTORS OF PRODUCTION

The agricultural situation in 1970 was excellent, largely as a result of favourable weather

Table 123. Dominican Republic: total supply and demand

	Millions of pesos at 1960 prices				Percentage of total				Annual growth rates			
	1965	1968	1969 ^a	1970 ^b	1965	1968	1969 ^a	1970 ^b	1965-1968	1969 ^a	1970 ^b	
<i>Total supply</i>												
Gross domestic product	946.1	1,219.6	1,305.2	1,430.7	124.5	132.9	132.9	136.8	8.8	7.0	9.6	
Imports ^b	759.8	917.7	981.9	1,045.7	100.0	100.0	100.0	100.0	6.5	7.0	6.5	
Total demand	186.3	301.9	323.3	385.0	24.5	32.9	32.9	36.8	17.5	7.1	19.1	
Exports ^b	946.1	1,219.6	1,305.2	1,430.7	124.5	132.9	132.9	136.8	8.8	7.0	9.6	
Total investment	121.7	141.4	152.4	169.5	16.0	15.4	15.5	16.2	5.1	7.8	11.2	
Gross fixed investment	94.6	167.8	197.8	255.4	12.4	18.3	20.1	24.4	21.1	17.8	29.1	
Public	94.2	171.9	182.6	227.7	12.1	18.7	18.6	21.8	22.2	6.2	24.7	
Private	29.1	52.8	62.0	66.7	3.8	5.8	6.3	6.4	21.8	17.4	7.6	
Construction	65.1	119.1	120.6	161.0	8.6	13.0	12.3	15.4	22.4	1.3	33.5	
Machinery and equipment	61.7	101.5	...	...	8.1	11.1	...	...	18.2	...	...
Total consumption	32.5	70.4	...	...	4.3	7.7	...	...	29.5	...	...
General government	729.8	910.4	955.0	1,005.8	96.1	99.2	97.3	96.2	7.6	4.9	5.3	
Private	106.5	92.0	94.3	98.4	14.0	10.0	9.6	9.4	-4.8	2.5	4.3	
	623.3	818.4	860.7	907.4	82.0	89.2	87.7	86.8	9.5	5.2	5.4	

Source: For 1965-1968: ECLA, on the basis of data supplied by the Central Bank; for 1969 and 1970: ECLA, on the basis of preliminary data from the same source.

^a Preliminary.

^b Goods and services, excluding factor payments.

Table 124. Dominican Republic: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of pesos at 1960 prices				Percentage of total				Annual growth rates			
	1965	1968	1969 ^a	1970 ^b	1965	1968	1969 ^a	1970 ^b	1965-1968	1969 ^a	1970 ^b	
Agriculture	185.4	200.7	220.0	233.9	27.8	25.1	25.6	25.6	2.7	9.6	6.3	
Mining	10.7	12.7	14.0	14.4	1.6	1.6	1.6	1.6	5.9	10.2	2.8	
Manufacturing	78.5	103.1	112.7	127.3	11.8	12.9	13.1	14.0	9.5	9.3	13.0	
Construction	26.8	45.1	47.7	48.6	4.0	5.6	5.6	5.3	18.9	5.8	1.9	
Subtotal goods	301.4	361.6	394.4	424.2	45.2	45.1	45.9	46.5	6.3	9.1	7.6	
Electricity, gas and water	8.6	12.6	13.7	16.4	1.3	1.6	1.6	1.8	13.6	8.7	20.0	
Transport and communications	43.3	56.4	57.9	61.6	6.5	7.0	6.7	6.8	9.2	2.7	6.4	
Subtotal basic services	51.9	69.0	71.6	78.0	7.8	8.6	8.3	8.6	10.0	3.8	8.9	
Commerce and finance	104.2	146.6	159.7	173.0	15.6	18.3	18.6	19.0	12.0	8.9	8.3	
Government	83.2	81.0	84.0	84.2	12.5	10.1	9.8	9.2	-0.9	3.7	0.2	
Ownership of dwellings	60.6	73.2	78.1	79.7	9.1	9.1	9.1	8.7	6.5	6.7	2.1	
Miscellaneous services	66.1	69.7	71.6	72.9	9.9	8.7	8.3	8.0	1.8	2.7	1.8	
Subtotal other services	314.1	393.4	409.8	424.2	47.1	46.2	45.8	44.9	5.7	6.2	4.2	
TOTAL	659.1	796.0	851.7	907.1	100.0	100.0	100.0	100.0	6.5	7.0	6.5	

Source: For 1965 to 1968: ECLA estimates based on official Central Bank statistics; for 1969 and 1970: ECLA estimates based on preliminary statistics from the same source.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.

^a Preliminary figures.

conditions, and a growth rate of 6.3 per cent was registered in the sector as a whole (7.6 per cent for crops and 0.9 per cent for livestock). Production of the most important export product, cane sugar, reached about 9.3 million tons, only bettered in 1960, an increase of 12 per cent over 1969. Rice, which is the most important agricultural product for domestic consumption, showed an increase of 8 per cent in 1970 after growing 13 per cent in 1969, with an output of 200,000 tons; it would appear that credit facilities, the government programme of guaranteed prices, and improvement in the quality of seed were instrumental in producing this improvement. Cocoa production reached 47,000 tons, that is a 47 per cent increase over 1969; it should be noted that there is a government programme for the improvement of cocoa plantations. Coffee production, however, remained about the same as in the previous year, while maize and sorghum production increased. With regard to livestock, meat output remained stationary, owing to a decrease in slaughtering for export because of the temporary suspension of shipments to the United States.

The most outstanding policy measure affecting the sector was the establishment of the Price Stabilization Institute (December 1969). The Institute obtained credit to the value of 10 million pesos during 1970 and purchased stocks of agricultural products to support price levels; the commodities purchased were mainly rice (upon which about 6 million dollars was spent), maize, beans and sorghum. The Institute also has storage space for 45,000 tons. In December 1969 the law on agricultural development was passed, establishing fiscal incentives, especially import tax exemptions on agricultural inputs. At the same time the work of the National Agrarian Institute was carried forward, and during the period from 1965 to 1970, 7,200 farmers were settled on about 35,000 hectares of land; at the end of 1970 a law was passed authorizing the issue of 8 million pesos' worth of 10-year bonds at 3 per cent interest to finance agrarian reform operations.

Mining showed a growth of only 2.8 per cent, in contrast with 10.2 per cent the previous year; it should be noted that prospecting for bauxite and copper is continuing and that progress is being made in the construction of the ferro-nickel plant at Falconbridge.

Manufacturing, which had been growing at a rate of 9 per cent in 1965, galloped ahead with an increase of 13 per cent in 1970. This reflects the expansion of the sugar industry, in which the output reached 1,010,600 tons of centrifugal sugar, the first time since 1960 that such a level

has been reached. About 68 per cent of the total is reserved for export, while 2 per cent goes to domestic consumption and 20 per cent into stocks. Manufacturing production, excluding sugar, increased by 8 per cent with a rise in the production of foods, beverages and tobacco. The Investment Fund for Economic Development (Fondo de Inversión para el Desarrollo Económico—FIDE), which has made loans amounting to 17.2 million pesos for 159 projects since May 1966, continued to provide financing for industry; under the law on industrial incentives, which has been in force since 1968, 37.7 million pesos were granted to 51 manufacturing enterprises in 1970.

3. THE PUBLIC SECTOR, MONEY AND CREDIT

The Government's policy, advocated in the Development Plan, consists in increasing public investment, and an effort has therefore been made to raise government income and to give more relative importance to capital investment in government expenditure. Capital expenditure on infrastructural works for transport (14.5 million pesos) and energy (20.6 million) is the largest item; in investment in energy the largest amounts went into the Tavera dam (9.5 million pesos) and the Valdesia dam (4.8 million). Table 125 shows the trends in government income and expenditure and the main sources of financing. Although the data for 1970 are provisional, they bear out the trends of the last five years, during which gross fixed investment rose from 36.7 million pesos in 1966 to over 75 million in 1970. During 1970 current income rose by over 9 per cent, while current expenditure rose 4.3 per cent.

The improvement in the financial results of the operation of the public enterprises should also be noted; it is largely the result of the operation of the enterprises of the State Sugar Council (Consejo Estatal del Azúcar—CEA), which made a profit in 1970 according to provisional estimates. Further, the Corporation of State Enterprises (Corporación de Empresas Estatales—CORDE), which holds all or most of the capital in 32 industrial and commercial enterprises, reduced its deficit.

An examination of the monetary situation shows that, in the first three quarters of the year, there was a reduction in the money supply, which fell from 154 million pesos at the end of 1969 to 151 million at the end of September 1970⁴¹ thus continuing the restrictive tendency

⁴¹ See International Monetary Fund, *International Financial Statistics*, February 1971, p. 105.

Table 125. Dominican Republic: income and expenditure of the public sector
(Millions of pesos)

	1969	1970	Percentage variation
<i>Current income</i>	243.6	266.3	9.3
Tax revenue	209.2	233.5	11.6
Non-tax revenue	34.1	32.8	-3.8
Current transfer payments	0.3	—	—
<i>Capital income</i>	97.2	84.9	-12.7
Saving on current account	2.7	0.2	-92.6
Public sector income	28.5	29.6	3.9
Repayments on loans	25.2	25.3	0.4
Sale of assets	1.0	3.1	310.0
Other	2.3	1.2	-47.8
Debts	63.0	50.7	-19.5
Internal	24.8	28.9	16.5
External	38.2	21.8	-42.9
Capital transfer payments	1.4	—	—
<i>Other income</i>	0.3	—	—
<i>Current expenditure</i>	194.7	203.1	4.3
Operational expenditure	170.1	178.3	4.8
Current transfer payments	21.7	22.4	3.2
Interest on the debt	2.9	2.4	-17.2
<i>Capital expenditure</i>	146.1	148.1	1.4
Real investment	72.6	75.6	4.1
Construction	52.9	68.3	29.1
Machinery and equipment	17.9	5.5	-69.3
Other	1.8	1.8	—
Financial investment	39.9	38.9	2.5
Amortization payments on debts	30.9	30.7	-0.6
Internal	24.2	22.4	-7.4
External	6.7	8.3	23.9
Capital transfer payments	2.7	2.9	7.4
TOTAL	340.8	351.2	3.1

SOURCE: Planning Office.

of the previous year; over the same period quasi-money grew at a rate of over 20 per cent.

With regard to credit policy, it is interesting to see that loans to manufacturing and commerce have increased considerably over the past five years; a more detailed examination shows that between 1966 and 1968 there was a notable increase in loans to manufacturing enterprises and that this was followed by a rise in the percentage of loans to commerce and "other loans" (see table 126).

4. THE EXTERNAL SECTOR

During 1970 the significant increase in the sugar-cane and cocoa harvests, together with improved coffee prices, led to an increase of 16.8 per cent in the value of exports of goods, which amounted to 215 million dollars (see table 127).

The most striking feature was the rise in sugar sales since the entire United States quota and the redistributed allocations of unused quotas were filled, and also the 174,000-ton world market quota under the International Sugar Agreement. At the same time, coffee exports grew

slightly in volume, but showed a 40 per cent increase in value owing to the rise in prices; cocoa exports increased by nearly 50 per cent as compared with the previous year, but the fall in prices meant that their value remained the same as for 1969. A diversification of exports—which at the moment consist almost entirely of four agricultural commodities—is planned for the future with the introduction of ferro-nickel. An effort has also been made to expand export markets through negotiations with the CARIFTA countries and with Puerto Rico.

Imports of goods rose by 27.1 per cent, largely owing to equipment imported for mining projects and for the Tavera and Valdesia dams. Import substitution has been encouraged, and it is hoped that a petroleum refinery will be set up in 1971 to continue this process.

The balance-of-payments deficit on current account was 114.5 million dollars. Under capital movements, there was an increase in private foreign investment because of the ferro-nickel project; but as the net balance on the net inflow of non-compensatory capital was 107.7 million dollars, the balance-of-payments deficit

Table 126. Dominican Republic: commercial bank loans
(Millions of pesos)

Outstanding at the end of	Public sector	Private sector: loans to						Total
		Manufacturing	Livestock	Agriculture	Real estate	Commerce	Other loans	
1966.	50.5	23.9	2.2	9.1	3.1	25.4	10.3	124.5
1967.	24.4	36.8	3.1	10.2	4.6	26.3	7.8	113.2
1968.	26.5	52.9	4.5	10.7	6.6	29.8	14.3	145.3
1969.	30.1	66.8	2.9	9.8	9.0	38.4	20.6	177.6
June of 1970	27.9	56.4	3.7	9.3	9.4	41.8	23.3	171.8

SOURCE: Banco Central de la República Dominicana, *Boletín Mensual*, June, 1970, p. 37.

Table 127. Dominican Republic: balance of payments, 1960-1970
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	172.1	143.1	199.5	228.0	257.1
Goods f.o.b.	157.4	125.5	163.5	184.0	215.0
Services	14.7	17.6	36.0	44.0	42.1
Imports of goods and services	116.9	163.9	265.7	291.0	354.2
Goods f.o.b.	90.3	120.7	196.8	210.0	267.0
Services	26.6	43.2	68.9	81.0	87.2
Net external investment income	-9.6	-12.0	-19.0	-23.0	-25.9
Net private transfer payments	-3.0	12.4	8.9	9.0	8.5
Balance on current account	42.6	-20.4	-76.3	-77.0	-114.5
<i>Capital account</i>					
Net external financing	-42.6	20.4	76.3	77.0	114.5
External non-compensatory capital	-18.2	45.8	59.7	76.0	107.7
Direct investment	1.0	6.0	18.0	24.0	
Long- and medium-term loans	—	19.2	34.1	55.6	
Amortization payments	-0.5	-5.7	-7.7	-9.6	
Short-term liabilities	-18.6	-38.9	14.2	5.0	
Official transfer payments	-0.1	65.2	1.1	1.0	
Domestic non-compensatory capital or assets	3.3	-3.5	12.6	15.0	6.8
Errors and omissions	-28.1	-24.3	8.3	-2.0	
Compensatory movements (increase -)	0.4	2.4	-4.3	-12.0	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	9.0	5.0	13.8	13.8	...
Amortization payments	-20.7	-4.4	-14.5	-21.0	...
Movements of gold and foreign ex- change reserves (increase -)	12.1	1.8	-3.6	-4.0	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 21.

was only 6.8 million dollars. This led to the use of all the 5.4 million units of Special Drawing Rights allocated to the Dominican Republic and to a drain on reserves.

Trinidad and Tobago

1. RECENT ECONOMIC TRENDS

The year 1970 was characterized by social unrest and labour disputes in Trinidad and Tobago. A state of emergency was declared which lasted for six months, with resultant harmful effects on the economy. In these cir-

cumstances, the optimistic forecasts that were being made at the end of 1969 were not realized.

It is difficult to make an assessment of actual performance in the economy in 1970, since insufficient data are available on the principal indicators of economic activity. However, preliminary estimates show that the gross domestic product at current prices grew much more slowly than was anticipated, although the rate of 4.8 per cent was higher than the previous year (see table 128).

The growth of the main sectors of produc-

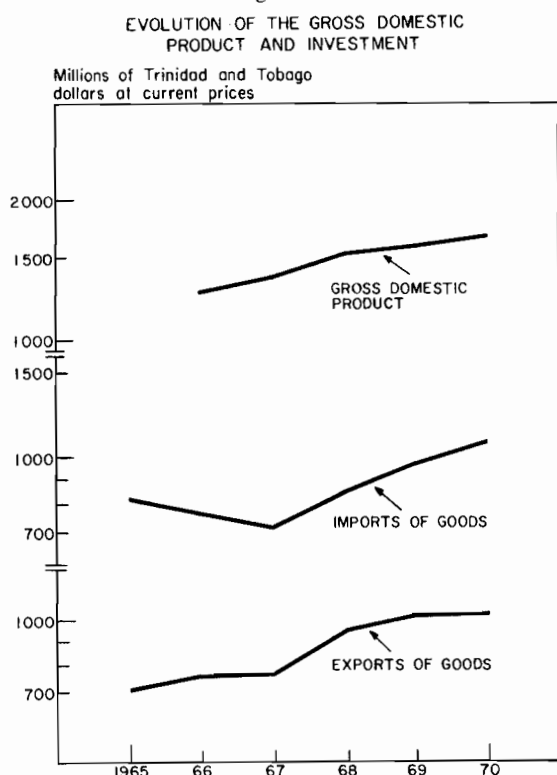
Table 128. Trinidad and Tobago: gross domestic product at factor cost

	Millions of Trinidad and Tobago dollars at current prices					Percentage share		Annual growth rates			
	1960	1967	1968	1969	1970 ^a	1960	1969	1960-1967	1968	1969	1970
Agriculture and quarrying	108.4	111.6	127.0	126.9	128.5	12.5	8.0	0.4	13.8	—	1.3
Mining and extraction and refining of petroleum	263.4	350.4	366.0	373.0	350.6	30.4	23.5	4.2	4.5	1.9	-6.0
Manufacturing	108.2	218.6	260.0	293.0	313.8	12.5	18.5	10.6	18.9	12.7	7.1
Construction	40.6	53.2	65.0	63.5	73.5	4.7	4.0	3.9	22.2	-2.3	15.7
Transport and distribution	149.6	240.8	273.0	277.5	304.8	17.2	17.5	7.0	13.4	1.6	9.8
Public utilities	40.6	72.5	89.0	81.0	87.2	4.7	5.1	8.6	22.8	-9.0	7.7
Government	82.5	149.6	162.0	173.0	188.2	9.5	10.9	8.9	8.3	6.8	8.8
Ownership of dwellings	16.8	53.7	55.5	58.7	60.5	1.9	3.7	18.0	3.4	5.8	3.1
Banking and finance	20.0	47.3	47.0	50.8	56.2	2.3	3.2	13.1	-0.6	8.1	10.6
Other services	34.9	80.2	79.0	89.0	98.5	4.0	5.6	12.6	-1.5	12.7	10.7
TOTAL	865.0	1,377.9	1,523.5	1,586.0	1,661.8	100.0	100.0	6.9	10.6	4.1	4.8

SOURCE: Statistical Digest Annual issue, and draft Third Five-Year Plan, 1969-1973.

^a Estimates.

Figure XXIII. Trinidad and Tobago: 1965-1970
Semi-logarithmic-scale



tion was uneven. It is estimated that petroleum output declined, and agriculture improved only marginally. Even manufacturing, which had been the prime mover in the economy, grew less rapidly; but there seems to have been a real recovery in the construction sector compared with 1969. The population continued to grow by less than 1 per cent. It may, therefore, be assumed that real per capita income increased slightly.

Exports of goods and services expanded slowly; imports, much more rapidly. As a result, Trinidad and Tobago had an estimated trade deficit of around 95 million Trinidad and Tobago dollars.⁴²

2. ECONOMIC POLICY

The chief cause of the unrest during 1970 was the high level of unemployment, especially among the younger age-groups, and general dissatisfaction with the degree of foreign control of the main sectors of the economy. The Government made a complete change in its economic policy in 1970, in an effort to cope with these two interrelated problems. As in most developing countries, unemployment in

⁴² Two Trinidad and Tobago dollars equal one United States dollar.

Trinidad and Tobago is mainly of the structural type, although seasonal unemployment is also a serious problem since agriculture continues to be the main source of employment.

During the 1960s, economic policy was geared to diversifying and restructuring the economy, with import substitution as one of the principal means of reducing unemployment. Moreover, the Government assumed control of most public utilities, including telecommunications, and acquired some holdings in the productive sectors. To meet the immediate problem of unemployment, the usual special public works projects were undertaken in 1970 and the public sector launched a large-scale construction programme, which generated a boom in that sector. The longer term employment problem has naturally proved more intractable; an intensive programme of manpower training was adopted, so as to bring the supply of skills up to the level required in a developing economy.

The problem of structural unemployment is closely bound up with the control and ownership of national resources, since it is widely held that unemployment cannot be substantially reduced unless decision-making in the main sectors of production is in national hands. Prior to 1970, the public sector had already acquired a small stake in the sugar and petroleum industries. During 1970, it increased its sugar holdings and now controls about 60 per cent of the industry. In petroleum, control has been extended also, by establishing strict conditions for the exploitation of petroleum resources by private firms, which guarantee the public sector a 15 to 25 per cent share in production, without any share in the commercial risks.

In the course of the year, the public sector made its first inroads into the commercial banking sector by taking over the local branch of the Bank of London and Montreal as a going concern. It also acquired a stake in the chemical industry by taking over a fertilizer blending plant, and continued to increase its holdings in the tourist industry by initiating the construction of several hotels.

In accordance with its policy of restructuring the economy, the public sector continued to extend its ownership and control of enterprises in 1970. The indications are that this policy will be continued, although it is expected to stop short of complete nationalization. The Government has followed a largely pragmatic line up to now, but as it has secured a foothold in the basic industries, it will probably turn its attention to other sectors in the future, particularly construction materials.

3. THE MAIN ECONOMIC SECTORS

(a) *Extractive industries*

In 1970 the value added of this sector is estimated to have fallen by 6 per cent, to about 350 million Trinidad and Tobago dollars, the lowest level since 1967. The sector's share of the gross domestic product at factor cost has also fallen steadily in relative terms, from 30 per cent in 1960 to 24 in 1968 and an estimated 21 per cent in 1970. However, extraction continues to be the most important sector of the economy.

The decline is explained chiefly by the steady fall in output of crude petroleum, from 57.4 million barrels in 1969 to around 51 million in 1970 (11 per cent). This drop was offset to a certain extent by the rise in prices of certain petroleum products and the increase in refining output, which is estimated to have been 435,700 barrels a day in 1970, total capacity being 440,000 barrels a day.

The increase in refining throughput meant that imports of crude petroleum increased by about 10 per cent. It is also significant that, while production of crude petroleum fell and refining throughput grew, exports of crude petroleum rose by 30 per cent, mainly because of the pattern of ownership of the industry.

The public sector's holdings in the industry have not increased significantly since it took over the local assets of British Petroleum. It should be noted, however, that with the discovery of oilfields off the east coast of Trinidad and the prospects held out by discoveries off the north coast, the prospects both for government control and for the industry look considerably better.

(b) *Agriculture*

There was a modest increase in the value added by agriculture in 1970, but the share of the sector in the total gross product fell from 8 to 7.7 per cent. Neither agricultural production for domestic consumption nor export agriculture justified continued government backing. Weather conditions again adversely affected certain export crops, but benefited others. Information covering the period from January to September 1970 shows that the production of sugar-cane grew by 5 per cent compared with the same period in the previous year, but sugar production fell from 237,000 tons in 1969 to 216,000 tons in 1970, that is, by nearly 9 per cent, owing to the low sucrose content of the cane, while coffee production dropped by about 13 per cent. Cocoa output increased by around 40 per cent, and citrus fruit also showed an upward trend. Sugar prices remained firm,

while those of cocoa and coffee improved significantly. Generally speaking, therefore, output of export agriculture fared better than in the previous year.

At the same time, there was an increase in output of all important agricultural products for domestic consumption, except pork products, which plummeted from a surplus in 1969 to a shortage in 1970. Poultry production grew by around 6 per cent, milk production showed a significant increase, and the output of vegetables continued to rise. A notable new item is tobacco, production of which amounted to 92,000 pounds in 1970.

(c) *Construction*

The boom in construction continued despite the disturbances of 1970. The value added by the sector increased by nearly 16 per cent and its share in the gross domestic product rose to 4.4 per cent.

The main cause of the boom was the increase in public sector construction, particularly hotels, schools and public buildings, though there were some important private sector construction projects, particularly in the petroleum industry. These activities generated considerable demand for manufactures like cement, production of which increased appreciably.

The growing importance of this sector is reflected in the increasing local value added content. The over-all import component of local construction is estimated to have dropped by around 20 per cent; consequently construction activity has a major impact on the scale of production in ancillary and related industries. Moreover, it is one of the principal employers of craftsmen and unskilled labourers.

(d) *Manufacturing*

The growth rate of manufacturing, at current prices, fell from 18.9 to 12.7 per cent between 1968 and 1969 and to slightly more than 7 per cent in 1970. The relatively slow growth in 1970 is explained by the uneven performance of a number of traditional manufactures. Output of many products increased, while that of such goods as edible oils, soap, bricks and fertilizers fell, at least up to September. Textile and clothing production also declined, as a result of the imposition of import quotas by the United States and Canada, which curtailed their markets.

On the other hand, durable goods assembly industries for such products as motor vehicles, radio and television sets, refrigerators, etc., registered a general upswing in production,

which also reflects the diversification and broadening of the structure of manufacturing.

4. THE EXTERNAL SECTOR

Imports of goods and services continued to expand more rapidly than exports. During the period from January to October 1970, imports amounted to 833 million Trinidad and Tobago dollars and are estimated to have reached 1,065 million at the end of the year, an increase of 10.6 per cent over 1969 (see table 129).

On the basis of trends in the first ten months of the year, the value of exports is estimated to have reached 970 million Trinidad and Tobago dollars in 1970, an increase of barely 2 per cent compared with 1969 (see table 130).

From the above, it can be seen that Trinidad and Tobago had a trade deficit of the order of 95 million Trinidad and Tobago dollars in 1970, while there was a surplus of around 40 million in 1969 (see table 131). This change in the country's trading position has been attributed to the increased imports of crude oil and the reduced export earnings from sugar. Moreover,

it is estimated that the terms of trade deteriorated during the year. This trend is reflected in the import price index, which showed an increase of 8 per cent in the second half of 1970 compared with the same period for 1969, while the export price index remained stable.

Trinidad and Tobago's trade with the other CARIFTA countries has taken a substantial upward turn. Between January and August 1970, imports from the CARIFTA countries grew by 21 per cent compared with the same period for 1969, and exports to those countries by slightly more than 17 per cent.

Most of Trinidad and Tobago's trade with its CARIFTA partners is with the larger countries (Guyana, Jamaica and Barbados). Imports from and exports to these countries represented 86 and 66 per cent, respectively, of the country's total trade with CARIFTA countries in 1969 and 1970.

5. POPULATION AND UNEMPLOYMENT

The factors that are responsible for the low population growth rate in recent years (less

Table 129. Trinidad and Tobago: main imports, excluding petroleum
(Millions of Trinidad and Tobago dollars)

	Value					1970 ^a (January-October)
	1965	1966	1967	1968	1969	
Manufactures	141.8	134.7	126.1	135.0	165.7	148.7
Food, beverages and tobacco	94.0	96.2	93.4	93.4	112.5	96.5
Chemicals	34.6	32.8	35.3	35.8	40.2	39.9
Crude raw materials other than fuels	9.8	12.5	10.8	12.1	12.7	11.2
Machinery and transport equipment	129.1	102.7	95.7	103.8	111.8	108.1
Motor vehicles and parts	25.2	28.1	21.6	20.9	24.6	25.0
Animal and vegetable oils and fats	4.1	3.8	3.5	3.7	5.4	6.5

SOURCE: *Overseas Trade Reports*, annual and monthly issues.
^a Provisional figures.

Table 130. Trinidad and Tobago: main exports, 1965-1970
(Millions of Trinidad and Tobago dollars)

Sector	Value					1970 (January-August)
	1965	1966	1967	1968	1969	
Fuels and lubricants ^a	168.6	197.3	248.1	272.7	221.9	185.7
Manufactured goods	14.3	16.9	17.9	23.0	30.1	23.0
Chemicals	37.3	59.0	78.2	82.6	89.9	52.2
Machinery and transport equipment	4.9	7.6	4.8	13.3	6.0	5.5
Raw materials	4.8	5.4	4.0	5.0	4.9	4.6
Food	59.3	56.0	58.0	76.7	77.3	66.9

SOURCE: *Overseas Trade Report*, annual and monthly issues.
^a Net of crude petroleum imports.

Table 131. Trinidad and Tobago: balance of payments, 1965-1970
(Millions of Trinidad and Tobago dollars)

	1965	1966	1967 ^a	1968 ^b	1969 ^c	1970 (January-August)
<i>Current account</i>						
Goods and services						
Exports f.o.b. ^d	710.5	752.7	756.2	947.1	1,001.9	642.5
Imports c.i.f. ^e	816.9	772.6	721.5	853.3	962.8	681.4
Balance on visible trade	-106.4	-19.9	34.7	93.8	39.1	-38.9
Services						
Transport	57.8	57.8	53.6	60.9	56.5	...
Foreign travel	0.2	3.2	5.5	12.7	16.3	...
Investment income	-103.3	-107.6	121.6	-142.9	-167.8	...
Other	8.5	9.8	-8.6	26.6	-25.4	...
Balance on services	-36.8	-28.4	-71.1	-95.9	-120.4	...
Balance on goods and services	-143.2	-48.3	-36.4	-2.1	-81.3	...
Transfer payments	21.3	8.4	-1.2	-0.4	-2.1	...
Private	0.6	0.6	2.6	2.1	4.2	...
Public	20.7	7.8	-3.8	-2.5	-6.5	...
<i>Capital account</i>						
Net capital inflows	119.3	50.3	39.6	60.5	71.7	...
Private sector	102.0	37.6	42.9	45.0	76.0 ^a	...
Public sector	17.3	12.7	-3.3	15.5	-4.3	...
Net errors and omissions	9.9	-1.7	2.1	-11.7	—	...
Surplus or deficit	7.3	-9.7	4.1	46.3	11.7	...
<i>Financing of the deficit</i>						
Net movements of foreign exchange reserves (increase).	7.3	9.7	-4.1	-46.3	11.7	...

SOURCE: *Balance of Payments*, 1956-1966; balance of payments, latest estimates, 1967, 1968 and 1969 (unpublished).

^a Residual estimate; including net errors and omissions.

^b Revised figures.

^c Provisional figures.

^d Adjustments in exports comprise addition of coverage adjustment and valuation, and subtraction of ships' stores and bunkers.

^e Adjustments in imports comprise addition of coverage adjustment and subtraction of freight paid to national flag carriers.

than 1 per cent) continued to prevail in 1970, namely: the decline in the crude birth rate and increased emigration to the United States and Canada.

An estimated 45,200 persons, or 12 per cent of the labour force, were out of work in June 1970. Although this figure is high, it is less than in mid-1969, when it was 14 per cent. Unemployment is highest in the lower age-groups; emigration tends to aggravate rather than improve the situation, since it deprives the country of its skilled manpower and reduces the prospects of employment for unskilled labour.

Wages apparently continued to rise in 1970, though at a lower rate than in 1969. The wages index rose by 3.4 per cent between May 1969 and May 1970. However, domestic prices rose by around 3.5 per cent during the same period.

Uruguay

1. RECENT ECONOMIC TRENDS

In 1970, Uruguay's gross domestic product grew by approximately 4.6 per cent, owing to the dynamic growth of manufacturing (among the goods-producing sectors) and commerce

(among the services sectors). In the external sector, exports and imports grew much more rapidly than in the 1960s (see tables 132 and 133). The basic factor for growth was the expansion of beef production, which revived the cold storage industry and, together with rising world prices, was the main expansionary influence on exports.

Consumer prices rose by 20.9 per cent between December 1969 and December 1970, outstripping the 14.5 per cent rise in the preceding period. Over the same period, money wages rose by 17.8 per cent, 20.3 per cent in the private sector and 14.7 per cent in the public sector, but in real terms they fell by 0.5 and 5.2 per cent respectively.

As regards public finances, the central government deficit shrank because income grew more rapidly than expenditure.

In the external sector, imports and exports of goods, measured in dollars at current prices, were 19 and 13 per cent up respectively on 1969, and the value of beef exports was up 40 per cent. Moreover, at the end of 1970, the net international reserves of the monetary authorities amounted to 32.4 million dollars, some 26.3

Table 132. Uruguay: total supply and demand

	Millions of pesos at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Total supply	15,981	16,059	16,978	18,063	112.7	116.0	116.4	118.4	0.2	5.7	6.4
Gross domestic product	14,184	13,848	14,582	15,252	100.0	100.0	100.0	100.0	-0.8	5.3	4.6
Imports ^b	1,797	2,211	2,396	2,811	12.7	16.0	16.4	18.4	7.2	8.4	17.3
Total demand	15,981	16,059	16,978	18,063	112.7	116.0	116.4	118.4	0.2	5.7	6.4
Exports ^b	3,061	2,735	2,736	2,893	21.6	19.7	18.8	19.0	-10.7	0.0	5.7
Total investment	1,496	1,663	2,277	2,331	10.5	12.0	15.6	15.3	3.6	36.7	2.4
Gross fixed investment	1,567	1,686	2,299	2,321	11.0	12.2	15.8	15.2	2.5	36.2	1.0
Public	227	...	...	...	1.6	...	...	...	...	...	...
Private	1,340	...	...	...	9.4	...	...	...	...	...	...
Construction	928	975	975	...	6.5	7.0	...	...	1.7	...	...
Machinery and equipment	639	711	1,324	...	4.5	5.1	...	...	3.6	86.2	...
Total consumption	11,424	11,661	11,965	12,839	80.5	84.2	82.1	84.1	0.5	2.6	7.3
General government	1,446	1,484	1,518	1,609	10.2	10.7	10.4	10.5	0.9	2.3	6.0
Private	9,978	10,177	10,447	11,230	70.3	73.5	71.6	73.6	0.5	2.7	7.4

Source: For 1965-1969: ECLA, on the basis of data supplied by the Central Bank; for 1970: ECLA estimates.

^a Preliminary.

^b Goods and services, excluding factor payments.

Table 133. Uruguay: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of pesos at 1960 prices				Percentage of total				Annual growth rates		
	1965	1968	1969	1970 ^a	1965	1968	1969	1970 ^a	1965-1968	1969	1970 ^a
Agriculture	2,822	2,474	2,845	2,930	21.3	19.3	20.9	20.6	-4.3	15.0	3.0
Manufacturing ^b	2,803	2,871	3,009	3,165	21.2	22.4	22.1	22.3	0.8	4.8	5.2
Construction	432	459	459	477	3.3	3.6	3.4	3.4	2.1	...	4.0
Subtotal goods	6,057	5,804	6,313	6,572	45.8	45.2	46.4	46.3	-1.4	8.8	4.1
Electricity, gas and water	232	257	...	...	1.7	2.0	...	...	3.5	...	...
Transport and communications	974	887	...	...	7.4	6.9	...	...	-3.1	...	...
Commerce and finance	2,736	2,650	...	...	20.7	20.7	...	...	-1.1	...	...
Government	1,098	996	...	...	8.3	7.8	...	...	-3.2	...	...
Ownership of dwellings	828	853	862	871	6.3	6.6	6.3	6.1	1.0	1.2	1.0
Miscellaneous services	1,294	1,382	...	...	9.8	10.8	...	...	2.2	...	...
Subtotal services	7,162	7,025	7,283	7,634	45.1	45.9	53.6	53.7	-0.6	3.7	4.8
TOTAL	13,127	12,817	13,496	14,117	100.0	100.0	100.0	100.0	-0.8	5.3	4.6

Source: For 1965 to 1969: ECLA estimates based on official Central Bank statistics; for 1970: ECLA estimates based on preliminary estimates from the same source.

^a Preliminary figures.

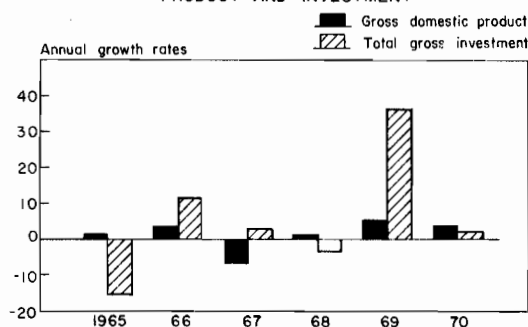
^b Including mining.

Note: The figures for each sector do not necessarily add up exactly to the total product because the sectoral figures and the total were calculated separately.

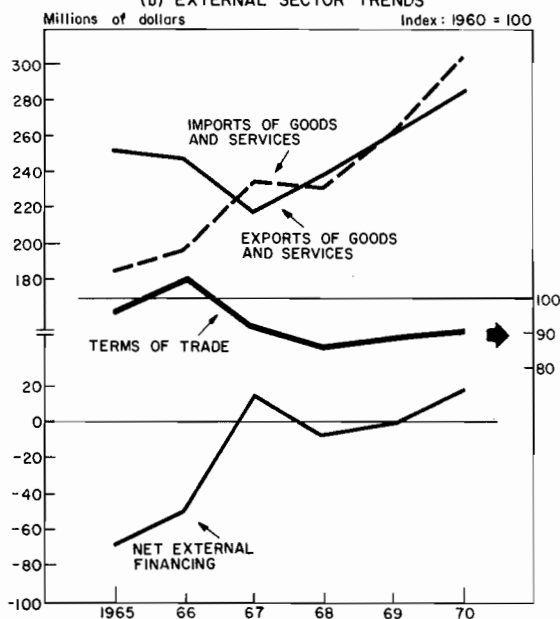
Figure XXIV. Uruguay: 1965-1970

Natural scale

(a) GROWTH OF THE GROSS DOMESTIC PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



million below the figure recorded for December 1969.

2. THE MAJOR SECTORS OF PRODUCTION

The agricultural sector grew by around 4 per cent in 1970, chiefly owing to good weather, for both temperatures and rainfall were favourable except in the third quarter of the year, when rains delayed sowings and frosts damaged pastures.

In the livestock sector there were increases in the production of beef (6 per cent), lamb (3.2 per cent) and particularly poultry (35 per cent), with output probably doubling in the southern part of the country. The increase in the output of beef was attributable to favourable weather which brought higher reproduction rates, lower mortality rates and an increase in average

weights; moreover, exports expanded both in value and in volume, with world prices showing a rising trend. In July, owing to supply problems, a temporary ban was imposed on meat consumption to prevent excessive price rises and to secure supplies to satisfy external demand. The wool clip was roughly the same as in 1969 (close to 80,000 tons); 68,000 tons of wool were exported but under unfavourable conditions because difficulties on the world market lowered prices by 20 per cent and there were serious marketing problems. Milk production in the first half of the year was almost 10 per cent up on the same period in 1969, but bad weather between July and September brought the total back to the 1969 level; however, as a result of the recovery in the final quarter output for the year is estimated to have been 2 per cent higher than in 1969.

As to crop farming, the winter harvest of cereals and flax in the 1969/1970 crop year was down 9 per cent, owing to a 24 per cent reduction in the area sown; there was a considerable drop in wheat output and a rise in that of flax. In contrast, the summer harvest of the 1969/1970 crop year, covering 5.7 per cent more area, was up 1.3 per cent, the largest increment coming in maize; although the area sown to rice and sunflower increased, yields deteriorated. As a whole, crop-farming output remained stationary during the year (see tables 134 and 135).

Preliminary estimates of manufacturing output based on data for the first three months of the year indicate a growth rate of about 5.2 per

Table 134. Uruguay: variation in the volume of agricultural production in 1970 compared with 1969^a (Percentages)

Beef cattle	5.0
Sheep and lambs	2.5
Wool	-0.4
Milk	0.0
Poultry	30.0
Wheat	-14.2
Maize	8.1
Oats	-18.3
Common barley	-22.0
Brewer's barley	-13.0
Rice	5.8
Canary seed	157.0
Sunflower seed	3.8
Ground nuts	-3.0
Flax	44.0
Roots and tubers	-12.0
Saccharine	-31.0
Wine grapes	20.0

SOURCE: Central Bank.
^a Provisional estimates.

Table 135. Uruguay: area sown, production and yields of main crops, 1968/1969–1970/1971

		1968/1969	Percentage variations 1968/1969 in relation to 1967/1968	1969/1970 ^a	Percentage variations 1969/1970 in relation to 1968/1969	1970/1971 ^b	Percentage variations 1970/1971 in relation to 1969/1970
<i>Wheat</i>							
Area sown (hectares)	.	535,200	141.0	336,250	–37.2	337,700	0.4
Production (tons)	.	469,790	226.8	403,185	–14.2	451,020	11.9
Yield (kg/hectare)	.	878	35.7	1,199	36.6	1,336	11.4
<i>Oats</i>							
Area sown (hectares)	.	89,200	+64.7	74,800	–16.2	82,000	9.6
Production (tons)	.	73,155	122.0	59,745	–18.3	75,100	25.7
Yield (kg/hectare)	.	820	34.6	799	–2.6	916	14.6
<i>Linseed</i>							
Area sown (hectares)	.	81,680	59.4	111,990	37.1	98,800	–11.8
Production (tons)	.	56,458	110.4	81,225	43.9	66,005	–18.7
Yield (kg/hectare)	.	691	31.9	725	4.9	678	–6.5
<i>Maize</i>							
Area sown (hectares)	.	175,800	8.7	182,800	4.0	...	...
Production (tons)	.	128,820	86.3	139,205	8.1	...	...
Yield (kg/hectare)	.	733	71.3	762	4.0	...	...
<i>Rice</i>							
Area sown (hectares)	.	34,340	11.7	37,490	9.2	29,000 ^a	–22.6
Production (tons)	.	134,495	28.8	142,296	5.8	...	...
Yield (kg/hectare)	.	3,917	15.3	3,796	–3.1	...	...
<i>Sunflower seed</i>							
Area sown (hectares)	.	90,750	–16.3	97,070	7.0	...	...
Production (tons)	.	62,515	28.7	64,905	3.8	...	...
Yield (kg/hectare)	.	689	54.5	669	–2.9	...	...

SOURCE: Ministry of Agriculture and Livestock.

^a Second estimate of area sown and first of production.

^b First estimate of area sown.

cent. In the traditional sector, the most dynamic activities were the cold storage, milk products and tanning industries. The cold storage industry was stimulated by external demand and extremely favourable world prices, and the value of meat exports rose by 40 per cent, 20 per cent of which was attributable to price increases. The milk products industry satisfied domestic demand in the normal way and increased its exports. In contrast, activity declined in industries processing maté, rice, sunflower seed and coffee. Production of beverages increased significantly, as did that of tobacco owing to a fall in the consumption of imported cigarettes. In the textile and clothing industry activity fell off during the first six months of the year; this was followed by a partial recovery but it was not enough to offset the contraction of demand.

The pulp and paper industry recorded a high rate of growth over the first quarter but activity slackened off during the rest of the year owing to difficulties in importing pulp; by mid-1972 a domestic pulp plant is expected to be in operation. The rubber industry expanded significantly owing to increased exports of tires and the rise in domestic demand. In the chemical industry, output of paints and pharma-

ceutical products increased. Cement output rose and it is expected that by the end of 1971 the ANCAP plant at Paysandú will be in operation. The manufacture of metal containers, chiefly containers for preserved fruit and vegetables, expanded slightly. Owing to labour disputes, the electronics industry had a down-turn in the first half of the year, and later made only a partial recovery; sales of refrigerators, electronic goods and lighting equipment expanded and those of kitchen stoves and water heaters declined. Table 136 gives a first estimate of the growth of the different branches of manufacturing over the period January–September 1970, compared with the same period in 1970.

The construction sector is estimated to have grown by 4 per cent.

Estimates place the growth of the commerce, transport and storage sector at 6.2 per cent, in line with the growth of the sectors of production and imports. The amount of electric power sold by the State power and telephone company was 5 per cent up on 1969, and work continued on projects to expand the national telephone system. It is estimated that ownership of dwellings continued to grow in line with past trends, while under the head of “other services”, bank-

ing activities stepped up their rate of growth, since they were paralysed for three months in 1969 owing to labour disputes.

Table 136. Uruguay: increase in volume of industrial production between 1969 and 1970

Industry	Percentage increase ^a
Food	+4.7
Beverages	+11.6
Tobacco	+20.5
Textiles	-5.9
Footwear and clothing	-11.3
Paper and paper products	+12.5
Printing, publishing and allied industries	+2.2
Rubber	+23.8
Chemicals	+9.0
Petroleum and coal products	+0.1
Non-metallic minerals	+27.4
Metal products	+19.5
Electrical machinery	-6.1
TOTAL	+5.2

SOURCE: Central Bank of Uruguay.
^a Provisional estimates.

3. PUBLIC FINANCES AND MONEY

Table 137 contains a statement of central government income and expenditure and the financing of the deficit in the central government accounts. The deficit amounted to 11,046 million pesos, which was less than in 1969 owing to the fact that income grew more rapidly than expenditure. The ratio of public income to the gross domestic product was 14 per cent, as opposed to between 12 and 12.7 per cent in the period 1967-1969. The ratio of expenditure to the product was 15.8 per cent, compared with 15.2 per cent in 1969. The contribution of the monetary authorities to the financing of the deficit was much smaller than in earlier years.

During 1970, the monetary liabilities of the consolidated banking system rose by 18,500 million pesos, i.e., by 18.9 per cent at current prices, but they fell by 2 per cent in real terms (see table 138). In some respects these figures are not in line with the projections made at the

Table 137. Uruguay: income, expenditure and financing of the Central Government deficit in 1970
(Millions of pesos)

	Operational funds and subsidies	National investment fund	Total
Income			83,927
Operational funds and subsidies	79,788		79,788
Treasury	75,430		
Revenue earmarked for specific purposes	4,358		
National Investment Fund		4,139	4,139
Revenue earmarked for specific Ministry of Public Works projects		3,604	
Ministry of Public Works' own resources		535	
Expenditure			95,025
Operational funds and subsidies	85,696		85,696
Remuneration for personal services	57,546		
Remuneration for other than personal services	14,185		
Subsidies	4,760		
Revenue earmarked for specific purposes	4,511		
Service payments on the public debt	4,694		
National Investment Fund		9,329	9,329
Investment, Ministry of Public Works		5,299	
Investment, Ministry of Economic Affairs and Finance		615	
Other investment by the Fund		1,504	
Service payments on the public debt		746	
Investment with external resources		1,165	
Financial deficit	-5,908	-5,190	-11,098
Financing of the deficit	5,908	5,190	11,098
Net credit of the monetary authorities	2,527	930	3,457
Net sale of Treasury bonds	—	3,011	3,011
Net sale of Treasury bills	2,842	—	2,842
Variations in Treasury balance	602	89	691
Net external resources	—	1,165	1,165
Variations in balance of cheques in process of negotiation	-63	-7	-70
Sale public debt	—	2	2

SOURCE: Office of the Controller General.

beginning of the year: for example, there was a loss of international reserves amounting to 8,700 million pesos, instead of the expected gain of 7,300 million; and domestic credit expanded by 27,200 million dollars instead of 13,600 million owing to increased allotments of credit to the private sector.

Table 138. Uruguay: factors explaining the monetary liabilities of the consolidated banking system
(Thousands of millions of pesos)

	Balances at the end of:		Variation in absolute terms 1970
	December 1969	December 1970	
Net international reserves	-1.9	-10.6	-8.7
Net domestic credit	100.0	127.2	27.2
Net credit to the public sector	22.4	24.0	1.6
Net rights with official banks	-1.2	-2.3	-1.1
Credit to the private sector	56.6	81.7	25.1
Contraction resulting from long-term external credit	-8.0	-9.5	-1.5
Other assets and liabilities accounts	30.2	33.3	3.1
Monetary liabilities	98.1	116.6	18.5

SOURCE: Central Bank.

4. PRICES AND WAGES

The consumer price index rose by 20.9 per cent between December 1969 and December 1970; the increase during the preceding year was 14.5 per cent. Comparing annual averages, however, the rise was 17.3 per cent in 1970 and 20.1 per cent in 1969. The main factors responsible for the rise were wage increases in the private sector, higher world prices for meat, edible oils and coffee, and rate increases for public services.

The main countervailing factors were the stability of the exchange rate and the ample supply of foodstuffs. The over-all increase of 20.9 per cent comprised increases of 14.6 per cent for foodstuffs, 36.1 per cent for clothing, 26.7 per cent for housing and 23.5 per cent for miscellaneous items. Although the increase under the head of foodstuffs was less than for the other items it carries the most weight in the totals, and the rise reflects price increases for edible oils (43 per cent), sugar (42 per cent), beef (27 per cent) and milk (22 per cent). The over-all wholesale price index rose by 17.8 per cent between December 1969 and December 1970 (in the preceding period it had risen by 7.3 per cent), with the price of manufactures rising by 17.5 per cent and that of agricultural commodities by 18.6 per cent. One of the main

factors in this increase—in the view of the Economic Research Department of the Central Bank—was the reduction in profit margins. Margins in 1969 were wider and hence cost increases could be absorbed without affecting prices; but in 1970 they were too narrow to do so and consequently prices reflected increases in wages, cost of raw materials and rates for public services. The products responsible for the largest increases were foodstuffs, petroleum products, electric power, paper products and printing, and metallurgical products.

According to preliminary data supplied by the Statistics and Census Office, wages increased by 17.8 per cent in 1970. Private sector wages rose by 20.3 per cent and public sector wages by 14.7 per cent. In real terms, comparing the averages for 1969 and 1970, private sector wages increased by 0.1 per cent and public sector wages fell by 2.7 per cent; between December 1969 and December 1970, however, wages in both sectors fell by 0.5 and 5.2 per cent, respectively.

5. THE EXTERNAL SECTOR

The value of imports of goods and services, which reached the highest figure for the decade, totalled 283 million dollars, 18.4 per cent up on 1969 and 68 per cent higher than in 1965 (see table 139). As regards merchandise imports, the increase was chiefly due to the needs of domestic production activities and only in a lesser degree to increases in the prices of imported raw materials. The unit value index of imports, taking 1960 as the base year at 100, was 106 in 1969 and 109 in 1970. Fuels and lubricants accounted for 33.7 million dollars of the total, raw materials and construction materials for 98.5 million, motor-vehicles and machinery for 62.9 million and other products for 38 million.

The value of exports of goods and services was 286 million dollars in 1970, 9.2 per cent more than in 1969 and 13.3 per cent higher than the average for the period 1964–1968. As regards merchandise exports, the greatest increase came in meat, exports of which rose from 62.1 million dollars in 1969 to 87.8 million in 1970. Other important export items were wool, earning 79.3 million dollars, and hides and bristles, earning 24.3 million. Favourable prices for meat offset the decline in income from wool, and the unit value index of exports, taking 1960 as the base year at 100, was 100 in 1969 and 103 in 1970. In the balance of payments, the current account showed a deficit of 19 million dollars.

At the end of 1970, the net international reserves of the monetary authorities amounted

Table 139. Uruguay: balance of payments
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	171.2	252.5	238.7	262.0	286.0
Goods f.o.b.	129.4	196.3	179.2	201.0	228.0
Services	41.8	56.2	59.5	61.0	58.0
Imports of goods and services	-239.8	-168.3	-207.0	-239.0	-283.0
Goods f.o.b.	-187.9	-123.1	-142.6	-176.0	-209.0
Services	-51.9	-45.2	-64.4	-63.0	-74.0
Net external investment income	-6.6	-15.4	-24.7	-23.1	-22.5
Net private transfer payments	-0.3	-0.6	0.5	0.5	0.5
Balance on current account	-75.5	68.2	7.5	0.4	-19.0
<i>Capital account</i>					
Net external financing (a + b + c + d)	75.5	-68.2	-7.5	-0.4	19.0
External non-compensatory capital	25.7	-1.5	51.5	33.1	-6.3
Direct investment	5.8	...	...	...
Long- and medium-term loans	11.9	11.5	39.2	27.3	
Amortization payments	-5.5	-23.8	-12.9	-14.8	
Short-term liabilities	12.4	7.0	10.7	20.6	
Official transfer payments	1.1	3.8	14.5	...	
Domestic non-compensatory capital or assets	10.4	-0.5	-1.3	-3.9	25.3
Errors and omissions	11.5	-80.4	-22.7	-13.6	
Compensatory movements (increase —)	27.9	14.2	-35.0	-16.0	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	32.1	58.0	29.5	1.8	
Amortization payments	-0.5	-47.5	-45.5	-15.1	
Movements of gold and foreign exchange reserves (increase —)	-3.7	3.7	-19.0	-2.7	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

to 32.4 million dollars, a decrease of 26.3 million compared with the position at the end of 1969. During the first five months of 1970, reserves were accumulated, and by May they amounted to 96 million dollars, thus enabling the Central Bank to meet its external liabilities out of its own resources. But by November reserves had shrunk to 30.2 million dollars. Accordingly, in the latter half of the year, external credit was called upon and arrangements were made to postpone some payments.

Venezuela

1. RECENT ECONOMIC TRENDS

In 1970, Venezuela stepped up its economic growth rate. According to preliminary data, the gross domestic product rose by 6.1 per cent, a substantial improvement over 1969 (3.5 per cent) and the average for 1965–1968 (3.9 per cent).

One of the most dynamic of the main productive sectors was the goods producing industries, which registered an over-all expansion of 5.9 per cent. Agriculture grew 5 per cent, mining (including petroleum) 4.1 per cent, and manufacturing 7.5 per cent. Construction made a remarkable recovery after the recession it suffered in 1969, with a growth rate of 14.4 per cent. Basic services were up by 6.9 per cent,

thanks to the expansion of transport and communications and to the upward trend of electricity, gas and water production (see table 140).

The fastest growing components of internal demand, which expanded somewhat more rapidly than in 1969, were investment in construction and private consumption, which increased by 14.3 per cent and 7.3 per cent respectively (see table 141).

Calculated at current prices, the value of imports rose faster than that of exports and thus substantially increased the deficit on current account. In spite of this, however, the larger net inflow of non-compensatory capital compared with the previous year was enough to cover the deficit on current account and to boost the balance-of-payments surplus to 88 million dollars.

As regards prices, the cost-of-living index rose 2.1 per cent in 1970, slightly less than the average for the same period in 1969. For the first 10 months of the year, the wholesale price index rose by 1.9 per cent, 0.4 per cent more than the year before.

2. MAJOR SECTORS OF PRODUCTION

According to preliminary estimates, agricultural production rose by about 5 per cent in

Table 140. Venezuela: gross domestic product at factor cost, by sector of economic activity

Sector	Millions of bolívares at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Agriculture	2,180	2,515	2,594	2,724	2,724	6.5	6.6	6.6	4.9	3.1	5.0
Mining ^b	7,867	8,114	8,148	8,483	8,483	23.3	21.4	20.7	1.0	0.4	4.1
Manufacturing	3,877	4,397	4,612	4,958	4,958	11.5	11.6	11.7	4.3	4.9	7.5
Construction	859	1,135	1,098	1,256	1,256	2.5	3.0	2.8	9.7	-3.4	14.4
Subtotal goods	14,783	16,161	16,452	17,421	17,421	43.8	42.6	41.8	3.0	1.8	5.9
Electricity, gas and water	682	962	1,060	1,152	1,152	2.0	2.5	2.7	12.2	10.2	8.7
Transport and communications	1,188	1,369	1,375	1,452	1,452	3.5	3.6	3.5	4.8	0.4	5.6
Subtotal goods	1,870	2,331	2,435	2,604	2,604	5.5	6.1	6.2	7.6	4.5	6.9
Commerce and finance	4,507	5,241	5,371	5,688	5,688	13.4	13.8	13.7	5.2	2.5	5.9
Government	2,869	3,453	3,522	...	...	8.5	9.1	9.0	6.4	2.0	...
Ownership of dwellings	2,380	2,830	2,962	...	...	7.1	7.5	7.5	6.0	4.7	...
Miscellaneous services	7,333	7,926	8,578	...	...	21.7	20.9	21.8	2.6	8.2	...
Subtotal other services	17,089	19,450	20,433	21,503	21,503	50.7	51.3	52.0	4.4	5.1	5.2
TOTAL	34,014	38,122	39,460	41,867	41,867	100.0	100.0	100.0	3.9	3.5	6.1

SOURCE: For 1965 to 1969: ECLA estimates based on official Central Bank statistics; for 1970: ECLA estimates based on preliminary data supplied by Planning Office (CORDIPLAN).

Note: The figures for each sector do not necessarily add up to the total product because the

^a Preliminary figures.

^b Including the entire petroleum sector.

sectoral figures and the total were calculated separately.

Table 141. Venezuela: total supply and demand

	Millions of bolívares at 1960 prices					Percentage of total			Annual growth rates		
	1965	1968	1969	1970 ^a	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Total supply	41,523	46,955	48,337	51,178	51,178	113.6	114.6	114.0	4.2	2.9	5.9
Gross domestic product	36,548	40,962	42,400	44,987	44,987	100.0	100.0	100.0	3.9	3.5	6.1
Imports ^b	4,975	5,993	5,937	6,191	6,191	13.6	14.6	14.0	6.4	-0.9	4.3
Total demand	41,523	46,955	48,337	51,178	51,178	113.6	114.6	114.0	4.2	2.9	5.9
Exports ^b	10,039	10,693	10,630	11,042	11,042	27.5	26.1	25.1	2.1	-0.6	3.9
Total investment	6,386	7,758	7,363	7,781	7,781	17.4	18.9	17.4	6.7	-5.2	5.7
Gross fixed investment	5,433	6,590	6,540	7,181	7,181	14.9	16.1	15.4	6.6	-0.8	9.8
Public	1,617	2,606	2,402	...	...	4.4	6.4	5.7	17.2	-7.8	...
Private	3,816	3,984	4,138	...	...	10.4	9.7	9.8	1.4	3.9	...
Construction	3,657	4,711	4,642	5,306	5,306	10.0	11.5	10.9	8.8	-1.5	14.3
Machinery and equipment	1,776	1,879	1,898	1,875	1,875	4.8	4.6	4.5	1.9	1.0	-1.2
Total consumption	25,098	28,504	30,344	32,354	32,354	68.7	69.6	71.6	4.3	6.5	6.6
General government	4,578	5,638	5,975	6,214	6,214	12.5	13.8	14.1	7.2	6.0	4.0
Private	20,520	22,866	24,369	26,140	26,140	56.1	55.8	57.5	3.7	6.6	7.3

SOURCE: For 1965-1969: ECLA, on the basis of data supplied by the Central Bank; 1970:

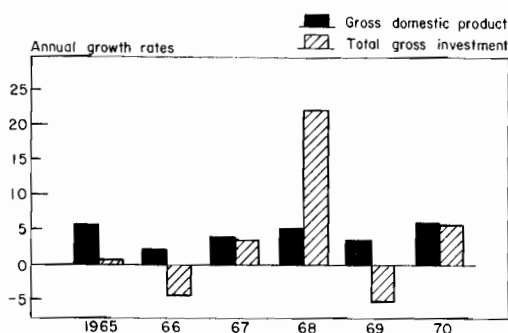
ECLA estimates.

^a Preliminary.

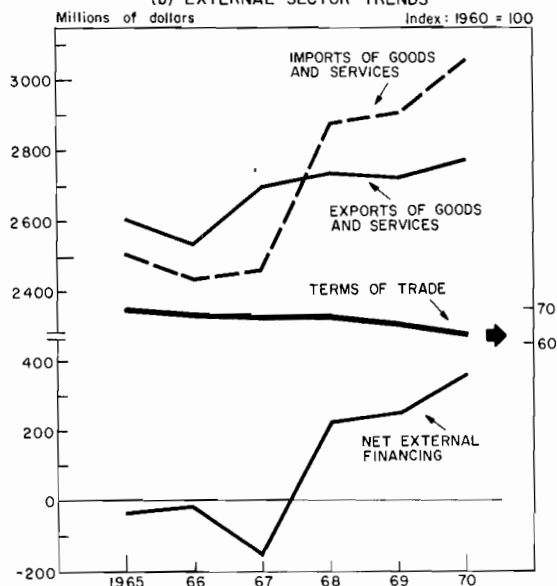
^b Goods and services, excluding factor payments.

Figure XXV. Venezuela: 1965-1970
Natural scale

(a) GROWTH OF THE GROSS DOMESTIC
PRODUCT AND INVESTMENT



(b) EXTERNAL SECTOR TRENDS



1970, which was an improvement over the 3.1 per cent growth rate of 1969 and roughly equal to the average for 1965-1968. The most significant increase was in the crop production (over 6 per cent); though great strides were made in the production of textile materials and oil seeds, which soared nearly 30 per cent (sesame, the most important product in this group, was up by 51 per cent); production of green vegetables was slightly over 16 per cent higher and tobacco about 25 per cent. There was also a big improvement in other crops, such as rice and sugar-cane. The livestock industry expanded by around 5 per cent, corresponding to a growth rate of 5.5 per cent in the production of beef cattle, 2 per cent in that of pigs, and approximately 8 per cent in that of poultry.

Milk output was up by 4.5 per cent and the output of fisheries products rose by about 4 per cent to around 140,000 tons.

The output of mining which in Venezuela includes petroleum, increased 4.1 per cent in 1970, which was better than the tiny increases in 1969 and over the period 1965-1968 (see table 140).

Some 1,352.5 million barrels of crude petroleum were extracted, 3.1 per cent more than in 1969. The improvement was due partly to the growing demand for Venezuelan crude petroleum, particularly from European countries which purchased less than usual from their traditional sources of supply as a result of technical problems and rising prices (the trans-Arabian pipeline was out of commission for six months while it was being repaired and the Libyan Government imposed restrictions on production so as to push up prices), and partly to the increase in United States import quotas of crude petroleum and petroleum products that came into effect in the second half of the year.

Extraction of iron ore continued to grow, though at about half the rate in 1969 (12.6 per cent as opposed to 25.6 per cent). The continued expansion is attributable partly to high world prices and partly to the widening of Venezuela's market for this product, which it now sells to Belgium, Luxembourg, France, Czechoslovakia and Japan.

In the manufacturing sector, production was up by 7.5 per cent, thus more than making up for the 4.4 per cent annual average for 1965-1969. The intermediate goods industries were the fastest growing (10.7 per cent higher than in 1969), owing largely to increases of between 12 and 15 per cent in the basic metal industries and in petroleum products and chemicals production. The growth rate of the metal-transforming industries was 5.3 per cent and that of the traditional industries 5.2 per cent.

After a recession in 1969, construction made an excellent recovery, with an estimated growth rate of 14 per cent—better than the average for 1965-1968. The private sector was largely responsible for this trend, since it expanded by an estimated 16 per cent.

The basic services sector grew by about 7 per cent. Production of electricity, gas and water was up 8.7 per cent, and transport and communications 5.6 per cent. The remaining sectors (commerce and finance, government, housing and other services) also registered an estimated average growth rate of 5.2 per cent compared with 1969.

3. TOTAL SUPPLY AND DEMAND

The total supply of goods and services in 1970 was about 6 per cent higher than in 1969, and was better than the growth rate for that year (2.9 per cent) and the average for 1965-1968 (4.2 per cent). The expansion of domestic production by 6 per cent and the somewhat slower growth (4 per cent) of imports were mainly responsible for the over-all growth of supply.

As regards demand, exports rose by about 4 per cent, total investment by 5.7 per cent and consumption by 6.6 per cent (see table 141).

The improvement in the investment rate was due to the high level of constructional activity. Demand for machinery and equipment, on the other hand, is thought to have fallen off slightly.

Total consumption was up by 6.6 per cent, with central government consumption increasing somewhat more slowly than that of the private sector.

4. FISCAL SITUATION

Between January and September 1970, total central government income amounted to 7,972 million bolívares, almost the same as for the corresponding period in 1969, 7,968 million bolívares (see table 142). As in the past, the main source of government income was ordinary revenue, which increased by 8.8 per cent to constitute 87 per cent of the total. Among the various items of tax revenue, the most important factor in this upward trend was the increase in income tax and, among the non-tax items, the income from the petroleum sector. Extraordinary income soared to 1,064 million bolívares and was made up as follows: (a) external loans (475 million); (b) sale of short-

and medium-term Treasury bills (438 million); and (c) sale of domestic bonds (151 million).

Total central government expenditure up to September 1970 amounted to 7,939 million bolívares, 1.3 per cent higher than for the same period the previous year. Whereas current expenditure rose 10 per cent as a result of additional purchases of goods and services (13 per cent) and, to a lesser degree, higher current transfer payments (5 per cent), capital expenditure dropped by around 10 per cent.

Since total income stayed at the same level, expenditure rose only a little and there was a drop in the fiscal surplus for January to September, which fell, in real terms, from 130 million bolívares in 1969 to 33 million in 1970.

5. EXTERNAL SECTOR AND BALANCE OF PAYMENTS

Exports of goods and services rose by only 1.6 per cent to a value of 2,731 million dollars in 1970, while the corresponding imports rose about 7 per cent to 2,320 million dollars. Net remittances of profits and interest on foreign capital, along with private transfer payments, stayed at roughly the same level as the previous year, i.e., around 690 million and 80 million dollars respectively. Consequently, the deficit on current account for 1970 was 362 million dollars, 109 million more than in 1969 (see table 143).

The slight increase in value of exported goods stemmed mainly from the further decline in their unit value, particularly in the case of petroleum and petroleum products, where it fell by over 2 per cent. The volume of exported goods rose by 3.7 per cent, the largest increase being in exports of petroleum products (10.7 per cent), made up as follows: residual fuel, 7.9 per cent; gasoline, 21.9 per cent; diesel oil, 18.8 per cent; asphalt, 13 per cent. Exports of iron ore were up 10.6 per cent, from 18.9 million to 20.9 million tons.

The value of imports of goods rose from 1,629 million dollars in 1969 to 1,746 million dollars in 1970 (slightly over 7 per cent) while expenditure on services increased by 5.5 per cent, so that it more or less maintained its fairly high ratio to imports of goods (33 per cent).

Thanks to the substantially higher net inflow of non-compensatory capital, which rose from 264 million dollars in 1969 to 450 million in 1970, the balance of payments showed a surplus of 88 million including 42 million in Special Drawing Rights.

The Central Bank's end-year foreign exchange reserves moved up from 930 million dollars in 1969 to 993 million in 1970.

Table 142. Venezuela: Central Government income and expenditure

	1969 ^a	1970 ^a	Percentage variation
	Millions of bolívars		
<i>Total income</i>	7,968.35	7,972.37	0.1
Ordinary income	6,348.65	6,908.48	8.8
Extraordinary income ^b	1,619.70	1,063.89	34.3
<i>Total expenditure</i>	7,837.86	7,939.05	1.3
Current expenditure	4,483.92	4,936.15	10.1
Purchases of goods and services	2,778.50	3,150.41	13.4
Current transfer pay- ments	1,705.42	1,785.74	4.7
Capital expenditure	3,353.94	3,002.90	10.5
<i>Surplus</i>	130.49	33.32	74.5

SOURCE: Banco Central de Venezuela, *Boletín Mensual*.

^a January to September.

^b Including short-term Treasury bills.

Table 143. Venezuela: balance of payments
(Millions of dollars)

	1960	1965	1968	1969	1970
<i>Current account</i>					
Exports of goods and services	2,509	2,587	2,697	2,689	2,731
Goods f.o.b.	2,384	2,482	2,537	2,523	2,554
Services	125	105	160	166	177
Imports of goods and services	-1,505	-1,777	-2,141	-2,173	-2,320
Goods f.o.b.	-1,145	-1,354	-1,584	-1,629	-1,746
Services	-360	-423	-557	-544	-574
Net external investment income	-522	-705	-705	-689	-691
Net private transfer payments	-88	-69	-76	-80	-82
Balance on current account	394	36	-225	-253	-362
<i>Capital account</i>					
Net external financing (a+b+c+d)	-394	-36	225	253	362
External non-compensatory capital	-332	113	229	226	450
Direct investment	-126	-12	127	80	
Long- and medium-term loans	18	101	133	151	
Amortization payments	-213	-21	-39	-30	
Short-term liabilities	-12	46	11	31	
Official transfer payments	1	-1	-3	-6	-88
Domestic non-compensatory capital or assets	-18	-72	-9	137	
Errors and omissions	-354	-83	55	-99	
Compensatory movements (increase -)	310	6	-50	-11	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	300	32	—	—	...
Amortization payments	-105	-15	—	-2	...
Movements of gold and foreign exchange reserves (increase -)	115	-11	-50	-9	...

SOURCE: International Monetary Fund, *Balance of Payments Yearbook*, vols. 17 and 22.

Part Four
SPECIAL STUDIES

Chapter I

THE EXPANSION OF INTERNATIONAL ENTERPRISES AND THEIR INFLUENCE ON DEVELOPMENT IN LATIN AMERICA¹

The purpose of this study is to analyse some aspects of the behaviour of international enterprises, with emphasis on those owned by United States residents, which are engaged in manufacturing.

Experience of industrial development in Latin America shows more and more clearly that the expansion of industrial activities must be oriented to fit into the framework of over-all development strategies. When these strategies are being formulated it must be possible, within certain limits, to forecast the consequences of the different policy options. The importance and accuracy of those forecasts will depend on the validity of the countries' conception of the development process that they are striving to project. The accuracy of this interpretation, in its turn, is partly dependent upon how clearly the operation of the principal agents in the process is understood. And in many Latin American States international enterprises may be said to be one of those agents nowadays.

In particular, these enterprises tend to play an important role in the most dynamic sectors of industry, which are those with the highest economic growth rates in the various countries.

As a general rule, the most dynamic sectors are those which expand most rapidly in the world market for manufactures. A common aim of the various countries' development programmes is the diversification of exports through the promotion of exports of manufactures. Therefore, if the above situation

continues, any success achieved in this direction will depend partly on the behaviour of international enterprises; and their behaviour will in turn be determined by whatever rules Governments may adopt with regard to them.

With the establishment of regional integration groups, it is becoming more and more necessary to co-ordinate the positions adopted by the member countries with respect to international enterprises. It is recognized that these firms are in a better position than the Latin American enterprises to take advantage of the expanded markets resulting from integration. They have the necessary flexibility to select the best location, the financial resources to establish plants of a size and specialization required by that market, and the marketing systems required to distribute their products. This means that the basic trends and prospects of regional integration are conditioned, to a very large extent, by whatever policies the countries adopt towards the activities of international enterprises in Latin America.

A growing proportion of goods transactions between countries is in the hands of international enterprises, which act at the same time as both exporters and importers. More and more operations hitherto conducted in the open market are now concluded outside it; which means that the enterprises avoid competing with one another to some extent. In other words, when a subsidiary company is established in a given country, there is a tacit agreement to import equipment and components from other subsidiaries of the same enterprise. It is clear from the above observations that it is increasingly important to take the behaviour of international enterprises into account in the formulation of foreign trade policy.

A similar situation arises in connexion with the transfer of technical know-how. International enterprises are perhaps the most important, although not necessarily the most efficient, means of transferring technical know-

¹ The present study is a summary of a report prepared by ECLA for the Ministry of Planning and General Co-ordination of the Government of Brazil, under the agreement in force between the two institutions. International enterprises are defined in the present study as firms that are engaged in production activities in various countries; they are generally owned by residents of a single country. Multinational enterprises are owned by residents of different countries; they may come into being at a later stage in the natural process of expansion of international enterprises or, as has happened in Latin America, as the result of specific decisions adopted by the private or the public sector in different countries designed specifically to establish this new type of enterprise.

how from one country to another. Each different way of transferring know-how, whether that just mentioned or any other, will affect the capacity to compete on the world market differently. Therefore, in preparing a policy for technological development, particularly when the aim is partly to make the country more competitive in the world market, it would seem essential to consider the consequences of the transfer of know-how through subsidiaries of international enterprises. These also play an important part in the transfer of capital. In addition to their direct role in determining capital flows, they may have a not insignificant influence on the behaviour of other financial agents, both national and international.

Generally speaking, international enterprises are among the most important in their respective countries of origin, which indicates that their activities abroad may have considerable influence on those countries' economies. It may be assumed that the attitude of the Governments of those countries to the countries where the enterprises are operating partly depends upon the nature and intensity of the effects which such activities have on the home economy. This means that it is necessary to study not only the relationship between international enterprises and the countries in which they are operating, but also the repercussions which their presence in those countries may have on the home country's economy.

These observations may be summed up as follows: international enterprises play an important role in relation both to the countries of origin and to the countries in which they operate, and also to the relations between the two groups. Thus, in formulating development strategies and programmes in the Latin American countries, it is important to know something about the behaviour of this new type of decision-making centre. This applies equally to countries which are, in general, in favour of international enterprises and to those which wish to curtail their activities or even eliminate such enterprises.

The object of this study is to provide some information about the behaviour of international enterprises. There is no intention of making any recommendations regarding the rules that should be applied to them, since the deciding factor in determining a country's attitude to these enterprises is the group of objectives it adopts in both the economic and the political sphere.

Certain objectives are perfectly compatible with the behaviour that international enter-

prises usually adopt spontaneously. In this case, the rules should be designed mainly to facilitate the enterprises' incorporation, in different respects, in the local environment. In other cases, development aims and procedures are incompatible with the large-scale operation of international enterprises. Lastly, situations may arise where the type of development process adopted might be reconciled with the presence of international enterprises if they modified their behaviour in certain respects. In this case the aim should be to guide the enterprises along lines that are consistent with the strategy adopted. Obviously not all countries are in a position to exercise this kind of influence.

Among the types of relationship between countries and international enterprises, two opposing situations may be distinguished: in the first case the process of expansion and diversification of international enterprises in a particular country is the factor determining the country's industrial development model. In that case, the behaviour of the other economic agents is, to a certain extent, attuned to the growth requirements of the sectors in which those enterprises predominate. Thus production growth and the resulting income distribution depend basically on the decisions adopted by the international enterprises concerned.

The second case lies at the opposite end of the scale; here, the international enterprises play the part assigned to them by internal decision-making centres, within the context of a development strategy which they have not helped to formulate, either directly or indirectly, and which they have no power to modify. This may occur when Governments call for international public bids for the production of certain goods, at a predetermined price and with a specific present and future volume of production, to be sold on previously determined markets. In this case, the countries must not only have a development model defined in generic terms, but must also be able to specify the desired quality and quantity of the commodities in the basket of goods to be consumed by their population and, within certain limits, the relative price structure for the different types of goods.

If the conditions considered acceptable by the Government of a particular country are unsatisfactory for an international enterprise, the presence of such an enterprise would not be compatible with the country's industrial strategy objectives. Therefore, a Government must have a good knowledge of the behaviour of international enterprises before it can

determine, in the light of the known objectives, under what conditions it would be to the country's advantage to establish links with such enterprises.

This study is divided into four parts. In section A the process of expansion of United States firms in other countries is described and analysed. The following topics are dealt with: sectoral and regional distribution of the expansion process, the relation between the rate of return and the growth rate of investment in various sectors and regions, and the structure of the financing required for expansion abroad.

Section B deals with the links between subsidiary companies abroad and established firms in the United States. The growth of these two groups of companies is compared and a study is made of the two-way flows of goods, technology and capital between these companies.

In section C some of the methodological problems involved in assessing the role played by international enterprises in the countries in which they operate are discussed, the foreign take-over of industry in different countries is analysed, and the behaviour of international enterprises in regard to exports from countries where subsidiary firms have been established is examined.

In section D an attempt is made, on the basis of the data given in previous sections, to interpret the process of expansion of United States firms abroad. For this purpose, consideration is given to the position of the United States in relation to its main competitors, i.e., Western Europe and Japan, and some conclusions are drawn concerning the relative position occupied by Latin America and the general repercussions that a consolidation of the position of international enterprises would have on the countries of the region.

Some of the study's main limitations are obvious merely from this outline of its content; they are discussed below:

(a) The study deals chiefly with United States enterprises. In spite of the importance of direct United States investment abroad compared with that of other countries, it does not seem right to attempt to apply the conclusions reached concerning the behaviour of United States enterprises to all companies operating in other countries. In fact, it may be assumed that the different economic characteristics of the countries of origin are reflected in the behaviour of the enterprises concerned.

The balance-of-payments position of the country of origin is likely to affect the policy of these firms with regard to remittances, financ-

ing, exports and imports. The operational sectors of the subsidiary firms will certainly reflect the degree of specialization of the home economy and its supply of natural resources. The behaviour of these firms will also be affected by the relative position of the country of origin in the world context, and by any other links, besides economic links, which may exist between the country of origin and that in which the firms are operating. In other words, the conclusions that may be drawn from the analysis of the behaviour of United States firms are not necessarily applicable to enterprises of other countries.

Attention is centred on these firms only because there is a sufficiently detailed breakdown of the data available on them.²

(b) Only the economic effects of the behaviour of international enterprises are analysed. As indicated above, these enterprises play, or at least are in a position to play, an important role in relation to both their home country and the country in which they operate. This means that in addition to the economic effects deriving from their activities, it is essential to analyse the political effects that are associated with them. Quite obviously, the attitude the countries adopt towards these firms is influenced by economic and political considerations in varying degrees. Since this study deals exclusively with the former group, the conclusions to which it leads will represent only a fraction—and sometimes a very small fraction—of all the criteria that are involved in the whole decision-making process of the different countries regarding international enterprises.

(c) The study does not cover all the economic aspects of the behaviour of international enterprises. Attention is focused exclusively on those which could be analysed quantitatively on the basis of currently available data. These are not necessarily the aspects which are most relevant for evaluating the role played by international enterprises in the various countries. In particular, it has not really been possible to make a thorough study of how these firms act as catalysts on the behaviour of the different economic agents operating in both the country of origin and the countries of operation. It has been possible only to indicate

² For a detailed description of the methodology used by the United States Department of Commerce in defining United States enterprises and collecting information about them, see *U.S. Business Investment Countries*, 1960, pp. 76 *et seq.* Most of the data were taken from the monthly publication, *Survey of Current Business*, published by the Department of Commerce.

some orders of magnitude which reflect the importance of these enterprises in the different contexts in which they are operating, but not to evaluate any influence they may have, in view of their importance, on the rules that will be laid down to govern their behaviour. Clearly, for this type of analysis, more economic data are required than those currently available, and the analysis should also include sociological and political issues.

(d) Most of the available data were obtained from the United States Department of Commerce. This could be a limitation inasmuch as the type of data gathered by that Department, the criteria used in processing them and the level of aggregation at which they are presented were chosen in line with objectives which are not necessarily in line with those of a study of this type.

The fact that in any attempt to evaluate the behaviour of international enterprises it is necessary to draw upon information supplied by government agencies of the country of origin of such enterprises is a clear indication of the crying need for the Latin American countries to set up a system of information on the international enterprises operating in the region, with the specific purpose of formulating the rules to be applied to these enterprises and of evaluating their actual behaviour. This obviously entails not only the solution of technical problems but the adoption of policy decisions as well.

A. EXPANSION OF UNITED STATES ENTERPRISES IN OTHER COUNTRIES

In studying the relative positions of the Latin American countries with regard to international enterprises, it will be helpful to take a detailed look at the process of expansion of

United States firms in other countries. Moreover, since the home country's attitude to international enterprises partly depends upon the effects they may have on its own economy, it will also be necessary to examine the nature and extent of the relationship between the foreign subsidiaries and the economy of the home country.

This section tries to provide a basis for specific answers to such questions as: What is the sectoral and regional orientation of United States enterprises abroad? What is the relation between the rate of return and the rate of growth? Lastly, what is the structure of the financing required for expansion.

1. Sectoral and regional distribution

In 1968, United States direct private investment abroad, i.e., the investment of enterprises controlled by United States residents, comprised 63 per cent of all external private investment and 44.4 per cent of total United States investment and financial assets in other countries. The corresponding figure in 1960 was 37.2 per cent and 21.7 per cent in 1950.

Direct private investment shot up after the Second World War. In regional terms, most of the increased investment went to Europe, while, in sectoral terms, it went mainly into manufacturing. In 1950, investment in Europe accounted for 14 per cent of the total, compared with 30 per cent in 1968. Over the same period, investment in Latin America fell from 39 to 20 per cent, but investment in manufacturing, which stood at 32 per cent of the total in 1950, had risen to 41 per cent by 1968 (see tables 1 and 2).

Whereas in Europe 55.6 per cent of investment was channelled into the manufacturing

Table 1. Growth of direct investment, 1929-1968

	Value (thousands of millions of dollars)				Growth rate		Share (percentages)		
	1929	1950	1960	1968	1950-1960	1960-1968	1950	1960	1968
Total regions . . .	9.5	11.8	31.9	64.8	10.4	9.3	100	100	100
Canada . . .	2.0	3.6	11.2	19.5	12.0	7.2	31	36	30
Latin America ^a . . .	3.5	4.6	8.4	13.0	6.2	5.6	39	26	20
Europe . . .	1.4	1.7	6.7	19.4	14.7	14.2	14	21	30
Other regions . . .	0.6	1.9	5.6	11.9	11.4	11.0	16	17	20
Sectors									
Manufacturing . . .	1.8	3.8	11.1	26.4	11.3	11.5	32	35	41
Petroleum . . .	1.1	3.4	10.8	18.8	12.3	7.2	29	34	29
Mining . . .	1.2	1.1	3.0	5.4	10.6	7.6	9	9	8
Other sectors . . .	3.4	3.5	7.0	14.2	7.2	9.3	30	22	22

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a Including non-self-governing territories.

Table 2. Sectoral distribution of direct investment, by region, 1968
(Percentages)

	Manu- facturing	Petroleum	Mining	Other sectors	Total
Canada	43.9	21.0	13.5	21.6	100.0
Latin America ^a	30.8	28.0	14.4	26.8	100.0
Europe	55.6	23.9	0.3	20.2	100.0
Other regions	23.6	50.1	6.2	20.1	100.0
TOTAL	40.7	29.1	8.3	21.9	100.0

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a Including non-self-governing territories.

sector, the corresponding figure for Latin America was only 30.8 per cent.

Between 1960 and 1968, investment in Latin America's manufacturing sector rose at an average annual rate of 12.8 per cent, while over the same period in the petroleum sector it grew at 2 per cent, in mining at 4.5 per cent and in other sectors at 4.8 per cent. Over-all investment grew by 5.6 per cent. Latin America is the region where the difference in terms of the growth of investment between the manufacturing sector and the extractive sectors is greatest.

The annual average increase in investment for all regions was 11.5 per cent in manufacturing, 7.2 per cent in petroleum, 7.6 per cent in mining, 9.3 per cent in other sectors, and 9.3 for all the sectors taken together. In other words, the main reason for the drop in Latin America's share of United States external investment was the slow growth of investment in the extractive industries. As far as the manufacturing sector is concerned, investment in Latin America grew somewhat faster than investment in the regions as a whole, being greater than in Canada (7.4 per cent), though a little below the figure for Europe (13.9 per cent) and for other regions (16.4 per cent) which include, among others, Australia, Japan, the Philippines and South Africa (see table 3).

Compared with Canada and Europe, Latin America's relatively smaller share of investment in manufacturing and greater share in

petroleum and mining might seem a conclusive proof of the region's relative economic backwardness, confirming the contention that United States enterprises concentrate on the exploitation of the continent's natural resources—the opposite of their policy in Europe, where what they are interested in is the purchasing power of the European consumer. In making this comparison, it should be borne in mind that the petroleum sector operates quite differently in Canada, Europe and Latin America. In 1957, 74 per cent of investment in this sector in Latin America went directly for extraction. In Canada, the corresponding figure was 44 per cent and in Europe a mere 9 per cent. On the other hand, 72 per cent of investment in Europe was spent on refining and distribution and the rest on transport, whereas in Latin America only 26 per cent went into refining and distribution. In other words, the conceptual pattern of the petroleum sector and the manufacturing sector is very similar in Europe.

Before classing Latin America as economically backward, however, it would be well to look at the sectoral structure and see whether it reflects the situation in individual countries or is merely the result of lumping together a number of totally different structures. Taking each country separately, it will be seen that the latter is actually the case. In one group, there are countries like Chile, Peru, Colombia and Venezuela, where more than half of United States investment is in the extractive sectors

Table 3. United States: growth rate of investment, by sector and by region, 1960–1968
(Percentages)

	Manu- facturing	Petroleum	Mining	Other sectors	Total
Canada	7.4	5.5	9.0	7.6	7.6
Latin America	12.8	2.0	4.5	4.8	5.6
Europe	13.9	12.9	2.7	17.5	14.2
Other regions	16.4	8.9	12.8	10.5	10.9
TOTAL	11.5	7.2	7.6	9.3	9.3

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

(mining in the first two countries mentioned, and petroleum in the last two). Disregarding Colombia, where 31 per cent of United States investment—roughly equal to the regional average—goes into manufacturing, it is 14 per cent or less in the other three countries (see table 4).

Central America and "Other South American countries" form a second group, in which, as in the first group, only a small share of United States investment goes into manufacturing (15 per cent or less), but in which such investment is spread more evenly over the other sectors than is the case in the first group.

The third group comprises the largest Latin American countries—Argentina, Brazil and Mexico—where over 60 per cent of total United States investment goes into manufacturing. With 37 per cent of all United States investment and 74 per cent of its investment in manufactures in Latin America, these countries' industrial sectors absorb a larger share of total United States investment than the whole of Europe, or the countries of the European Common Market, or Canada. Where the equivalent figures are 60 per cent for the Federal Republic of Germany, 48 per cent for Italy, 52 per cent for the Netherlands, 64 per cent for the United Kingdom, 70 per cent for France, 56 per cent for Europe as a whole, 60 per cent for the European Economic Community and 44 per cent for Canada, the corresponding percentages for the largest countries of Latin America are 64 per cent (Argentina), 68 per cent (Mexico) and 69 per cent (Brazil). In absolute terms, the countries that had received the greatest volume of investment in manufacturing at the end of 1968 were Canada, with 8,500 million dollars; the United King-

dom, with 4,300 million; the Federal Republic of Germany, with 2,300 million; Australia, with 1,400 million; France, with 1,300 million; Brazil and Mexico, with 1,000 million; Argentina, with 700 million; Italy, the Netherlands and Belgium-Luxembourg with 600 million; and Japan, with 500 million. (United States direct investment in manufacturing in Brazil and Mexico was roughly twice as much as in Japan.)

This would suggest that, like the European countries, Argentina, Brazil and Mexico are much more attractive as markets for the subsidiaries of manufacturing firms in foreign countries than as suppliers of natural resources, a fact which may be of the utmost importance since the conflicts that may arise between international enterprises and the Governments of the countries where they operate are quite different according to whether they involve the extractive sectors or manufacturing industry.

A comparison of the distribution of United States investment in the manufacturing sectors of Latin American countries with these countries' gross domestic product reveals striking similarities, which would tend to confirm the view that the size of the market is an essential determining variable in the decisions taken by manufacturing enterprises regarding the location of their plants. Moreover, the total product would seem to be a better guide in defining size than the per capita product or population (see table 5).

2. Rate of return and growth rate of investment

There does not seem to be any clear relationship between the growth rate of investment in the various sectors and regions and the rates of return that can be calculated on the basis of

Table 4. United States: direct investment in Latin America, 1968
(Percentages)

	Sectoral structure by country						
	Total	Mining	Petroleum	Manufacturing	Public services	Commerce	Other sectors
Total for Latin America	100	13	27	33	6	11	10
Mexico	100	8	3	68	2	12	7
Panama	100	2	19	6	6	37	30
Other Central American countries	100	4	25	15	18	6	33
Argentina	100	"	"	64	"	5	31
Brazil	100	5	6	69	2	13	5
Chile	100	61	"	7	"	4	28
Colombia	100	—	51	31	5	9	4
Peru	100	61	6	14	3	7	9
Venezuela	100	"	68	14	1	10	7
Other South American countries	100	8	42	13	11	8	18

SOURCE: United States Department of Commerce, *Survey of Current Business*, October 1969.

" Included in "Other sectors".

Table 5. Latin America: distribution of United States investment in the manufacturing industry and distribution of the gross domestic product, 1968
(Percentages)

Country	United States investment in manufacturing ^a	Distribution of Latin America's gross domestic product ^a	Per capita gross domestic product (in dollars at 1960 prices) ^a
Argentina	20	18	851
Brazil	27	24	314
Colombia	5	6	336
Chile	2	5	585
Mexico	27	26	631
Panama	2	1	610
Peru	3	4	386
Venezuela	10	7	765
Other South American countries	1	4	...
Other Central American countries	3	1	454

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a ECLA.

available information. The following are some of the factors that tend to militate against the establishment of any such relationship:

(1) The aim of international enterprises may be more complex than just to earn maximum profits. One of the factors that these enterprises seem above all to bear in mind in taking investment decisions is what will maintain or increase their share of the international market.

(2) Their desire to maximize profits relates to a specific period rather than a single year. Consequently, their estimates of the potential profits to be made in the different sectors and regions in future years will have at least as much bearing on their decisions as the profits actually earned in the last year or period for which information is available.

(3) The technical and financial interrelationship between the parent company and its subsidiaries, which takes the form of a flow of goods, technology and capital, makes it impossible to analyse the profitability of either separately. In so far as the costs and the profits of the one are to a certain extent bound up with the costs and profits of the other, it would be quite wrong to see them as independent economic activities. Furthermore, over-all costs and profits are nominally distributed between them on the basis of criteria that vary according to the tax system and accounting practices prevailing both in the home country of the parent organization and in the countries where the subsidiaries operate.

(4) The data published by the United States

Department of Commerce can be used to calculate the rate of return, defined as the ratio between the profits earned in a given year and the accumulated direct investment up to that date. Department of Commerce analysts, however, point out that this growth rate does not reflect real returns inasmuch as: (a) it does not include profits earned on exports of goods from the parent company to its subsidiary, which are made on more favourable terms than those the parent company could obtain from an independent firm; (b) the parent company can import from its subsidiary more cheaply than from independent firms; (c) the conditions governing the sale of technology to the subsidiary are more advantageous than they would be with other firms; (d) the results of technological research carried out by the subsidiaries are transferred to the parent company at a lower cost than that prevailing on the international technology market.³

Calculated on the basis of available information, the rates of return suggest that the yield on investment is probably higher in the extractive than in the manufacturing sector. In Latin America, the rate of return is estimated to be 20 per cent in mining, 15 per cent in petroleum and 11 per cent in manufacturing, and the differences between these rates are more marked than in other regions. The fastest-growing sector—manufacturing—actually has the lowest rate of return. This situation can probably be at least partly explained by the fact that the international enterprises' prospects of future gains are more promising in Latin America's industry than in its extractive sectors.⁴

The rates of return for all the regions together is 15 per cent in mining, 14 per cent in petroleum and 11 per cent in manufacturing; in contrast, the annual average growth rates for 1960–1968 are 7.6, 7.2 and 11.5 per cent respectively (see table 6).

The yield on investment in Latin America's manufacturing sector is equal to that for all

³ *Survey of Current Business*, September 1967, pp. 48–49.

⁴ Leland L. Johnson, *The Course of United States Private Investment in Latin America since the rise of Castro* (RAND Corporation, May 1964), shows that United States investment in Latin America manufacturing industry was apparently unaffected by nationalization in Cuba. The author attributes this to the United States Government's policy of guaranteeing external investment and to the fact that manufacturing enterprises tend to spread their external investment, which in any case only represents a small part of total United States investment, over a large number of countries, so as to diminish the effect of possible expropriation. The figures for United States investment in Latin America's manufactures over recent years fully bear out the author's contention.

**Table 6. Rates of return on investment, by sector and by region
(Percentages)**

Region	Total	Mining	Petroleum	Manu- facturing	Other sectors
<i>All regions</i>					
1961-1964.	12	13	14	12	11
1965-1968.	12	17	13	11	10
1961-1968.	12	15	14	11	10
<i>Canada</i>					
1961-1964.	7	9	5	9	7
1965-1968.	8	11	6	9	7
1961-1968.	8	10	5	9	7
<i>Latin America</i>					
1961-1964.	13	18	14	10	11
1965-1968.	13	23	15	11	10
1961-1968.	13	20	15	11	11
<i>Europe</i>					
1961-1964.	12	10	3	13	20
1965-1968.	8	14	-2	12	13
1961-1968.	10	12	0 ^a	12	15
<i>Other regions</i>					
1961-1964.	22	13	27	19	14
1965-1968.	22	16	28	15	13
1961-1968.	22	14	28	17	13

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a United States Department of Commerce analysts indicate that over-all rates of return by area, especially in Europe, are frequently influenced by the accounting practices of the petroleum industry. See *Survey of Current Business*, October 1968, p. 26.

regions taken together, higher than that of Canada (9 per cent) and lower than estimates for Europe (12 per cent) and other regions (17 per cent) (see table 6). The weight that each region carries in the distribution of external investment in manufacturing should be borne in mind; in 1968, Canada absorbed 32 per cent, Latin America 15 per cent, Europe 41 per cent and other regions 12 per cent.

Comparing countries or regions, manufacturing is the only sector where there appears to be some relation between the growth rate of investment and yield. Canada, for instance, which has the lowest growth rate for investment (7.4 per cent), also has the lowest rate of return (9 per cent); on the other hand, the figures for "Other regions" show the highest rate both of growth of investment (16.4 per cent) and of return (17.0 per cent), followed by Europe with 13.9 and 12 per cent, and Latin America, in third place, with 12.8 and 11 per cent respectively.

If payments received for the transfer of technology are included under the head of profits, the rate of return increases by about two points. In the manufacturing sector, where the transfer of technology is greatest, the over-all

regional rate rises from 11 to 14 per cent (see table 7). In introducing this element into an analysis, the most important aspect is not so much the increased yield calculated on the basis of available data as the tendency for such remittances to represent a larger and larger proportion of total remittances and profits. Taking all the sectors and regions together, payments for transfers of technology climbed from 17 per cent of total remittances of profits in 1961 to 26 per cent in 1968. In the case of the manufacturing sector, the average over-all figure for all regions is 59 per cent, compared with 55 per cent for Canada, 56 per cent for Latin America and 63 per cent for Europe (see appendix, tables I and II). During the period 1965-1968, payments for transfers of technology to parent manufacturing enterprises for all regions accounted for one third of total returns, generally in direct ratio to the volume of business. There may therefore be a tendency for total remittances to be increasingly affected by the volume of production of subsidiaries abroad. The rate of return of international enterprises from their activities abroad is therefore likely to depend increasingly on the factor of production in which the parent firms have a relative advantage, i.e., their

Table 7. Rates of return on investment, including royalties and technical assistance, 1965–1968
(Percentages)

	Total	Petroleum	Manufacturing	Other sectors ^a
All regions	14	14	14	12
Canada	10	16	11	9
Latin America	15	16	14	10
Europe	12	10	15	15
Other regions	24	29	20	16

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a Including mining.

accumulated reserves of technology and their ability to increase them and apply them to new products and new processes.

Rates of return are almost without exception higher than investment growth rates, above all in the extractive sectors. Profit equals remittances plus reinvested earnings; the increase in investment is equal to new capital investment plus reinvested earnings. Consequently, the fact that the rate of return is higher than the rate of growth necessarily implies that there is a net outflow of capital (i.e., remittances are greater than new capital investment).⁵

When a sector such as manufacturing is analysed, still assuming that the return on investment rises faster than the investment, it may be shown that the difference (surplus) between earnings and the financing required for expansion is ploughed into other sectors. In this case there would be no short-term outflow of capital but, on the other hand, future remittances would tend to be greater. If all earnings were reinvested indefinitely and if reinvestment grew faster than local investment, then foreign capital would follow an asymptotic curve towards a total take-over of the country concerned, and the point would eventually be reached where remittances would have to be resumed. Be this as it may, such a hypothesis is scarcely compatible with the observed behaviour of investors residing abroad.

When the rate of return is higher than the rate of growth, part of the expansion may be financed by new external investment, in which case there will be a margin which may be used for remittances or to increase the amount of profits reinvested. In the extreme case, when expansion would be exclusively financed with new funds and the earnings of existing enterprises reinvested in their entirety, the balance of

payments would show an inflow of capital, but the foreign take-over would be more rapid and hence future remittances would be made at an accelerated pace. If, on the other hand, all profits were remitted, there would be a net outflow of capital equal to the product of the existing capital multiplied by the difference between the two rates.

The most favourable situation from the point of view of the balance of payments—but the least favourable in the eyes of the investor—is when the rate of return is lower than the rate of growth. It can only arise, however, when the investor expects there to be a change in this relationship, and it can never be a long-term trend for a whole group of enterprises. Otherwise, not only would the investor receive no profits, as would be the case if they were always reinvested, he would be continually paying out without receiving any yield on his investment whatsoever.

To sum up, the higher the growth rate of direct investment in a given sector, the greater the likelihood of a foreign take-over, whereas the wider the gap between the rate of return and the rate of growth, the greater the present of future net capital outflow. The way remittances are spread over time will depend on the rate of reinvestment in each sector; the higher the present rate of reinvestment, the larger the future remittances will be.

The tempo of remittances which is most advisable for the country receiving the investment will depend upon whether it wishes to have foreign exchange available immediately or prefers it to be available at some future time. If its balance-of-payments situation is critical, it will tend to stimulate reinvestment, even at the risk of hastening a foreign take-over and pushing up the level of future remittances. The latter will of course vary according to the type of activities the capital is being reinvested in; if they involve projects that are geared to the external market, then the future remittances may be offset by additional exports.

The aforementioned flow of capital applies

⁵ A discussion of this question, based on an analysis of General Motors Holden, Ltd., in Australia, is to be found in E. T. T. Penrose, "Foreign investment and growth of the firm", *Economic Journal*, June 1956.

exclusively to direct investment. It may happen that, under the influence of this investment, other inflows of capital, from government and international agencies, are induced in the form of loans or transfer payments which may change the sign of the net balance on direct investment or increase the balance with the same sign.

The inflows and outflows of foreign exchange that are likely to derive from the increase in exports and imports resulting from direct investment still remain to be considered. They are discussed below:

3. *The financing of the growth of United States foreign investment*

The effects of the operation of United States enterprises depend partly on the way in which their expansion is financed. It is important to analyse these effects in order to understand the operation of capital markets and to establish machinery for orienting this expansion. The factors determining the structure of the financing include: the target growth rate, the rate of return, the firms' policy with respect to remittances of profits and control of their total capital, the stage of development of the capital markets in the different countries in which the firms operate, and the kind of assets they wish to acquire.

The action or the mere presence of international enterprises may have an effect on how the private and public sectors use their financial resources. The public sector may be encouraged to concentrate resources in areas and sectors whose expansion is a prerequisite if the large-scale projects of international enterprises are to materialize and develop. The private banks may rechannel their short-term resources into the most solvent sectors with the fastest growth rates, in which these companies probably predominate. The firms themselves may also play their part in financing consumption of the products they manufacture. Private investors who formerly sought investment opportunities abroad may decide to invest in the country, attracted by projects directly or indirectly linked to international enterprises. In short, the capital market of a country in which such companies operate constitutes an exogenous factor for them only in the initial stage; subsequently, the capital market tends to develop along lines that will favour the expansion of those companies.

Other circumstances besides those prevailing in the countries where they operate may also affect the action of these enterprises. A critical balance-of-payments position in the home

country may cause the Government of that country to instruct firms to make more use of external capital markets.⁶

Since investment in manufacturing generally increases faster than investment in the extractive sectors, more financing will be required in manufacturing, and since the return on investment rises faster than the increase in investment, international manufacturing enterprises would be able to finance their expansion from their own resources if all their profits were reinvested.

Whether they can do so or not will depend on the remittance policy. As the difference between the rate of return and the rate of growth is bigger in the extractive sectors, it would seem that there is a greater margin here than in manufacturing for reinvestment in other sectors or for remittances. Thus, the first important factor to analyse is the remittance policy in the various sectors and regions.

In the period 1960-1968, the proportion of profits remitted abroad from all regions amounted to 81 per cent in mining, 94 per cent in the petroleum sector and 52 per cent in manufacturing. The figures for Latin America were 94 per cent in mining, 94 per cent in petroleum; and 48 per cent in manufacturing, where it is obviously rising. The proportion for all regions rose from an average of 50 per cent for the years 1960-1964 to 54 per cent for 1965-1968; in Canada, from 46 to 50 per cent; in Latin America, from 42 to 52 per cent; and in Europe, from 56 to 60 per cent. Only in "Other regions" was there a decline from 51 to 44 per cent. These figures suggest that United States enterprises are tending to finance their expansion with an increasing proportion of local resources (see table 8).

The slow growth of United States investment in the extractive sectors in Latin America and the remittance of practically all the profits give grounds for thinking that what might be des-

⁶ A case in point is the programme approved by the United States Government in February 1965, urging United States firms to increase their exports, develop new export markets, step up remittances of profits from their subsidiaries, postpone direct investment in marginal projects, limit direct investment abroad with funds originating in the United States, accumulate more funds in the developed countries in which they were operating, transfer the ownership of subsidiaries established abroad to foreign nationals and repatriate the capital, reduce to a minimum the amount of short-term financing made available to subsidiaries, and make the fullest possible use of United States transport facilities. The application of this legislation gave rise to discussion in the various countries affected by it. For an analysis of its repercussions in Canada, see A. E. Safarian, *Foreign Ownership of Canadian Industry* (Ottawa, McGraw-Hill, 1966).

Table 8. Profits of United States enterprises remitted to the United States, 1960-1968
(Percentages)

Region	Total	Mining and smelting	Petroleum	Manufacturing	Other sectors
<i>Total</i>					
1960-1964	70	83	94	50	52
1965-1968	72	80	95	54	62
1960-1968	71	81	94	52	57
<i>Canada</i>					
1960-1964	55	59	64	46	72
1965-1968	59	62	63	50	75
1960-1968	57	61	64	49	73
<i>Latin America</i>					
1960-1964	79	97	95	42	54
1965-1968	79	93	94	52	61
1960-1968	79	94	94	48	57
<i>Europe</i>					
1960-1964	56	123 ^a	104 ^a	56	46
1965-1968	67	100	-9 ^b	60	66
1960-1968	62	111	-520 ^b	58	57
<i>Other regions</i>					
1960-1964	82	69	97	51	42
1965-1968	79	74	93	44	44
1960-1968	81	72	95	47	43

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a Including repatriated capital.

^b Negative profits and repatriated capital.

cribed as a strategic withdrawal is taking place in those sectors.⁷ Although admittedly profit remittance rates are equally high in other regions, they go hand in hand with expanding investment, i.e., inflows of new capital.

To prove that United States manufacturing enterprises are tending to use a growing proportion of local resources, it is necessary to consider the evolution of the structure of their financing. New net capital investment is declining in relation to annual expenditure on plant and equipment. The proportion for all regions dropped from 37 per cent in 1960-1962 to 29 per cent in 1966-1968; in Latin America from 42 to 32 per cent; and in Europe, from 49 to 32 per cent (see table 9).

If the new net capital investment plus reinvestment is compared with the annual

expenditure on plant and equipment, the same trend is observable. For all regions the proportion fell from 68 to 52 per cent between 1960-1962 and 1966-1968. The sharpest drop was in Europe (71 to 48 per cent) (see table 10).

Since expenditure on equipment is only part of the total investment concerned, the foregoing observations cannot be taken as a final demonstration; a study must be made of the structure of financing of the total assets.

The United States Department of Commerce has investigated the sources and uses of the financing of United States enterprises abroad. It gives the following sources: profits, funds from the United States, funds from abroad, and depreciation. The uses include

Table 9. Ratio of net private capital investment to annual expenditure on manufacturing plant and equipment
(Percentages)

Region	1960-1962	1963-1965	1966-1968	1960-1968
<i>Total</i>	37	35	29	33
Canada	14	28	19	21
Latin America	42	35	32	35
Europe	49	40	32	38
Other regions	30	32	30	31

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

⁷ Leland L. Johnson, *U.S. Private Investment in Latin America: Some Questions of National Policy*, RAND Corporation's Memorandum RM-4092 ISA, of July 1964, analyses the different kinds of conflict that may arise between United States enterprises and the Governments of the countries in which they operate, and how such conflicts affect the United States' position in the region. Albert O. Hirschman, in "How to divest in Latin America, and why", *Essays in International Finance No. 76* (Princeton University, November 1969) justifies the need to withdraw and suggests ways of doing so.

Table 10. Ratio of new net private capital investment plus reinvestment to annual expenditure on manufacturing plant and equipment

(Percentages)

Region	1960-1962	1963-1965	1966-1968	1960-1968
Total	68	64	52	59
Canada	64	68	53	60
Latin America	77	69	61	67
Europe	71	63	48	57
Other regions	52	63	56	58

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

plant and equipment, stocks, accounts payable, other assets and remittances of profits.

Funds from the United States come not only from parent companies but also from other sources, both public and private. In this respect, the concept differs from the new net capital investment referred to above, which includes private investment only.

Funds from abroad comprise those obtained on local capital markets and from third countries, including small amounts from other United States subsidiaries.

There are accordingly three sources of financing: (1) the firm's own resources, consisting of reinvested profits plus depreciation funds; (2) funds obtained from outside the enterprise and outside the United States, mainly from the local capital market; and (3) resources from the United States, from both parent companies and other private and public sources.

It is interesting to establish the share of each of these sources in investment financing (total uses less remitted profits) and the evolution of this investment.

For all sectors and regions over the period 1957-65, 52 per cent of the funds which financed the growth of the total assets consisted of the firms' own resources generated locally, 27 per cent were obtained in the countries in which the firms were operating or in third countries, and only 21 per cent came from the United States. In manufacturing, only 17 per cent of the total resources came from the United States, 51 per cent were the firms' own funds, and 32 per cent were obtained locally (see table 11).

Several factors may account for this difference in the structure of the financing. Some have already been mentioned. Because of the slower growth of investment and higher return on it in the extractive sectors, companies in this sector have more internal resources. The fact that investment in machinery represents a much

larger proportion of the total in the extractive sectors than in manufacturing and that less of the machinery is manufactured locally may account for the smaller volume of local financing.⁸ Over half the annual investment in manufacturing was in stocks and liquid assets, for which more financing is available locally. Another factor which may also have some influence is the firms' attitude towards part ownership with local interests; there seems to be more readiness to accept this in manufacturing than in the extractive sectors.

In the manufacturing sector there was a reduction in the share of the firms' own resources and the funds obtained from the United States, while there was an increase in the resources obtained locally between 1957 and 1965. To sum up, the expansion of United States enterprises abroad is financed mainly with resources generated outside the United States. In Latin America this is particularly noticeable in the extractive sectors. Of the resources obtained outside the United States, those generated by the firm itself represent the lion's share, but this is gradually shrinking in favour of funds obtained locally. This pattern of financing presumably indicates that residents of other countries are beginning to share in the control of United States enterprises abroad.

The foregoing observations show that the expansion of United States enterprises depends only in small measure on new capital investment. Most of their growth derives from established enterprises and is based on resources generated or obtained by them. Therefore, in any action aimed at guiding the expansion of United States enterprises, special attention should be paid to the enterprises that are already established and to the operation of the various local sources of financing.

B. INTERNATIONAL ENTERPRISES BELONGING TO THE UNITED STATES AND THE UNITED STATES ECONOMY

1. Introduction

In the analysis of the links between foreign subsidiaries and the economy of the home country, it is important to distinguish between: (1) the relationship between the level of activity of United States firms abroad and the level of activity of the United States economy; (2) the flow of goods between subsidiaries and the parent firms in the United States; (3) the

⁸ On an average over the period 1957-1965, expenditure on plant and equipment in Latin America represented 77 per cent of annual investment in mining, 86 per cent in petroleum and only 45 per cent in manufacturing.

Table 11. Financing of investment in United States enterprises, by region, sector and source of funds
(Percentages)

Region and sector	1957-1959			1960-1962			1963-1965			1957-1965		
	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States
<i>All regions</i>												
Mining and smelting	0.52	0.22	0.26	0.57	0.24	0.19	0.48	0.32	0.20	0.52	0.27	0.21
Petroleum	0.46	0.13	0.41	0.63	0.20	0.17	0.68	0.26	0.06	0.60	0.20	0.20
Manufacturing	0.48	0.23	0.29	0.61	0.15	0.24	0.43	0.29	0.28	0.50	0.23	0.27
	0.57	0.24	0.19	0.53	0.30	0.17	0.49	0.35	0.16	0.51	0.32	0.17
<i>Canada, total</i>												
Mining and smelting	0.57	0.13	0.30	0.70	0.12	0.18	0.64	0.22	0.14	0.64	0.17	0.19
Petroleum	0.40	0.20	0.40	0.52	0.14	0.34	0.75	0.23	0.02	0.58	0.19	0.23
Manufacturing	0.42	0.24	0.34	0.66	0.11	0.23	0.58	0.18	0.24	0.55	0.18	0.27
	0.77	0.01	0.22	0.81	0.11	0.08	0.63	0.24	0.13	0.71	0.15	0.14
<i>Latin America, total</i>												
Mining and smelting	0.50	0.17	0.33	0.71	0.23	0.06	0.60	0.31	0.09	0.59	0.24	0.17
Petroleum	0.46	0.11	0.43	1.08	0.26	-0.34	1.04	0.13	-0.17	0.78	0.14	0.08
Manufacturing	0.57	0.09	0.34	1.06	0.01	0.07	0.96	0.14	-0.10	0.79	0.08	0.13
	0.36	0.40	0.24	0.38	0.40	0.22	0.38	0.40	0.22	0.38	0.40	0.22
<i>Europe, total</i>												
Mining and smelting	0.44	0.37	0.19	0.42	0.30	0.28	0.40	0.38	0.22	0.41	0.35	0.24
Petroleum	-1.00	-0.50	0.50	1.25	-0.50	0.25	0.32	0.23	0.45	0.44	0.04	0.52
Manufacturing	0.30	0.44	0.26	0.33	0.18	0.49	0.22	0.40	0.38	0.27	0.35	0.38
	0.52	0.33	0.15	0.46	0.35	0.19	0.47	0.37	0.16	0.48	0.36	0.16
<i>Other regions, total</i>												
Mining and smelting	0.58	0.23	0.19	0.51	0.29	0.20	0.38	0.35	0.27	0.46	0.31	0.23
Petroleum	0.82	-0.18	0.36	0.48	0.30	0.22	0.29	0.41	0.30	0.40	0.31	0.29
Manufacturing	0.57	0.23	0.20	0.55	0.24	0.21	0.36	0.28	0.36	0.47	0.26	0.27
	0.56	0.29	0.15	0.43	0.39	0.18	0.42	0.42	0.16	0.44	0.39	0.17

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

exchange of technology between both groups of firms;⁹ (4) the flow of capital between the subsidiaries and the parent firms.

In an enterprise¹⁰ that is initiating or expanding its activities abroad there will be an initial supply of capital from the United States, part of which will be used to acquire equipment, which can, in part, be purchased from the parent firm or from other United States firms at home or abroad. A certain proportion of physical inputs and components that are not manufactured locally may be required for production, and part of these will be imported from United States firms, one of which may be the parent company. The design of the equipment and plant, the use of specific processes or trade marks and a certain amount of servicing may involve payments by the subsidiary under the head of transfer of technology. If the subsidiary makes technological innovations that are of interest to the parent company, the process will be reversed, and the parent company will pay the subsidiary for its technology.

Part of the output may be sold locally and part exported to the United States or other countries. Some of the profits will be remitted to the parent company and some reinvested.

The purchase locally of physical inputs and components may induce certain suppliers to import equipment, some inputs and the know-how to use them from the United States, with a view to meeting the technical requirements of the local United States firm. Events may take a similar course with respect to the users of goods produced by the United States firm. This is particularly true in the case of equipment and new intermediate products. In that case, the local firm will make no attempt to modernize its activities in order to satisfy the technical requirements of the firm to which it will supply its goods; it will merely make adaptations to enable it to take advantage of the potentialities of the new goods purchased, introduced by the United States firm.

Some of the local industries that previously imported goods and technology may exploit any comparative advantages they have in other fields and become exporters, even to the United States. Part of the financing required for the installation and operation of these local firms that have technological links with the United States firms may come from

the United States, in which event there will be inflows of funds due indirectly to the presence of the subsidiary companies.

The latter may, besides using their own capital, seek outside funds, which may be provided by the parent company or by financing institutions in the United States or in third countries, or by local institutions. Consequently, there will be a certain degree of interdependence between trends in speculative investment in the enterprise and loans to finance its normal operation.

Besides influencing the technology employed by local firms, the subsidiaries may have a financial stake in them also. Depending on what proportion of the local firm's shares they own and on the type of ownership, they may influence its management, which in turn may lead to imports or exports of goods and services and the purchase of technology from the country of origin.

The same sort of relationship that exists between United States and local firms will arise between the United States firms themselves. Thus, the presence of United States outlets will encourage other United States firms to set up subsidiaries which will eventually produce locally the parts and equipment which they used to export from the United States. This process may be speeded if the nationalization index (the proportion of parts that must be locally manufactured) is too high for the established local firms to cope with.

Side by side with this vertical chain reaction there will also be a horizontal chain reaction, as the use of certain goods will require that other complementary goods or services be available that cannot always be supplied locally. A typical example would be the relationship between the production of automobiles, the manufacture of machinery for road building and the provision of engineering skills for the design and construction of a new urban and inter-urban infrastructure.

The extent of the chain reaction will partly depend on how far the local firms can cope with the additional needs generated by the new goods and services introduced by foreign firms.

In short, the flows of goods and services will consist principally in exports of equipment, components and raw materials to the subsidiaries and to non-United States firms with which they have technical or financial links, in imports of goods from those enterprises, and in the freight and insurance paid on the shipments. Financial flows will consist essen-

⁹ The technology that goes into goods and services is not included in this item.

¹⁰ What is said about United States enterprises in this section applies to enterprises of other countries as well.

tially in risk capital (direct capital investment) and loans, in one direction, and in remittances of profits, dividends and interest on them in the other. Transfers of technology could produce an inflow to the home country of income from the sale of technology and from royalties paid for the use of technology, and the technology itself may develop abroad in the subsidiaries or in firms which are technologically or financially linked to them.

It may be assumed that a considerable number of the transactions mentioned above appear in the records of the United States Department of Commerce, with all the statistical errors, omissions and adjustments inherent in such compilations. The major difficulty from the point of view of analysis does not lie in those transactions that are not clearly identifiable; it lies in the fact that only a fraction of those that are recorded can be clearly associated with the operations of subsidiaries in foreign countries. No information is available which would enable the analyst to identify the transaction of those non-United States firms which, through their technological or financial links with United States subsidiaries, have been encouraged to establish relations with United States enterprises or organizations. But it is not only the transactions resulting from the presence of the subsidiaries that are the problem; the operations in which the subsidiaries participate directly are also a problem.

The flows that can be associated quantitatively with the presence of United States firms abroad are those that the United States Department of Commerce records under the heading of "direct private investment abroad", which corresponds to investment in United States firms abroad.

However, this information does not give a full picture of the interaction between the enterprises located abroad and the United States economy. The following examples may be cited. First, the financing obtained by United States firms abroad from government financial institutions in the United States is recorded as government financing. However, the amount depends on the level of activity of the enterprises and their financing policies. In the second place, the purchase by United States residents of shares in United States firms abroad that were previously locally owned is recorded in the balance of payments as private investment in United States enterprises. Obviously, the subsidiaries will not receive any new funds from a mere change in the ownership of the shares. Thirdly, portfolio investment—purchases of shares in and financing of non-

United States firms abroad—does not appear under the head of direct investment. It is connected with direct investment, however, and gives rise to physical and monetary flows that influence the United States economy.

2. Level of activity of the subsidiary firms and of the United States economy

It is useful to know the scale of operations of the foreign-based subsidiaries compared with the economy of the home country, as regards the present situation, growth trends in the recent past, and future prospects.

Such comparisons do not help to assess the influence of the activities of the subsidiaries on the economy of the United States; they merely indicate the quantitative relationship between the scales of activity. The analysis of the interdependence of the subsidiary firms and the country of origin can be effected only through a study of the flows of goods, technology and capital between the foreign-based enterprises and those in the United States. That analysis will be made in the following paragraphs.

Total investment abroad in manufacturing for the years 1950 and 1968 grew three times as fast as the production capacity of United States industry (annual averages 12.4 per cent and 4.8 per cent respectively). In Latin America, where expansion is slower than in other regions, investment grew at double the United States rate, 9.5 per cent (see table 12).

Between 1957 and 1965, the growth rate of foreign sales was slightly less than double that of industrial production in the United States. The difference between the two rates increased from 1961 to 1965. In all sectors, the expansion of foreign sales was greater than or equal to the growth of sales in the United States. The most rapidly expanding sectors in the United States were generally those that were booming abroad (chemicals, non-electrical machinery and transport equipment). The growth rate of the most rapidly expanding sectors in the United States was less than the average growth rate for the whole range of manufacturing abroad (see table 13).

The food industry, which is the least dynamic in the United States, follows a similar trend abroad. The ratio of the foreign growth rate to the domestic growth rate is apparently greater for the two least dynamic sectors in the United States—foods, and pulp and paper—(2.1 and 1.7 respectively expressed as percentages). The lowest ratio is found in the electrical machinery and rubber goods industries. It may thus be concluded that, though the

Table 12. Comparison between the growth of United States investment in the manufacturing industry abroad and the growth of the productive capacity of the manufacturing industry in the United States
(1950 = 100 and 1960 = 100)

Indexes	1950	1960	1961	1962	1963	1964	1965	1966	1967	1968	Annual growth rate		
											1950-1968	1950-1960	1960-1968
United States investment in manufacturing abroad ^a	100	345 100	376 109	414 120	466 135	528 153	604 175	690 200	756 219	821 238	12.4	13.2	11.5
United States investment in manufacturing in Latin America ^a	100	196 100	220 112	251 128	284 145	323 165	380 194	427 218	461 235	514 262	9.5	7.0	12.8
United States investment in manufacturing in Brazil ^a	100	320 100	337 105	380 119	412 129	415 130	449 140	525 164	555 173	634 198	10.8	12.3	8.9
Productive capacity of the manufacturing in the United States ^b	100	161 100	167 104	172 107	179 111	187 116	195 121	209 130	224 139	232 144	4.8	4.9	4.7

SOURCES: ^aUnited States Department of Commerce, *Survey of Current Business*, various issues.

^bStatistical Abstract of the United States, 1968, p. 719

Table 13. United States: growth of foreign sales and domestic production
(Percentages)

	Growth rate of industrial production ^a			Growth rate of foreign sales ^b		
	1958-1961	1961-1965	1958-1965	1957-1961	1961-1965	1957-1965
Manufactures	5.4	7.2	6.5	8.2	14.1	11.0
Food products	3.9	2.7	3.1	6.8	6.0	6.4
Paper and paper products	5.4	5.7	5.6	4.7	14.7	9.5
Rubber products	3.5	9.6	6.9	5.3	8.4	6.9
Chemicals and chemical products	9.2	9.0	9.0	12.7	15.2	13.9
Basic metals	4.2	8.6	6.7	4.9	15.2	9.9
Metal products	4.8	8.8	7.0			
Machinery, non-electrical	6.8	10.7	9.0	11.0	16.2	13.5
Electrical machinery	8.6	8.6	8.6	2.2	15.3	8.6
Transport equipment	5.4	9.4	7.6	9.2	15.7	12.4

^a ECLA, on the basis of United Nations, *The Growth of World Industry*, 1967, vol. 1, p. 241.

^b ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, November 1966, p. 719.

degree of technological complexity may explain the rate of growth, both inside and outside the United States, it does not explain the relation between the two rates.

In order to appreciate the relative importance of the activity of foreign-based companies, a comparison may be made of the expenditure on plant and equipment abroad and in the United States. For all the manufacturing industries on which information is available, expenditure abroad amounted to 15.5 per cent of expenditure at home in 1960, and it rose to 29.2 per cent in 1966. In the mining and petroleum sectors combined, the proportion rose from 52.1 per cent in 1960 to 60.1 per cent in 1966. In the rubber products industry expenditure abroad accounted for a larger percentage of domestic expenditure in both 1960 and 1966 (29.6 and 43.7 per cent, respectively). In 1966, the chemical and transport equipment industries followed it, with expenditure abroad amounting to 39.2 and 37.4 per cent, respectively, of domestic expenditure (see table 14).

In analysing the above data, it must be borne in mind that they represent a comparison between the activities of the United States firms operating abroad and those of the whole of United States industry. If the comparison were only between subsidiary and parent companies, the proportion of expenditure abroad would be much higher. Furthermore, only the top flight of United States firms—in terms of size and of funds devoted to research and development—are being compared with the universe of United States industrial enterprises.

By applying certain hypotheses, it is possible to estimate the relative size of the stock of equipment abroad and in the United States. For the year 1966, the stock of equipment

abroad is estimated at 14 per cent of the stock in the United States; in mining and petroleum the proportion is estimated to be 46 per cent.¹¹ (see table 15).

Assuming that current trends continue in the next few years, expenditure on equipment by foreign-based subsidiaries in 1980 may be estimated higher than that of national industry in the United States (an estimated 131 per cent). The situation would vary in the different manufacturing sectors. In the chemical industry, expenditure abroad would far exceed expenditure at home. At the other end of the scale, foreign expenditure in the food industry in 1980 would be about one third of domestic expenditure. For mining and petroleum, expenditure abroad would be slightly less than that in the United States (see table 16).

In respect of the manufacturing sector as a whole, it is estimated that the stock of equipment outside the United States is about two-thirds of the stock inside the country. The chemical industry is the only sector where the foreign stock is estimated to be greater than the domestic stock. In mining and petroleum, the proportion would be about the same as that estimated for the manufacturing sector as a whole (two thirds).

It might reasonably be assumed that by 1980, most large-scale enterprises, with the possible exception of those in the food industry, would

¹¹ $\alpha = \frac{\delta E_x/E_x}{\delta E_d/E_d}$ Ratio of the rate of growth of the stock of equipment outside to its rate of growth in the United States.

$\beta = \frac{\delta E_x}{\delta E_d}$ Ratio between the increments outside and inside the United States. For the final ratio between the stock abroad and at home divide α by β .

Table 14. Expenditure on plant and equipment by United States firms at home and abroad, 1960-1966
(Millions of dollars)

Sectors	Manufacturing, total sectors chosen	Food	Pulp, paper and paper products	Chemicals	Rubber and rubber products	Metals and manufactures ^a	Machinery, non- electrical	Electrical equipment	Transport equipment	Mining and petroleum
<i>1960</i>										
A	7,600	920	750	1,600	230	1,010	1,100	680	1,310	3,630
B	1,185	97	78	237	68	133	132	104	336	1,893
B/A percentage	15.5	10.5	10.4	14.8	29.6	13.2	12.0	15.3	25.6	52.1
<i>1961</i>										
A	7,340	980	680	1,620	220	920	1,100	690	1,130	3,740
B	1,528	116	71	277	91	169	190	141	473	1,892
B/A percentage	20.8	11.8	10.4	17.1	41.4	18.4	17.3	20.4	41.9	50.6
<i>1962</i>										
A	7,840	1,130	710	1,650	250	1,060	1,240	690	1,210	3,820
B	1,702	113	70	329	87	142	185	158	618	2,224
B/A percentage	21.7	11.0	10.0	19.9	34.8	13.4	14.9	22.9	51.0	58.2
<i>1963</i>										
A	8,160	970	720	1,610	240	1,100	1,240	690	1,590	3,960
B	2,028	132	134	436	98	204	330	164	530	2,287
B/A percentage	24.9	13.6	18.6	27.1	40.8	18.5	26.6	23.8	33.3	57.8
<i>1964</i>										
A	9,940	1,060	940	1,970	270	1,410	1,640	660	1,990	4,550
B	2,712	157	166	621	109	299	415	212	733	2,486
B/A percentage	27.3	14.8	17.7	31.5	40.4	21.2	25.3	32.1	36.8	54.6
<i>1965</i>										
A	12,070	1,170	1,130	2,470	350	1,660	1,990	880	2,500	5,140
B	3,554	182	213	870	164	356	594	218	957	2,934
B/A percentage	29.4	15.6	18.8	35.2	46.9	21.4	29.8	24.8	38.3	57.1
<i>1966</i>										
A	15,202	1,440	1,460	2,960	430	1,802	2,990	1,130	2,990	5,910
B	4,435	205	271	1,159	188	463	765	265	1,119	3,553
B/A percentage	29.2	14.2	18.6	39.2	43.7	25.7	25.6	23.5	37.4	60.1

SOURCE: United States Department of Commerce, *Survey of Current Business*, September 1962, p. 21; September 1965, p. 30 and September 1966, p. 33.

N.B.: A = Expenditure in the United States.

B = Expenditure abroad, including purchase of fixed capital assets.

^a Excluding unprocessed iron and steel products.

find that at least half of their business originated outside the United States. Such a shift in the concentration of production would imply that the economic development of countries outside the United States would be of increasing importance to the firms which substantially decide the course of the United States economy; and this means that those countries would be in a stronger position for bargaining with international enterprises owned by the United States, particularly if they co-ordinated their efforts at the regional level.

3. Flow of goods

The effect of subsidiary firms' production activities on United States exports depends, *inter alia*, on the import coefficient of the subsidiaries, the rate of growth of production abroad, the speed at which the particular type of manufacture produced changes, the activities of the subsidiaries as distributors of products manufactured by the parent company, and the net effect on the countries' capacity to import.

Exports through subsidiaries over the past decade are estimated on average at 25 per cent of United States exports of manufactures. Since the production of subsidiaries is expanding much more rapidly than exports of United States manufactures, the proportion of total exports made through subsidiaries is tending to increase; assuming that past trends continue, it would be about 63 per cent of the United States total exports of manufactures by 1980.

In this way, a large proportion of United States exports would not flow through the normal international trade channels, which would help to mitigate the effect of a possible loss of competitiveness of some United States manufactures on the world market. With the establishment of United States subsidiaries in a country, it would be tacitly decided to import products from the United States.

Thus, more and more of United States exports of manufactures are being handled by the big United States enterprises, i.e., those operating abroad. These companies are not only responsible for a large part of the research and development activities of United States industry, which would account for the structure of its exports,¹² but it is increasingly through

them that United States exports reach the rest of the world.

Sales by subsidiaries and exports from the United States show different trends in different regions. Latin America has partly replaced imports from the United States by the local production of United States subsidiaries. In Canada and Europe, the increase in sales by subsidiaries has run parallel with a rise in imports from the United States, although the latter have grown more slowly. From 1957 to 1965 Latin America declined in importance as a market for United States exports of manufactures, but continued to have virtually the same importance as a market for United States subsidiaries. The opposite was true of Canada. Only in Europe did the market expand and absorb both more United States exports and more products from United States subsidiaries. In 1957 it absorbed 15.9 per cent of United States exports of manufactures and 35.1 per cent of the total sales of United States subsidiaries abroad; in 1965 it absorbed 29.4 per cent and 45 per cent respectively (see tables 17 and 18).

For an analysis of the effect of subsidiaries on imports from the United States, a distinction must be made between primary products and manufactures. In the case of primary products, the subsidiaries were established in the countries concerned to seek sources of supply; accordingly, their production is destined mainly for export. In the case of manufactures, what they seek is consumer purchasing power, and with few exceptions they have hitherto been geared to the domestic market (see tables 19 and 20).

United States mining subsidiaries operating in Latin America export about 80 per cent of their output, half to the United States and half to third countries. Exports to the United States represent approximately 80 per cent of that country's total imports of mining products. Manufacturing subsidiaries sell more than 90 per cent of their output on Latin American markets and about 8 per cent to Canada and Europe. Canada's exports of manufactures go chiefly to the United States and represent about 50 per cent of that country's total imports from Canada. Exports from subsidiary firms in Europe go mainly to the European regional market. United States imports of manufactures from subsidiaries abroad represent one quarter of its total imports of manufactures and come mainly from Canada. Imports from subsidiaries in other regions represent only a small percentage of its total imports from those regions.

¹² C. P. Kindleberger, *Foreign Trade and the National Economy* (Yale University Press, 1962); R. Vernon, "International investment and international trade in the product cycle", *Quarterly Journal of Economics*, May 1966; D. S. Keesing, "Labor skills and international trade: Evaluating many trade flows with a single measuring device", *Review of Economics and Statistics*, August 1965.

Table 15. Relationship between assets in the form of equipment abroad and in the United States (Percentages)

	High estimate	Medium estimate	Low estimate
<i>Manufacturing sector as a whole</i>	17	14	12
Food	9	8	6
Pulp, paper and paper products	11	10	8
Chemicals	17	14	12
Rubber and rubber products	31	26	22
Metals and manufactures	13	11	9
Machinery, non-electrical	16	14	11
Electrical equipment	15	12	10
Transport equipment	30	25	21
Mining and petroleum	55	46	38

SOURCE: United States Department of Commerce, *Survey of Current Business*, November 1966.

4. Flow of technology

Given that the rapid expansion of United States enterprises in foreign markets is partly due to United States technological supremacy, it is interesting to establish what role such enterprises play in the transfer of technical know-how.

Payments between enterprises are not a good yardstick for measuring the amount of know-how transferred from one firm to another, since they do not cover the technology that goes into goods and services; furthermore, the criterion for assessing the value of the know-how transferred from the parent company to its subsidiaries tends to be somewhat arbitrary. The countries' legislation governing remittances of profits and the introduction of foreign techniques may have no small part to play in this assessment. In spite of these limi-

Table 16. Ratio of annual expenditure and assets in the form of equipment of foreign-based subsidiaries to the same expenditure and assets in the United States: projection to 1980 (Percentages)

	Annual expenditure abroad	Assets in the form of equipment abroad		
		Assets in the form of equipment in the United States		
	Annual expenditure in the United States	High estimate	Medium estimate	Low estimate
<i>Total for the manufacturing sector</i>	131	77	65	54
Food	32	21	18	15
Pulp, paper and paper products	72	44	37	30
Chemicals	367	158	132	110
Rubber and rubber products	109	78	65	54
Metals and manufactures	121	64	53	44
Machinery, non-electrical	150	95	80	67
Electrical equipment	63	40	34	28
Transport equipment	88	70	59	49
Mining and petroleum	84	77	64	53

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

Table 17. Exports by United States manufacturing enterprises and sales by their subsidiaries, by region of destination (Percentages of world total)

Region	1957	1959	1961	1962	1963	1964	1965
<i>Latin America</i>							
Exports	28.5	24.6	20.5	18.2	16.4	16.5	16.8
Sales	11.5	11.7	13.1	13.1	12.1	12.4	12.0
<i>Canada</i>							
Exports	22.8	24.7	20.2	20.0	20.3	20.9	24.7
Sales	43.9	40.1	33.5	32.8	31.8	30.5	31.6
<i>Europe</i>							
Exports	15.9	17.1	24.5	24.3	25.5	26.9	29.4
Sales	35.1	38.9	44.2	44.4	45.3	45.3	45.0
<i>Latin America, Canada and Europe</i>							
Exports	68.5	66.6	65.3	62.6	62.2	64.4	70.9
Sales	90.6	90.7	90.9	90.2	89.3	88.4	88.6

SOURCES: Exports: UNCTAD, *Handbook of International Trade and Development*, 1969 (data presented according to the Standard International Trade Classification (SITC), sections 5, 6 and 7).

Sales: United States Department of Commerce, *Survey of Current Business*, November 1966 (data presented according to the Department of Commerce classification); foodstuffs are not included.

Table 18. Rates of growth of United States exports of manufactures and sales by manufacturing subsidiaries abroad, 1957-1965
(Percentages)

Region	Chemicals		Machinery and transport equipment		Other sectors		Total	
	Exports	Sales	Exports	Sales	Exports	Sales	Exports	Sales
Latin America	0.8	13.8	-2.0	14.0	-3.5	9.2	2.2	12.3
Canada	5.6	8.2	6.8	6.9	2.4	7.0	5.2	7.1
Europe	11.2	16.2	13.9	14.9	10.6	15.1	12.3	15.2
WORLD TOTAL	6.8	13.9	4.7	11.8	1.8	10.3	4.1	11.6

SOURCE: Exports: UNCTAD, *Handbook of International Trade and Development Statistics*, 1969 (data presented according to the Standard International Trade Classification (SITC), sections 5, 6, 7 and 8).

Sales: United States Department of Commerce, *Survey of Current Business*, November 1966 (data presented according to the Department of Commerce classification).

Table 19. Distribution of sales of United States subsidiaries in the mining sector (excluding petroleum)
(Percentages of total sales)

	Year	Total	Canada	Latin America	Europe ^a
Exports to the United States	1957	44	54	44	6
	1963	40	47	47	4
	1964	36	45	37	^b
	1965	36	43	40	2
	1957	40	29	45	69
Exports to other countries	1963	42	30	40	76
	1964	42	28	46	80
	1965	41	28	42	82
	1957	84	83	89	74
	1963	82	77	87	80
Total exports	1964	79	73	84	80
	1965	77	72	82	83
	1957	16	17	11	26
	1963	18	23	13	20
	1964	21	27	16	20
Local sales	1965	23	28	18	17

SOURCE: United States Department of Commerce, *Survey of Current Business*, November 1966.

^a Little mining is done by United States companies.

^b Less than 500,000 dollars.

Table 20. United States: imports of manufactures from subsidiaries
(Percentages of total imports in each sector)

	1957		1965
	All regions	Canada	All regions
Paper and paper products	46	50	49
Chemicals	34	64	22
Rubber products	19	50	5
Machinery, non-electrical	19	24	14
Electrical machinery	16	44	7
Transport equipment	22	25	23
TOTAL	33	48	25

SOURCE: United States Department of Commerce, *Survey of Current Business*, November 1966.

tations, however, the available data on payments from one enterprise to another for the transfer of technology is the best way of determining what role United States firms established abroad play in this process.

In 1965, receipts from the sale of United States know-how were approximately nine times the amount spent by United States enterprises on acquiring know-how from abroad. From 1957 to 1965 they grew by 15.8 per cent annually, and expenditure by 13.6 per cent annually. In other words, the United States' technological balance of payments reflects not only a very large but also an increasing surplus (see table 21).

The sale of know-how to independent firms, which represents barely 25 per cent of the total sales, increased by 10 per cent annually from 1957 to 1965. On the other hand, payments for know-how obtained from foreign firms represented 50 per cent of the total payments for imported technology and increased by 14.7 per cent annually. That is to say, United States firms showed a favourable balance on their transaction with foreign firms relating to technology, but expenditure represented an

Table 21. United States: technological balance with the rest of the world, 1957-1965
(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts	378	414	514	650	711	837	927	1,057	1,225
Payments	48	51	52	67	80	100	111	127	133
Balance	330	363	462	583	631	737	816	930	1,092

SOURCE: OECD, *Review of National Science Policy: United States*, 1968, based on data supplied by the United States Department of Commerce.

ment of Commerce.

increasing proportion of their income (see table 22).

During the same period, the sale of technology to subsidiaries (75 per cent of the total) rose by 18.5 per cent annually and purchases by 12.6 per cent. From the standpoint of both the United States and other countries, a distinction should be made between these two flows. The parent company has much greater control of the know-how when it is sold to a subsidiary company than when it goes to an independent firm; this know-how will probably increase the competitiveness of the country in which the subsidiary is located, but only in relation to less developed third countries, while know-how purchased by an independent firm may boost the competitive capacity of industry in the country acquiring it, even in relation to the United States.

At the same time, the technical innovations introduced by a subsidiary will tend, in general, to reinforce the United States' competitive capacity rather than that of the country in which the subsidiary is operating (see table 23).

The regional distribution of the sale of technology to subsidiaries may provide some indication of the technological content of the products concerned. To that end, however, a separate analysis must be made of the two "products" involved in the sale of know-how: patent royalties and manufacturing licence fees, on the one hand, and management services, on the other. The former may be assumed to reflect more directly the transfer of production know-how, and the second that of managerial skills. By way of a hypothesis, the type of product sold by subsidiaries in developed countries may be assumed to be technologically more complex than those sold by subsidiaries

in developing countries. This would mean that there would be more production know-how in the technology sold to subsidiaries in developed countries. In contrast, there would be a greater need for managerial skills in the less developed countries, so that such skills would represent a larger proportion of the sales of technology to subsidiaries in these countries.

The available data bear out this hypothesis. According to these data, subsidiaries in Japan, the United Kingdom and the rest of Europe absorb the most production know-how in relation to sales, and those in Canada, Latin America and the rest of the world absorb the most management know-how. In the more developed regions, the proportion of sales by subsidiaries is lower than the United States sales of production know-how to the subsidiaries. In the less developed regions, the proportion of sales is lower than that of the sale of management know-how (see table 24).

The regional distribution of the purchase of technology from subsidiaries suggests that subsidiaries established in developing countries devote little attention to research and development, which does nothing to promote local industry; the technological gap between the country of origin and that in which the subsidiary operates is therefore widening (see table 25).

It may be concluded from the foregoing observations that there are no grounds for expecting the best remedy for the technological backwardness of certain countries to be the presence of international firms, and still less reason for thinking that such firms will become more competitive on the world market for manufactures.

Table 22. United States: technological balance with foreign firms, 1957-1965
(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts	140	168	166	247	248	257	267	301	301
Payments	22	25	28	40	46	43	50	60	66
Balance	118	143	138	207	202	214	217	241	235

SOURCE: OECD, *Review of National Science Policy: United States*, 1968, based on data supplied by the United States Department of Commerce.

ment of Commerce.

Table 23. United States: technological balance between parent companies and subsidiaries abroad, 1957-1965
(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts from sales of technology to subsidiaries	238	246	348	403	463	580	660	756	924
Payments for technology from subsidiaries	26	26	24	27	34	57	61	67	67
Balance	212	220	324	376	429	523	599	689	857

SOURCE: OECD, *Review of National Science Policy: United States*, 1968, based on data supplied by the United States Department of Commerce.

Table 24. Regional distribution of sales by subsidiaries and of the sale of know-how to subsidiaries by the United States, 1964-1965
(Percentages of the total)

	Canada	Latin America	United Kingdom	Rest of Europe	Japan	Rest of the world
<i>Sales 1964.</i>	31.0	13.2	18.3	26.4	1.9	9.2
Sale of production know-how	18.2	12.9	23.3	34.7	4.2	6.7
Sale of management know-how	33.1	13.7	15.6	24.2	1.9	11.5
Total sales of know-how	26.8	13.5	18.8	28.6	2.8	9.5
<i>Sales 1965.</i>	31.7	12.9	44.3		11.1	
Sale of production know-how	20.1	11.9	58.5		9.5	
Sale of management know-how	29.5	15.6	41.3		13.6	
Total sales of know-how	25.3	13.9	48.9		11.9	

SOURCE: ECLA, on the basis of OECD, *Review of National Science Policy: United States*, 1968.

Table 25. Regional distribution of sales by subsidiaries and of the sale of know-how by subsidiaries to the United States, 1964
(Percentages of the total)

	Canada	Latin America	United Kingdom	Rest of Europe	Japan	Rest of the world
Sales by subsidiaries	31.0	13.0	18.3	26.4	1.9	9.2
Sale of know-how by subsidiaries to the United States	20.7	—		23.5	52.9	2.9

SOURCE: ECLA, on the basis of OECD, *Review of National Science Policy: United States*, 1968.

From 1957 to 1965 the sale of technology through subsidiaries increased almost three times as fast as sales of goods, a little less than twice as fast as income from capital investment abroad, and nearly two-and-a-half times as fast as the resources earmarked by United States industry for research and development.¹³ If these trends continue in the next few years, by 1980 the United States technological balance will be 18 per cent of its total sales of goods, 69 per cent of its income from capital investment abroad, and 55 per cent of the funds set aside by United States industry for research and development. Therefore, the expansion of subsidiaries abroad would generate resources merely through the transfer of technology to a value which would be more than half the amount United States industry would be investing in order to maintain its technological supremacy.

¹³ The information on industry's expenditure on research and development is obtained from the United States, National Science Foundation, *National Patterns of R-D Resources, 1953-1968*.

The presence of subsidiaries abroad also enables United States industry to keep abreast of the world market's technological requirements and in constant touch with the innovations introduced by enterprises in the countries where they are operating, and with which they compete on the world market.

To sum up, subsidiaries abroad constitute an important motivation for technological development in United States industry, provide information which is useful in guiding such development, help to finance it, transfer technology to other countries and operate as an efficient way of pouncing on the technological advances made in the countries in which they operate.

5. Capital flows

This section analyses the flow of capital resulting from United States direct private investment abroad. It deals both with the private capital investment in enterprises established in other countries but controlled by United States residents and with remittances

to the United States of profits earned by them. On the other hand, the analysis does not cover portfolio investments in enterprises not owned by United States residents or capital contributed by public institutions in the United States, even though it may be invested in United States companies abroad.

Obviously, some of the capital movements not taken into account are connected with direct investment. In fact, net movements associated with direct investment in a given sector and region may sometimes bear a different sign from that of the net flow of capital which has been left out of this analysis but which is nonetheless induced by direct investment. In other words, not only will no attempt be made to measure the total direct or indirect net effect of the transfer of capital from the United States to other countries, but it may well be that the sign obtained from the analysis is not the same as it would have been if account had been taken of all capital movements resulting from the presence of United States firms abroad (see tables 26 and 27).

Between 1960 and 1968, remittances of profits to the United States by subsidiaries abroad exceeded the capital flow in the opposite direction by 10,000 million dollars, which is roughly a third of all United States capital investment in other countries in 1960. Some 80 per cent of this balance in favour of the United States derived from the petroleum industry, that is, approximately 73 per cent of the capital invested in the sector at the beginning of the period. Manufacturing indus-

try was the only sector where the inflow of capital exceeded the outflow of remittances and where the favourable balance was only about 9 per cent of investment in the sector in 1960.

The only region where the capital inflow was greater than the outflow of remittances was Europe, where the favourable balance was approximately 72 per cent of United States investment in Europe in 1960.

Latin America's negative balance of around 6,700 million dollars was 81 per cent of accumulated investment up to 1960. Here the manufacturing sector alone showed a surplus—equal to 25 per cent of investment in the sector in 1960. Latin America's negative balances in mining and petroleum exceeded the 1960 level of investment by 158 and 137 per cent respectively (see tables 26 and 27). Since investment in the extractive sectors was minimal in Argentina, Brazil and Mexico, their balances, unfavourable though they were, did not amount to more than 1 per cent of their exports during the period; in the other countries, however, the negative balance was equal to 11 per cent of total exports (see table 28).

Looking to the future, the probable outlook is as follows: (1) continuing high growth rates of investment in manufacturing; (2) low growth rates of investment in the extractive sectors, particularly in Latin America; (3) a drop in the yield on investment in the extractive sectors of Latin America, Asia and Africa as a result of the growing role of the countries in the marketing of their natural resources; (4) a growing

Table 26. Difference between capital investment and remittances of profits, 1960–1968
(Millions of dollars)

	Total	Mining	Petroleum	Manufacturing	Other sectors
All regions	9,964	2,148	7,922	949	806
Canada	646	61	278	934	51
Latin America	6,745	2,080	4,285	376	757
Europe	4,796	59	3,165	1,399	291
Other regions	7,368	107	7,079	108	289

SOURCE: ECLA on the basis of United States Department of Commerce, *Survey of Current Business*, October 1969.

Table 27. Balance between capital investment and remittances, 1960–1968
(Percentage of investment in 1960)

	Total	Mining	Petroleum	Manufacturing	Other sectors
All regions	31.3	71.7	73.3	+ 8.6	11.5
Canada	5.8	+ 4.6	+ 10.4	19.4	2.2
Latin America	80.6	157.7	137.3	+ 24.7	31.5
Europe	+ 71.7	120.4	+ 179.5	+ 36.8	+ 17.1
Other regions	130.9	35.2	217.1	+ 12.0	24.8

SOURCE: ECLA, on the basis of previous tables and United States Department of Commerce, *Survey of Current Business*, August 1961.

Table 28. Argentina, Brazil and Mexico: Annual growth rate of and rate of return on investment and capital balance, 1960-1968

	Argentina		Brazil		Mexico	
	All sectors	Manufacturing	All sectors	Manufacturing	All sectors	Manufacturing
Rate of return						
Average ^a	12.0	13.1	8.8	10.2	8.1	8.7
Growth rate						
Annual average	10.6	16.6	5.7	8.9	7.9	12.4
Capital balance ^b	123.0	48.0	-71.0	-17.0	-108.0	143.0

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a Percentages.

^b Investment less remittances, in millions of dollars.

participation of residents of other countries in the ownership of United States enterprises operating abroad, owing probably to the way the expansion is financed, the shift in the concentration of production, and increasing pressure from Governments of other countries.

All in all, these hypotheses suggest that, in the medium and long term, the United States' favourable balance will tend to diminish, though this does not mean that, in the short term and in view of that country's precarious balance-of-payments situation, this net inflow of foreign exchange will cease to be a valuable asset.

C. UNITED STATES ENTERPRISES AND THE COUNTRIES IN WHICH THEY OPERATE

1. Introduction

As may be seen from the previous section, United States enterprises are expanding more rapidly abroad than in the United States. Assuming that the enterprises pursue a rational policy, it will presumably be more to their advantage to expand abroad than to strive for a larger share of the home market. In order to break into a foreign market, however, they must have some kind of advantage over local firms. Since, as we shall now see, they not only manage to break into those markets but actually grow faster than local firms, then the advantage cannot be due only to passing circumstances but must derive from some permanent superiority in the various fields that determine an enterprise's efficiency. Finally, the Governments of the countries where these enterprises have some advantages must be willing for them to operate on their markets.

By and large, an enterprise's product, its technology, management and capital, and its access to international markets give it its character. These factors may have greater or lesser importance, depending on the size of the firm, its position in the country of origin, etc.,

but the important point is that there is always a combination of these factors. Though some of them may seem more attractive than others to the host country, it will have to make a general appraisal of all the pros and cons.

In weighing up the economic advantages of having international enterprises operating on its market, a country has to consider, for each factor, whether it would be better advised to import the factor separately or as part of the combination of factors that make up the firm. If it seems more advisable to import each factor separately, there are three possibilities. First, it may be advisable to import each of the factors individually, i.e., obtain manufacturing licences, pay royalties for the use of production processes and trade marks, use local manufacturing firms, bring trained personnel from abroad, sign technical assistance agreements for the management of the firms, obtain loans to finance investment, and join international business consortia to promote exports. In this case, there is no point in allowing the international enterprise into the country. Second, it may be advisable to import all the factors combined in an international enterprise. Here too the answer is clear: the presence of the enterprise will obviously be desirable. Third, it may be advisable to import some factors in combination with the enterprise, and others separately. The country may, for instance, decide that the most efficient means of importing technical and management know-how is through international enterprises operating on the local market, but it may be economically sounder to obtain credit than to accept an inflow of capital to the enterprise. If the benefit of importing the technology through the enterprise could be compared with the cost of receiving capital in the form of investment instead of as a loan, then it would be possible to reach a decision strictly on a cost-benefit basis.

In actual fact, this procedure is not really

practical as the options to be compared are not independent of each other. Credit institutions will be influenced by the Government's attitude towards the enterprises; the same applies to the potential suppliers of technology and to agencies for marketing the production abroad.

This is the first obstacle that arises when an attempt is made to evaluate the economic advisability of allowing international enterprises into the country. So far in this study, however, it has been assumed that their presence would not affect local factors of production or the behaviour of the country's economic agencies, so as to determine the most economical way of meeting a given demand for products, technology, management techniques, capital, foreign currency and trade outlets. This would be perfectly valid if only the different ways of satisfying the demand had the same effect on the country's economy, or else if their different effects could be isolated, evaluated and then introduced into the cost-benefit analysis of the individual options.

If a country has no clearly defined strategy or lacks the necessary internal cohesion to apply it, the presence of international firms may change the composition of the basket of consumer goods, influence the attitude of financing agencies, inhibit or encourage the development of local technology—depending on the conditions prevailing beforehand—and help to form a new pattern of demand for the factors of production and a new pattern for the distribution of the income generated by the productive activity among the various social groups. In a word, they play an important part in determining the country's pattern of development. Their possible effects on the country will depend on the pre-existing situation, the type of activity or sector in which they operate, and how much weight they carry in their sector.

Once international enterprises have been introduced, it is easy enough to analyse the economic impact they have on their environment; but it is impossible to reconstitute the situation as it would have developed without them. In other words, although the amount paid in wages and salaries and taxes, the exports and imports generated, and the investments made by international enterprises can all be calculated, there is no way of knowing what would have happened if the country had refused to allow the firms in.

Unless, therefore, the country knows exactly what pattern of development it could pursue without the international enterprises and can quantify its findings and compare them with the

development that would be achieved with international enterprises, there would seem to be no way of determining what attitude it should adopt towards them, on the basis of strictly economic criteria.

It is possible to consider in detail whether or not it is advisable to allow a given firm into the country; assuming that this would be a project that is marginal to the country's economy, the opportunity cost of the domestic resources to be allocated to it can be calculated and an accurate evaluation of the project's economic cost-benefit ratio obtained.

It would be impossible, however, to evaluate the economic merits of all the international firms that have helped to make the economies of many countries what they are on the assumption that they are of marginal importance. That would be tantamount to suggesting that the relative price structure, the pattern of income distribution between social groups and between regions, the population's consumption functions, and the behaviour and relative importance of the public sector did not depend on the pattern of development, which, in many countries, is decided by international enterprises. Where this is the case, any attempt to weigh up the merits of these firms is much the same thing as passing judgement on the economic validity of the country's over-all development model, which obviously cannot be done without introducing value judgements of a political nature. It is nonetheless useful to analyse the economic impact on countries of the presence of international firms, always remembering that, when they are one of the principal economic agents, the conclusions reached do not provide a sound enough basis for deciding whether, as a general rule, they are or are not desirable.

In practice, there are usually conflicts of interest between the enterprises and the economy in which they operate, which vary in nature and intensity depending on the sector involved and their size compared with local firms. The reasons for these conflicts seem to be different in the manufacturing sector from what they are in the extractive sector, possibly because, in the latter sectors, international enterprises are identified with a type of development, based on the international division of labour between the suppliers of raw materials and the producers of manufactures, which the developing countries are anxious to leave behind them. In the manufacturing sector, on the contrary, they reflect a desire to industrialize. Opinions may differ as to the targets and methods of industrialization, but

there is general agreement that international industrial enterprises are one way of working towards that goal.

Some sources of conflict are common to both sectors, such as foreign control over certain decisions that affect the country, the volume of remittances of locally generated profits, the tapping of local financial resources, and the personnel policies of these enterprises.

In the extractive sectors, tension arises from three factors.¹⁴ In the first place, increases in the enterprise's efficiency are not passed on to local consumers (as they might be, theoretically, in manufacturing) but to the buyers of the exported product. This leads to disagreements about production techniques, wage and salary scales, purchases of local inputs, etc. Secondly, the enterprise and its host country are concerned with different parts of the international market. Operating as it does in several countries, the enterprise defines its level of production and prices in terms of the conditions of supply obtaining at its different plants, bearing in mind its place in the market it supplies: but the country is interested only in the trend of costs at the local plants and in the share of the market they command. Both the trend of the costs and the share of the market, however, may look different from the point of view of the enterprise as a whole, and this becomes even more important when the country decides to start exporting in industrial products. Thirdly, whereas spreading the risks involved in foreign operations may have a considerable bearing on the enterprise's investment decisions, this factor is obviously of no concern to the host Government. These three factors are reflected in different attitudes to programmes for the expansion of production and for giving products more local processing.

In the manufacturing sector, international enterprises are usually competing with local firms. The greater efficiency of the international enterprises, which from the point of view of the country as a whole is what justifies their presence on the national market, gives them an advantage over local firms, both on the commodity market and on the market for the factors of production. The local firms cannot be expected to like having them on their door step.

From the point of view of firms supplying the international enterprises or using products

manufactured by them, their presence may mean lower prices, better quality and greater reliability than were obtainable previously. While the sectors that are put at a disadvantage by international enterprises will tend to complain about the foreign take-over of industry, those that benefit from the external economies provided by the international enterprises will stress the technological and management know-how they introduce.

Both arguments are valid and are closely interrelated. If international enterprises grow faster than local firms—which is what the foreign take-over means—it is precisely because they have access to more and better capital, technology and organizational know-how than the local enterprises. This is an essential condition for a foreign take-over. From the strictly economic angle, all this means is that international enterprises are better, which is exactly why governments try to attract them to their national markets.

In this section an attempt is made to compare the speed of the foreign take-over in different countries, interpret its significance and examine the behaviour of international enterprises in exporting manufactures. The latter is particularly important inasmuch as: (1) international enterprises play a significant role in the industrial structure of many countries; (2) they operate on the international market under highly favourable competitive conditions; (3) they may become a source of conflict when the distribution of production among subsidiaries in various countries clashes with the interests of individual Governments.

2. Comparison between the level of activity of the subsidiary companies and the industrial growth of the countries in which they operate

If the industry of the different countries in which United States firms operate grows more slowly than the firms' activities, it will be said that foreign firms are taking over.¹⁵ Indicators are needed to represent exactly comparable activities of the United States firms and of local industry, but there are none that are comparable in all respects. That being so, the growth of sales will be used to measure the expansion of the enterprises, and the increase in output to measure the growth of industry.

¹⁴ A detailed analysis of the possibilities of conflict in the extractive sectors will be found in Leland L. Johnson, *U.S. private investment in Latin America: Some questions of National Policy*, Rand Corporation Memorandum RM-4092-ISA, July 1964.

¹⁵ To be precise, there would be a foreign take-over only if the activities of all the foreign firms, not only United States firms, expanded more rapidly than those of local firms. There might be cases where the United States firms grew more slowly than local industry as a whole, but where all the foreign firms were expanding at a faster rate than local industry.

As no detailed sectoral information is available, data on the manufacturing sector as a whole will be used. The calculations will be made for all the countries on which information is available (see table 29).

Between 1957 and 1965 United States enterprises grew more rapidly than the industry of the countries in which they operated, except in Brazil. The foreign take-over appears to be particularly rapid in the European countries, in all of which the United States enterprises grew at about three times the rate of local industry, and more rapidly in the second half of the period than in the first in most of the countries. The accelerated growth in the second half was due much more to the increase in the growth rate of United States enterprises than to a drop in local industrial output.

In Argentina, for instance, in the period 1957-1961, when the United States subsidiaries grew at a rate of 23 per cent a year, local manufacturing production remained virtually stagnant (growth of 0.5 per cent). Thus, the stagnation of local industry went hand in hand with the boom in the sales of the United States enterprises. The situation was much the same in other countries, though in a less accentuated form (see table 29).

The information on which table 29 is based shows that the growth of the United States enterprises is not necessarily due to the same factors that influence that of local enterprises. A restriction of local credit usually causes a slump in local activities, whereas international firms can call on the parent companies for help. Restrictions of import capacity generally hit

local firms harder than international enterprises, and the fact that the latter manufacture new products makes them better able to ride out periods when consumer purchasing power is growing slowly or not at all.

Only in Argentina is the increase in industrial activity from one period to another seen to be associated with a big drop in the sales of United States firms. As a general rule, because they have been better able to withstand the periods of recession or slow growth, international enterprises are in a better position to take advantage of the boom periods that follow.

A comparison of the growth rates alone is not enough to evaluate this process of foreign take-over. It is necessary to know what share of the country's total industrial activity is accounted for by United States enterprises. The fact that in Japan, for instance, United States enterprises grow 1.5 times as fast as local industrial output and in Canada 1.2 times, might suggest that the foreign take-over is more serious in Japan than in Canada; but the sales of international firms operating in Japan are only a minute fraction of total production, whereas in Canada they account for nearly 50 per cent.

The indicators that are available for calculating the share of the United States enterprises in local production leave even more to be desired than those used to compare the growth rates. It is all guess-work, and the result is probably grossly underestimated.

The value of sales by United States enterprises will be compared with that of the countries' gross industrial output. It is believed

Table 29. Growth rates of United States manufacturing firms abroad and of local industry, by country
(Percentages)

Country	Annual growth rate of sales by subsidiaries			Annual growth rate of local industrial production			Growth rate of sales by United States subsidiaries		
							Growth rate of local industrial production		
	1957-1961	1961-1965	1957-1965	1957-1961	1961-1965	1957-1965	1957-1961	1961-1965	1957-1965
Argentina . . .	23.0	13.7	18.0	0.5	5.7	3.1	46.00	2.40	5.81
Brazil . . .	8.6	4.7	6.6	12.5	2.0	7.1	0.69	2.35	0.93
Mexico . . .	6.8	16.9	11.7	8.4	7.4	7.9	0.81	2.28	1.48
Venezuela . . .	8.8	13.2	11.0	8.4	9.4	8.8	1.05	1.40	1.25
Canada . . .	1.7	12.3	6.9	1.7	9.9	5.7	1.00	1.24	1.21
South Africa . . .	2.9	15.3	8.9	5.1	10.9	7.9	0.57	1.40	1.13
France . . .	13.2	21.0	16.9	4.7	4.7	4.7	2.81	4.47	3.60
West Germany . . .	19.4	17.7	18.5	7.4	5.9	6.7	2.62	3.00	2.76
Italy . . .	23.0	25.0	24.0	10.1	6.4	8.2	2.28	3.91	2.93
United Kingdom . . .	11.2	10.3	10.8	3.3	4.0	3.6	3.39	2.58	3.00
Japan . . .	15.0	25.0	19.8	15.5	10.3	12.9	0.97	2.43	1.53
Australia . . .	7.8	20.0	13.9	4.5	7.4	5.9	1.73	2.70	2.36
Philippines . . .	8.0	11.8	9.9	6.4	5.9	6.1	1.25	2.00	1.62

SOURCE: Sales by subsidiary firms: United States Department of Commerce, *Survey of Current Business*, November 1966. Industrial

production: ECLA, based on United Nations, *Statistical Yearbook*, 1965-1968.

that these indicators must lead to an underestimate for the following reasons: (1) oil refining is not included in the sales of manufacturing firms but it is included in industrial production; (2) sales of intermediate products are counted more than once in estimating the gross industrial output; since a large proportion of the sales of United States firms—larger than their share in total production—consists of finished goods, the difference between their sales and industrial production will be underestimated; (3) the value of output may include an increase in stocks which may push up the figure.

However, assuming that the margin of error in the estimates for the different countries is more or less constant, it will at least be possible to make comparisons.

In Europe, where the foreign take-over appeared to be most rapid, the relative share of United States firms in production is still small. At the other end of the scale comes Canada, where the foreign take-over has been very slow, but the absolute value of the United States share of production is very high.¹⁶ In Japan, the take-over has been slow and the United States share of production is small. The opposite is true in Australia, where United States enterprises account for 18 per cent of production and local industry is being taken over quite rapidly.

These figures, apart from being very rough estimates, refer to industrial activity as a whole, but the sector in which the international firms operate is a matter of no little importance to the countries concerned. A foreign take-over is

¹⁶ In *Foreign ownership and the structure of Canadian industry* (Privy Office of Canada, Ottawa, 1968), p. 422, it is pointed out that the proportion of the manufacturing industry controlled by United States residents was 44 per cent in 1964.

more serious for them in some sectors than in others. If the activities of those enterprises were distributed among all the sectors in the same proportion as the country's total production, the figures in table 30 would show now not only the share of these enterprises in total production, but also their share of production in each sector. Actually, this is not so, as can be seen in table 31, where the distribution of the sales of United States firms is compared with the distribution of the total value added.

Table 30. Value of sales by United States enterprises as a percentage of the gross value of industrial production, by country, for selected years

Year	Country	Percentage
1963 . . .	Argentina	11
1965 . . .	Brazil	11
1965 . . .	Mexico	17
1965 . . .	Canada	38
1965 . . .	Federal Republic of Germany	4
1963 . . .	United Kingdom	8
1965 . . .	Japan	11
1964-1965 . . .	Australia	18
1965 . . .	Philippines	13
1963-1964 . . .	South Africa	10

SOURCE: ECLA, on the basis of the data given below. Value of sales: United States Department of Commerce, *Survey of Current Business*, November 1966. Gross industrial production and dollar exchange rates: United Nations, *Statistical Yearbook*, 1968.

The sales structure by sector varies from region to region, and in each it differs from the structure of over-all production. The metal products and machinery, chemicals, and rubber products sectors always account for a greater share of sales than of the country's total value added. The opposite is true of the food sector and "Other sectors", in the latter of which the textile industry plays an important part. Thus the take-over is selective and not

Table 31. Sectoral distribution of sales by United States enterprises and total value added, by regions (Percentage of the total)

	Food	Paper and paper products	Chemicals	Rubber and rubber products	Metals and machinery	Other sectors	Total
<i>Canada</i>							
Sales by United States enterprises . . .	11.6	10.2	13.7	3.5	50.2	10.8	100.0
Total value added . . .	15.6	8.6	9.2	1.5	38.7	26.4	100.0
<i>Latin America</i>							
Sales by United States enterprises . . .	19.2	3.1	24.9	7.3	33.6	11.9	100.0
Total value added . . .	28.8	2.5	15.3	1.7	23.4	28.3	100.0
<i>Europe</i>							
Sales by United States enterprises . . .	8.5	0.8	14.7	3.0	62.6	10.4	100.0
Total value added . . .	12.3	3.0	11.2	1.4	42.2	30.0	100.0

SOURCE: Sales figures: United States Department of Commerce, *Survey of Current Business*, November 1966. Value added: United

Nations, *The Growth of World Industry*, 1967, vol. I.

equal in all sectors. Recent studies in Europe¹⁷ show that United States subsidiaries sell 95 per cent of all the integrated circuits sold on the European market, 80 per cent of the computers, 40 per cent of the titanium dioxide and 30 per cent of the products of the automotive industry. All these sectors had high growth rates in the last decade. Studies on the plastics industry,¹⁸ one of the fastest-growing industries in recent years, show that 65 per cent of plastics production in Canada is by United States firms, a small percentage in West Germany and Japan, 5 per cent in France, 10 per cent in Italy, 30 per cent in the Netherlands, 26 per cent in the United Kingdom, and less than 5 per cent is fully controlled by United States subsidiaries in Sweden.

Sales by United States subsidiaries in the chemical sector in Latin America amounted to 1,690 million dollars in 1965.¹⁹ The value of total chemicals production in the same year is estimated at 3,270 million dollars.²⁰ Consequently, about 52 per cent of the value of production in the chemical sector is accounted for by sales of United States firms. While such sales grew at an average annual rate of 15.4 per cent between 1959 and 1965, production expanded by 9.8 per cent. Production in the manufacturing sector as a whole grew by 5.6 per cent a year.

The facts given above show that United States subsidiaries abroad grow more rapidly than the industry of the country in which they operate, and that this is most common in the more dynamic sectors. The effects of this process, both for the enterprises and for the Governments concerned must be analysed, since the attitude of both will be determined by these effects.

3. *Behaviour of United States firms in the field of exports of manufactures*

It is of interest for various reasons to analyse the behaviour of international enterprises in the field of exports of manufactures.

In the first place, these firms are playing an increasingly important part in manufacturing in the different countries, with the result that

those countries' exports of manufactures are governed increasingly by their behaviour. In certain sectors in the less developed countries—generally the most dynamic—these enterprises control nearly all production, and it is precisely in those countries that the need to increase exports is most pressing.

Moreover, their size, technology, management and marketing channels place them in as good a position as domestic firms—or better—to compete on the international market. Thus, they not only have a large share of the market by virtue of their sales volume, but they also constitute the industrial group that is in the best position to export. Apart from the normal export promotion incentives, the authorities of the countries have another way of exerting pressure on these enterprises, i.e., their attitude to remittances of profits. The success to be obtained by these tactics will depend on the country's position with respect to the enterprises. In other words, the rules they adopt with regard to the enterprises must be the logical reflection both of the importance they attach to having such enterprises in their industry, and of the over-all objectives of their industrialization strategy.

One of the most important questions in industrial strategy is how high the tariff barriers against imports are to be, and it is the height of these barriers that has been one of the factors that have determined whether or not international firms should enter different markets. If the international firms established in a country require tariff protection to help them produce local products to replace imports, their prices will be higher than those of imported products, so that they will be able to export only if they are subsidized. In addition, the level and selectiveness of the tariff structure will determine how far the international firms can specialize the production of their different plants. High or indiscriminate tariff barriers will induce the subsidiaries to manufacture the whole range of possible products, with a consequent loss of power to compete on the international market. Consequently, the tariff policy that is applied will be one of the factors that determine the performance of international enterprises in the export field.²¹

Regional integration, which is aimed at expanding markets and encouraging specialization (thus decreasing production costs), is an additional incentive for the establishment of

¹⁷ See unpublished report of the commission set up to study United States investment in Europe, under the chairmanship of Jean Rey. *Le Monde*, 23 July 1970, economic supplement.

¹⁸ OECD, *Plastics, Gaps in Technology*, Paris, 1969, pp.54 and 56.

¹⁹ United States Department of Commerce, *Survey of Current Business*, November 1966.

²⁰ ECLA, *Las industrias químicas en América Latina y su evolución en los años 1959-1967* (E/CN.12.848).

²¹ See Joel Bergsman, *Brazil, industrialization and trade policies* (Oxford University Press, 1970), chapter III.

international firms. The flow of exports of manufactures between the countries of the region will partly be determined by the distribution of the subsidiaries in the different countries. Thus, countries which in themselves would not have attracted international enterprises, might interest them as locations for plants to supply the region.

Because of their greater flexibility and because they are completely outside the control of private interests in the countries in which they operate, international firms have an obvious advantage over domestic firms in the struggle for these larger markets. The policies the countries adopt towards international firms will therefore have an immediate effect on the evolution and content of regional integration schemes.

There is a well-known interrelationship between the dynamism of exports of manufactures and their technological complexity. Hence, the rapid growth of the different countries' exports will partly depend on the type of product that the international firms decide to manufacture in each country or region. The type of export product manufactured on a large scale may have a decisive effect on the transfer of technology from the international enterprises to the industrial circles in which they operate. If the trend apparently being followed by international firms persists, namely, that of exporting from the less developed countries partially obsolete equipment as replacements, or only the simplest new products, or only the simplest components of the complex products that are assembled in the countries of origin, some of the theories according to which international firms promote technological progress in the countries where they operate will have to be reconsidered. The type of product they manufacture and export may therefore be important in deciding to what extent international firms improve the technological level of the countries in which they operate.

As was pointed out earlier, one of the possible sources of conflict between the international enterprises and Governments is the fact that the behaviour of subsidiaries established in a given country is dictated by the general interests of the firm and the conditions prevailing in all the countries in which they are operating. In some cases, the decisions dictated by these considerations may not be the same as those that the subsidiary would have taken if it had taken account only of local conditions and its interests as an independent firm. If the decision was the same in both

cases but even so conflicted with the interests of the Government, the real problem would no longer have anything to do with the subsidiary being part of an international firm.

The decision to export or to concentrate on the local market is precisely one of those cases where such a conflict of interests might arise. This means that the attitude of the international enterprises to exports may provide an opportunity of evaluating the real economic significance for the countries of the fact that specific policies are adopted by decision-making centres which operate using a different frame of reference from the countries' own.

The object of this section is to analyse—only in general terms because of the lack of information—the situation with respect to exports of manufactures in the various regions where United States firms operate.

Unlike those in the extractive sectors, manufacturing firms have concentrated up to now on the domestic markets in the different regions. Table 32 shows that the oil companies of the region sold 41 per cent of their output in Latin America in 1957²² and exported the rest. The mining and agricultural enterprises sold 17 and 21 per cent of their output in the region, respectively. Manufacturing industry, on the other hand, exported only 4 per cent of its production.

In all regions, United States manufacturing enterprises concentrate on the domestic market. In Europe, where they exported most in 1957, 78 per cent of their output was sold in the countries in which the firms had been established. In the same year, the lowest percentage of exports was from Latin American countries, a situation that appears to have persisted up to 1965.

In Canada, exports go chiefly to the United States, but this is not so in the other regions. In Europe, it may be assumed that a substantial proportion of exports are bound up with regional groupings, particularly the Common Market.

The composition of exports varies from region to region. The chief Latin American exports in 1965 were food and chemicals. The latter were mainly made from vegetable raw materials and the processing was so rudimentary that they can hardly be classified as manufactures. Exports accounted for 22 per cent of sales of food and 11 per cent and 10 per cent respectively, of those of pulp and paper

²² In Canada, Europe and Oceania there is more refining than extractive activity, which explains the high percentage of local sales.

Table 32. Distribution of production between local sales and exports, by sector and region, 1957
(Percentages)

	Total, all regions	Canada	Latin America	Europe	Africa	Asia	Oceania
<i>Total, all sectors</i>							
Local sales	73	83	59	84	79	49	93
Exports to the United States	10	12	21	2	9	8	1
Exports to other countries	17	5	20	14	12	43	6
<i>Petroleum</i>							
Local sales	66	94	41	92	99	41	98
Exports to the United States	10	6	31	— ^a	— ^a	8	—
Exports to other countries	24	...	28	8	1	51	2
<i>Agriculture</i>							
Local sales	37	97	21	100	—	13	—
Exports to the United States	38	3	44	...	96	87	—
Exports to other countries	25	...	35	...	4	...	...
<i>Mining and Smelting</i>							
Local sales	16	17	13	26	21	46	—
Exports to the United States	44	54	42	6	32	22	—
Exports to other countries	40	29	45	67	47	31	—
<i>Manufacturing</i>							
Local sales	84	84	96	78	92	80	93
Exports to the United States	6	10	2	3	...	6	...
Exports to other countries	10	6	2	19	8	14	7

SOURCE: ECLA, on the basis of United States Department of Commerce, *US Business Investment in Foreign Countries*, 1960.

^a Less than 500,000 dollars.

and chemicals. In all the other sectors, the percentage was less.

In Canada, nearly 50 per cent of exports consisted in paper products, and 60 per cent of sales went to exports. Next in importance were basic metals, aluminium in particular, exports of which accounted for 39 per cent of sales. Both here and in Latin America, the main exports of manufactures were natural resources with varying degrees of processing. In Canada, however, in addition to natural resources, there were some exports of machinery and automobiles—though on a smaller scale—in roughly equal amounts to the United States and other countries (see tables 33 and 34).

Automobiles were the chief export of the international firms in Europe, where exports accounted for one quarter of sales. Next in importance come non-electrical machinery and chemicals, with one third and one quarter of sales, respectively.

In other regions the situation was much the same as in Latin America, though more highly processed products (chemicals, electrical machinery and automobiles) bulked larger in the sales. Exports by subsidiaries in Japan accounted for slightly less than one third of the total exports by subsidiaries in the region.

The proportion of exports in total sales by subsidiaries and their relative importance in total exports varied from country to country.

The highest proportion was in Belgium, the Netherlands and Luxembourg, where exports accounted for 35 per cent of sales (see table 35). They were followed by West Germany and the United Kingdom, with 27 and 25 per cent, respectively. Concentration on the local market appears to be greatest in Japan, where exports accounted for only 8 per cent of sales.

In Canada exports by subsidiaries of manufacturing firms accounted for 48 per cent of total sales, followed by the United Kingdom with 17 per cent, while in Japan such exports accounted for only 1 per cent of the total.

The ratio of exports by subsidiaries to total exports depends on the share of the subsidiaries in total output. To find out whether the United States enterprises export more or less than the other enterprises in each country, a comparison may be made between the ratio (see table 35, column 5) of exports by subsidiaries to total exports, and the proportion of the country's industrial output produced by United States subsidiaries. If the ratio of exports by subsidiaries to total exports is compared with the ratio of production by subsidiaries to total production, it can be seen whether subsidiaries export more than local enterprises. Even though only very rough estimates for the second ratio are available, it seems possible to say, at least in respect of the four countries mentioned in table 36, that the subsidiaries have at least as large a share in exports as local firms.

Table 33. Destination of sales by manufacturing enterprises
(Percentage distribution)

	Local sales					Exports to the United States					Exports to other countries			
	1957	1962	1963	1965	1967	1962	1963	1965	1967	1969	1962	1963	1965	1967
All regions	.	84	82	82	82	4	4	4	10	14	14	14	14	14
Canada	.	84	83	81	81	10	10	11	6	7	8	8	8	8
Latin America	.	96	91	93	93	1	2	2	2	8	6	6	5	5
Europe	.	78	77	77	77	1	1	1	19	22	22	22	22	22
Other regions	.	89	94	93	93	2	1	2	9	4	5	5	5	5

SOURCE: ECLA, on the basis of table 32 and United States Department of Commerce, *Survey of Current Business*, November 1966.

Table 34. Distribution of sales by manufacturing enterprises, by sector and by region, 1965
(Percentages of total sales)

	Total for the sectors	Food products	Paper and paper products	Chemicals	Rubber and rubber products	Metals and manufactures	Machinery, non-electrical	Electrical equipment	Transport equipment	Other products
<i>Total</i>										
Local sales	82	87	53	84	91	75	77	88	84	83
Export to the United States	4	3	35	2	0	8	3	1	3	3
Export to other countries	14	10	12	14	9	17	20	11	13	14
<i>Canada</i>										
Local sales	81	90	40	88	98	61	87	93	89	87
Export to the United States	11	2	47	5	1	17	7	2	6	8
Export to other countries	8	8	13	7	1	22	6	5	5	5
<i>Latin America</i>										
Local sales	93	78	89	90	99	96	94	98	100	97
Export to the United States	2	5	3	2	—	—	1	0	0	2
Export to other countries	5	17	8	8	1	4	5	2	0	1
<i>Europe</i>										
Local sales	77	92	92	76	78	82	68	84	73	74
Export to the United States	1	1	—	1	0	1	2	1	1	1
Export to other countries	22	7	8	23	22	17	30	15	26	25
<i>Other regions</i>										
Local sales	93	73	95	91	96	97	95	90	96	95
Export to the United States	2	9	—	3	—	—	1	2	—	1
Export to other countries	5	18	5	6	4	3	4	8	4	4

SOURCE: ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, November 1966.

Table 35. Ratio of exports by United States manufacturing subsidiaries to total exports, 1965

Countries	Manufacturing subsidiaries			Total, by country	
	Total sales (1) (millions of dollars)	Exports (2)	Ratio (2)/(1) (3) (percentages)	Export of manufactures (4) (millions of dollars)	Ratio (2)/(4) (5) (percentages)
Canada	13,445	2,537	19	5,280	48
Belgium, the Netherlands and Luxembourg	1,580	557	35	8,800	6
France	2,685	440	17	7,330	6
West Germany	4,356	1,160	27	15,920	7
Italy	1,272	184	14	5,610	3
United Kingdom	7,510	1,887	25	11,180	17
Japan	920	72	8	7,830	1

SOURCE: United States Department of Commerce, *Survey of Current Business*, November 1966.

Table 36. Share of subsidiaries in exports and production, 1965
(Percentages)

Countries	Exports by subsidiaries as a percentage of total exports (1)	Sales by subsidiaries as a percentage of total production (2)
Canada	48	38
West Germany	7	4
United Kingdom	17	8
Japan	1	1

SOURCE: United States Department of Commerce, *Survey of Current Business*, November 1966.

Assuming that the figures in column (2) of table 36 are reasonable estimates, it may be concluded that the subsidiaries export twice as much of their output as local firms in the United Kingdom and West Germany; slightly more than local firms in Canada, and an equal amount in Japan. Assuming that the figures in column (2) are underestimated by about 30 per cent, the subsidiaries' share on exports would be greater still in the United Kingdom and West Germany, slightly less in Canada and about 30 per cent less in Japan.

The fact that the proportion of their output which the subsidiaries export is not less (but perhaps more) than the export production of local firms means that when the subsidiaries are criticized for not increasing their exports, what is being complained of is that they are not making the most of their export potential, which is assumed to be greater than that of the local firms, particularly in the less developed countries, whose local firms are known to have difficulty in competing on the international market.

The situation may have changed in recent years compared with 1965. For instance, United States firms are encountering growing competition from Japanese products, not only on the international market but in the United States itself. This is apparently inducing United

States firms to transfer certain lines of production or certain stages of the production process that are more labour-intensive to countries with cheap manpower. Moreover, as their foreign markets expand, the subsidiaries are in a better position to produce on a scale that is suitable for the international market. Another important factor seems to be the growing competition among international enterprises operating in developing countries. Enterprises which previously enjoyed a near-monopoly and could permit themselves an uneconomic scale of production are now being forced to expand their plant in order to improve their export potential and to make the production of their subsidiaries more specialized so as to facilitate their access to regional markets. They are strongly encouraged to do so by the growing range of government incentives to exports of manufactures. Besides applying incentives, Governments are apparently beginning to exert direct pressure on international enterprises to make them increase their exports so that remittances of profits will be offset by imports of parts and components. These imports grow in proportion to the increase in sales by these firms, that is to say, faster than total local industrial production and much faster than exports by local firms. For their part, the enterprises are becoming aware that any limitation of the countries' external sector will affect them, since restrictions will be placed on remittances of profits. Therefore, if they help to solve current balance-of-payments problems, they are more or less sure of being able to make future remittances of profits.

After a few years, the rapid growth of sales by international enterprises in slow-growth markets results in problems of saturation, which may be solved by finding outlets on foreign markets. Lastly, the developing countries, which up to now have been exporters of raw materials, are beginning to insist on local

processing, so that they may export semi-finished and finished products. This is forcing international enterprises to move to countries which are the sources of raw materials and establish processing plants there.

To sum up, the following trends in respect of exports of manufactures are characteristic of the international enterprises:

(a) Establishment of factories to supply the regional market to which the country concerned belongs. This market might be the British Commonwealth for firms established in Canada and the United Kingdom; the Latin American Free Trade Association (ALALC) for firms in Argentina, Brazil and Mexico; South-East Asia for firms in India, and the European Common Market for the numerous firms established in the countries of the Six.²³

(b) Establishment of enterprises in countries with an abundant supply of cheap labour. As the factories would supply the market of the country of origin and other traditional markets of the international enterprise, the size of the local market and the extent of its industrialization would not matter. This has happened in South Korea, Hong Kong, Taiwan, India, the less developed countries of Europe (Portugal, Spain, Greece and Turkey). The international enterprises have not yet adopted this approach in Latin America. In South-East Asia, they appear to have concentrated on electronic and optical products and clothing.²⁴

(c) Establishment of factories in neighbouring countries to the country of origin. This would appear to be a real process of industrial integration in which equal attention is given to such factors as manpower, tax legislation, distance, and transport costs. This is apparently the case of Canada and, to a much smaller extent, Mexico, for United States firms, and of Spain, Portugal, Yugoslavia, Greece and Turkey for European firms. In addition to the traditional labour-intensive sectors, this process also seems

to be under way in the automotive industry.²⁵

(d) Installation of plants in countries which have important natural resources that are difficult to find on the world market and which show a decided interest in processing these materials locally before exporting them. Many international firms, for instance, are showing interest in establishing iron and steel plants in countries like Australia and Brazil,²⁶ to produce for export to the markets of the countries of origin and to world markets.

(e) Establishment of factories in developing countries with a large domestic market and some industrial development to supply the local market and part of the world market with products that are no longer being manufactured in the developed countries. These would be the simplest types of product manufactured by the international firm or products which, as a result of technological development, have been rendered partially obsolete but for which there is a guaranteed demand on the spare-parts market.²⁷

(f) Enterprises intended mainly to supply the local market. They would be established in countries that are not in a good position to act as regional distribution centres and have neither a plentiful supply of cheap labour nor abundant natural resources.

The direction and speed of these types of development and the way in which the profits from exports are distributed between the countries and the enterprises will depend on how decisively Governments act, separately or in the context of regional groupings.²⁸

²⁵ Examples are the agreement between Canada and the United States on the automobile industry; programme for the integration of the production of engines between Chrysler subsidiaries in Mexico and the United States, and the Daimler-Benz factory in Yugoslavia, which exports parts and components to West Germany.

²⁶ U.S. Steel. August Thyssen-Hütte (West Germany) and Yawatta Iron-Steel (Japan). In semi-manufactures of copper, this is the case of Phelps-Dodge, which has projects in Thailand and Zambia. In aluminium, the Canadian firm of Alcan is considering a project in Guyana.

²⁷ Electronic valves and punching machines, exported from Brazil by Philips and IBM, respectively; certain castings purchased by Volvo in Portugal; injection pumps exported by subsidiaries in India to West Germany; agreements for the exchange of components for railway carriages and trucks between Egypt and the Italian firm of Fiat.

²⁸ The above cases are drawn from various sources: inquiries made among the principal international enterprises operating in Brazil; Jack Baranson, *Automobile industries in developing countries*, International Bank for Reconstruction and Development, 1969; Jack Baranson, *The export of manufactures from developing countries, An interim Report*; International Bank for Reconstruction and Development, 1969; *Time*, 21 September 1970; *Le Monde*, economic supplement, 11 August 1970; and "Japan, Special Survey", *The Economist*, 27 May and 3 June 1967.

²³ In Brazil, Olivetti, Mercedes Benz, Pirelli, IBM, Burroughs, Singer, Bosch and other firms supply the ALALC market. A large proportion of the enterprises that are parties to ALALC sectoral complementarity agreements are international.

²⁴ In the last four years, forty Japanese firms have been established in Taiwan, and Rollei-Werke (West Germany) is investing 12.6 million dollars in Singapore. A subsidiary of Corning Works sends components to Korea where they are made into integrated circuits. The Società Generale Semiconduttori—the largest Italian manufacturer of electronic components—is building a factory in Singapore, and so are Philips and Plessey, the largest English electronics firm. Generators and compressors for Ford cars will be manufactured by Tokyo Shibaura Electronic and Diesel Kiki, both Japanese firms.

D. THE EXPANSION OF UNITED STATES ENTERPRISES ABROAD AND ITS IMPLICATIONS FOR LATIN AMERICA: AN INTERPRETATION

1. *The expansion of United States enterprises abroad*

For the purposes of this analysis, the regions can be divided into three categories according to the degree of foreign take-over and the existence or absence of enterprises capable of competing with those of the United States: (1) regions such as Europe, where the foreign take-over is proceeding apace and there are enterprises capable of competing with those of the United States; (2) regions (specifically Japan) where large firms compete successfully with United States enterprises on the world market, while at the same time virtually excluding them from their domestic market; (3) regions where the foreign take-over is substantial and has met with little resistance from local enterprises that are capable of competing either at home or abroad (generally speaking Latin America, Africa and Asia and, to a lesser degree, Canada, Australia and South Africa).

The encounter is different in each of the three types of region: in Europe local enterprises are competing with United States firms on both the home and the world market; in Japan the local enterprises keep the domestic market for themselves and compete on the international market; while elsewhere local enterprises have difficulty in competing even on their own market, though this does not prevent them from surviving but merely makes them uncompetitive.

J.-J. Servan-Schreiber²⁹ is mainly concerned with the situation in Europe and the central theme of his study is United States encroachment on the domestic markets of the European countries. The size of United States enterprises and the consequent power of their financial and business organization, along with their capacity for technological innovation, mean that they are cornering an increasing share of the European markets, particularly in sectors that are technologically complex.

This approach to the problem, however, overlooks one factor that plays a decisive role in the behaviour of the big United States enterprises, namely, their loss of ground on the world market since the beginning of the 1950s. The slower growth of the United States economy compared with that of Japan and the European Economic Community constituted

a challenge for the major United States enterprises, which, however powerful they might be, found their competitors catching them up on the international market.

It is necessary to analyse the motives of these United States enterprises in order to understand the reaction of European and, above all, Japanese firms, which are apparently those that have increased their share of the world market most in the past twenty years. In other words, the slow growth of the United States economy, especially during the 1950s, was reflected in a shrinkage of its major enterprises' share of the world market, and this forced them to seek fast-growing markets where they could, at least in part, make up for the slow growth of their home market.

Obviously, this was only one of the reasons. The establishment of regional markets left them no choice but to expand abroad if they did not want to lose the export markets as well. Expansion did not entail any financial sacrifices in terms of yield and, to a very large extent, could be financed with local funds. It is as yet too early to tell how far the shift of much of their activities to foreign markets has enabled them to recover their position on the world market, but one thing that is certain is that there is still a gap between the economic growth rates of the United States and Japan and that United States enterprises abroad are expanding increasingly rapidly.

A comparison of the growth rates of United States enterprises is an inadequate yardstick for measuring their share of the world commodity markets. The high degree of diversification of the big corporations, the different rates at which they expand, and the extent to which they are concentrated in each country, make it impossible to establish an unequivocal ratio between an enterprise's growth rate and its share of the world market for a given product.

Another way of measuring this process—though less specific and open to other objections—is to compare national economic indicators at various levels of aggregation, starting with the growth rate of the gross domestic product.

Table 37 shows that the difference in the growth rate between the United States and other countries, which was very marked during the period 1953–1960, disappeared during the period 1960–68, except in the case of France and, above all, Japan, a situation which is reflected in the foreign trade of the countries concerned (see table 38).

The United States' main competitors accounted for 25 per cent of world exports in

²⁹ J.-J. Servan-Schreiber, *Le Défi Américain* (Paris, Denöel, 1967).

Table 37. Growth of the gross domestic product in the United States, selected European countries and Japan^a
(Annual growth rates)

	1953-1960	1960-1968	1953-1968
United States	2.5	4.8	3.7
France	4.7	5.6	5.1
Federal Republic of Germany	8.1	4.4	6.1
Italy	6.5	4.4	5.4
United Kingdom	2.9	2.7	2.8
Japan	8.8	10.8	9.9

SOURCE: United Nations, *Statistical Yearbook*, 1969.

^a Calculated at market prices for the United States and France, and at factor cost for all the other countries except Japan, for which the gross national product was calculated at market prices.

Table 38. Share of selected countries in total exports of market economy countries for selected years
(Percentages)

	1953	1960	1968
United States	20.9	18.1	16.1
France	5.4	6.1	6.0
Federal Republic of Germany	6.3	10.1	11.7
Italy	2.0	3.2	4.8
United Kingdom	9.6	9.0	7.0
Japan	1.7	3.6	6.1

SOURCE: United Nations, *Statistical Yearbook*, 1969.

1953, compared with 20.9 per cent for the United States. In 1960 the corresponding figures were 32 and 18.1 per cent and in 1968 35.6 and 16.1 per cent. Japan's exports, which represented only 8 per cent of the United States' in 1953, grew to 38 per cent in 1968. Between 1953 and 1968, the growth rate of exports from the European Economic Community was roughly double that of the United States (10.3 per cent as against 5.3 per cent)

and that of Japan more than three times as high (16.7 per cent). The trend was similar in manufactures.

The United States' share in chemical exports dropped less than those in machinery and transport equipment and other manufactured goods, but even so it fell from a quarter of total chemical exports to one fifth. While there was practically no change in Western Europe's share of exports of machinery and transport equipment and other manufactures, Japan gained roughly as much ground as the United States lost (see table 39).

A comparison of the production of the Federal Republic of Germany (the fastest-growing European country during the period), Japan and the United States product by product (see tables 40 and 41) shows further how sharply the United States' share of world production declined. Between 1960 and 1968, the share of the Federal Republic of Germany increased only in synthetic rubber, and plastics and resins, decreasing everywhere else. Japan's share not only rose appreciably for every product but even topped that of the United States in two cases. Steel is the most striking example. Where Japan boosted production at an annual rate of 15.5 per cent, the United States only managed 1.1 per cent; this pushed up Japan's share of world production from 3.3 to 12.6 per cent while that of the United States fell from 43.1 to 22.6 per cent.

The comparison is not entirely valid, since it omits certain technologically complex products, such as computers and supersonic aircraft, where the United States appears to be maintaining its relative advantage. Moreover, some of the Federal Republic of Germany's production may come from United States firms

Table 39. Share of market economy countries^a in total exports of manufactures
(Percentages)

Sector	Year	United States	Western Europe	Japan	Total, market economy countries
Chemical ^b	1955	25.5	60.0	2.1	100.0
	1960	26.3	62.9	2.5	100.0
	1967	20.6	65.4	5.0	100.0
Machinery and transport equipment ^c	1955	36.9	58.0	1.7	100.0
	1960	29.2	63.9	3.9	100.0
	1967	25.3	59.5	7.7	100.0
Other manufactured goods ^d	1955	14.4	58.3	6.4	100.0
	1960	13.3	59.9	8.1	100.0
	1967	10.2	59.9	9.9	100.0

SOURCE: UNCTAD, *Handbook of International Trade and Development Statistics*, 1969.

^a Economic Class I and II countries.

^b SITC section 5.

^c SITC section 7.

^d SITC sections 6 and 8.

Table 40. Growth of selected products
(Annual growth rates)

Product	Federal Republic of Germany			Japan			United States		
	1953-1960	1960-1968	1953-1968	1953-1960	1960-1968	1953-1968	1953-1960	1960-1968	1953-1968
Synthetic rubber	44.0	14.3	27.0	—	42.0	—	7.8	5.0	6.3
Plastics and resins	—	16.2	—	—	25.0	—	—	11.3	—
Cement	7.4	3.7	5.5	14.4	9.9	12.0	3.2	2.6	2.9
Crude steel	9.4	2.4	5.6	16.4	14.8	15.5	-1.5	3.5	1.1
Radio receivers	6.9	0.7	3.6	38.0	12.3	24.0	3.1	2.0	2.5
Television receivers	^a	2.3	32.0	^a	12.4	^a	-2.3	7.5	2.7
Cargo ships	4.2	2.7	3.4	17.6	22.0	20.0	-1.1	-1.1	-1.0
Motor vehicles	23.0	5.3	13.1	27.0	23.0	25.0	1.0	1.0	3.9

SOURCE: ECLA, on the basis of United Nations, *Statistical Yearbook*, 1969. ^a More than 50 per cent.

Table 41. Share of three countries in world production, for selected years
(Percentages)

Product	Federal Republic of Germany			Japan			United States		
	1953	1960	1968	1953	1960	1968	1953	1960	1968
Synthetic rubber ^a	0.6	4.0	5.6	—	1.2	9.0	84.9	72.3	51.4
Plastics and resins ^a	—	14.5	14.9	—	8.2	15.7	—	42.1	30.7
Cement ^a	8.4	7.9	6.5	4.9	7.1	9.3	25.0	17.7	13.4
Crude steel ^a	7.7	9.8	7.8	3.3	6.4	12.6	43.1	26.0	22.6
Radio receivers ^b	10.4	8.3	5.2	5.4	25.8	38.2	50.9	31.7	21.6
Television receivers ^b	0.5	10.9	6.7	0.2	18.1	23.6	76.3	28.3	25.9
Cargo ships ^c	16.1	13.1	8.0	10.9	20.7	50.8	10.4	5.8	2.6
Motor vehicles ^b	4.7	12.5	11.0	1.4	4.6	14.5	69.8	47.7	37.9

SOURCE: ECLA, on the basis of United Nations, *Statistical Yearbook*, 1969.

^a Thousands of tons.

^b Thousands of units.

^c Thousands of gross tons.

(in the case of Japan, this is only a negligible amount).

Be this as it may, wherever Japan's production of the goods considered is compared with that of the United States, it is apparent that, unless the concentration of industry has become appreciably less in the former and substantially greater in the latter, the major United States manufacturers of these goods have lost ground on the world market while the major Japanese firms have forged ahead. If the 1960-1968 growth rates are maintained over the next few years, by 1980 Japan will have overtaken the United States in the production of every one of these items.

It would be well to consider more carefully whether, despite the soaring growth rates of United States subsidiaries abroad, United States enterprises as a whole have really grown more slowly than their principal European competitors. As far as Japan is concerned, the comparison is superfluous since Japanese enterprises expanded even faster than United States subsidiaries.

Between 1957 and 1965, sales by United States subsidiaries abroad grew by 11 per cent

a year, United States industry by 4.7 per cent, German industry by 6.7 per cent and sales by United States enterprises in the Federal Republic of Germany by 18.5 per cent. That is, the subsidiaries grew at more than double the rate of United States industry, and rather more than one and a half times the rate of the German industry, while subsidiaries operating in the Federal Republic of Germany expanded at nearly three times the rate of German industry. It may be assumed that the United States parent companies and the largest German firms expanded at the same rate as the industries in their respective countries, that is, by 4.7 and 6.7 per cent, and that the assets of the United States subsidiaries amounted to about 20 per cent of the assets of the parent companies. (In section B the estimate given was 14 per cent for manufacturing industry as a whole.) This means that the largest United States firms, parent companies and subsidiaries combined, must have grown by 6 per cent compared with 6.7 per cent for their German rivals. This means that, while the German firms felt threatened by the United States subsidiaries, the United States firms as a whole had the same view of the German firms. While the European

countries saw what was happening as a definite foreign take-over, the United States firms saw that they were being pushed out of the world market.³⁰

For a better understanding of this situation, where enterprises that have a good competitive position on their national markets feel threatened on the world market, it is necessary to look at the technological aspect. Several sectors in which the United States firms operate are of high technological complexity (spearhead sectors). The United States has a near-monopoly of know-how in these industries, which the other countries, particularly in Europe, feel as a threat, not only to their economies but to their sovereignty. It is argued, for instance, that countries that do not manufacture their own computers cannot hope to be politically independent. The assumption implicit in this argument is that the interests of the country might one day conflict with those of the United States, in which event this "know-how monopoly" would constitute an advantage for the United States. So long as this does not happen, in the prosaic world of international economic relations, the more sophisticated industries are valued according to their export performance, volume of output or profits. The United States exports of computers and calculating machines in an amount equal to 40 per cent of its imports of textiles, and exports of aircraft and parts are on roughly the same scale as its imports of steel (1968). The United States exports aircraft to Japan in an amount equal to 15 per cent of its steel imports from Japan.

The United States enterprises are apparently facing stiffer competition on the world markets in products that are manufactured with easily available know-how, not only in sales to third countries but on its own domestic market. This is another reason that prompts the biggest enterprises—i.e., those that have the power to do so—to seek conditions of production abroad that will enable them to compete on the world market and on their own domestic market. Although such expansion abroad may make sense for the big United States firms, it may only help to weaken the United States economy. In present circumstances, what is sauce for the goose is not necessarily sauce for the gander: the interests of the big enterprises

may not be the same as those of other United States enterprises.

It may be wondered how almost absolute control of the spearhead sectors can exist side by side with a growing inability to compete in manufacturing products demanding only easily available know-how. (These are not necessarily the traditional sectors.³¹ While the United States is capable of designing television and telecommunications equipment to observe the landing of the Apollo spaceship on the moon, it has a deficit of 450 million dollars on its balance of payments with Japan under the head of telecommunications equipment, which is nearly five times the value of its exports of aircraft and aircraft equipment to Japan.)

Among the factors that may serve to clarify this point, one stands out. While the United States was devoting vast human and financial resources to projects that enabled it to maintain its lead in the technologically most advanced sectors, countries like Japan were pouring the same amount of money into a general modernization of their industry and into innovations in many different sectors.

If this trend continues over the next few years, the expansion of United States firms abroad will have to be speeded up if they are to be able to maintain their position on the world market. This may possibly lead to increased pressure on the local markets of European firms, and there may well be increased pressure on Japanese firms to share their humming domestic market with firms of other countries.

The European and Japanese firms may speed up the process of establishing subsidiaries abroad to compete with the United States on the world market—which they have hardly done at all up to now—instead of competing only in exports. If they do, they will be embarking on a stage of development which United States firms entered on in a big way in the 1950s. The increasing number of mergers in Europe and Japan may be the first step in that direction. The enterprises may be increasing their size just as much, or more, to establish themselves abroad and compete on the international market as to defend their domestic markets.

The keenest competition between United States, Japanese and European enterprises is

³⁰ Assuming that, in the United States and the Federal Republic of Germany, the largest enterprises grow *K* (more than one) times as fast as the industry of their respective countries, the difference between the growth rates of the German and United States firms, will be even greater.

³¹ In order to demonstrate that it is not only in the field of light manufactures that Japan has an advantage over the United States, the exports and imports of machinery between the two countries are compared in table 3 of the statistical appendix below.

probably on the markets of the developing countries.³² United States direct and portfolio investment (including reinvestment) in the developing countries grew at an average annual rate of 15.4 per cent between 1964 and 1968. During the same period, Japan's investment grew at an annual rate of 32 per cent and the Federal Republic of Germany's at 50 per cent. The latter's investment in developing countries increased more than 300 per cent between 1967 and 1968. (Between 1964 and 1967 the rate was 13.5 per cent.)³³

The supremacy of United States firms in the technologically most complex sectors, which seems to have been one of the decisive factors in the conquest of European markets, may cease to be important and even become a handicap in their struggle for markets in the less developed countries, which are normally more sensitive to the cost of the product than to its technological content.

2. Implications for Latin America

As can be seen from the foregoing analysis, it is reasonable to expect that in the next few years the competition will be fiercer between United States, European and Japanese firms for the markets of their respective regions and of third countries. One of the regions in which these firms will be competing is Latin America. The principal aim of United States international enterprises will be to make up for the slower growth of the United States economy and thus maintain their share of the world market. European and Japanese firms will be trying to defend themselves against United States pressure on their own markets. It may be assumed that this pressure will increase in Japan, whose policy it has been to reserve the domestic market for its own enterprises. Expansion through their subsidiaries will guarantee them outlets for their exports of equipment and components, and will make it easier for them to export products that are not yet being manufactured by their subsidiaries abroad.

A first effect of this increasing competition

³²At the present time, the principal European and Japanese firms are already operating in Latin America. By way of example, mention may be made of the chief German firms established in Latin America: Bayer, Hoechst and BASF in chemicals; Volkswagen and Daimler Benz in the automotive sector; Siemens and Bosch in electrical equipment; SKF in ball and roller bearings; Mannesmann, Krupp and Thyssen in the iron and steel industry; Metallgesellschaft and Degussa in mining and metallurgy; Demag in machinery; and Hochtief and Philipp Holzman in the building industry.

³³United Nations, *The External Financing of Economic Development* (United Nations publication, Sales No.: E.70.II.A.3).

between subsidiaries of international companies may possibly be to weaken the position of the individual companies in the countries in which they wish to operate. Up to now, the market for foreign investment has been characterized by the fact that international enterprises could take their pick of the countries, selecting whichever offered them the greatest tax incentives, while Governments vied with each other in finding ways of attracting more foreign investment.

Because of the growing need for firms to invest abroad, the consolidation of regional groupings in which efforts are made to equalize the conditions for the entry of foreign capital, and the Governments' increasing concern about the gradual take-over of their industries, it may well be that the balance in the foreign capital market will gradually incline in favour of the Governments of the countries in which the enterprises operate.

The strengthening of the countries' bargaining position would force firms to adopt a more and more flexible attitude to the terms imposed by countries or regional groupings. There are already signs of greater pliability among international enterprises in both the extractive and the manufacturing sectors. Firms are agreeing to being minority share holders and to much more restrictive conditions than in the past. They are entering into association with public, semi-public, and private enterprises in countries with different economic systems (including enterprises operating under the workers' management system in Yugoslavia). This means that firms are showing more and more willingness to fulfil the functions that the countries assign them according to the development model they have adopted.

The expansion of international manufacturing companies in Latin America has hitherto been almost the decisive factor in determining the rate of growth of industry, and their diversification policy has largely dictated the structure of the supply of manufactures. The public sector's investment policy has been influenced by the need to establish the infrastructure for the expansion of the most dynamic sectors. In addition, financial mechanisms have been developed for stepping up demand, even if only temporarily, for the goods produced by these sectors. International enterprises have played, and continue to play, a central role in Latin America's industrial development model. They do not have to dominate the market, however, to be willing to invest in the Latin American countries. It is clear, for example, that when they produce certain goods in countries with

partially or completely centralized economies, their role is to provide some of the items in a basket of consumer goods which are selected according to a model which they have little chance of modifying. When those countries need to have international enterprises, it is presumably because they consider the enterprises will be more efficient producers of these goods than local firms. The basic difference is therefore that in one case the type and volume of the goods to be produced are decided by the enterprises, and in the other by the country concerned. It is impossible to judge in advance the advantages or disadvantages of either method.

The only way to judge would be to see how far the results obtained through the method it decides to adopt are consistent with the country's economic and political objectives. The important point is that international enterprises are willing to accept much more restrictive terms than has hitherto been believed.

Even if it is thought that over the next few years the behaviour of international enterprises may change in some respects and in certain circumstances, it is important to know what general trend they have so far followed before deciding what policy to adopt towards them. First some attention should be paid to the structure of the financing used for the expansion of these companies abroad. As shown in section A, 83 per cent of the funds used by United States manufacturing firms abroad were generated in the countries in which they were operating. Accordingly, the growth of these enterprises mainly depends upon what use they make of the profits generated in the country and what access they have to the local capital market. Thus, if the countries wish to stimulate or restrict or reorient the expansion of international enterprises, they should focus their attention on the ways in which the locally generated savings are utilized.

As regards the know-how introduced by international enterprises, the developing countries should remember that, up to now, this has consisted in introducing techniques that are already widely known in the developed countries and not in developing the ability to improve them or to create new processes and products. This is perfectly all right as long as the enterprises are producing goods to replace former imports on the domestic market, but if Latin America wishes to attain high enough standards of quality in certain sectors to enable it to compete on the world market for manufactures, the know-how thus acquired will be completely inadequate. International enter-

prises do no technological research in the less developed countries and, even if they did, there would be no guarantee that these countries would be in a better position to compete on the world market. On the contrary, it is more than likely that any innovations that might be made would be transferred to the parent companies, thus improving the competitive position of the country of origin.

Although international enterprises may be an efficient means of transferring know-how to meet domestic consumption requirements, they can hardly be considered as a basis for any industry that aims at competing on the developed countries' market for manufactures.

Nevertheless, international enterprises might play quite an important role in the export of Latin America's manufactures. There is every likelihood that manufacturing subsidiaries abroad will step up their exports in the next few years, and that a large proportion of those exports will go to the regional market to which the host country of the subsidiary belongs (ALALC in the case of South America). They will probably also start to manufacture products in which the subsidiaries in developed countries have lost interest, for export both to ALALC and to the developed countries. These would generally be the simplest products of the firms' production range and would be intended partly for replacement purposes.

Other subsidiaries are likely to be established in Latin America because of the lower cost of labour, in particular for the assembly of products with a high content of imported components. Last but not least, are the exports of processed and semi-processed natural products from countries with abundant natural resources; most of these exports would go, of course, to the developed countries.

The outlook for these commodities would not seem to guarantee the attainment of the objectives generally assigned to exports of manufactures, i.e., ensuring that exports grow at a steady and increasing rate, promoting local industrial technology and improving the efficiency of industry and giving the countries more freedom of action in handling their foreign trade.

If past trends continue unchanged in the next few years, exports of the Latin American regional groupings will grow more slowly than the developed countries' trade in manufactures. In the case of the simpler products or spare parts and replacements, the growth target could perhaps be attained in quantitative terms, but their manufacture would not provide much incentive to improve technology. As

regards items or components produced by labour-intensive methods, Latin America seems to be losing ground to the countries of South-East Asia. Moreover, if the aim is to achieve a substantial increase in productivity, and therefore in wages, the export strategy could scarcely be based on the lower cost of labour in Latin America. Nor would there be any significant spread of technology to other industrial sectors from the manufacture of these types of products.

Exports of highly-processed natural resources possibly hold out the best prospects as regards volume; but this is just where there is most chance of replacing international by national enterprises, although some of their know-how would come from foreign sources.

For a country to base its exports of manufactures on decisions adopted by international enterprises does not seem to be the best way for it to achieve more independence and stability in the handling of its foreign trade. The export strategy of international firms takes into account production conditions and demand in all the different countries in which they operate. That being so, if most of a country's industrial exports are produced by international enterprises, the country's position cannot be described as stable, nor can it be said to reflect an independent policy for the handling of foreign trade.

This should not prevent countries from doing all they can to promote the export activities of international enterprises. There are some circumstances which favour the expansion of the enterprises' exports. The contention is, however, that if they delegate the main responsibility for increasing and diversifying exports of finished products to international enter-

prises, the countries will not be able to reap all the benefits they hope to obtain from changes in the structure of their exports.

Another question examined in previous sections which should be borne in mind is the relationship between the foreign take-over of industry and the sign and extent of the difference between new capital investment by international firms and their remittances of profits. The more they invest, the easier it will be for them to take over industry. At the same time, once an acceptable rate of return has been established for these companies and the faster investment grows, the more likely it will be that new capital investment will equal or even exceed remittances of profits. In other words, the effect on the balance of payments may not be so unfavourable, and may even be favourable. If the take-over process continues indefinitely, there will come a time when the international enterprises will have practically no opportunity to reinvest in the country. If this were to happen the balance-of-payments position would be most unfavourable, since the companies would have no alternative but to remit all their profits.

The over-all effect on the balance of payments will depend on the international firms' attitude to exports, which, as mentioned above, will be influenced by the countries' export policy.

The present study has been confined to an analysis of the behaviour of international enterprises and specific suggestions have been made regarding the most advantageous policy for countries to adopt, since whether or not it is advantageous will depend exclusively on the economic, political and social objectives adopted by their Governments.

STATISTICAL APPENDIX

Table I. Patent royalties and technical assistance as a percentage of total remittances of profits, 1961–1968

Region	Year or period	Total	Petroleum	Manufactures	Other sectors
All regions	1961	17			
	1962	19			
	1963	21			
	1964	21			
	1965	23	8	52	32
	1966	26	7	59	41
	1967	25	8	61	34
	1968	26	7	65	38
	Average 1961–1964	20			
	Average 1965–1968	25	7	59	36
	Average 1961–1968	23			
Canada	1965	26	7	46	21
	1966	28	13	47	21
	1967	31	13	63	19
	1968	32	9	66	25
	Average 1965–1968	29	11	55	21
Latin America	1965	17	6	64	48
	1966	16	5	59	47
	1967	16	77	51	36
	1968	19	7	55	49
	Average 1965–1968	17	6	56	45
Europe	1965	48	171	52	30
	1966	63	725	68	42
	1967	56	650	62	31
	1968	59	1,075	68	29
	Average 1965–1968	56	452 ^a	63	33
Other regions	1965	12	6	54	29
	1966	14	5	60	70
	1967	14	5	70	68
	1968	12	4	61	70
	Average 1965–1968	13	5	61	59

SOURCE: OECD, *Reviews of National Science Policy* (Paris, 1968); and ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a This anomaly is explained in the text.

Table II. Patent royalties and technical assistance as a percentage of total profits, 1961–1968

Region	Year or period	Total	Petroleum ^a	Manufactures	Other sectors
All regions	1961	12			
	1962	14			
	1963	14			
	1964	15			
	1965	17	7	28	20
	1966	18	7	31	24
	1967	19	7	36	23
	1968	18	7	33	24
	Average 1961–1964	14			
	Average 1965–1968	18	7	32	23
	Average 1961–1968	16			
Canada	1965	15	5	24	14
	1966	17	8	26	16
	1967	18	8	30	15
	1968	18	6	30	18
	Average 1965–1968	17	7	28	16

Table II. Patent royalties and technical assistance as a percentage of total profits, 1961–1968 (continued)

Region	Year or period	Total	Petroleum ^a	Manufactures	Other sectors
Latin America	1965	13	5	27	28
	1966	12	5	25	28
	1967	13	6	37	26
	1968	14	7	29	29
	Average 1965–1968	13	6	29	28
Europe	1965	38	—71	32	18
	1966	39	—37	39	26
	1967	41	—39	41	22
	1968	39	—32	39	20
	Average 1965–1968	38	—40	38	22
Other regions	1965	10	6	25	16
	1966	11	5	27	26
	1967	13	5	30	29
	1968	10	4	26	28
	Average 1965–1968	10	5	27	25

SOURCE: OECD, *Reviews of National Science Policy* (Paris, 1968); and ECLA, on the basis of United States Department of Commerce, *Survey of Current Business*, various issues.

^a The figures for Europe have a minus sign because the firms declared losses for those years.

Table III. United States: Exports and imports of machinery to and from Japan, 1968
(Thousands of dollars)

SITC			Product	Exports to Japan	Imports from Japan	Balance
Section	Division	Group				
7			Machinery and transport equipment	636,827	1,223,373	—586,546
	71		Machinery, other than electric	393,737	226,795	166,942
		711	Power-generating machinery	73,059	20,684	52,375
		712	Agricultural machinery	12,088	1,192	10,896
		714	Office machines (including computers)	84,027	44,477	39,550
		715	Metal-working machinery	60,889	20,367	40,522
		717	Textile and leather machinery	9,994	62,742	—52,748
		718	Machines for special industries	28,184	7,562	20,622
		719	Machinery, other than electrical	125,495	69,772	55,723
	72		Electrical machinery	116,179	672,212	—556,033
		722	Electric power machinery	18,930	42,723	—23,793
		723	Machinery for distributing electricity	1,414	28,326	—26,912
		724	Telecommunications equipment	24,763	476,281	—451,518
		725	Domestic electrical equipment	1,676	16,200	—14,524
		726	Medical equipment	2,613	1,262	1,351
		729	Other electrical machinery	66,784	107,420	—40,636
	73		Transport equipment	126,912	324,365	—197,453
		731	Railway rolling-stock	291	2,431	—2,140
		732	Road motor vehicles	21,971	290,513	—268,542
		733	Road vehicles other than motor vehicles	248	14,440	—14,192
		734	Aircraft	102,605	14,096	88,509
		735	Ships and boats	1,797	2,885	—1,088

SOURCE: United Nations, *Commodity Trade Statistics, 1968*, New York, 1969.

Chapter II

RELATIONS BETWEEN LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY

A. RECENT TRENDS IN TRADE BETWEEN LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY

Trade with the European Economic Community (EEC) comes second, after the United States, in the foreign trade of the Latin American countries as a whole. In 1966–1968, EEC absorbed 20 per cent of Latin America's exports and supplied 19 per cent of its imports; its share of trade with Latin America has been increasing in recent years. The EEC market is of even more importance to Argentina, Brazil, Chile, Ecuador, El Salvador, Honduras, Peru and Uruguay, as it absorbs between 25 and 40 per cent of their exports.

After reaching a peak of 8.3 per cent between 1958–1960 and 1963–1965, the growth rate dropped to an annual 3.7 per cent between 1963–1965 and 1966–1968. It dropped to its lowest point in 1967, and in 1968 there was for the first time a decline in the value of Latin America's exports to EEC; it was mainly due to the sharp drop in Argentina's exports and a less serious drop in those of Chile, Ecuador and Mexico.

This slowing down of trade between Latin America and the EEC countries seems to have been only temporary, as can be seen from the figures for 1969 and 1970. In 1969, the figures show a notable recovery in Argentina, whose exports regained their former level, and there was a substantial increase in those of other countries, particularly Brazil. To judge by the EEC imports from Latin American countries, the increase in 1969 was about 18 per cent, which offset a drop of 4.7 per cent in 1968 compared with the previous year (see table 42).

The year 1970 was also very encouraging, judging from the EEC figures, since the Community's imports from Latin America increased by 13.5 per cent. The most notable increases were in Argentina (21.1 per cent) and Brazil (17 per cent); there were increases in other countries also, but except in Mexico and Ecuador, they were much smaller.

The trend in Latin America's imports from EEC was quite different from that of its

exports to it in the period 1958–1968. Between 1958–1960 and 1963–1965 Latin America's imports from EEC only increased by a meagre 1.6 per cent a year, while there was a boom in Latin America's exports to EEC. In the period from 1963–1965 to 1965–1968 Latin America's imports from the EEC countries grew at an annual rate of 7.4 per cent, while at the same time there was a drop in its exports to EEC. The rise in Latin America's imports from EEC has continued over the last two years, the growth rates being 8.6 and 13.2 per cent, respectively.

Generally speaking, the trade balance with EEC has been increasingly favourable to Latin America over the last three years. The countries that did best were Argentina, Brazil and Chile, whose favourable trade balances were 206, 179 and 221 million dollars, respectively, in 1969, according to Latin American sources. In contrast, Mexico and Venezuela continued to have an unfavourable balance, which was basically due to the structure of their trade.

There has been little change in the composition of Latin America's exports in the last two decades. There was some improvement in exports of manufactures, although still small in terms of value and confined to three or four countries. Unprocessed and semi-processed primary products still predominate in the region's exports; the proportion of food and raw materials in its exports to EEC is even higher; these are precisely the products whose competitiveness is most seriously threatened by EEC's common agricultural policy and the preferential treatment it extends to certain African and European countries (see table 43).

Sections 6 and 8 of the SITC comprise manufactures, but in the case of the Latin American countries they are mainly unprocessed non-ferrous metals, such as copper, tin, platinum, lead and zinc bars, ingots, sheet, etc., whose share in Latin America's total exports rose considerably, owing largely to the rise in prices for these products in 1958–1960. In the case of exports to EEC, the increased share of these products in the total was about

Table 42. Exports, imports and trade balance between Latin America and the European Economic Community
(Millions of dollars)

	Latin America				European Economic Community				
	Averages		1969	1968	Averages		1968	1969	1970
	1958-1960	1966-1968			1958-1960	1966-1968			
Latin American Free Trade Association (ALALC)									
Exports	1,216	2,092	...	2,043	1,307	1,690	1,860	2,042	2,325
Imports	1,344	1,763	...	1,899	1,504	2,420	2,349	2,796	3,176
Balance	-128	329	...	144	-197	-730	-489	-754	-851
Argentina									
Exports	375	572	589	505	325	277	299	411	453
Imports	305	271	383	276	402	662	560	660	799
Balance	70	301	206	229	-77	-385	-261	-249	-346
Bolivia									
Exports	2	10	...	10	12	25	28	37	29
Imports	9	29	...	31	5	18	24	24	28
Balance	-7	-19	...	-21	7	7	4	8	1
Brazil									
Exports	240	454	683	480	270	351	442	459	558
Imports	262	342	504	447	292	546	583	732	857
Balance	-22	112	179	33	-22	-195	-141	-273	-299
Chile									
Exports	136	324	394	300	84	143	152	158	170
Imports	81	144	173	137	141	297	308	421	496
Balance	55	180	221	163	-57	-154	-156	-263	-326
Colombia									
Exports	75	122	140	138	75	90	89	96	137
Imports	80	100	101	94	89	123	123	146	172
Balance	-5	22	39	44	-14	-33	-34	-50	-35
Ecuador									
Exports	33	55	...	48	24	50	60	48	47
Imports	27	49	...	57	44	81	66	60	52
Balance	6	6	...	-9	-20	-31	-6	-12	-5
Mexico									
Exports	70	108	80	93	135	289	331	340	394
Imports	129	288	337	322	132	175	166	178	121
Balance	-59	-180	-257	-229	3	114	165	162	273
Paraguay									
Exports	4	8	11	9	7	19	20	17	14
Imports	6	17	18	17	8	12	11	17	22
Balance	-2	-9	-7	-8	-1	7	9	-	-8
Peru									
Exports	95	217	247	232	65	154	135	153	140
Imports	73	166	128	135	120	223	236	268	300
Balance	22	51	119	97	-55	-69	-101	-115	-160
Uruguay									
Exports	38	49	69	48	39	28	29	38	51
Imports	36	31	38	28	42	54	46	37	66
Balance	2	18	31	20	-3	-26	-17	-19	-15
Venezuela									
Exports	145	170	205	180	271	264	275	290	332
Imports	336	326	356	355	229	229	226	233	263
Balance	-191	-156	-151	-175	42	35	49	57	69

Table 42. Exports, imports and trade balance between Latin America and the European Economic Community (continued)
(Millions of dollars)

	Latin America				European Economic Community				
	Averages		1968	1969	Averages		1968	1969	1970
	1958-1960	1966-1968			1958-1960	1966-1968			
Central American Common Market (CACM)									
Exports	128	192	184	...	73	124	125	128	153
Imports	90	146	142	...	127	217	228	232	243
Balance	38	46	42	...	-54	-93	-103	-104	-90
Costa Rica									
Exports	29	26	24	...	18	23	23	30	39
Imports	21	29	28	34	27	27	28	36	49
Balance	8	-3	-4	—	-9	-4	-5	-6	-10
El Salvador									
Exports	42	51	47	52	18	29	29	29	34
Imports	25	37	34	37	42	54	55	59	66
Balance	17	14	13	15	-24	-25	-26	-30	-32
Guatemala									
Exports	26	41	35	50	22	32	35	35	40
Imports	26	38	42	42	26	49	50	54	54
Balance	—	3	-7	8	-4	-17	-15	-19	-14
Honduras									
Exports	8	45	50	...	7	12	12	18	17
Imports	7	16	15	...	9	54	66	53	44
Balance	1	29	35	...	-2	-42	-54	-35	-27
Nicaragua									
Exports	21	29	28	29	8	28	26	16	23
Imports	11	26	23	24	23	33	29	30	30
Balance	10	3	5	5	-15	-5	-3	-14	-7
Other countries:									
Panama									
Exports	—	4	7	...	53	76	98	102	114
Imports	12	21	23	...	5	11	12	26	34
Balance	-12	-17	-16	...	48	65	86	76	80
Dominican Republic									
Exports	16	8	6	5	16	24	27	28	41
Imports	17	31	33	...	16	8	7	7	15
Balance	-1	-23	-27	...	—	16	20	21	26
Cuba									
Exports	39	24	29	...	65	85	107	126	162
Imports	65	89	124	...	37	30	33	35	47
Balance	-26	-65	-95	...	28	55	74	91	115
Total for 19 countries^a									
Exports	1,398	2,321	2,269	...	1,514	1,999	2,217	2,426	2,795
Imports	1,528	2,050	2,221	...	1,689	2,686	2,629	3,096	3,515
Balance	-130	271	48	...	-175	-687	-412	-670	-720

Sources: For Latin America, International Monetary Fund, *Direction of Trade*, various issues, and data from official sources. For EEC, Statistical Office of the European Economic Communities, *Statistique Mensuelle de Commerce Extérieur*.

^aExcluding Haiti.

Table 43. Latin America: composition and growth of total exports and of exports to the European Economic Community

SITC Sections	Composition of exports (percentage shares)				Annual growth rates 1958-1960 to 1966-1968	
	Total exports		Exports to EEC		Total exports	Exports to EEC
	1958-1960	1966-1968	1958-1960	1966-1968		
0 and 1	45.2	43.0	52.5	51.1	3.7	6.0
2 and 4	18.0	18.4	26.0	23.3	4.8	5.0
3	28.0	23.6	9.0	7.2	2.4	3.5
5	1.0	1.9	1.0	1.0	12.6	7.0
6 and 8	7.1	12.2	11.6	16.9	11.7	11.6
7	0.3	1.0	0.1	0.3	24.5	18.9
TOTAL (0-9)	100.0	100.0	100.0	100.0	4.6	6.4

SOURCE: United Nations, *Monthly Bulletin of Statistics*, April 1970.

the only change in the composition of exports to the Community in the period 1958-1959 to 1966-1968. Table 43 shows the differences in the growth rate of exports depending on the product. Exports of food and raw materials (SITC sections 0, 1, 2 and 4) and of fuels (section 3) grew faster during that period than did total exports. On the other hand, chemicals and transport equipment (SITC sections 5 and 7), which accounted for only a small percentage of the total, grew more slowly than total exports, although total exports of these items, which moved mainly in intra-regional trade, grew faster than any others.

Generally speaking, the growth rates of the major groups of Latin America's exports to the EEC countries were higher than the average for the developed countries as a whole, particularly the United States and the European Free Trade Association (EFTA), although in some cases, exports to Canada and Japan—in very small amounts—grew at a faster pace than those to EEC. The principal commodities exported by Latin America to the Community (see table 44) expanded considerably in the period from 1958 to 1969, mostly at a faster pace than the exports of the Association of African and Malagasy States (EAMA). Coffee, for instance, which heads Latin America's list of exports to EEC, grew by 60 per cent over that period, while EAMA's coffee exports rose by only 2 per cent. Latin America's exports of bananas to EEC also followed a very favourable trend, practically doubling over the period considered, while there was a drop of 5 per cent in EEC imports from the Associated African States. The only tropical product which showed a declining trend was cocoa, exports of which to EEC dropped 32 per cent over the same period, mainly owing to a falling off in production in the cocoa-growing countries, particularly Brazil.

As to exports of temperate-zone products,

which are causing the Latin American countries most concern because they come under the common agricultural policy, EEC imports from Latin America of at least some of these products rose considerably over the period considered; beef imports from Latin America increased by 24 per cent, maize by 168 per cent and wheat by 35 per cent. However, the rise was not steady and sustained and there has been a sharp drop in the last year or two. For instance, after expanding steadily from 38,725 to 118,130 tons over the period 1958-1966, EEC's imports of Latin American beef fell in 1967 and 1968, and in 1969 only just regained the 1967 level.

It would seem, therefore, that exports of beef, which is a key product in the trade of some of the countries of the region, have lost their former impetus and are following a declining trend. The same trend, but even more pronounced, can be seen in maize exports, which rose between 1958 and 1967 but dropped in the next two years to below the 1962-1967 level in terms of volume. Lastly, Latin America's wheat exports stagnated from 1967 onwards.

The trends in imports of industrial raw materials were very uneven; petroleum imports practically stagnated, increasing by only 2 per cent between 1958 and 1969; cotton imports, on the other hand, increased substantially (84 per cent) and copper imports soared, rising by 418 per cent, largely owing to better prices. After dropping sharply between 1958 and 1962, imports of iron ore followed a rising trend, but in 1969 they were still below the level reached at the beginning of the period.

The trends in 1969 and 1970, which were towards recovery, are highly encouraging, following as they do on a decline from 1965 to 1968. Nevertheless, seeing the downward trend in some commodities, such as temperate-zone products, it cannot be said that the

Table 44. European Economic Community: principal imports from Latin America and from the Associated African and Malagasy States (EAMA)
(Thousands of dollars)

Products	1958		1962		1966		1967		1968		1969		Percentage variation between 1958 and 1969	
	Latin America	EAMA	Latin America	EAMA	Latin America	EAMA	Latin America	EAMA	Latin America	EAMA	Latin America	EAMA	Latin America	EAMA
Coffee	299,246	161,236	313,257	119,394	407,120	152,525	400,434	141,076	440,086	169,248	477,650	163,716	60.0	2.0
Cocoa	32,047	75,638	17,279	59,828	11,998	76,150	18,418	100,209	18,253	114,302	22,121	170,614	-31.0	126.0
Bananas	66,871	48,507	66,784	28,744	126,824	56,205	146,400	53,820	126,042	48,671	133,073	46,031	99.0	-5.0
Beef	38,725	1,005	44,374	695	118,130	1,620	106,198	1,561	69,720	1,086	106,418	1,249	175.0	24.0
Wheat	30,958	—	81,336	—	45,610	—	40,211	—	39,863	—	41,702	—	35.0	—
Maize	66,935	1,142	122,201	—	235,280	—	212,391	—	167,993	50	179,496	—	168.0	—
Meat and fish meal	16,315	33	73,682	—	96,693	223	82,537	111	88,153	179	115,659	190	609.0	476.0
Petroleum	178,309	10,352	197,471	15,294	143,203	16,003	200,785	17,710	175,142	10,034	181,243	19,054	2.0	84.0
Cotton	132,204	53,033	216,974	34,609	217,391	33,310	172,722	37,687	168,014	52,906	243,318	56,419	84.0	6.0
Silver	18,998	—	19,504	—	39,658	—	34,148	—	46,156	2	37,073	—	95.0	—
Copper for refining	80,050	119,447	49,299	113,794	74,851	242,314	110,315	194,495	93,933	257,140	79,420	156,101	418.0	279.0
Refined copper	181,277	286	105,215	44,937	169,298	31,627	204,293	80,223	214,298	85,819	335,469	294,910	-16.0	19.4
Iron ore	18,850	9,820	101,923	7,532	109,523	57,110	114,942	55,317	123,918	49,532	151,469	55,600	88.0	-49.0
Tobacco	28,799	134	63,090	122	51,756	93	36,300	146	35,083	3,489	35,424	5,006	6.0	-51.0
Wool	1,189,585	480,633	1,500,738	424,949	1,881,066	708,346	1,914,481	688,236	1,830,089	792,481	2,170,278	971,155	82.4	102.1
TOTAL														

SOURCE: European Economic Community.

progressive application of the common agricultural policy from 1966–1968 has been without effect on any of Latin America's exports. EEC's agricultural regulations seem to be aimed at a greater degree of self-sufficiency for the Community, towards which some progress has already been made at the expense of other countries, particularly the countries of the region.

On the other hand the entry of the United Kingdom and other countries into the Common Market raises new and grave problems for the future of Latin America's exports of temperate-zone agricultural products. For instance, within the five-year period finally agreed upon, the nine EEC member countries are to apply the basic regulations of the common agricultural policy, which in essence means the adoption of the prices obtaining within the Community, which are much higher than the United Kingdom's, and at the same time the application to imports of tariffs, movable levies and perhaps import quotas. Although it is too early to foresee the actual consequences for the new EEC members of such a profound change in the existing agricultural regulations, there are solid grounds for thinking that the change will strongly stimulate their domestic production and lead to increased trade between the members of the enlarged EEC, to the detriment of the imports of third countries, particularly those of Latin America, which have always been among the United Kingdom's big suppliers of agricultural products.

As to tropical-zone products, trends over the last decade seem to indicate that the EEC's preferential treatment of the Associated African States has not been much of an impediment to the development of Latin America's exports to the Community. Furthermore, EEC's policy on imports of such products seems to be evolving towards lower preferences for associated States, a point which emerged during the negotiation of the new Yaoundé Convention.

Nevertheless, the possible consequences for Latin America of an extension of duty-free treatment to the imports of tropical products from another group of African States, belonging to the British Commonwealth, as a result of the entry of the United Kingdom into the Common Market cannot be ignored. It must be borne in mind that not only will these new associated States have preferential access to the EEC market, but the Yaoundé Convention countries will enjoy similar access to the United Kingdom market, where they will be in privileged and very strong position to compete with Latin American products.

The need to reconsider and reorganize relations between Latin America and the Community on the basis of specific agreements that go beyond what are strictly questions of trade has been recognized on various occasions in the last two years, as is pointed out below. At the talks begun in Brussels in June 1971, the Latin American countries and the representatives of the Community decided to establish permanent machinery for a dialogue between them and agreed to start negotiations with a view to the eventual discussion and formulation of technical bases for closer co-operation between the two regions.

B. REVIEW OF RELATIONS BETWEEN LATIN AMERICA AND THE COMMUNITY FROM 1958 TO 1968

As soon as the Rome Treaty¹ came into force, and even earlier, the Latin American countries began to express their concern as to the effects that might be produced by some aspects of the operation of the European Economic Community, and some of its instruments, on their future trade relations with the six States members. This concern related especially to the possible impact of the common agricultural policy and the policy of granting preferential treatment to the Association of African and Malagasy States and also to the extension of agreements based on this discriminatory principle to other African countries and, more recently, to countries in other regions, such as the Mediterranean area.

On various occasions in the course of the past few years, the Latin American countries have made representations to the Community in connexion with the above-mentioned aspects of its policy, and have sought to outline the bases for closer co-operation with EEC.

The Community, for its part, has from the outset shown itself very favourably disposed towards the principle of maintaining active economic and trade co-operation with Latin America, as can be seen from the memorandum² which it transmitted to the Latin American Governments early in 1958. In the same document, reference was made to the Community's willingness to contribute to the development of international commerce and the reduction of barriers to trade, as set forth

¹ See *Treaty establishing the European Economic Community and connected documents*, published by the Secretariat of the Interim Committee for the Common Market and Euratom (Brussels, 1957).

² See EEC, "*Memorandum des Etats Membres de la Communauté Européenne aux pays de l'Amérique Latine*", Strasbourg, 19 March 1958.

in article 18 of the Rome Treaty. To that end, the memorandum stated, the Community intended to enter into reciprocal and mutually advantageous arrangements directed to the reduction of customs duties below the general level which would prevail as a result of the establishment of a customs union among its States members.

As regards relations with Latin America, the memorandum proposed a general framework for action and made some suggestions relating to specific procedures for implementing co-operation between the two regions, based on respect for the rights of both parties (primarily the right to maintain a policy of economic integration in conformity with existing international commitments) and on mutual benefits. For this purpose "consultation arrangements" could be agreed upon; these would serve as the framework for the study of economic, financial and trade problems—including difficulties in respect of raw materials which arose or might arise in relations between the members of EEC and the Latin American countries. It was deemed appropriate to seek bases for common action by the European Economic Community and the Latin American countries with respect to all trade matters and to prices of basic commodities (such as coffee and cocoa, for example). Lastly, the memorandum put forward the view that the fact that the six Governments had prepared a programme for financing expenditure on economic and social infrastructure in the overseas countries and territories associated with the Community was no bar to the development of a policy for exporting capital to Latin America. The document concluded with an assurance that the problem of economic, financial and trade relations between the European Economic Community and the Latin American countries was being studied with the greatest care, and expressed the hope that the two parties would exchange views on the subject at an early date.

In July 1960, the Governments of the Latin American countries replied to the EEC documents in a memorandum in which they proposed an economic programme based on fuller liberalization of trade, reduction of customs duties as between the Community and Latin America, and improvement of the terms on which EEC provided financial assistance. The document likewise referred to the need for an office to be set up in one of the Latin American countries which would serve as an information centre and also as a centre for studies on the economic development problems of the countries of the region.

In mid-1962 the Commission of the European Economic Community submitted to the Governments of the States members a note roughly outlining a programme for community action with regard to Latin America and advocating the establishment of liaison and information machinery which would help to dispel the misgivings aroused in Latin America by the prospects of a united Europe. With regard to trade policy, the Commission confined itself to indicating what role each of the six member countries would be called upon to play in the reorganization of trade in the basic commodities exported by the Latin American countries. It agreed to continue giving its support to action aimed at stabilizing the prices of the commodities in question, and to examine the possibility of reducing duties and taxes affecting their consumption; and it declared its willingness to study the conditions required to encourage Latin America's exports of industrial products.

In January 1963, the Commission presented a further document in which it proposed *inter alia* that a liaison office be established in Latin America and a group be set up in Brussels composed of the representatives of the Commission and the heads of the diplomatic missions of the Latin American countries accredited to the Community, so as to enable the latter to put forward their views with respect to problems of common interest and keep themselves informed of EEC activities. The Council agreed to the establishment of an EEC information office, in Montevideo, and to the holding of periodic meetings between the representatives of the Commission and the Latin American diplomatic missions accredited to the Community.

The object of the first round of such meetings, which started in July 1963, was to report to the Latin American Governments on the structures, policy and prospects of the Community, and on its possible lines of action vis-à-vis Latin America. At the conclusion of these talks, the Latin American Ambassadors submitted a report in which the Commission was invited to move on from the consideration of general problems to the discussion of certain more specific questions relating to the adoption of the preferential system in favour of the African countries and the entry into operation of the common agricultural policy. It was urged that financial and technical assistance programmes should be co-ordinated and that action should be streamlined within the framework of a system of co-operation with the Latin American regional organizations.

A second round of meetings began in February 1966, when the heads of diplomatic missions submitted a memorandum in which they once again voiced Latin America's uneasiness as to the way in which its exports might be affected by certain aspects of the common agricultural policy and by the preferential treatment granted to the African countries and formulated specific proposals with regard to temperate-zone products, the establishment of tariff quotas and the modification of some of the Community's agricultural regulations that were considered detrimental to Latin American products; and in respect of tropical products, the elimination of tariff and non-tariff barriers to Latin America's exports and the conclusion of specific commodity agreements (for coffee, cocoa and bananas).

When this second round of meetings ended the Commission drew up a report in which it recommended that the States members should give consideration to the possibility of adopting special trade measures that would help to solve some of the problems arising in Latin America; it pointed out, however, that the proposals relating to tariffs could not be examined until the Kennedy Round negotiations had been completed and the results of the second session of UNCTAD were known.

In November 1966 the Latin American missions were notified that the EEC Council of Ministers considered it inappropriate to establish a joint standing committee of the type proposed by the group of Latin American Ambassadors, the functions of which would have been to study and discuss the measures to be adopted for fostering relations between the two areas and examining Community relations or projects which affected or might affect Latin American interests. In its report to the Council of Ministers, the Commission had expressed the view that the trade situation between EEC and Latin America did not warrant the apprehensions voiced by the representatives of the Latin American countries. Furthermore all the Community could do in view of the Kennedy Round negotiations then in process and the forthcoming proceedings of the second session of UNCTAD, and also of the necessity of respecting the provisions of the Yaoundé Convention signed with the African countries, was to maintain permanent liaison with the Latin American diplomatic missions.

On the other hand, it is of interest to note that the European Parliament has consistently adopted an attitude that has in general been favourable to Latin America, and has urged

the adoption of a policy of liberal co-operation in all fields, with due regard to Latin America's interests. This is proved by the provisional report of the Committee on External Trade Relations of the European Parliament, dated June 1963, and the report on the European Economic Community and Latin America submitted on behalf of the same Committee in November 1964. The latter report, which outlined the bases of a programme for EEC co-operation with Latin America, gave rise to a resolution of the European Parliament in which the Commission of the Community was invited to submit new proposals to the Council of Ministers with a view to organizing relations between the two regions.

The governments of the States members of the Community have also shown themselves disposed to support a policy of closer financial and trade co-operation with Latin America. The Government of Italy is known to have accorded a very favourable reception to the memorandum addressed to the Commission in 1966 by the Contact Group in Brussels, which was also well received by the Governments of the Federal Republic of Germany and the Benelux countries. In November 1966 the Government of Italy submitted a report to the Council of Ministers, in connexion with the said memorandum, in which it stressed the need to formulate a specific programme of economic, financial and technical co-operation for the benefit of Latin America. It advocated trade measures designed to facilitate imports of Latin American products (both primary commodities and manufactured goods) and the co-ordination of EEC's technical assistance, and expressed the view that it would be especially appropriate to set up a permanent joint contact committee, a proposal that it renewed in November 1968.

Hence it is clear that during the first ten years of the Community's existence consideration was given to several proposals directed towards the same end: outlining the bases for a programme of constructive Community action which would contribute to the economic and social development of the Latin American countries. The fact that in the three years following the presentation of the 1966 memorandum, up to July 1969, no specific step was taken to give concrete expression to EEC's goodwill towards Latin America would seem to suggest that until recently the Latin American countries have had only secondary priority for the Community, coming after the Mediterranean countries, the United Kingdom and the United States. In the case of the African countries—at

any rate the EAMA members—justification might be found for this state of affairs in the existence of special relations between them and some of the States members of the Community and in the natural desire of the States in question to protect and further their economic interests in their one-time colonies. The argument adduced by EEC itself upon launching its policy of extending the association agreements to other countries in Africa with which it had no traditional relationship, such as the English-speaking countries, was that its interest in them had its grounds or justification in the fact that most of the African countries are relatively less developed.³

It might also be suspected that the Community's reluctance to take the views of the Latin American countries into account and to engage in a formal and organized dialogue with them is perhaps largely attributable to the internal problems which the organs of the Community have had to tackle and solve during the transition period, especially at the levels of the common agricultural policy and of internal reforms.

C. NEW PROSPECTS: THE MARTINO REPORT AND THE DECLARATION OF BUENOS AIRES

Nevertheless, there was one major new development that was to provoke a marked change in the reticent, even negative, attitude that the Community had adopted towards the Latin American proposals.

In July 1969, the Commission submitted a note to the Council of Ministers on relations with the Latin American countries⁴ which opened up new prospects for co-operation between the two regions. This note, known as the Martino Report, recognized the need to take a fresh look at the various problems hampering trade and financial relations between the two regions and recommended that the Community should adopt a co-ordinated policy in favour of Latin America. The report did not, moreover, restrict itself merely to general considerations, but made specific suggestions as to the kind of measures that might be adopted to promote these relations.

³ The special relationship argument has now been reinvented to justify association and trade agreements with almost all the Mediterranean countries.

⁴ The note was prepared under the supervision of Mr. Eduardo Martino, then a member of the Commission, and thus became generally known as the Martino Report, which is the title used in this document. References to the note are based on data obtained from various publications.

In mid-May 1970 the working group on Latin America set up by the Permanent Representatives Committee submitted a preliminary analysis of the technical aspects of the Martino Report. In June the same year, the Committee of Permanent Representatives submitted a number of suggestions of a fairly general and limited character for the Council to take into account when it took up the question of relations with Latin America in the course of the year. With regard to trade, it was proposed that the application of some of the new tariff cuts negotiated in the Kennedy Round should be speeded up in the case of the Latin American countries and that they should be granted certain new non-preferential tariff reductions and more advantageous offers under the General System of Preferences. As regards financial assistance, it was suggested that the bilateral assistance provided by member States should be co-ordinated and a guarantee system for private investment in Latin America should be considered.

Towards the end of 1969, the European Parliament adopted a resolution requesting the Council of Ministers to promote effective and permanent co-operation between the two regions as a means of improving market conditions for Latin American products and credit and technical assistance terms.⁵ With regard to institutions, the Parliament recommended setting up a joint EEC-Latin America committee, extending generalized and non-discriminatory preferences to as many processed agricultural products as possible, and gradually reducing the consumer taxes imposed on tropical products in several EEC countries. It also reaffirmed that any policy of aid to the countries of Latin America should be on a genuine Community basis and not be restricted to the co-ordination of isolated national initiatives.

Feeling that there were indications—the most significant being the Martino Report—that the Community's attitude towards relations between the two regions was taking a more positive turn, the Latin American countries decided to hold a special meeting of the Special Committee on Latin American Co-ordination (CECLA) in order to adopt a joint position towards the Community, along similar lines to that adopted vis-à-vis the United States at the previous CECLA meeting in Viña del Mar. The meeting, which was held in Buenos

⁵ See Documentos de la Comunidad Europea No. 12. *Las Comunidades Europeas y América Latina* (supplement to *Comunidad Europea*, No. 60, published by the EEC Information Service, Montevideo Office).

Aires from 29 to 31 July 1970, began its deliberations at the expert level and concluded them at the ministerial level with the approval of the Declaration of Buenos Aires on relations between Latin America and the European Communities.

In the substantive part of this document, the Governments of the countries members of CECLA proposed that the Council of Ministers of the Community should agree on joint measures to strengthen their mutual relations, to which agreement would have to be reached on the objectives, the policy and the general characteristics of the system, and on machinery for consultation and negotiation. The holding, as soon as possible, of a meeting at the ministerial level for the purpose of arriving at decisions on these subjects was also proposed, and also the opening, as soon as possible, of preliminary talks at the ambassadorial level between representatives of Latin American countries, of member countries of the European Communities and of the Commission.

In the same document, the countries members of CECLA expressed their desire to give the dialogue between Latin America and the European Communities an institutional status and conduct it at a high political level in order to:

(i) Study and make decisions on matters affecting their relations;

(ii) Establish a frame of reference which would facilitate the dynamic development of bilateral, regional and subregional relations between Latin America and the European Communities; and

(iii) Agree on solutions, including the conclusion of sectoral or global agreements in the fields of commerce, financing, transportation and scientific and technological co-operation.

The Declaration of Buenos Aires is mainly political in content, in so far as its fundamental purpose is to give the Community an official indication of the desire of the Latin American countries to initiate a constructive dialogue and place relations between the two regions on a permanent institutional footing. However, because the Governments of the member countries of CECLA had not reached prior agreement on the possible nature of closer co-operation with the Community, it proved impossible to adopt sufficiently well defined proposals on the subject at the Buenos Aires meeting.

In order to remedy the situation, a resolution

was adopted listing the most important matters that the Latin American countries should bring to the attention of the Community at the proposed meetings with its representatives. The suggestions the resolution contains with regard to trade are still of a very general nature; they cover fulfilment of the standstill commitment, improvement of conditions of access and marketing for Latin America's commodities and manufactures and semi-manufactures, and the effects of the common agricultural policy on the region's exports. With regard to financing, the resolution recommends the following: an intensification of the flow of financial resources from EEC countries to Latin America and an improvement in the terms and conditions of such financing; special treatment for the relatively less developed countries; and assignment of resources to assist in financing Latin America's exports. The resolution also includes some general recommendations on technical assistance and industrial and technical collaboration.

The Buenos Aires resolution goes on to list subjects suitable for immediate action by the Community, such as: the early establishment of the system of general non-reciprocal and non-discriminatory preferences, in keeping with the position taken up by the Latin American delegations in UNCTAD; extension of the credit operations of the European Investment Bank to Latin American countries, either directly or through the Inter-American Development Bank; improvement in the conditions of access of these countries to the capital markets of the Community member States; technical assistance in specific fields, such as economic integration; and support for the positions adopted by Latin American countries in international forums.

It was generally felt, however, that, because no meeting of experts had been held prior to the Buenos Aires meeting, the countries represented could not adopt any proposals that were sufficiently constructive and well defined to serve as a basis for future negotiations with the Community. Bearing in mind the need for specific proposals, the Governments of the member countries of CECLA decided shortly to hold further meetings to complete preparations for Latin America's participation in the projected meetings with representatives of EEC.

The text of the Declaration of Buenos Aires and the accompanying resolution were officially handed to the Presidents of the Council and to the Commission of the Community at the end of September 1970. One of EEC's first reactions

was to point out that the proposed joint meeting could not be held until the problems of co-operation between the two regions had been analysed in enough detail for it to be possible to deliberate and adopt decisions at the ministerial level. The President of the Council of Ministers of the Community stated in October 1970 that the Community was desirous of encouraging closer co-operation with Latin America, for which concrete projects would have to be formulated; that would improve trade outlets for Latin American goods and make technical assistance available for developing the region's natural resources. He further pointed out that the Council of Ministers would soon be deliberating on the subject of the Community's relations with Latin America in the hope of making progress towards co-operation between the two regions.⁶

In his speech to the European Parliament in September 1970 on assuming the presidency of the EEC Commission, Mr. F. Malfatti made a statement along the same lines and pointed out that the Commission had its satisfaction at the progress represented by the Declaration of Buenos Aires and its willingness to adopt a more constructive and positive attitude towards the proposals stemming from the Buenos Aires meeting.⁷

Lastly, on the basis of the work done by the Commission, the Council of Ministers, meeting in Brussels, adopted a Declaration in December 1970 in which it noted with great interest the Declaration and the resolution adopted by the CECLA members in Buenos Aires, and the proposal to set up "lasting co-operation between the two groups of countries enabling the problems which are posed in the framework of economic and trade relations to be solved by common agreement and in a balanced manner". Lastly, the Council emphasized the need to devote detailed study to the specific means of fostering co-operation between the two regions and, with this in view, suggested that a meeting should shortly take place between the Latin American ambassadors and the representatives of the EEC member States and of the Commission. At the same time, the Council requested the Committee of Permanent Representatives to continue making preparations for the projected contacts and to report back to it thereon.

By and large, the Declaration of the Council of Ministers is a positive and encouraging response to Latin America's statement of its

position in the Declaration of Buenos Aires, in so far as it reaffirms the need for greater co-operation between the two regions and for a dialogue to be initiated between them to determine what form this co-operation should take. Being an essentially political document intended to outline the general position of the Community vis-à-vis Latin America, the Brussels Declaration obviously could not go into the details of the Latin American proposals, and it does not refer explicitly to the suggestion that a meeting at the ministerial level should be convened to establish the form that future co-operation between Latin America and the Community should take. However, there seems to be no doubt that the Community really does see the ambassadorial meetings advocated in the Council's declaration as serving to prepare, within a reasonable time (from six months to a year), the meeting at the ministerial level proposed by the member countries of CECLA.

D. THE NEED FOR A NEW APPROACH AND FOR NEW METHODS IN CO-OPERATION BETWEEN LATIN AMERICA AND THE COMMUNITY

The general aim of the proposals that the Latin American countries have made has been to secure a revision of certain fundamental aspects of Community policy, relating either to the common agricultural policy or to association with certain developing countries, on the grounds that they are incompatible with the commitments entered into by the developed countries in such international forums as GATT and UNCTAD.

The proposal made by Argentina in October 1968 in which it requested the opening of trade negotiations with the Community is a good illustration of the dialogue between the two sides. In the document it presented to the Commission, Argentina proposed that agreement should be reached on a number of points: establishment of suitable permanent machinery for consultation; adoption of measures to resolve problems connected with some of its exports to the Community, notably beef; better treatment, both tariff and non-tariff, for certain manufactures, exports of which could be promoted to the Community; improvement of financial co-operation, etc.

As regards its beef exports, Argentina proposed that any measures to improve their access to the Community market should be accompanied by a commitment to promote steady and reliable supplies to the Community within the framework of the common agricultural policy. It also mentioned the possible

⁶ See Agence Internationale d'Information pour la Presse, *Europe*, 1 October 1970.

⁷ *Ibid.*, 30 September 1970.

adoption of measures that would enable the Argentine Government to guarantee that the regular access of its products to the Community would not cause disruptions in the internal Community market. The last part of the proposal referred to the adoption of suitable measures to facilitate the expansion of Community exports to Argentina and the participation of the member States of the Community in the economic development of Argentina. This last provision indicated that Argentina was prepared to consider reciprocity for any advantages it might receive from the Community.

The Community welcomed the Argentine memorandum, emphasizing that it had the merit of proposing a contractual framework for the discussion of common problems.

E. THE COMMON COMMERCIAL POLICY AND THE SPREAD OF PREFERENTIAL AGREEMENTS WITH THIRD PARTIES

With the signature, in July 1961, of an agreement of association with Greece, the Community initiated a policy of establishing special relationships—in trade and also in financial and technical assistance—with a large number of countries. After having concluded agreements with the African countries, especially those that had had special links with some of its member States, the Community is now entering into negotiations with virtually all the Mediterranean countries with a view to concluding trade agreements, generally of a preferential character. Although the Community is acting from a variety of motives and each case has its own particular features, its policy is to create an economic and commercial sphere of influence in the Mediterranean. The authorities of the Community themselves bear out this interpretation when they refer in some of their official statements to the Community's "Mediterranean policy". For several years now, particularly since the signature of the first Yaoundé Convention in 1964 granting wide-ranging tariff concessions to the African and Malagasy States, the Latin American countries have been concerned about the possible effect on their exports of the preferential treatment granted by the Community, which is the world's second largest market for their products.

None the less, recent trends in the common commercial policy vis-à-vis third States do also have a positive feature in the sense that they show that the position of the Community members regarding the problems of relations with the rest of the world and particularly with

developing regions are becoming more co-ordinated and harmonized. On 16 December 1969, the Community member States agreed to the progressive adoption of uniform principles for agreements covering trade relations with third States and for the negotiation of Community agreements. In other words, the Council decided to apply article 113 of the Rome Treaty, which provided that, after the expiry of the transitional period, the common commercial policy shall be based on uniform principles. This development is creating the institutional conditions for future negotiations between the Community and Latin America.

1. *The recent proliferation of agreements of association*

The Rome Treaty laid down the legal basis for such specific economic and commercial relations as the Community might establish with non-member States. The most favourable regime that can be adopted with respect to such States is that of association, as defined in articles 131 to 136 of the Treaty, and it was especially designed for the non-European countries and overseas territories that at the time of the establishment of the Community had special relationships with some of its member States. Article 131 states that association between the Community and the countries and territories listed in an annex to the Treaty was designed to promote their economic and social development, chiefly by permitting entry to their products free of tariff or other duties and without quantitative restrictions. Up to March 1970, the products subject to market organization under the common agricultural policy were excluded from this treatment. The regulation adopted by the Council on 17 March 1970 lifted tariff duties, and in specified cases other barriers such as variable levies, on a large number of major products such as beef, edible oils, processed fruit and vegetables, etc. Although it is as yet too early to foresee how far the African Associated States will be capable of taking advantage of these new export possibilities, it must be considered that, potentially at least, the scope of their preferences has been expanded since hitherto they have competed with Latin American exports only as regards tropical-zone products.

The Community's products enjoy the same treatment in the Associated States,⁸ and thus it can be said that one of the purposes of the

⁸ The Associated States are entitled to levy customs duties as required for their industrial development or to contribute to their budgets.

regime of association is the creation of a free-trade area between each Associated State and the Community.

The régime of association does not confine the content of agreements of association to purely commercial matters. The Convention annexed to the Rome Treaty contains provisions relating to the financial and technical assistance granted by the European Development Fund (EDF) and the European Investment Bank (EIB) to the Associated States. Both the Yaoundé Conventions (signed on 23 July 1963 and 29 July 1969), establish the over-all total of loans that these agencies, which are financed by Government contributions from all the member States, will be authorized to grant to the African Associated States while the Convention is in force.⁹

The régime of association, as defined in articles 131 to 136 of the Rome Treaty, is the closest and most comprehensive form of co-operation that EEC is able to offer to third countries. The régime was actually conceived exclusively for the African and Malagasy States listed in an annex to the Treaty, which subsequently signed the two Yaoundé Conventions with the Community. Article 238 of the Treaty does, however, provide for the possibility of other forms of association with third countries; it states that the Community may conclude with a third country, a union of States or an international organization agreements creating an association embodying reciprocal rights and obligations, joint action and special procedures. To date, the Community has applied the provisions of this article in its relations with four countries: Greece, Turkey, Morocco and Tunisia. The Community has taken advantage of the rather general wording of article 238 to give the different agreements of association it has signed with these countries a very broad range as regards both commercial matters and financial and technical assistance.

The first time that article 238 was applied was in 1961, when the Community concluded an agreement of association with Greece to establish a customs union. Under this agreement, tariffs were to be eliminated reciprocally under a linear programme, over a transitional period of twelve years as far as the Community is concerned. Having regard, however, to the difference in levels of development, Greece was authorized to eliminate tariffs on a number of

products listed in an annex to the agreement at a slower pace, over a period of twenty-two years. Furthermore, the general liberalization provided for under the agreement also applies to a fairly large range of agricultural products of special interest to Greece. The customs union part of the agreement takes the form of a commitment by Greece to adopt the common customs tariff during the transitional period. Lastly, the liberalization of trade between Greece and the Community was to be accompanied by financial assistance to Greece.¹⁰

Since its entry into force on 1 November 1962, the provisions of the agreement between Greece and the Community have been gradually implemented, and trade relations between the two parties have moved closer to a customs union. From 1 July 1968, Greek manufactures have been entering the Community free of duty and quantitative restrictions, while agricultural products of interest to Greece have received tariff reductions ranging between 85 and 100 per cent of the basic common duties. Grapes and tobacco—Greece's major agricultural exports—are completely duty-free, and fruit and vegetables—either fresh or canned—enjoy sizable tariff reductions. The Community has a 50 per cent tariff concession in respect of its manufactures, except for those products for which a slower pace of trade liberalization has been laid down in the agreement. Greece has also granted substantial tariff reductions for many of the Community's agricultural products, and has begun to align its customs tariff with the EEC common customs tariff.

Turkey also signed an agreement of association with the Community under article 238. The agreement was signed in 1963 and, as with Greece, aims at the eventual creation of a customs union. However, since Turkey needed to strengthen its economy before liberalizing trade with the Community, the agreement provides for the establishment of a customs union in three stages. During the preparatory stage, lasting five years but extendable, association is virtually confined to tariff concessions, reviewed annually, covering certain products of special interest to Turkey, such as tobacco, grapes and dried figs. The agreement provides that, four years after its entry into force, consideration shall be given to beginning the transitional stage, lasting twelve years, during which a customs union

⁹ Loans by EDF, which form the bulk of the financing that can be used by the African Associated States, are virtually all in the form of non-reimbursable assistance, while less than one tenth of its resources is used in the form of long-term low-interest credit.

¹⁰ A protocol annexed to the agreement provides that the European Investment Bank may extend loans to Greece up to a total amount of 125 million dollars over the period 1962–1967 in the form of long-term credit at low interest rates.

is to be gradually established, based on the elimination of barriers of all types to reciprocal trade and the adoption by Turkey of the common external tariff. The association authority set up under the agreement is to decide when conditions are ripe for moving on to the customs union. Although association is the main aim of the agreement, it does not automatically lead to the establishment of a customs union with the Community. Lastly, a protocol to the agreement sets a ceiling of 175 million dollars on the financial assistance that may be granted to Turkey by the Community during the period 1965–1969.

The Community subsequently established régimes of association with several African countries that did not have special relations with any of its member States. The first such agreement was signed with Nigeria in 1966, and the second, with the countries of East Africa (Kenya, Uganda and Tanzania), in 1968, at Arusha. Generally speaking, these agreements are very similar, in so far as they provide for a substantial liberalization of reciprocal trade, both in respect of tariff and of quantitative restrictions. Nigeria's products are not subject to duties in the territory of the Community, with some exceptions (groundnut and palm oil, cocoa and certain types of timber), which are subject to annually reviewable quotas. As regards the three East African countries, the Arusha agreement in principle provides for duty-free entry of their products, except for some products that are subject to annual import quotas in the Community (coffee, cloves and canned pineapple).¹¹ In exchange, the Community's products are allowed into Nigeria duty-free, with immediate effect, except for some products, such as radio receiving sets, beer and some types of textiles, on which the duties are to be lifted over a period of four years. In the case of the East African countries, there is even greater trade liberalization, since all the Community's products, without exception, are completely exempt from customs duties and similar charges. However, each of the Associated States retains the right to levy customs duties as required for their industrial development or to contribute to their budgets. Although the agreements with these four African countries have the practical effect of creating a free-trade area between them and the Community,

¹¹ In May 1970, the Commission proposed extending to the signatories of the Arusha Agreement the benefit of the regulations approved in March 1969 in favour of temperate-zone products exported by the member countries of the Association of African and Malagasy States.

no reference is made to this idea or to that of a customs union in the text of those agreements, whereas a customs union was specifically mentioned in the Community's agreements with Greece and with Turkey. Moreover, it should be pointed out that there is no provision for financial and technical assistance to this group of African States.¹² The last two countries to be given the benefit of the régime of association defined in article 238 of the Rome Treaty were Morocco and Tunisia, which signed agreements with the Community in March 1969. Although the legal basis of these agreements is the same as those signed by Greece and Turkey, the form of association established is, in fact, very different. First, the preambles to the agreements with Tunisia and Morocco mention the resolve of the Contracting Parties to eliminate the obstacles of their reciprocal trade but do not refer to the establishment of a free-trade area or a customs union. Provision is merely made for the possibility of initiating negotiations with a view to the conclusion of a new agreement on a broader basis not later than the end of the third year following the date of the entry into force of the agreements, but there is no reference to a programme or a timetable for eliminating tariff barriers, as in the case of Greece and Turkey. Secondly, Tunisia and Morocco do not commit themselves to aligning their tariff levels with the EEC common external tariff, which confirms the view that the drafters of the agreements did not wish, at least at the present stage in their relations, to envisage the creation of a customs union.

As regards the content of the agreements with Morocco and Tunisia, manufactures and semi-manufactures from those two countries covered by sections 25 to 99 of the Brussels Tariff Nomenclature (BTN), with a few exceptions, enter the EEC market duty-free and with no quantitative restrictions. Several different régimes are applied to agricultural products. Certain types of meat, leguminous and canned vegetables, dates and pepper pay no duty at all, citrus fruits, olive oil, wheat

¹² The agreements with these countries were to remain in force up to 31 May 1969, the date on which the Yaoundé Convention (setting up the Association of African and Malagasy States) expired, so that their renewal could be negotiated at the same time as the new Convention; but as the agreements with Nigeria, Kenya, Tanzania and Uganda were not ratified by all the ECC countries, they never entered into force. When the second Yaoundé Convention was signed, a new five-year agreement was negotiated with Kenya, Tanzania and Uganda; the agreement was signed in September 1969 and is currently awaiting ratification. There has so far been no move to negotiate a new agreement with Nigeria.

and fresh and canned fish pay less than the Community tariff. Tunisia and Morocco, for their part, have granted varying customs concessions, to be applied progressively, to certain EEC products. For Tunisia, the average reduction will be 70 per cent and for Morocco, 25 per cent by the end of three years. Lastly, it should be pointed out that in the case of these countries also, the régime of association does not provide for financial or technical assistance.

To sum up, the Community has applied the conception of association embodied in article 238 to two different groups of countries: first, European countries which might eventually join the Common Market, with which customs union with the Community is planned with that possibility in mind (Greece and Turkey); secondly, African countries, characterized by economic structures and types of production comparable to those of the countries associated with the Community under articles 131 to 136 of the Rome Treaty (signatories of the Yaoundé Convention).

2. Preferential trade agreements

Lastly, in its common commercial policy with third countries, the Community may take advantage of the legal framework provided in article 113 of the Rome Treaty, which stipulates that after the expiry of the transitional period, that is, as from 1 January 1970, the common commercial policy shall be based on uniform principles, particularly in regard to tariff amendments, the conclusion of tariff or trade agreements, etc., and that where agreements with third countries require to be negotiated, the Commission shall open the necessary negotiations with the Council's authorization and with the assistance of a special Committee. Article 113 thus confers broad powers on the Commission, under the control of the Council of Ministers, to negotiate with third countries more extensive trade agreements than would be possible strictly within the framework of the common commercial policy. Negotiations have been conducted with many countries under article 113 in the last few years with a view to concluding trade agreements between them and the Community; some of those agreements have been concluded and others are still being negotiated.

In June 1970, after three years of negotiations, the Community signed a preferential trade agreement with Spain, with the aim of abolishing restrictions on reciprocal trade in most products; this is to be done in two stages, the first of which will be six years in length and the second will be initiated as agreed by

the two contracting parties. The agreement is confined to the concession of selective and progressive tariff reductions. The Community approved two lists of industrial products from Spain that will be given preferential treatment on its market. For the products on the first list, there will be reductions of 30 per cent by 1 October 1970, 50 per cent by 1 January 1972, and 60 per cent by 1 January 1973.¹³ The second list contains twelve textile products on which there will be a progressive reduction of duties from 10 to 40 per cent in four years. In the field of agriculture, Spain has been granted reductions on grapes, citrus fruits (tariff concession of 40 per cent), olive oil, some canned fruits and vegetables and certain types of wine.¹⁴ The Community, for its part, benefits from progressive concessions of from 25 to 60 per cent over a period of six years for two lists of manufactures. In reality, the preferential reduction of 25 per cent is applied to roughly half the products included on the lists of concessions to the Community. Spain will liberalize nearly all its imports from the Community over a period of six years.

The terms of the agreement with Spain, in particular the mention of a possible second stage of tariff reductions which may not be entered upon until much more than six years have elapsed, and the absence of any definite programme for abolishing tariff and other barriers to reciprocal trade, mean that the creation of a customs union or a free-trade area with the Community is not envisaged in the agreement. For political reasons, the text of the agreement makes no more explicit reference to the establishment of closer relations between the Community and Spain, and its scope is confined to that of a preferential trade agreement.

In the middle of 1970, a preferential trade agreement was signed by the Community with Israel also. The agreement provides for the concession of selective and progressive tariff concessions and is for a period of five years. More than 85 per cent of Israel's exports of manufactures to the Community subject to customs duties are given tariff concessions. In general, these take the form of a tariff

¹³ Excluding refined petroleum products.

¹⁴ Before completing negotiations with Spain and Israel, the Community requested GATT to be allowed to waive its obligations under article 1 of the General Agreement in order to be able to reduce its customs duties on imports of citrus fruits from Spain and Israel by 40 per cent. The reduction began to be applied on 1 September 1969, before the Contracting Parties of GATT could adopt a decision. Most of the countries on the working group set up to study the request for a waiver considered that it should not be granted, in view of which EEC agreed to withdraw the request. The tariff reduction was nevertheless included in the commercial agreements it signed with Spain and Israel.

reduction of 50 per cent applicable in the following stages: 30 per cent at the date of entry into force of the agreement and 5 per cent at 1 January of every year from 1971 and 1974. In the agricultural sector, concessions are granted for Israel's main export products. As in the industrial sector, these concessions are applied to about 80 per cent of the Community's agricultural imports from Israel subject to the payment of customs duties or other charges. Citrus fruits benefit by a reduction of 40 per cent on the common external tariff, which is granted under certain price conditions.

Israel grants concessions for more than half the Community's exports both industrial and agricultural, that are subject to customs duties. The products on which these reductions are granted have been divided into four lists, and the concessions, applicable in four annual stages, will be from 10 to 30 per cent, depending on the circumstances.¹⁵

On 19 March 1970, a three-year agreement was signed between the Community and Yugoslavia which provides for the reciprocal application of the most-favoured-nation clause and the adoption of specific tariff provisions. For instance, it provides for the immediate application of all the tariff reductions on certain products granted during the Kennedy Round. However, the key provision of the agreement is the special treatment accorded to Yugoslavia's beef exports to the Community. Given certain conditions of price, quality and rate of exports, there will be a reduction in the variable levy applicable to meat from countries outside the Community. There will be a reduction of 25 per cent during the part of the year when the Community's stocks of beef are at their lowest, and of 20 per cent for the other part of the year, when beef is plentiful.

The protocol annexed to the agreement is drafted in such a way that it cannot be considered to establish a preferential system in favour of goods from Yugoslavia. However, the description of the meat to which its provisions are applicable is so detailed that only meat exported by Yugoslavia could really benefit by the system. Such an interpretation is supported by the fact that the protocol itself creates a new sub-item in the Community tariff schedule covering the types of meat referred to.

In other words, the machinery established in the agreement between the Community and Yugoslavia, while not formally preferential, is a typical example of indirect discrimination against non-privileged suppliers in the region.

In March 1970, the Commission requested

¹⁵ Like the agreement with Spain, the agreement with Israel entered into force on 1 October 1970.

the Council's authorization to open negotiations with Austria with a view to the signing of a preferential trade agreement. The intention is shortly to sign a provisional agreement covering reciprocal tariff reductions of about 30 per cent for industrial products and containing special measures in favour of agricultural commodities. As regards agricultural products, the Community could accord Austria preferential concessions (reduction of the movable levy) for beef and certain types of cheese. Austria is in favour of the rapid conclusion of a trade agreement, whose explicit purpose would be the complete elimination of obstacles to reciprocal trade.

Negotiations between the Community and the United Arab Republic are also in the preliminary stages. In February 1970, the Commission submitted a report to the Council on the preferential trade agreement with the UAR that was being prepared. The agreement would consist essentially of reciprocal tariff concessions of varying scope, allowing for the different levels of development reached by the Community and the United Arab Republic. The Commission favours a preference of 60 to 70 per cent for industrial products, but it considers that this system cannot be extended under the same conditions to textiles, which are a sensitive sector of the Community's imports. Since to exclude textile products would take the heart out of the agreement in the eyes of the United Arab Republic, the Commission has left the door open for possible approval of concessions in this sector, which would be accompanied by a safeguard device. It is proposed that concessions in the case of agricultural commodities should be restricted to certain products—such as garlic, onions and rice—which are of special importance to the United Arab Republic. In return, the UAR would grant concessions in connexion with both customs duties and quantitative restrictions.

In February 1970, the Government of Algeria made a formal request for the opening of negotiations with the Community with a view to the conclusion of an economic co-operation agreement to step up trade, financial and economic assistance, and technical and social co-operation. The agreement proposed by Algeria is broader in scope than the exclusively commercial agreements which the Community concluded with the other two Maghreb countries—Tunisia and Morocco—in 1969. After approving the Algerian Government's request, the Commission decided to present a report to the Council of Ministers.

The negotiations for an agreement with Malta on the establishment of a customs union were completed in July 1970. Two successive

stages are envisaged: in the first five years, Malta will be accorded a 70 per cent reduction in the common customs tariff for its exports of industrial products and quantitative restrictions will be eliminated, except in the case of petroleum products and textiles, for which the Community will maintain tariff quotas. Malta will apply 35 per cent reduction of duties on Community products over a period of four years. The customs union will enter into effect in the second stage, with the complete elimination of customs duties and other barriers to reciprocal trade and the adoption of appropriate measures in connexion with agricultural commodities. Moreover, in the second stage, Malta should adopt the EEC common customs tariff, and there will be an escape clause to protect its industrial development.

In March 1970, the Government of Cyprus expressed a wish to conclude a trade agreement with the Community, whose essential purpose would be to protect sales of citrus fruit, which comprise 20 per cent of its total exports to that market.

A trade agreement between Japan and the Community is also currently being negotiated under article 113. The two main points under discussion are the liberalization of reciprocal trade and the drafting of an escape clause that would be applicable in case of market disruption. The Japanese Government has shown its willingness to discuss reciprocal trade liberalization, but it has been very reluctant to accept the actual principle of a generally applicable escape clause. In talks with a representative of the Commission in Tokyo, Japan expressed interest not only in increasing reciprocal trade, but also in closer financial and technological co-operation.

In February 1969, the Government of Argentina expressed a wish to enter into negotiations with the Community for the purpose of laying down bases for economic, trade and financial co-operation. Following the exploratory talks that took place towards the end of 1969, the Commission requested the Council's authorization to open negotiations with a view to concluding a non-preferential trade agreement with Argentina based on reciprocal concessions. Argentina is interested in obtaining tariff concessions for agricultural commodities of which it is the principal—or one of the principal—suppliers of the Community, e.g., linseed oil, horse meat, some types of fruit and honey, and for industrial products, such as leather articles, woollens, tractors, etc. As regards frozen beef, the Argentine Government has proposed a special

arrangement based on an agreed price. The Commission's general approach has been to explore the possibility of according Argentina non-preferential tariff reductions for a smaller range of products than that included in Argentina's request. Argentina would also make some tariff reductions for certain of the Community's exports.

Uruguay, whose trade problems with EEC are very similar to Argentina's has also requested the Community to open negotiations on a trade agreement.

3. *Economic and institutional implications of the Community's commercial policy*

(a) *Extension of discrimination against Latin America's trade and establishment of a sphere of influence in the Mediterranean and Africa*

None of the agreements—except that concluded with Yugoslavia, whose indirectly discriminatory nature has been pointed out above—were signed by the Community within the context of article I of the General Agreement on Tariffs and Trade, i.e., under the most-favoured-nation clause. In actual fact, they are preferential agreements based on reciprocal concessions, which usually allow for differences in the stages of development reached by the contracting parties.¹⁶ Nevertheless, all the agreements signed by the Community since its inception—under both article 238 (régime of association) and article 113 (common agricultural policy)—provide for a certain tariff reciprocity on the part of third countries in return for concessions granted by the Community. In EEC's recent commercial policy there has been an accentuation of the trend towards regionalization and towards applying a specific policy in the Mediterranean basin that would extend to Africa.

When account is made of the countries that have concluded or are negotiating agreements with the Community, it can be seen that there are only three countries in the Mediterranean basin—Libya, Syria and Albania—which have not so far given any indication of wishing to enter into a special relationship with it, although it is quite probable that the Community's commercial policy will embrace Libya and Syria in the near future. Furthermore, it may reasonably be assumed that the United Kingdom's entry into the European Common Market will also be accompanied by the adoption of a régime of association favouring the African Commonwealth countries, which

¹⁶ As do the recent EEC agreements with Israel and Spain.

is yet another reason for believing that the Mediterranean and Africa are a centre of prime interest for EEC's current trade strategy.

The representatives of the Commission have issued statements in connexion with the twenty-sixth session of GATT and the criticisms that were then levelled at EEC's commercial policy, thus strengthening the idea of deliberate action by the Community in the Mediterranean area. On 26 February 1970, a high official of the Commission declared that EEC's commercial policy in that region was dictated by "special circumstances", and he endeavoured to justify it by invoking essentially political arguments. First, under the agreements with Morocco and Tunisia, the Community merely took over the links that already existed between these countries and France by virtue of the Rome Treaty itself. Secondly, the Commission considers that the agreements which have been or are about to be concluded with other Mediterranean countries are merely a normal extension of the Community's previous activities in that area, and that it would have been difficult, if not impossible, to reject those countries' requests for the establishment of special relations with the Community. In the document presented to the Council of Ministers in April 1970 on the Community's current policy of preferential agreements, the Commission stated that its Mediterranean policy was the result of the movement for European unity, EEC's historical links with Africa and its resolve to give all the different countries of that region equal treatment within the framework of an over-all policy. The Commission also stated that it would be as well to bear in mind that those countries sold three quarters of their exports of certain agricultural products to the Community, that they had different structures of production and that, in general, the trade agreements between them and the Community had not been prejudicial to the trade of third countries. Furthermore, in response to the severe criticism which the conclusion of these preferential agreements had aroused in GATT, the Commission said that EEC had no intention of extending this policy to other parts of the world but would confine its sphere of action strictly to the Mediterranean countries and the developing African countries, particularly those belonging to either of the groups which could invoke special relationships with an EEC member State. Within these geographical limits, the Commission considers that the Community's action, which is justified by special situations and circumstances, is unlikely to constitute a threat to the established international trade regulations.

The point to be stressed here is that a set of circumstances in a certain region are shaping a specific trade policy on the part of EEC which cannot but have an increasing effect on flows of goods and services between EEC and the rest of the world, especially the flows which interest the Latin American countries. Considering, first, that a system of preferential agreements is being built up in one particular geographical area and covers nearly all the countries in that area, and, secondly, that the links thus forged tie a particularly important economic centre, as the Community is, with a group of countries of limited economic size, it seems no exaggeration to say that EEC is establishing an economic sphere of influence in that region. Such influence, based on trade agreements which will probably lead to growing economic co-operation between the Community and the Mediterranean countries, could eventually at least partially eliminate the influence of the other important centres. To the extent that EEC's economic and commercial penetration in the Mediterranean area genuinely reflects a trend towards making itself the only influence in that particular area, such a strategy could be decisive in dividing the developing world into different blocs, each under the influence of one of the principal developed countries or groups of countries.

(b) *Disagreements over the compatibility of EEC's commercial policy with GATT regulations*

The Community's trade policy described in broad outline above, characterized as it is by the establishment of preferential relations with an increasing number of third countries, is bound in the normal course of events to have as yet unforeseeable repercussions on the distribution of international trade flows, and, more specifically, to result in more trade between EEC and the countries that have entered into agreements with it. In view of the potential impact of this policy on their own foreign trade, many countries, in particular the Latin American countries and the United States, have criticized it severely, alleging that it contravenes the international trade regulations currently in force, especially those adopted under the General Agreement on Tariffs and Trade. This attitude is based essentially on the fact that EEC's policy does not respect the basic principle of non-discrimination or comply with the provisions of the General Agreement covering such an eventuality.

More specifically, the criticisms levelled against EEC's policy of preferential trade agreements are based on article XXIV of the General Agreement, which stipulates that

any Contracting Party wishing to enter into a customs union or free-trade area—the only circumstances in which GATT authorizes such a party, on given conditions, to waive the principle of non-discrimination defined in article I of the Agreement—shall submit to the Contracting Parties a plan and schedule for the formation of one or other of these types of organization. Under the terms of article XXIV, paragraph 7(b), if, after having studied the plan and schedule, the Contracting Parties find that the relevant interim agreement is not likely to result in the formation of a customs union or a free-trade area within the period contemplated or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement, which in their turn shall not maintain or put into force such an agreement if they are not prepared to modify it in accordance with these recommendations. Accordingly, the entry of a GATT Contracting Party into a trade agreement of which the provisions have been declared incompatible with article XXIV constitutes a violation of the General Agreement.

The first time that a preferential agreement concluded by EEC with a third country was studied by GATT in the light of the provisions of article XXIV was in 1963,¹⁷ when the agreement associating Greece with the Community was considered. On that occasion, some members of the working party felt that the transitional period of 22 years allowed for the creation of a full customs union between Greece and EEC was unduly long, and could not be considered a reasonable length of time within the meaning of article XXIV.

Despite these strictures, however, the conclusions adopted by the working party did not specifically state that the agreement with Greece constituted an infringement of the General Agreement, but left the matter open until its provisions could be further analysed in the light of additional information. In the case of the agreement with Turkey, the discussion in GATT underlined the lack of precision in the time-table drawn up for the formation of the projected customs union.¹⁸ It was pointed out that the preparatory stage might in fact be of undetermined duration, and that, moreover, no definite pattern whatever had been established for the transitional stage. Furthermore, under the terms of the agreement,

the decision whether to proceed with the formation of the customs union was to be taken only at the end of the preparatory stage, having regard to the economic situation of Turkey, so that there was no absolute guarantee that the customs union would in fact be created. In the opinion of the GATT working party, the tariff quotas for the benefit of Turkey constituted a unilateral preferential arrangement which widened the area of discrimination against third countries. Several members of the working party seriously questioned whether the agreement could be approved as leading to the formation of a customs union, but the conclusions adopted deferred the final decision on the subject.

Consideration of the Yaoundé Convention, signed in July 1963 by EEC and the African and Malagasy States, also gave rise, at the corresponding GATT session, to criticisms based on the same arguments. Several members of the working party stressed that the text of the agreement made no express reference to the formation of a free-trade area, and did not define with sufficient precision the procedures to be adopted for the elimination of tariff or equivalent barriers to reciprocal trade, that is to say, that it did not conform to the requirements laid down in article XXIV, to the effect that there should be a plan or schedule for the achievement of free trade within a reasonable period of time. The member States of EEC and the associated countries rejected this interpretation, pointing out that the process of reducing duties and charges was being carried out in line with the progressive elimination of the Community's internal tariffs. Another apprehension voiced by some members of the working party was that the creation of a large number of new bilateral preferential arrangements might be repeated, and would ultimately result in the practical disappearance of general most-favoured-nation treatment, in the spread of discriminatory practices, and in a fundamental change in the structure of GATT. In the end, given the divergent opinions expressed, the working party had to confine itself to recording the views put forward, without deciding whether or not the Yaoundé Convention was compatible with the GATT regulations.

The current proliferation of preferential agreements between EEC and third countries has provided ammunition for criticizing the Community's commercial policy on the grounds that it violates the established international trade regulations. At the twenty-sixth session of the Contracting Parties of GATT,

¹⁷ See GATT, *Basic Instruments and Selected Documents*, Eleventh Supplement (Geneva, March 1963).

¹⁸ See GATT, *Basic Instruments and Selected Documents*, Thirteenth Supplement (Geneva, July 1965).

held in February 1970, several of the member countries—in particular, Canada and the United States—declared that the preferential agreements concluded by the Community were imperilling the basic principles of GATT, and, more specifically, the principle of equal treatment for all the Contracting Parties and that of the most-favoured-nation treatment. On this occasion, stress was again laid on the fact that article XXIV of the General Agreement authorized the conclusion of discriminatory agreements only in the event of the creation of a customs union or a free-trade area, based on the adoption of a plan or schedule for the removal of tariff or equivalent barriers within a reasonable period of time. With reference to the first agreements signed by EEC—those with Greece and Turkey—some delegations recalled that they had never been formally approved by GATT, despite the fact that they provided for the formation of a customs union with EEC and included a time-table for bringing it into operation. And the agreements between EEC and Spain, Israel and the United Arab Republic, for instance, made no distinction between the formation of a free-trade area and the creation of a customs union, and the granting of reciprocal tariff concessions of a preferential type was not presented as the first stage in a process of complete and properly programmed elimination of duties and charges, but simply as a set of measures which might ultimately lead, in three or five years' time, to negotiations on broader bases.

The GATT meetings held in March 1970 for the purpose of studying the agreements concluded by EEC with Tunisia and Morocco also afforded several countries an opportunity of stating their objections to the Community's commercial policy. The proceedings of the working party showed, however, that the Contracting Parties were not unanimous in opposing it. A number of the countries represented declared that the agreements with Morocco and Tunisia did not conform to the pattern laid down in article XXIV, paragraph 4 to 9, of the General Agreement; others maintained that they were perfectly compatible with that article, while two members thought that, despite some shortcomings, the agreements made it quite clear that the ultimate intention was to form a free-trade area. The representatives of the Community, in their turn, pointed out that in the preambles to the agreements, the parties to them expressed their determination to remove the barriers to "substantially all" their trade, and that in effect they had already created a free-trade area for much of the trade concerned. Notwithstanding

these explanations, however, some countries were still opposed to such agreements. By way of a compromise, it was proposed that their entry into force should be made contingent upon acceptance of certain conditions, such as the following: that their operation should be annually reviewed by the Contracting Parties of GATT; that consultations should be held between the signatories to the agreements and any Contracting Parties which felt that the agreements were prejudicial to their own export trade, with the aim of coming to a mutually satisfactory arrangement; and that any change in the agreements should be reported to the Contracting Parties.

It is as yet impossible to foresee the possible consequences of the conflict aroused in GATT by EEC's trade policy vis-à-vis third countries, particularly the effects on the operation and policy of GATT in the next few years. It should be borne in mind, however, that the decade just ended has been a period of radical change in the power relations between the major centres participating in world trade, the effects of which should normally make themselves felt at the institutional level.

F. COMMON AGRICULTURAL POLICY AND ITS EFFECTS ON LATIN AMERICA'S EXPORTS

1. *General characteristics of the common agricultural policy*

According to the basic provisions on the agricultural sector of the EEC economy laid down in Part Two, title II, of the Rome Treaty, both agriculture and trade in agricultural products¹⁹ are subject to a special

¹⁹Article 38 of the Rome Treaty defines agricultural products as "the products of the soil, of stock-breeding and of fisheries as well as products after the first processing stage which are directly connected with such products".

The common agricultural policy is not yet applicable to all these products, however. The rules laid down thus far relate to: cattle; beef, pork and poultry; cereals (including feed grains), cereal flour and cereal preparations; dairy products; eggs; sugar; prepared animal fodder; malt and starches; oilseeds, oleaginous fruit, and flour and residues thereof; animal or vegetable fats and oils; wine; unmanufactured tobacco; and fish products.

There is a possibility that the common agricultural policy will extend to the remaining products listed in annex II to the Treaty, which would materialize if regulations were agreed on for the common organization of their markets, or more probably, in the case of coffee, cocoa, bananas and other similar products, through a market organization agreement between EEC and the Associated African States (like the banana agreement which is said to be under negotiation), or through an international market organization agreement, to which all the main countries producing and importing each product would be parties. Moreover, the Community, and France in particular, have repeatedly emphasized that this would be the best way of dealing with the problem of special preferences for some of the products concerned.

régime, i.e., the common agricultural policy established in article 38 of the Treaty. Article 39 provides that the common agricultural policy shall have the following specific objectives: (a) to increase agricultural productivity by developing technical progress, and ensuring the rational development of agricultural production and the optimum utilization of the factors of production, particularly labour; (b) to ensure thereby a fair standard of living for the agricultural population, particularly by increasing the earnings of persons engaged in agriculture; (c) to stabilize markets; (d) to guarantee regular supplies; and (e) to ensure reasonable prices in supplies to consumers.

The Treaty provides that the common agricultural policy shall be developed gradually during the transitional period and shall be established not later than at the end of this period, i.e., by 1 January 1970, and that the objectives outlined above shall be achieved through a common organization of agricultural markets. In order to enable the common organization referred to above to achieve its objectives one or more guarantee funds may be established and the EEC Council of Ministers may authorize the granting of aid: (a) to protect agricultural enterprises handicapped by structural or natural conditions; and (b) within the context of economic development programmes.

The main instrument for the application of EEC's agricultural policy has been the fixing of domestic prices for agricultural products

(usually at much higher levels than world prices). These prices are maintained by an intervention price mechanism, combined with the application of variable levies (*prélèvements*) on imports to make up the difference between the price of imported products (c.i.f. price plus the fixed customs duties established in the common customs tariff) and the guaranteed domestic price.²⁰ In actual fact, the main feature of this mechanism is that it is markedly protectionist; the domestic intervention prices are very high compared with world prices (see table 45).

Therefore, this mechanism for the protection of agricultural prices, which is much the same as that used by the United States since the 1930s, has a much greater restrictive effect on imports—and also on consumption—than the mechanism that has been traditionally applied by the United Kingdom, also with the aim of maintaining a fair agricultural income, which consists in the direct payment of subsidies to farmers (deficiency payments); this mechanism leaves market prices to be freely determined

²⁰ In practice, this mechanism is rather complex: for most products there is an indicative price (which is sometimes split into two indicative prices, one for production and the other for the market) and an intervention price (for durum wheat there is also a minimum price guarantee to producers); for other products (beef) there is a guide price, etc. These prices are established for every "marketing year" by the Council of Ministers, on the proposal of the Commission. There are also minimum import prices, which are increased or reduced over the period according to circumstances.

Table 45. European Economic Community intervention prices and world market prices for selected products, 1969–1970
(Dollars per ton)

Product	European Economic Community ^a		World market price ^b	
	Indicative price	Intervention price		
Durum wheat	125.00	117.50 ^c	59.00	United States f.o.b. export price
Soft wheat	106.25	98.75	57.00	United States f.o.b. export price
Maize	95.94	—	66.00	C.i.f. import price in London
Hulled rice	189.70	—	185.00	F.o.b. export price in Bangkok (white rice)
			136.00	Contract export price in Burma
Soft sugar (refined)	223.50	212.30	212.30	Raw sugar, United States domestic market price
Butter	—	1,735.00	1,735.00	Unit value of exports from Denmark
Beef (on the hoof), live weight	680.00 ^d		450.00	Approximate export price of live cattle in Argentina

SOURCE: United States Department of Agriculture, *Foreign Agriculture*, 16 March 1970; *Third General Report on the Activities of the Communities, 1969*, Brussels-Luxemburg, February 1970; United Nations, *Monthly Bulletin of Statistics*.

^a Prices for the 1969/1970 crop year taken from the *Third General Report on the Activities of the Communities, 1969*, Brussels-Luxemburg, February 1970.

^b Equivalent in dollars per ton (average for 1969), calculated on the basis of data published in the United Nations, *Monthly Bulletin of Statistics*.

^c Minimum guaranteed price to the producer (wholesale trade): 145 dollars per ton.

^d Guide price.

by supply and demand and entails only minor import restrictions. Moreover, with the EEC mechanism, imports are restricted not only by customs duties and variable levies, but also by the complexity and other characteristics of the procedures for determining the amount of those levies, by the uncertainty due to the frequent changes in the levies, and, in some cases, by requirements with regard to standards, quality, packing, etc., which either in themselves or because of the way they are applied usually constitute hidden restrictions.

Furthermore, the measures adopted by the Community to deal with special internal difficulties or circumstances in connexion with products covered by the common agricultural policy lead to new direct or indirect restrictions on imports of other products, whether or not the policy is applicable to them. This happened in the case of some of the measures that were adopted to mitigate the serious dairy products problem; there has been an enormous increase in production under the stimulus of the high domestic price of milk and the exceptionally high support price for butter. Some of these measures were proposed by the Commission in December 1968 with a view to reducing the output of dairy products, stimulating the consumption of these products and, more generally, encouraging producers to switch to other products. The short-term measures that have already been adopted by the Council of Ministers include a premium of 10 dollar cents per kilogramme (live weight) for fattening cattle and an additional premium of 200 to 250 dollars for each dairy cow slaughtered for meat, in compliance with a programme to eliminate 250,000 dairy cows in 1970 and 1971. This means the production of an extra quantity of about 68,000 tons of meat annually, with an additional subsidy of 50 million dollars a year; this will be detrimental to imports of frozen meat, which come mainly from Latin America. This situation is already reflected in the meat balance sheet approved by the Council of Ministers.

The same is true of another of the Commission's proposals, made early in 1969, that the Council should grant a subsidy of 26.25 dollars for every 100 kilogrammes of skimmed milk used as animal feed. This would allow milk to compete with imported products used for the same purpose, such as feed grains, oilcake and other oleaginous residues, and fish-meal.

There is another of the Commission's proposals in the above-mentioned programme

which would have the same results, i.e., the levying of a variable tax of 20 to 60 dollars per ton on all domestic production and imports of oils, oilcake and fish-meal, in order to reduce their consumption and encourage the use of Community surpluses of dairy products instead. As pointed out by the heads of the Latin American missions in a memorandum addressed to the Commission, this measure would affect sales to the Community not only of Latin America's considerable volume of traditional exports, such as oleaginous and other products (maize, fish-meal) for human or animal consumption, but also of oilseeds, by reducing the Community's consumption of the fats that compete with milk. The Commission tacitly recognized that the measure was detrimental to the interests of the developing countries which exported these products when it suggested at the same time that the Associated African States and overseas territories should receive financial compensation for the losses in export earnings they would suffer as a result. These measures do not seem to have been put into effect, and the Community is understood to be changing over to the idea of paying a subsidy direct to farmers as part of the innovations that are to be introduced in the common agricultural policy.

The Rome Treaty itself and several official statements by the Community fully justify a firm stand by Latin America with regard to substantive changes in those aspects of the common agricultural policy which jeopardize its interests. The preamble of the Rome Treaty mentions the desire to contribute by means of a common commercial policy to the progressive abolition of restrictions on international trade; and in article 110, on the common commercial policy, it is stated that by establishing a customs union between themselves, the member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers. All the agricultural rules and regulations contain a special article specifying that in applying them, due account will be taken of the objectives mentioned in articles 39 and 110. In its approach to this question, what Latin America should strive for is full compliance with article 110.

The desire for a more liberal trade policy for agricultural products has been expressed in international forums. For instance, at the meeting of the GATT Council of Ministers held in November 1961, the EEC representa-

tives agreed with the ministers of other countries that the extent of agricultural protectionism, the widespread use of non-tariff measures, and the repercussions of such measures on world trade in agricultural products were a source of grave concern. The Council accordingly invited the Contracting Parties to take the necessary steps to establish bases for the negotiation of practical measures, with a view to laying down acceptable conditions for the access of agricultural products to world markets.

At the first session of the United Nations Conference on Trade and Development (UNCTAD), the Community assumed an important commitment when it supported recommendation A.II.1 on international commodity arrangements and removal of obstacles and expansion of trade, which contains very precise recommendations regarding the maintenance of the standstill commitment, the removal of tariff and non-tariff barriers, internal fiscal charges, quantitative restrictions, domestic policies affecting production, export subsidies, etc.

Notwithstanding all the statements, commitments and provisions contained in the Rome Treaty, the agricultural regulations, etc., the common agricultural policy has had, from the very beginning, an increasingly marked protectionist and dictatorial slant, a situation that was made worse by heavily subsidized sales of agricultural surpluses. At the same time—as the Latin American countries have pointed out on several occasions—the Community has hitherto shown no particular willingness to give favourable consideration to, or to take due account of the representations made by these countries regarding the general trend of that policy, or their more frequent complaints about specific problems resulting from the measures adopted or proposed in connexion with it.

2. *Effects of the common agricultural policy*

Since EEC is the leading importer of agricultural commodities, both the general direction and the specific features of its common agricultural policy have had and are still having significant repercussions on world trade in such products and, in particular, on Latin America's export trade. To give some idea of the scale of Latin America's interest in the EEC market, suffice it to mention that in recent years the Community has absorbed 20 per cent of the Latin American countries' total exports, and 24 per cent and 25 per cent of their exports of food, beverages and tobacco and of raw materials, respectively. As regards

individual countries, EEC has been the purchaser of nearly 40 per cent of Argentina's total exports, 36 per cent of Chile's, 28 per cent of those of Ecuador, Honduras and Uruguay, 27 per cent of Peru's, 26 per cent of Brazil's, 25 per cent of El Salvador's and 23 per cent of Colombia's.²¹

This explains why from the very date of signature of the Rome Treaty the Latin American Governments began to express concern about the adverse effects the common agricultural policy might eventually have on their exports.²² The process of establishing EEC's common market for agricultural products has been virtually completed since 1968, with the adoption of the definitive regulations for most of the products of major importance to trade. Hence, at the present time, approximately 86 per cent of EEC's agricultural production comes under common market organizations, and if any doubts could formerly be entertained as to the final direction and impact of the common agricultural policy, they have now been completely dispelled. What is more, its effects are exemplified in a fact which shows how well-founded were the misgivings of the Latin American countries: their exports to EEC of products covered by the common agricultural policy, after expanding considerably for a time and securing a larger share in the satisfaction of the Community's internal consumer requirements, underwent a sudden reversal of this trend, which was apparent in the case of many products as early as 1967, and became still more marked in

²¹ It must be borne in mind, however, that out of the exports of the countries mentioned only those of Argentina and Uruguay consist mainly of products covered (at any rate up to now) by the common agricultural policy—typically, temperate-zone crops—although such commodities also represent a fairly high proportion of the exports of other Latin American countries. On the other hand, many other products, largely tropical crops, which constitute the bulk of the export trade of Brazil, Colombia, Ecuador, the Central American countries, etc. (coffee, cocoa and bananas, for example) may in theory, at least, fall within the scope of the common agricultural policy, since they are among the commodities referred to in article 38 of the Rome Treaty. Moreover, some products not covered by this policy have been or may be directly affected by measures adopted in pursuit of it.

²² In this connexion, mention may usefully be made of two ECLA studies relating to the problems which troubled the Latin American countries during the years that immediately followed the entry into force of the Rome Treaty: "Recent developments and trends in Latin American trade with the European Economic Community" (E/CN.12/631), 22 July 1962; and "The achievement of co-ordination in Latin American trade policy: Relations with the European Economic Community", a report prepared by a group of consultants convened by the ECLA secretariat, which was published in the *Economic Bulletin for Latin America*, vol. VII, No. 2 (October 1962).

1968 (although for some of the products concerned the situation improved appreciably in 1969).

Generally speaking, the strongly protectionist bent of the common agricultural policy—which finds its chief expression in the fixing of support prices for domestic production at levels much higher than those prevailing on the world market, and in the consequent import restrictions—has had gravely detrimental effects on world trade in most of the products that are covered by the policy (and also on some that are not), with serious actual and potential repercussions on Latin America's exports of the commodities concerned, not only to EEC but also to other traditional markets. These effects are closely interrelated (as likewise the various measures that make up the common agricultural policy), in the sense that some are almost inevitably consequent upon others.

(a) *High degree of protection for the Community's production and isolation of the EEC market*

The establishment of very high support prices for the Community's agricultural production, in combination with other measures, has resulted in a striking disparity between the prices in question and those quoted on the world market, in powerful protection for EEC's own agricultural production, and in a marked isolation of the EEC market from the world market, in respect of most of the goods covered by the common agricultural policy (see table 46).

(b) *Considerable expansion of EEC's agricultural production*

The policy of high internal prices, in addition to other forms of aid and protection for the Community's agriculture, has promoted the

steady expansion of its production of a number of staple commodities. It is estimated that over the past ten years the annual growth rate of agricultural production within EEC has been 3 per cent, i.e., a good deal higher than that of consumption. Today EEC's demand for foodstuffs rises only in direct ratio to population growth, and the increase in per capita consumption is practically nil. Moreover, in the decade just ended the technical progress made by the agricultural sector in the European countries has been a factor of great importance in the steady expansion of production. A case in point is that of wheat.²³ The high support prices have encouraged investment, or, in other words, the introduction of the most efficient production techniques, and have acted as a spur to production. But agricultural price ratios have tended to encourage the growing of crops of which surpluses are already piling up, not only in EEC but also at the world level (for instance, wheat, barley, sugar, milk), and to discourage, on the whole, additional production of commodities in short supply (such as beef and maize).

Nevertheless, the expansion of agricultural production has not prevented an uninterrupted decline in the share of agriculture in EEC's gross product, which dwindled by as much as 40 per cent between 1958 and 1966 in the three leading producer countries—the Federal Republic of Germany, France and Italy. At the present time it is less than 10 per cent in all the member countries, and under 4 per cent in Belgium and the Federal Republic of Germany. Concurrently, the number of persons

²³ Although the area sown to grains—21 million hectares—remained virtually the same from 1960 to 1969, output increased from 53 million tons to 70 million.

Table 46. European Economic Community: relative level of protection accorded to selected products, 1967

Product	Import price ^a	Movable levy	World price ^b	Level of protection (percentage)
	(dollars per 100 kilogrammes)			
Soft wheat	10.73	4.94	5.79	85
Durum wheat	16.14	8.07 ^c	8.07	100
Maize	9.01	3.38	5.63	60
White sugar	22.35	17.25	5.10	338
Beef (cattle on the hoof)	68.00	29.18	38.82	75
Butter	187.44	136.30	47.25	288
Oilseeds	20.19	10.08 ^c	10.11	100

SOURCE: Société d'Édition des Coopératives La Fayette (SECLAF) *Plan Mansholt* (Paris, 1969).

^a Real import price of product in EEC after application of the variable levy and, where appropriate, customs duty.

^b This is usually the best price quoted on the world market for consignments to be shipped within the month.

^c Including direct subsidizing of production.

employed in agriculture has steadily decreased, and since 1958 has fallen by about 5 million.

Furthermore, despite the common agricultural policy, the gap between the levels of living of the rural and the urban population has widened, and to maintain an equitable relation between them, it has been necessary to transfer income on an increasing scale from other sectors of the economy to the agricultural sector by means of various forms of aid and intervention. But it is not only the non-agricultural sectors of the EEC countries that help to keep up the level of agricultural earnings; the countries exporting agricultural products to EEC also make a contribution, and a very substantial one, through the payment of customs duties and, above all, movable levies on imports (which play an important part in the financing of the expenditure incurred by the European Agricultural Guidance and Guarantee Fund (EAGGF), of which they covered 45 per cent in 1968/1969), and also through the actual limitation of their sales not only to the EEC market but also to others in which the Community disposes of its surpluses, and the pressure exerted by those surpluses on world prices.

(c) *Increased self-sufficiency*

The noteworthy expansion of the Community's production, appreciably outstripping that of consumption, has considerably raised EEC's degree of self-sufficiency, both as regards the whole group of products covered by the common agricultural policy and in respect of most of them individually. Between 1958 and 1968 the Community's degree of self-sufficiency rose from 83 per cent to over 90 per cent in terms of value, which means that in the latter year only 10 per cent of its consumption of the products concerned was satisfied by imports, as against 17 per cent in 1958. Another facet of the same situation is the substantial increase in intra-Community trade in products subject to agricultural regulations, with the consequent exclusion of actual or potential imports from third countries; for example, in only five years—from 1962 to 1967—the value of intra-EEC trade rose from about 1,100 million dollars to over 2,100 million, i.e., by about 100 per cent, while imports of the same products from third countries increased only from 2,560 million dollars to 2,850 million, i.e., by little more than 1 per cent (so that the ratio between the two increases was 10 to 1).

When individual products are considered, the degree of self-sufficiency is particularly high in the case of wheat, sugar, pork and

poultry, and milk products. What is more, the Community's production of these items (except pork and poultry) exceeds its consumption, with the result that it has become a net exporter, especially of wheat, butter and some other milk products, and sugar. In contrast, the percentage of self-sufficiency in respect of beef, after declining, became relatively stabilized in the later years of the period under review at a level of roughly 85 per cent; in the case of grains (except wheat) it followed a downward trend up to 1966/1967, while in that of oils and fats (except butter), it rose to a level of only 38 per cent, where it remained constant. These trends especially affected the share of Latin American exports in EEC's consumption: in respect of wheat, after increasing from 1.1 per cent in 1961 to 4.4 per cent in 1965, it dropped to 1.9 per cent in 1968; the corresponding percentages for maize are 13.3 per cent, 21.3 per cent and 16.0 per cent; for beef, 2.7 per cent, 5.3 per cent, and 3.0 per cent; and for vegetable fats and oils, 7.3 per cent, 7.3 per cent and 5.8 per cent.²⁴

(d) *Rising import restrictions, the corollary of the policy of high support prices for, and increase in, Community production, and of greater self-sufficiency*

These restrictions comprise not only customs duties and movable levies to bring the price of the imported product up to the Community price, but also other measures introduced under the regulations relating to agricultural products; these include obstacles deriving from the complexity of the regulations themselves and from the arbitrary way in which they are applied, and technical barriers such as health standards, provisions regarding trade-marks and packing, etc., all of which tend to be far more effective than the normal tariff and similar barriers.

Though these restrictions have not so far led to a drop in absolute terms in total imports of the products coming under the regulations, they have helped to make the growth of imports very slow—a bare 10 per cent in the whole of the period 1962–1967. Imports of products covered by the common agricultural policy have followed a far more unfavourable, or less favourable, trend than those of other agricultural products. The increase in imports, moreover, has been mainly in those products the output of which has grown relatively

²⁴ These percentages are calculated on the basis of the figures for EEC's imports from Latin America, in relation to the apparent consumption of the Community, as shown in the publications of the EEC Statistical Office.

slowly in the Community or failed to keep pace with consumption (as has been the case, up to now at least, with beef and feed grains, especially maize). Elsewhere, by contrast, EEC production has either entirely replaced imports (wheat) or substantially reduced them (sugar).

If the common agricultural policy follows the same lines as in the past, or, rather, if it is modified only so as to boost production in sectors suffering from under-production, the Community is almost bound to become even more self-sufficient, moving towards complete self-sufficiency in temperate-zone agricultural products and, in any case, towards raising further barriers against imports of products that are in direct or indirect competition with those of the Community. If this happens, imports may in the future play only a minor role, as a very secondary or occasional source of supply.

Of all Latin American exports to EEC that are subject to market restrictions, maize is the only major agricultural product whose sales have been steadily rising. Wheat sales fell sharply as a result of an increase in EEC's own production; in 1964, exports of beef, which had been on the upswing up to then, came up against serious problems when regulations were introduced imposing a whole complicated set of restrictions on its access to the Community's markets—often applied quite arbitrarily—and there were more and more changes in tariff rates and other conditions. Only the regulations regarding meat for processing and indispensable raw material for the Community's meat preparations and preserved meat industry were slightly less stringent as far as the extent of the restrictions was concerned; as regards changes in the way they were applied, however, the situation was just as bad, and it was impossible to plan shipments in such a way as to maintain a steady trade.

(e) *Surplus production and its disposal on international markets*

The increase in the Community's agricultural output has done more than cause growing difficulties for imports from third countries and reduce those countries' share in the Community's total imports—which has already shrunk to negligible proportions or vanished altogether in some cases; its production of certain items has exceeded the requirements of the Community market. The resulting surpluses—which occur regularly and in huge proportions in the production of wheat, butter, powdered milk and, more recently,

sugar²⁵ and, more rarely and as yet in smaller proportions, in the case of certain other products—are exported and a “drawback” (or subsidy) is paid to make up the difference between the Community's price and the world price, which in the case of wheat and butter is half or less of the Community's price.

Placing these surpluses on the world market has an adverse effect on Latin America's exports, especially when the surpluses are sold on Latin America's traditional export markets. Quite apart from the unfair competition it represents, subsidizing exports of agricultural products also depresses world prices for these products, as happened in 1969 when there was a sharp drop in the price of wheat.

A fact which should be borne in mind is that a substantial proportion of the resources of the European Agricultural Guidance and Guarantee Fund are derived from customs duties on imports from third countries of products covered by the common agricultural policy so that these countries in effect help to finance the Community's agricultural exports.

(f) *High cost of financing*

Apart from the effects mentioned above, which have a direct bearing on the interests of Latin American countries, the common agricultural policy has had other highly significant effects which have adversely affected the Community's internal situation. One of these is the tremendous increase in the cost of financing the agricultural policy, i.e., the cost of support prices and export subsidies.

This enormous increase is reflected in the level of expenditure of EAGGF, the body responsible for regulating the Community's agricultural markets. As new common market organizations have been set up, EAGGF's demand for resources has also grown, with the result that its ever-growing share in agricultural financing now accounts for all the agricultural expenditure of the member States.

The need for more resources sprang mainly, however, from the rapid expansion of EEC's own agricultural production. Owing to the growing surpluses of wheat and butter, the temporary support-buying of beef, the destruction of fruit and vegetables and the high cost of subsidizing exports of soft wheat (up to 65 dollars per ton) and butter (up to 1,400

²⁵ According to the Commission, the largest surpluses at the end of 1969 were of butter (320,000 tons); at the start of the 1969/1970 crop year there was an 8 million ton surplus of wheat and a 2 million ton surplus of sugar. (*Third General Report on the Activities of the Communities*, Brussels, February 1970.)

dollars per ton), tremendous resources were needed to finance the EEC's agriculture.

Taking only expenditure on support-buying (purchase of products at guaranteed prices) and subsidies (compensatory payments to exporters)—that is to say excluding expenditure on guidance activities connected with bringing structural improvements to the agricultural sector—the trend of EAGGF's costs has been as follows: ²⁶

<i>Millions of dollars</i>			
1962/1963...	29	1968/1969...	1,996
1966/1967...	370	1969/1970...	2,782 (estimate)
1967/1968...	1,034		

It is estimated that, unless there is a change in EAGGF's current financing programme, its expenditure in the financial year 1970/71 may be as high as 4,000 million dollars.²⁷ Taking each major product or group of products separately, the bulk of the EAGGF's

total expenditure is seen to go on milk products—an expenditure which may soar from 319 million dollars in 1967/68 and 624 million in 1968/69, to 1,204 million in 1969/70—and on cereals, for which the corresponding figures are 429 million, 676 million and 921 million dollars. Together, these two groups of products would absorb a total of 2,125 million dollars in the 1969/70 crop year, i.e., 77 per cent of the Fund's total expenditure on guaranteeing market prices. Two other products also absorb a substantial share of the Fund's resources: sugar (308 million dollars in 1968/69) and oilseeds (273 million).²⁸

The cost of improving the structure of production has so far been a relatively small item in EAGGF's total expenditure, remaining at a more or less constant 285 million dollars. This amount, however, has essentially been earmarked for joint activities of the six Community countries in the sphere of agriculture, and little has been left over for national projects.

²⁶ EAGGF, 1969 budget and 1970 budget estimates.

²⁷ H. Zijlmans, Director of EAGGF, "*Le financement de la politique agricole commune*", *Revue du Marché Commun*, November–December 1969.

²⁸ *Ibid.*

Chapter III

RELATIONS BETWEEN LATIN AMERICA AND JAPAN

A. TRENDS IN LATIN AMERICA'S EXPORTS TO JAPAN

1. Over-all analysis

During the past ten years trade between Latin America and Japan has been intensified. Between 1956-1958 and 1966-1968, the average annual value of the region's exports to Japan rose from 248 million dollars to 593 million, i.e., at a cumulative annual rate of 9.1 per cent. This growth rate was more rapid than that of Latin America's exports to other parts of the world, except to the socialist countries, whose imports from Latin America increased, mainly on account of shipments of sugar from Cuba. The cumulative annual

growth rate of exports to Japan was two and a half times higher than the corresponding average for Latin America's total exports (see table 47). The upswing was particularly vigorous in the second half of the 1960s, when the growth rate reached 9.9 per cent, bringing the total value in 1969 up to 840 million dollars (f.o.b.), an amount which represented 6.4 per cent of the region's total exports.

Some of the individual countries achieved exceptionally large increases. In the space of ten years, Chile's exports to Japan climbed from 3.6 million dollars (average for 1956-1958) to 108 million (average for 1966-1968). Similarly, the corresponding figure for Peru rose from 16 million dollars to 103 million

Table 47. Latin America: exports by regions and by groups of products, 1956-1958 and 1966-1968
(Millions of dollars, f.o.b.)

SITC Sections		Average		1968	Index of growth, 1966-1968 (1956- 1958 = 100)	Cumulative annual rate 1966-1968	Geographical distribution	
		1956-1958	1966-1968				1956-1958	1966-1968
0-9	Total	8,500	11,847	12,190	139.4	3.4	100.0	100.0
	Developed countries	6,813	8,760	9,030	128.6	2.6	80.2	73.9
	Canada and United States	3,937	4,222	4,395	107.2	0.7	46.3	35.6
	EEC	1,423	2,373	2,370	166.8	5.2	16.7	20.0
	EFTA	1,010	1,117	1,140	110.6	1.0	11.9	9.4
	Japan	248	593	660	239.1	9.1	2.9	5.0
	Developing countries	1,540	2,283	2,420	148.2	4.0	18.1	19.3
	Latin America	727	1,253	1,380	172.4	5.6	8.6	10.6
	Socialist countries	135	810	755	600.0	19.6	1.6	6.8
0 and 1	Food, beverages and tobacco	3,963	5,070	5,190	127.9	2.5	100.0	100.0
	Developed countries	3,540	3,897	4,010	110.1	1.0	89.3	76.8
	Canada and United States	2,067	1,855	2,000	89.7	-1.1	52.2	36.6
	EEC	763	1,213	1,180	159.0	4.7	19.3	23.9
	EFTA	530	418	400	78.9	-2.3	13.4	8.2
	Japan	79	101	120	127.8	2.5	2.0	2.0
	Developing countries	358	522	590	145.8	3.8	9.0	10.3
	Latin America	272	385	425	141.5	3.5	6.8	7.6
	Socialist countries	60	657	593	1,095.0	27.0	1.5	12.9
2 and 4	Crude materials (excluding fuels)	1,530	2,190	2,130	143.1	3.7	100.0	100.0
	Developed countries	1,320	1,787	1,710	135.4	3.1	86.3	81.6
	Canada and United States	553	522	477	94.4	-0.6	36.1	23.8
	EEC	372	553	540	148.7	4.0	24.3	25.3
	EFTA	192	248	260	129.2	2.6	12.5	11.3
	Japan	160	397	375	248.1	9.5	10.5	18.1
	Developing countries	138	265	285	192.0	6.7	9.0	12.1
	Latin America	125	195	210	156.0	4.5	8.2	8.9
	Socialist countries	68	138	144	202.9	7.3	4.4	6.3

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1961 and March 1970.

in the same period. Mexico's exports increased from 27 million to 80 million dollars; Ecuador's, from 700,000 dollars to 16 million; Venezuela's, from 700,000 dollars to 42 million; and those of the Central American countries from 18 million dollars to 88 million.

According to estimates, in 1970 exports from Latin America to Japan amounted to about 900 million dollars, thus representing about 7 per cent of the region's total exports, quite an impressive figure compared with the 2.9 per cent recorded for 1956-1958. By 1966-1968, sales to Japan had come to constitute as much as about 10 per cent of the total exports of the countries where they expanded most (Chile, 12 per cent; Peru, 13 per cent; Central American Common Market, 10 per cent; Mexico, 7 per cent, etc.).

However, the volume of Japan's foreign trade expanded even more rapidly, so that these favourable trends did not suffice to prevent a decline in Latin America's share of total exports to Japan in the ten years under review. Japan increased its total purchases abroad at a cumulative annual rate of 13.1 per cent, or, in other words, from 2,800 million dollars (average for 1956-1958, f.o.b.) to 9,600 million dollars (average for 1966-1968), as against Latin America's 9.1 per cent noted above. The exports to Japan of Latin America's chief competitors grew rather more rapidly: Canada and the United States, 10.9 per cent; Africa and the Middle East, 18.6 per cent; Asia, 10.4 per cent; the socialist countries, 22.0 per cent; Australia, New Zealand and South Africa, 13.1 per cent (see table 48).

Table 48. Japan: imports by regions and by groups of products
(Millions of dollars, f.o.b.)

SITC Sections		Average		1968	Index of growth, 1966-1968 (1956- 1958 = 100)	Cumulative annual rate 1966-1968 1956-1958	Geographical distribution	
		1956-1958	1966-1968				1956-1958	1966-1968
0-9	<i>Total</i>	2,813	9,627	10,920	342.2	13.1	100.0	100.0
	<i>Developed countries</i>	1,657	5,110	5,770	308.4	11.9	58.9	53.1
	Canada and United States	1,110	3,135	3,490	282.4	10.9	39.5	32.6
	EEC	147	543	640	369.4	14.0	5.2	5.6
	EFTA	100	383	425	383.0	14.4	3.6	4.0
	Australia, New Zealand and South Africa	290	997	1,165	343.8	13.1	10.3	10.4
	<i>Developing countries</i>	1,067	3,860	4,450	361.8	13.7	37.9	40.1
	Latin America	248	593	660	239.1	9.1	8.8	6.2
	Africa and Middle East	308	1,698	2,015	551.3	18.6	10.9	16.6
	Asia	552	1,480	1,670	286.1	10.4	19.6	15.4
	<i>Socialist countries</i>	90	657	695	730.0	22.0	3.2	6.8
0 and 1	<i>Food, beverages and tobacco</i>	477	1,523	1,600	319.3	12.3	100.0	100.0
	<i>Developed countries</i>	263	937	1,010	356.3	13.6	55.1	61.5
	Canada and United States	203	633	635	311.8	12.0	42.6	41.6
	EEC	12	43	56	358.3	13.6	2.5	2.8
	EFTA	3	22	26	733.3	22.1	0.6	1.4
	Australia, New Zealand and South Africa	41	224	275	546.3	18.5	8.6	14.7
	<i>Developing countries</i>	195	485	510	248.7	9.5	40.9	31.8
	Latin America	79	101	120	127.8	2.5	16.6	6.6
	Africa and Middle East	5	44	44	880.0	24.2	1.0	2.9
	Asia	112	337	340	300.9	11.6	23.5	22.1
	<i>Socialist countries</i>	19	103	81	542.1	18.4	4.0	6.8
2 and 4	<i>Crude materials (excluding fuels)</i>	1,383	3,433	3,730	248.2	9.5	100.0	100.0
	<i>Developed countries</i>	737	1,787	1,970	242.5	9.3	53.3	52.1
	Canada and United States	473	1,173	1,290	248.0	9.5	34.2	34.2
	EEC	9	23	22	255.6	9.8	0.7	0.7
	EFTA	19	22	23	115.8	1.1	1.4	0.7
	Australia, New Zealand and South Africa	232	550	610	237.1	9.0	16.8	16.0
	<i>Developing countries</i>	597	1,370	1,440	229.5	8.7	43.2	39.9
	Latin America	160	397	375	248.1	9.5	11.6	11.6
	Africa and Middle East	55	119	138	216.4	8.0	4.0	3.5
	Asia	370	820	880	221.6	8.3	26.8	23.9
	<i>Socialist countries</i>	46	277	325	602.2	19.7	3.3	8.1

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1961 and March 1970.

2. Export trends by products

The growth of Latin America's exports to Japan is attributable to a small number of products, particularly iron ore and non-ferrous metals, animal feeds and tropical food crops. Exports of industrial raw materials (SITC, sections 2 and 4) rose from 160 million dollars (average for 1956–1958) to 397 million dollars (average for 1966–1968), i.e., at a cumulative annual rate of 9.5 per cent, which was three times higher than for total exports of these materials. Sales to Japan represented 18.1 per cent of the region's total exports of these products towards the end of the period (average for 1966–1968), whereas ten years earlier the corresponding proportion had been 10 per cent (average for 1956–1958). Latin America's exports of food products to Japan remained relatively quiescent, however, with a cumulative growth rate of 2.5 per cent, although this was higher than the average rate for Latin America's total exports of such products to the developed countries.

One of the characteristics of Japan's total imports is the high proportion of food and raw materials, which is due to the meagreness of its own natural resources and supply of cultivable land. The country has 100 million inhabitants living on a number of islands whose total area is only 370,000 square kilometres. Of this area, only 16 per cent is cultivable land, and local supplies of iron ore, copper and other non-ferrous metals, coal, petroleum, etc., are scanty.

Accordingly, taking the average for 1966–1968, primary commodities (SITC sections 0–4) accounted for 72 per cent of Japan's imports, whereas the corresponding proportion in the European countries (EEC and EFTA) and in the United States was between 35 and 40 per cent.

This circumstance, in conjunction with the fact that its imports expanded more rapidly than those of other developed countries (at a rate of 13.1 per cent as against 5 or 6 per cent), converted Japan into one of the world's largest markets for primary commodities, and the leading importer of raw materials (SITC sections 2–4). In 1969 the c.i.f. value of its imports of primary commodities (SITC sections 0–4) totalled about 11,000 million dollars, a sum which almost equalled the figure for the United States, and exceeded those for the United Kingdom and the Federal Republic of Germany. Furthermore, the annual growth rate of imports of these items was more rapid in Japan's case than in that of other industrialized countries, reaching 13.7 per cent, while the average for the OECD countries was 6.2 per cent.

Japan's imports of primary commodities from Latin America also rose very fast, until they came a close second to those of the Federal Republic of Germany, which headed the list.

Industrial raw materials, especially iron ores, copper, other non-ferrous metals, cotton, wool, oilseeds, hides and skins, rubber, wood and pulp, and fertilizers (SITC sections 2 and 4), bulk large among Japan's imports. Its imports amount to 20 per cent of OECD's total imports of these products, which means that it is a bigger importer than either the United States or the EFTA countries in the aggregate (see table 49).

In the last three years of the period under review (1966 to 1968), Japan's external purchases of iron ore (SITC item 281) amounted to 719 million dollars, while those of the OECD countries totalled 2,087 million dollars. In other words, its imports of iron ore were equal to 34.5 per cent of the OECD figure

Table 49. OECD countries: imports of raw materials,^a 1962–1963
(Millions of dollars c.i.f.)

Country or group of countries	1966	1967	1968	1962–1964 (average)	1966–1968 (average)	1966–1968 1962–1964 (cumulative annual rate)	Imports from Latin America, 1966–1968 (average)	Percentage share of imports from Latin America 1966–1968
OECD	21,087	20,635	22,340	17,150	21,347	5.0	2,021	9.5
Japan	3,813	4,443	4,816	2,720	4,357	12.5	570	13.1
United States	3,265	2,964	3,296	2,853	3,175	2.7	453	14.3
EEC	8,329	7,886	8,541	6,930	8,252	4.5	608	7.4
EFTA	4,251	4,008	4,238	3,887	4,166	1.8	322	7.7
(Percentage distribution)								
OECD total	100.0	100.0	100.0	100.0	100.0		100.0	
Japan	18.1	21.5	21.6	15.5	20.4		28.2	
United States	15.5	14.4	14.8	16.2	14.9		22.4	
EEC	39.5	38.2	38.2	39.4	38.7		30.1	
EFTA	20.2	19.4	19.0	22.1	19.5		15.9	

SOURCE: OECD, *Statistics of Foreign Trade, Series B, Trade by Commodities*, 1964 and 1968.

^a SITC section 2 (crude materials, inedible, except fuels).

and it also purchased other products in amounts equal to the following percentages of OECD's imports of these products: non-ferrous metals, 24.2 per cent; cotton, 31.2 per cent; wool, 21.5 per cent; oil-seeds, 24.6 per cent; and wood, 27 per cent (see table 50).

Japan's imports of agricultural commodities were 2.5 times larger at the end of the last decade than at the beginning, which means that they increased at a cumulative annual rate of 9.6 per cent. However, since they did not expand nearly so fast as its imports of mineral raw materials and of petroleum, the share of agricultural commodities in total imports dropped from 47 to 27 per cent during the ten years under review. In particular, the share of agricultural raw materials shrank from 29 to 13 per cent, largely owing to the slow growth of demand for cotton and wool as a result of extension in the use of man-made fibres. In contrast, imports of fish, meat, fruit and beverages expanded very fast. Purchases of tropical products (sugar, bananas, coffee, cocoa, pineapple, etc.) rose from 453 thousand dollars in 1960 to 1,074,000 dollars in 1967, and those of animal feeds from 81,000 dollars to 419,000, owing to the increase in consumption of meat.

These characteristics partly account for the decline in Latin America's share in the Japanese market. The stagnation of Japan's imports of textile raw materials was a major determinant of this downward trend, since up to a relatively short time ago (1960-1962) more than one third of Latin America's exports to Japan consisted of cotton and other textile raw materials.

The over-all trend of Japan's imports shows

a rise in demand for Latin America's staple export products, but full advantage was not taken of the opportunities offered, owing, *inter alia*, to keen competition from various quarters, especially the developed countries, and to some Latin American supply problems.

Outstanding among the developed countries that were vigorous competitors in the Japanese market were those whose export structure is similar to that of Latin America, such as Australia, New Zealand and South Africa, which retained their shares in the Japanese market. Canada and the United States were also major suppliers of some products of importance to Latin America (see again table 48). The Asian countries, on the other hand, lost ground.

B. PROSPECTS FOR LATIN AMERICA'S EXPORTS TO JAPAN

The outlook for Latin America's exports to Japan is highly favourable, owing to the great potential demand for its export products; the trade policy of the Government of Japan, which leans towards increased liberalization of its foreign trade and diversification of its imports; and the substantial possibilities of a rapid increase in economic and technical co-operation between the developing countries and Japan.

1. Japanese market prospects

Potential demand for imported goods is directly dependent upon two factors: the elasticity of demand for the goods concerned in relation to the increase of the gross domestic product, and the rate at which that increase

Table 50. OECD countries: imports of principal raw materials, 1966-1968

SITC division	Products	OECD (total)	Japan	United States	EEC	EFTA	Percentage share of imports from Japan in total OECD imports
(annual average, millions of dollars c.i.f.)							
21	Hides and skins	1,096	92	183	513	234	8.4
22	Oilseeds	1,688	418	62	790	255	24.6
23	Rubber	1,000	134	210	356	194	13.4
24	Wood	3,442	928	486	1,066	773	27.0
25	Pulp	1,631	115	424	598	431	7.1
26	Textile fibres	4,300	926	360	1,822	878	21.5
262	Wool	1,848	397	215	744	398	21.5
263	Cotton	1,469	459	30	625	255	31.2
27	Crude fertilizers, etc. . . .	1,743	199	286	794	317	11.4
28	Mineral products	5,388	1,486	984	1,822	803	27.6
281	Iron ore and concentrates . .	2,087	719	454	651	215	34.5
283	Non-ferrous metals	2,004	484	450	528	396	24.2
Section 2	Total raw materials, excluding fuels	21,347	4,357	3,175	8,252	4,166	20.4

SOURCE: OECD, *Statistics of Foreign Trade, Series B, Trade by Commodities*, 1968.

takes place. Both these factors have a more powerful impact on the market of Japan than on any of the other major world markets.

According to medium-term projections, Japan's rate of economic development will be higher than that of the other industrialized countries. In Japan's new official economic and social development plan for 1970-1975, the cumulative annual growth rate of the gross domestic product, expressed in dollars at current prices, is estimated at 14.7 per cent, which is the equivalent of 10.6 per cent in real terms. All the projections indicate that Japan's vigorous growth will continue for the next few years at least, and it is estimated that the growth rate of its gross product will be double the average for the industrialized countries.

Furthermore, to judge from the studies carried out on the product elasticity of imports of various groups of commodities in the major industrialized countries, this elasticity is greater in Japan than in the others, especially for the items of most interest to the Latin American countries: foodstuffs and raw materials. The product/elasticity of Japan's food imports is 1.29, which compares favourably with the figures for other countries: 0.35 for the United Kingdom, 0.74 for the United States, 0.79 for France, etc. (see table 51). This high elasticity is due to several factors, which include the relatively low level of current food consumption in Japan in comparison with that of other countries, and the gradual change in diet which is reflected in increased consumption of foreign foods and therefore in a higher product/elasticity of food imports.

Table 51. Industrialized countries: elasticity of demand for imports, by type of product
(Average, 1960-1961 to 1966-1967)

Country	Food	Raw materials	Mineral fuels
Japan	1.29	0.60	1.07
United Kingdom	0.35	0.03	0.90
United States	0.74	0.37	0.81
Federal Republic of Germany	0.95	0.99	1.59
France	0.79	0.31	0.85
Canada	0.48	0.44	0.55
Sweden	0.92	0.41	0.49

SOURCE: Economic Planning Office of Japan, *Economic Survey of Japan, 1968-1969* (Tokyo, 1969).

The elasticity of imports of raw materials is also higher in Japan than in other industrialized countries: 0.60 as against rates around 0.40 elsewhere. This high figure is attributable, in the first place, to the extreme scarcity of natural resources in Japan as com-

pared with other countries, and secondly to the substantial contribution made by manufacturing to the increase in Japan's gross product in the period under consideration.¹

Owing to those two factors, prospects are very favourable for Latin American products on the Japanese market. If the growth rate of the gross domestic product projected for the next five years is related to the import elasticity quoted above, the estimated annual growth rate of imports works out at 19 per cent for food products, 8.8 per cent for industrial raw materials and 15.8 per cent for mineral fuels. The Government's new economic and social development plan gives 15.3 per cent as the annual growth rate of Japan's total imports over the next five years.

This estimate is based on the elasticity of demand recorded for the preceding period, and its validity therefore depends upon the assumption that during the next few years it will remain at an equally high level, in which connexion the following observations must be made. There will be little change in the relatively high elasticity of Japanese demand for industrial raw materials, since the shortage of natural resources will become even more acute in the future. As domestic supplies decrease, Japan's dependence on external resources will increase, and with it the product/elasticity of demand for imports. According to projections prepared by the Ministry of Industry and International Trade (MITI), for example, internal demand for iron ore will reach 138.9 million tons in the fiscal year 1973/1974, whereas it was only 66.1 million tons in 1967/1968, which means that it will be dependent on external supplies to a greater extent; 87.3 per cent of its supplies will be imported, as against 83.7 per cent in 1967/1968 since imports of iron ore will total 122 million tons in 1973/1974.

It will be even more dependent on external supplies of coal for steel-making, since in the same period the proportion imported will rise from 70.1 per cent to 86.0 per cent. In respect of petroleum, the rate of dependence, which is already very high (99.4 per cent in 1968), will increase to 99.6 per cent in 1975-1976. Similarly, a steadily growing proportion of non-ferrous metals such as, for example, copper and zinc will come from abroad, increasing Japan's external dependence from 72.5 per cent and 39.3 per cent to 73.0 per cent and

¹ The elasticity estimate relates to the period 1960-1961 to 1966-1967. See Economic Planning Office of Japan, *Economic Survey of Japan 1968-1969* (Tokyo, 1969).

42.2 per cent, respectively, between the fiscal years 1968/1969 and 1975/1976. Where bauxite and nickel are concerned, Japan will remain totally dependent on supplies from external sources; and a trend in the same direction may be noted with respect to wood, of which the proportion obtained from abroad will be 48.9 per cent in 1975.

The manufacturing sector, which is a consumer of industrial raw materials, will continue to play a major part in raising the gross domestic product.

On the other hand, there are some factors which will militate against the expansion of imports. Synthetic products have been replacing natural raw materials fairly rapidly in Japan, although it has been confined to textile fibres, leather, rubber and a few other items. Another point to be noted is the swifter pace of development in the more complex branches of industry, where the input of industrial raw materials is smaller in relation to the end product than in activities which consume such materials on a large scale. Cases in point are those of steel products made of non-ferrous metals, etc. Despite these unfavourable factors, the relatively high elasticity of imports of raw materials will not decrease to any considerable extent in the near future, for the reasons mentioned above. As regards demand for food products, two factors peculiar to Japan must be taken into consideration: the relatively low level of food consumption, and the Japanese diet. Although the elasticity of food consumption decreases as per capita income rises, the following factors suggest the existence of a great potential demand for food products, especially those of a non-traditional type, and a diminishing likelihood of any further decline in the elasticity of demand for food products.

In the first place, the level of food consumption is very low in terms of calories, in comparison with that of the major developed countries. According to OECD statistics, daily per capita consumption in Japan stood at 2,206 calories in 1966, i.e., between 30 and 40 per cent less than the amount consumed in the European countries and the United States.² Moreover, in Japan the proportion of consumption represented by foods made from cereals is still very high. The share of carbohydrates in total consumption is as much as 59.9 per cent, as against about 30 per cent in the Western countries. In per capita terms, about 50 per cent of consumption in the leading

European countries consists of protein. The great potential demand for food products referred to above could not be satisfied from domestic sources, for despite the gradual increase in agricultural production, of which the growth rate was higher than that of the population, the country has become increasingly dependent on external markets for its supplies.

The other factor is the modification of Japan's traditional diet, which used to consist mainly of rice, fish, shellfish, fruit and local beverages. During the post-war period, as a result of Western influence, and particularly in the later 1960s, with the increase in the purchasing power of the masses, consumption of non-traditional foods expanded so rapidly that bread and meat are now staple articles of diet. Consumption of fruit and beverages such as bananas, pineapple, coffee, cocoa, etc., has soared in recent years, another contributory cause being the lifting of import restrictions and the elimination or reduction of customs duties on these products. Nevertheless, consumption of non-traditional foods continues to fall short of European standards. Annual per capita consumption of meat is still only 8.4 kilogrammes in Japan, as against 100 kilogrammes in the United States and Argentina.

The situation with respect to meat underlines the immense possibilities for the expansion of imports of food products. If meat consumption in Japan were to rise to half the current United States figure, the increase would amount to 4 million tons of meat or 50 million tons of grains for fodder.

This big potential demand both for raw materials and for food products might easily give rise to a sharp upswing in imports, since Japan's trade policy follows the principles of reducing import restrictions and widening the scope of financial and technical co-operation with a view to increasing the developing countries' exports to Japan.

Latin America would be able to take full advantage of all the opportunities that the Japanese market offers, if its products were better able to compete with those of other potential suppliers of the products mentioned above. On the assumption that Latin America's exports to the rest of the world will continue to expand at the same rate as during the ten years under review, if the growth rate of Japan's total imports (15.3 per cent) is applied to exports from Latin America to Japan, the latter could reach a value of about 2,000 million dollars, absorbing 12 per cent of total Latin American exports by 1975. Even if the rate of

² OECD, *Observer*, No. 38 (February 1969).

increase applied were the average for Latin American exports to Japan over the past ten years (9.1 per cent), the corresponding proportion would be as much as 9 per cent. This is enough to show the potential importance of the Japanese market for Latin America in the near future.

Lastly, brief reference must be made to the prospects for exports of manufacturers from Latin America to Japan. Generally speaking, Japan's imports of such products must increase because of the shortage of manpower which is gradually making itself felt in Japan. The Government of Japan is planning to adopt measures aimed at encouraging industrial imports from the developing countries, by means of a general system of preferences, for instance, and adjustments in certain domestic industries. These steps, however, will not imply an immediate increase in Latin America's exports of manufacturers, since they will encounter keen competition from exporters in Asia, especially the countries nearest to Japan.

2. Japan's trade policy

The trend of Japan's trade policy has been towards increased liberalization and diversification of trade, owing to the need to obtain a more secure and stable supply of foodstuffs and of raw materials for industrial production, to curb the inflation which began to set in some years ago, to hold down the accumulation of foreign exchange accruing from the trade surplus and to secure an equilibrium in its trade balance with certain countries.

After the period of inflation immediately after the war, Japan managed to keep free of inflationary pressures, even those of a transitory nature, and several times reduced its wholesale prices, while its unit export prices fell steadily, almost without a break. Some six or seven years ago, consumer prices began to creep up, although wholesale prices remained very stable until recently, when they too started to rise.

Although inflation in Japan is closely associated with the relative shortage of labour, particularly young labour, that began to be felt some years ago, and with the inefficiency of the traditional marketing and services system, it can also be said to be due to import restrictions designed to protect certain sectors, particularly agriculture. According to the *Economic Survey of Japan, 1969*, agricultural products accounted for some 44 per cent of the rise in the cost of living in 1968 and for 54 per cent in 1967, with rice accounting for

between 5 and 10 per cent. The prices of many agricultural products in Japan are between 50 and 100 per cent above world prices, although it should be remembered that world prices do not necessarily reflect real production costs since the main exporters—the EEC countries and the United States—grant export subsidies that hold prices down artificially.

The difference between domestic prices and world prices is biggest in the case of imports subject to heavy restrictions. For example, the gap is widest in the case of products reserved for State marketing or the like: the world price for rice equals 62 per cent of the domestic price and that of butter 54 per cent, with other milk products showing similar differences.

The difference in price is smaller, however, for less restricted products: the world price equals 71 per cent of the domestic price for beef; 75 per cent for wheat; and 78 per cent for *nori* (an edible seaweed). And there is no difference between the two prices for poultry, which can be imported virtually without restrictions.

In contrast with the balance-of-payments position of earlier years—which was extremely precarious and subject to recurrent crises—over the past two or three years the situation has completely changed, and there has been a growing surplus owing to the fact that while exports grew rapidly (25 per cent in 1968 and 22 per cent in 1969), imports did not keep pace with them. At the end of 1969, there was a balance-of-payments surplus of 2,300 million dollars, bringing foreign exchange and monetary gold reserves up to an estimated 3,500 million dollars.

A number of international agencies analysed this situation and some came to the conclusion that it was the result of structural rather than transitory factors, and that unless the Japanese Government took suitable measures it would continue to accumulate foreign exchange.³

Even the possible revaluation of the yen was proposed in some international forums but the Government was opposed to such a step. It did, however, state that, in view of the balance-of-payments situation and domestic inflation, it firmly intended further to liberalize imports and to adopt measures to increase financial and technical co-operation with the developing countries with the ultimate aim of increasing its imports from these countries.

The main short-term measures adopted or proposed to this end are listed below:

³ See OECD, *Economic Survey, Japan*, August 1969.

(a) Early introduction of the Kennedy Round concessions. The Government is considering granting the concessions eight months earlier than the agreed date of 1 January 1972.

(b) Authorization of imports of all products up to a level of 2 per cent of domestic consumption, which would have a sizable impact on imports subject to quantitative restrictions such as meat, fish, shellfish, meat products (ham, bacon, sausages, etc.), milk products, fruit juices, etc.

(c) A programme to liberalize quantitative restrictions. Until recently over 100 products, more than in the European countries, were subject to such restrictions. The number is to be reduced to 60 by April and to 40 by September 1971.

(d) Improved terms of financing for imports by the Bank of Japan, which is to grant longer repayment periods, lower interest rates, etc.

(e) The extension, already approved, of special import financing by the Export-Import Bank of Japan to include metals, petroleum, natural gas, wood pulp, etc., in addition to the products already covered, namely, mineral ores, coal, salt, wood and scrap iron and steel.

Other measures, in addition to these direct measures, are planned with a view to increasing imports over the longer term. The Government has worked out arrangements for investment and for financial and technical co-operation designed to promote the production abroad of imports for Japan. In contrast to direct measures designed to improve access to the Japanese market, these arrangements are designed to help create production oriented towards export to Japan, accompanied by measures relating to marketing. These arrangements will benefit not only the exporting countries but Japan, for they will guarantee secure and stable supplies of necessary raw materials over an extended period. Moreover, this programme should make for a greater diversification of sources of supply and thus bring partial equilibrium to Japan's trade balances with certain countries.

3. Expansion of financial and technical co-operation connected with imports

There is great potential for increasing financial and technical co-operation between Japan and the developing countries. Japan's growing surplus on its trade balance provides it with an increasing supply of foreign exchange that will enable it to expand its financial and technical assistance and step up public and private investment abroad.

At a meeting at the ministerial level of the OECD countries in early 1970 the Japanese Government stated that Japanese foreign aid would have the following targets:

(a) A maximum effort to bring Japan's foreign aid up to 1 per cent of its gross domestic product by 1975; and (b), an effort to increase Japan's official foreign aid to 0.7 per cent of the gross product by 1980.

Furthermore, at the meeting of the OECD Development Assistance Committee (DAC) in September 1970, the Japanese Government announced its support for the principle that official financial assistance to the developing countries, whether made available directly or through international agencies, should not be tied.

At present, Japan's foreign aid amounts to only 0.7 per cent of the gross product, but the product is expected to grow at an annual rate of 16.5 per cent in the coming years, which should bring a considerable increase in foreign aid, if the indicative targets mentioned above are attained. As it is estimated that the gross national product will amount to 400,000 million dollars by 1975, annual foreign aid should rise from the 10,490,000 dollars recorded in 1968 to 4,000 million dollars by 1975, a sum that is comparable to the total amount of the United States foreign aid in 1968, namely 5,676 million dollars.

A substantial proportion of this assistance will be in the form of combined "trade and development" projects, i.e. projects that cover not only the development or exploitation of a resource but also its marketing and, in particular, its export to the Japanese market. In other words, they would be projects of financial and technical co-operation aimed at promoting exports to Japan.

Some of these projects are already under way under the name of "development and import" projects (*kaihatsu yunyu*), with the joint collaboration of four semi-State agencies. The Export-Import Bank of Japan and the Economic Co-operation Fund finance, *inter alia*, projects relating to production and transport; the Overseas Technical Co-operation Agency (OTCA) sends technical assistance experts and engineers abroad and trains foreign technicians; and the Japan External Trade Organization (JETRO) has created a special fund to promote imports of primary commodities from the developing countries, one of its activities being the organization of exhibitions in Tokyo of developing countries' primary commodities and manufactures. In 1970, the Japan Overseas Development Corporation

was established to finance construction of the infrastructure required for the production of primary commodities and the importation from the developing countries of primary commodities at prices higher than the world price.

With respect to the programme of development and import projects for industrial raw materials, mainly mineral ores, a centre for natural resources development planning is to be set up in 1971 with the following tasks: (a) to provide the developing countries free of charge with comprehensive plans for the development of natural resources covering both the exploitation of the resources and the establishment of basic infrastructure: ports, railways and highways; and (b) to make recommendations to the Export-Import Bank of Japan and the Economic Co-operation Fund regarding the financing of exploitation and infrastructure projects. The centre is also to establish an integrated programme for the development and importation of natural resources in collaboration with private enterprise and it will act in close co-operation with the Metallic Minerals Exploration Agency of Japan, another para-State agency that has begun operations under the auspices of the Ministry of International Trade and Industry.

Starting in 1961, a system of subsidies for research was established, designed to promote imports of primary commodities from the developing countries, the subsidies normally being granted to associations of industrialists and sometimes amounting to as much as 75 per cent of total costs. Up to 1968 some 80 missions had been sent abroad under this system with the task of investigating products suitable for export to Japan, examining the main barriers to trade and, after carrying out in-depth studies of the products, determining what measures should be taken.

In 1965 a permanent body was established to formulate specific policies and measures to streamline commodity imports, on both a country and a product basis, in co-operation with the Institute for Developing Economies. This agency's research activities are financed by the Ministry of International Trade and Industry, and it carries out its work in co-operation with the countries concerned.

It is also expected that the regulations regarding Japanese private investment abroad will be liberalized, owing to the favourable balance-of-payments situation. In this connexion the Japanese Government has adopted the following measures: (a) Japanese private enterprises need no prior authorization for investment abroad up to a value of 200,000

dollars; (b) investment abroad up to a value of 300,000 dollars is approved almost automatically.

As a result of the development and import programme and the measures mentioned, and also the expansion of public financing, Japanese enterprises have been able to undertake more projects abroad in recent years. By the end of 1969, Japanese enterprises had invested in some fifty mines in the non-ferrous metals sector alone, and in the near future will be undertaking approximately forty projects for the exploration and exploitation of mineral resources at a total cost of at least 500 million dollars.

Although a large proportion of Japanese investment abroad will be devoted to the exploitation of foreign natural resources, some will go to promote agricultural development and the production of manufactures suitable for export to Japan, because of the size of potential demand and the urgent need to secure stable supplies of raw materials.

As regards agricultural development, the development and import programme is under way in a number of Asian countries, a notable example being that of maize in Thailand. The pre-investment studies on maize production and marketing were undertaken by the Japanese commercial firms providing technical and financial assistance. Exports of maize are regulated by an agreement on quality, monthly volume, etc., between the Thai Ministry of Economic Affairs and the Japanese Association for the Importation of Maize from Thailand, with the participation of the major Japanese farm co-operatives purchasing maize. There were many obstacles, but the efforts made to overcome them led to a substantial increase in imports of maize from Thailand, and also provided Japan with some very valuable experience.

It can be concluded, then, that, in view of the great potential demand for Latin America's export products, together with Japan's favourable policies as regards trade and financial and technical assistance, there are great possibilities of expanding Latin America's exports to Japan.

C. TRENDS IN EXPORTS OF LATIN AMERICA'S PRINCIPAL PRODUCTS, AND FUTURE PROSPECTS

1. Foodstuffs

Meat

Partly because of a gradual change in the country's eating habits and because of the

inability of domestic producers to keep pace with the growing demand, there was a boom in Japan's meat imports, whose annual average c.i.f. value rose from 14 million dollars in 1960-1962 to 120 million in 1967-1969. One of the most striking aspects of these imports is their composition, almost half of it being lamb, on which, for lack of domestic production, there are none of the quantitative restrictions that apply to beef and pork. Moreover, the customs duty on lamb is only 10 per cent, compared with 25 per cent on beef and 20 per cent on poultry. Horsemeat receives similar treatment and is mainly used for sausages and other preparation of which there has been an extraordinary increase in consumption in Japan. Imports of meat preparations, such as ham, bacon, sausages, etc., are subject to quantitative restrictions and to a 25 per cent tariff.

The restrictions on imports of beef and pork are designed to protect domestic production, which has risen considerably, particularly that of pork. For the most part, the imports are used to stabilize domestic prices, which means that they vary in volume according to Japan's own output. Pork imports have been particularly irregular, since emergency import quotas are only granted when the Ministry of Agriculture decides that domestic prices have risen too much. Beef imports, which have been gradually rising, follow a similar pattern, with import quotas being granted twice a year. However, certain restrictions do apply to the place of origin, in accordance with the law on the prevention of infectious animal diseases, although imports of cooked meat are permitted.

This being so, Latin America's meat exports to Japan have been mainly of horsemeat from Argentina and Brazil, with a corresponding boom in Japanese imports of beef and lamb from Australia and New Zealand.⁴

With imports currently accounting for 15 per cent of a domestic consumption whose annual growth rate is between 10 and 15 per cent, the Japanese meat market is likely to become very important in the near future. However, if Latin America's exports are to increase, the various restrictions that were hardly affected by the Kennedy Round, especially as regards meat preparations, will have, of course, to be lifted.

⁴ A great deal of meat is also re-exported from the Ryukyu Islands, where most of the animals imported from Australia and New Zealand are slaughtered, since imports from these islands are exempt from the 25 per cent customs duty.

Fish and shellfish

Imports of fish and shellfish rose faster than those of meat, increasing in value from between 1 and 4 million dollars before 1960 to an annual average of 159 million during the period 1967-1969 and exceeding meat imports from 1963 onward. More than 50 per cent of this consists of deep-frozen lobsters. Almost all Latin America's exports to Japan (95 per cent) are made up of lobsters from Mexico, a large proportion of which are purchased through the United States under North American trade marks.

Japan is currently the second largest consumer of lobsters, following the United States, with more than a quarter of its consumption coming from abroad, mainly from Mexico and partly from mainland China. Potential demand is still very great, the drop in imports in 1968 being due almost entirely to a shortage of supply as a result of the poor catches in Mexico and China. The lobster import boom began when quantitative restrictions were lifted in 1961.

Restrictions on other fish and shellfish have also been gradually lifted except in the case of fish from coastal waters and certain types of seaweed, fish roes and crustacea, all of which are consumed on a large scale in Japan. Though the customs duties of between 10 and 15 per cent payable on these products were not reduced in the Kennedy Round, the volume of imports rose as fast during recent years as that of frozen lobsters. The recent rise in the consumer price of fish and shellfish in Japan points to a great potential demand and to the need to lift the remaining quantitative restrictions.

Latin American countries with extensive marine resources could take far greater advantage of the Japanese market than they do, though this would require market research and better conditions of supply, which could be arranged under joint projects with Japan.

Cereals

Although imports of rice, Japan's most popular cereal, have amounted in some years to over 100 million dollars in value, they have recently been dropping off as a result of a remarkable increase in production, which brought a 7 million ton surplus in 1969. Despite official steps to slow down rice production (for example, the Government decision to freeze the purchase price for the past two years and encourage the conversion of rice-fields to other crops), no significant increase in imports is to be expected from these measures, which will have only a long-term effect.

There has been, on the other hand, a steady increase in wheat imports during recent years, averaging 300 million dollars in value (4,200 million tons) during the period 1967–1969, compared with an annual average of 160 million dollars (2,300 million tons) ten years previously. More than 90 per cent of these imports came from the United States and Canada, though there was also a large increase in wheat imports from Australia. Faced with problems of price, quality, reliability of shipments, etc., Latin America did not export a great deal, although an experimental purchase by Japan of 3,600 tons of Argentine wheat in 1968 was an important step forward and led to big orders in subsequent years.

The importation and marketing of wheat and rice is State controlled in Japan, the domestic purchase price being fixed by the Government each year at a considerably higher level than the international price (110 dollars per ton of wheat compared with a c.i.f. price for Australian and United States wheat of approximately 70 dollars, and 382 dollars per ton of rice for 1969—more or less double the international price). However, as a large section of the rural population makes a living from the production of these cereals, there is a danger that any drop in prices or increase in imports might be prejudicial to the rural sector and provoke a major socio-political problem. As a result, measures intended to rationalize the sale of cereals for human consumption will be introduced very gradually and this, combined with the relatively slow increase in domestic consumption, means that the prospects for imports of rice are likely to be less promising than for meat. On the other hand, the new demand for meat will bring a great demand for animal feeds.

Animal feeds

During recent years, imports of animal feeds have risen very sharply from an annual average value of less than 180 million dollars prior to 1962 to 483 million during the period 1967–1969, with a large share coming from Latin America. Animal feeds alone accounted for about a quarter of Japan's total food imports. The most important item, maize, accounts for 50 per cent of cereal imports and 35 per cent of Japan's domestic consumption of basic commodities for animal feeds and is largely used as the main ingredient in mixed feeds. Over ten years, Japan's maize imports have climbed from an average 700 million tons (1957–1959) to almost 5,000 million (1967–1969), between 50 and 60 per cent of

which come from the United States. Imports from Thailand, South Africa and Mexico⁵ also increased considerably while those from Argentina and Brazil fluctuated greatly, largely owing to the varying amounts harvested. The increase in Thailand's share was attributable to the special efforts made by producers and importers under a development and import project which boosted Thailand's exports to Japan from virtually nothing in 1958 to 800 thousand tons in 1964, after which they levelled off to an annual average of 680 thousand tons for the period 1966–1968. Unlike other cereals, maize is not subject to quantitative restrictions, except for use in starch making.

Though there is a very promising export market in Japan for animal feeds, and therefore maize, the demand for maize is dependent upon its price compared with sorghum, a new animal feed which has been used since 1959 in mixed feeds, first in conjunction with maize and later as a substitute for it, in view of the fact that it costs 10 to 15 per cent less. When there is no difference between the prices of the two products, however, as was the case in 1968, imports of sorghum declined. Up to 1963, prior to the lifting of quantitative restrictions on sorghum in 1964, almost all Japan's imports came from the United States; from 1964 onwards, however, Argentina became a major exporter to Japan followed later by South Africa, Australia, Thailand and Mexico. Japan does not produce any sorghum of its own, which means that the greatest potential demand for it will be reflected in increasing imports.

Although there has been an increase in imports of other animal feeds, especially from Latin America, they have been smaller in quantity. Imports of bran, which were stable during recent years, began to come from other countries instead of just Argentina and Thailand. There was a steady rise in imports of fish meal from Peru from 1964 onwards, and a bigger increase in those of oilcake (made of groundnuts, soya beans, etc.), in which Brazil, Mexico and Peru participated.

There are fewer restrictions on imports of animal feeds than on meat and cereals for human consumption. At present, no quantitative restrictions are imposed on this group, except in the case of certain types of oilseed

⁵ Most of the maize imported from Mexico and South Africa is used industrially as a raw material for the production of alcohol, starch, etc. Unlike maize for fodder, which is duty free, there is a 10 per cent tariff on imports of the industrial product. Nonetheless, in recent years imports of the latter have increased faster than those of the former.

cakes, and import duties are either relatively low or non-existent.

Sugar

Unlike the United States, the United Kingdom and some other countries, Japan is not a party to any special sugar agreements and has thus become the biggest buyer of sugar on the free market. The system of currency quotas for sugar imports introduced in 1955 replaced the earlier barter system and was itself abandoned in 1963. In 1965, owing to the fluctuations in prices, an official agency was set up by law to stabilize sugar prices. Domestic production is small but, combined with the sugar produced in the Ryukyu Islands—currently administered by the United States—and imported duty-free into Japan, it covers one fifth of domestic consumption.

Total imports have risen quite quickly, from a pre-1960 figure of 1,200,000 tons to around 2 million tons in recent years. Cuba continues to be Japan's largest supplier, though after 1959 its sugar sales dropped to half the average for 1956–1958; they subsequently made a gradual recovery and in recent years regained their former level, averaging 633,000 tons for the period 1967–1969. Imports from China (Taiwan), on the other hand, which were steady at about 400,000 tons a year between 1958 and 1966, have fallen off sharply in recent years. There has also been a decline in Brazil's and Peru's sugar trade with Japan; on the other hand Mexico and Colombia started exporting in 1967.

Australia and South Africa have stepped up their sales considerably and now provide Japan with half its imported sugar. This situation, however, is likely to change now in view of a new International Sugar Agreement, to which Japan is a signatory, for it allocates the biggest quotas to developing countries.

Bananas

Until relatively recently, Japan's banana imports were minimal, amounting to a mere 37,000 tons in 1959 and an average of 30,000 tons for the whole of the 1950s, which was scarcely a tenth of the imports of any of the principal European countries. After 1963, however, with the lifting of quantitative restrictions and the improvement in the purchasing power of the Japanese in recent years, imports shot up from 82,600 tons in 1962 to 256,000 tons in 1963 and 739,000 tons, or 117 million dollars' worth, in 1969.

Despite the tremendous increase, per capita

banana consumption is still somewhat lower in Japan than in Europe, partly because of high customs duties. The lifting of the quantitative restrictions was accompanied by an effective reduction of the import duties by 10 per cent, following the removal of the 30 per cent tax surcharge on top of the 50 per cent customs duties and the fixing of the latter at a new rate of 70 per cent. In 1967, it was decided to lower the tariff by a further 10 per cent.

The relatively high tariff on bananas was necessary because of the need to protect production of other fruit in Japan, particularly apples, since bananas account for over 80 per cent of the country's total imports of fruit. Consequently, a system of seasonal tariffs is to be introduced, the lower rates being applicable when there is less domestic production of fruit, particularly apples.

A tremendous, though slightly irregular, increase in Latin America's exports of bananas to Japan began in 1962, when health restrictions were imposed on imports from China (Taiwan); as a result, Ecuador's sales shot up to 33,000 tons, i.e., 50 per cent of Japan's total imports, whereas Taiwan had previously catered to more than 90 per cent of its total demand for bananas. A year after the adoption of the restrictions on bananas from Taiwan, quotas were abolished, whereupon Ecuador boosted its exports to 200,000 tons while Taiwan failed even to regain its former level. Though Ecuador's exports fell off in subsequent years, it recently managed to push them up to 266,000 tons (1969). Meanwhile, the Central American countries, especially Honduras, increased their own exports, marketed very successfully under the trade name "Chiquita". Ecuador improved its position partly by stepping up its production of Cavendish bananas, instead of the Gros Michel variety, the former being closer in flavour to the type grown in Taiwan to which the Japanese consumers are accustomed.

Another problem affecting Taiwan's exports to Japan is irregular supply, owing to the prevalence of typhoons which were responsible for the sharp drop in exports in 1968. Although the Government of China (Taiwan) is taking steps to alleviate the problem, there is unlikely to be any major increase in its exports and Latin America will therefore benefit. A large increase in banana imports from the Philippines is also expected in the next few years.

Quite apart from tariff reductions, one thing that Latin American countries could do would be to improve their transport and packing, as a large part of the c.i.f. price for bananas goes on freight.

Coffee

There was a big increase in coffee imports after 1961, when quantitative restrictions on soluble coffee were lifted one year after those on coffee beans. As the domestic price of soluble coffee has dropped, it is being bought for family use whereas it used to be consumed mostly in restaurants; consequently, soluble coffee now accounts for 60 per cent of Japan's total coffee consumption. Despite the progress made since 1961, however, per capita consumption is still much lower than in European countries and the United States (0.98 pounds in Japan compared with 16.69 pounds in the United States in 1968), owing to the traditional Japanese predilection for green tea.

The value of imports, previously no more than 9 million dollars (10,000 tons of coffee beans), rose to 18 million dollars in 1961 and 24 million in 1962, thereafter rising steadily to 49 million (59,000 tons of coffee beans and 2,300 tons of soluble coffee) in 1969.

It is notable that almost all the soluble coffee comes from developed countries like the United States and the Federal Republic of Germany and the coffee beans from developing countries, particularly Brazil followed by other Latin American countries and by Africa. In recent years, the United States and Germany supplied 20 per cent of the total value of Japan's coffee imports. Brazil's share increased steadily during the 1960s and reached 25,000 tons in 1969, followed by Colombia with 6,500 tons. Other Latin American countries like Peru, Guatemala and El Salvador also increased their exports considerably, while African countries like the Ivory Coast, Uganda and Ethiopia suffered considerable ups and downs, though they did manage to increase their share from less than 10 per cent to 20 per cent between 1961 and 1968.

The basic tariff of 35 per cent on unroasted coffee has been temporarily suspended and is to be eliminated altogether in accordance with the Kennedy Round negotiations; the internal tax of 10 per cent has moreover been reduced to 5 per cent. Soluble coffee, on the other hand, carries a 25 per cent import duty and received no concessions in the Kennedy Round.

It should also be borne in mind that Japan classified itself as a "new market" under the International Coffee Agreement and is therefore exempt from the quotas fixed therein; this is of some importance in view of the fact that the price or quality restrictions would discourage consumption of coffee among the people, a fairly recent phenomenon in Japan.

Cocoa

Cocoa imports were liberalized in 1960 and they increased greatly over the next few years (1961 to 1963), overtaking coffee imports in 1967 and reaching 50 million dollars in value (43,000 tons) by 1969. The main source of supply is Africa, particularly Ghana, the Ivory Coast and Nigeria which together have provided 70 per cent of Japan's imports in recent years. Latin American countries like Ecuador, Brazil and Venezuela have also boosted their exports considerably, though Brazil has failed to maintain the level it attained in 1963 and 1964.

As in the case of coffee, cocoa preparations come mostly from developed countries, such as the United States and the Federal Republic of Germany, whose exports of powdered cocoa and cocoa butter have continued to grow.

However, whereas the duty on cocoa preparations is fairly high (between 10 and 30 per cent), the 5 per cent tariff on cocoa beans is to be eliminated under the Kennedy Round. The developing countries will have an excellent opportunity to trade when Japan introduces the general system of preferences, which reduces the import duty on cocoa preparations from developing countries by half.

2. Raw materials

Iron ore

Imports of iron ore have been increasing rapidly over the past fifteen years, except in 1958 when Japan experienced an economic depression. The average annual figure rose from 8 million tons (1956–1958) to 83 million in 1969, a value of 969 million dollars, which represented 6.5 per cent of total imports. This period marked a diversification of the sources of supply, which shifted from neighbouring to distant countries. At the outset, Japan obtained most of its imports from Asian countries—India, Thailand and the Philippines—and the United States and Canada, these five countries providing 70 per cent of its total imports, while Peru and Chile together accounted for less than 5 per cent (average for 1956–1958). In ten years the share of Latin American countries (Chile, Peru and Brazil) rose to 31 per cent (average 1966–1968), while Australia became Japan's biggest supplier. Thus, the weighted average of distance between Japan and its sources of supply, which in 1960 was already greater than that of other importers, had doubled by 1964.

The rapid and steady expansion of imports may be ascribed to the extraordinary growth of

demand for steel, which Japan also exports. Iron ore imports will continue to be substantial, since steel production will probably increase equally fast in the future. Japan's total steel output, which rose from 11 million tons in 1956 to 80 million in 1969, is expected to be 130 million tons in 1975.

With the prospects of a considerable and sustained demand for iron ore, imports of which are unrestricted, Latin America has an excellent chance of stepping up its exports to Japan. Compared with other suppliers, however, supply and transport conditions involve certain disadvantages for Latin America, which might be overcome through renewed co-ordinated efforts by Latin America and Japan.

Transport costs, which represent 35 to 40 per cent of the c.i.f. value, are a serious obstacle, although it has to a great extent been surmounted by the construction of special large-tonnage ships.

In 1970, special ships of 130,000 tons for the transport of iron ore began operating between Chile and Japan. The high cost of carrying ore from Brazil to Japan, which made the operation uneconomic, was greatly reduced by the construction of ships of considerable capacity for the transport of iron ore and petroleum. These ships leave Japan empty and proceed to the Middle East to take on oil for Brazil, where the iron ore is loaded. In order to reduce transport costs still further, ships of 250,000 tons are being built for this trade, while port operations have been mechanized, the ore is carried in semi-liquid form (slurry) by pipelines, and in some cases conveyor belts are used between the mine and the port, etc.

It is of prime importance to have a stable and reliable source of supply of metal ores, particularly iron, and imports are usually based on long-term agreements, often covering more than ten years. While most long-term contracts for the purchase of ore involve the financing of mining operations and the construction of infrastructure by Japan, developed exporting countries like Australia and South Africa can sometimes make better offers because of their greater technical or financial capacity. For example, an Australian firm decided to build an ore supply centre on an island near Osaka in order to maintain a buffer stock of about 2 million tons as a stable and reliable supply of ore for Japan that would be secure against strikes or any other difficulties that might arise.

The unfavourable factors, including transport costs, could be overcome through financial and technical co-operation between Latin America and Japan, which could include the search for new mines suitable for exploitation,

under the development and import programme.

Non-ferrous metal ores

Imports of copper ore also rose rapidly, from an average annual figure of 180,000 tons (23 million dollars) in the period 1956–1958 to over a million tons in the last few years (since 1967), reaching a value of 340 million dollars in 1969, which reflected a sharp upturn in imports from Canada and the Philippines and a somewhat smaller increase in imports from Peru. Over 100,000 tons have been imported from Latin American suppliers (Peru, Chile and Bolivia) since 1967, which constitutes 10 per cent of Japan's total copper ore imports.

This rising trend will continue in the future and copper ore imports in 1975 are expected to be at least 50 per cent higher than in 1967, when Japan's demand totalled 1,213,000 tons. The favourable prospects in regard to demand for copper ore—and refined copper to which reference will be made later—could be turned to account by the Latin American producer countries. As in the case of iron ore, it would be useful to invest in mining production for export over the long-term, through financial and technical co-operation with Japan.

Among other non-ferrous metal ores, in order of importance, are nickel, zinc, manganese, lead, bauxite and molybdenum. Imports of each amount to over 20 million dollars, the total value of non-ferrous metal ores, excluding copper, being over 324 million dollars (average for 1967–1969).

Latin America has obtained a considerable share in this trade, the main metals being zinc from Peru and Mexico, manganese from Brazil, molybdenum from Chile and lead from Peru and Bolivia, which also benefit from the favourable demand prospects and the free-import régime.

Textile and raw materials

Imports of textile raw materials, which in 1951 represented 38 per cent of Japan's total imports, have gradually lost ground, their share declining from 20 per cent in 1957 to 10 per cent in 1965, although in absolute terms they maintained their value at about 900 million dollars, of which Latin America has accounted in the last few years for some 200 million dollars (over 20 per cent), but with a tendency to remain at the same level, in contrast with the trend of other Japanese imports from Latin America.

It is interesting to note that the share of wool increased gradually—from 220 million dollars in 1956–1958 to over 360 million in 1966–1968

—while that of cotton remained at around 450 million dollars. In spite of this general trend, however, wool exports to Japan from Latin America (Argentina, Uruguay, Brazil, Peru and Chile) remained at a standstill, while Australia's exports soared, their share in the Japanese market rising steadily from 70 per cent in the 1950s to 80 per cent in the 1960s. In contrast, the share of the principal cotton suppliers (Latin America and the United States) did not change very much, although imports from the Central American countries have increased considerably in recent years.

In 1961 the quantitative restrictions on cotton and wool were eliminated, and subsequently those on various types of flax, except for ramie, which caused imports to soar in 1961 (when the value of wool and cotton imports reached its highest level in the post-war period), although it subsequently declined. Since imports of textile raw materials are duty free, their stagnation is mainly due to the small increase in the consumption of textile manufactures owing to the boom in synthetic fibres and the increase in imports of made-up articles.

3. *Manufactures*

The last few years have witnessed an increase in Japan's imports of manufactures from developing countries, particularly metal and textile products, although they have grown more slowly than those of other developed countries. The total value of textile imports rose from 24 million dollars in 1962 to 61 million in 1964, 69 million in 1966 and 200 million in 1969. Although a large volume of these imports came from Europe, those from countries in South-East Asia also increased considerably, from less than 2 million in 1962 to 8 million in 1966, 31 million in 1967 and 58 million in 1968, consisting mainly of cotton yarn and fabrics from China (Taiwan), Korea, Pakistan, etc., and silk fabrics from Korea and Mainland China. Some of these countries, like Korea and China (Taiwan), have to import their raw material, while the Latin American countries, which are traditional exporters of textile raw materials, have not yet succeeded in exporting manufactured articles to Japan. There were also increases, albeit on a smaller scale, in imports of linen fabrics and jute sacks and mats from several Asian countries, and dresses from Mainland China, Hong Kong and Korea, which amounted to 14 million dollars in 1968. The substantial increment in exports from Asian countries, notwithstanding the relatively high duties payable on these articles, is indicative of Latin America's possibilities of trading with Japan.

Another interesting development for Latin America is the growth of Japan's metal imports in recent years. Imports of iron (particularly in the form of pig iron) and steel rose from 100 million dollars at the beginning of the 1960s to over 200 million in the last few years. Although most of this supply was obtained from the socialist States, the Asian and African countries also stepped up their exports. Meanwhile, imports from Brazil and Venezuela fluctuated greatly, but their share increased.

Latin America's position is more favourable with regard to non-ferrous metals. Chile and Peru have boosted their exports of copper and copper alloys in recent years, accounting for over 80 per cent of Japan's metal imports from Latin America. On the whole, imports of non-ferrous metals rose rapidly and steadily, from 100 million dollars in 1962 to 917 million in 1969. The chief non-ferrous metals imported were copper and copper alloys (30 to 40 per cent), aluminium, tin and tin alloys.

The considerable increase in imports of miscellaneous consumer goods was largely due to the lifting of quantitative restrictions, their total value being 69 million dollars in 1968. In contrast with the growing share of Asian countries in imports of this group of products—which includes travel and sports goods, furniture and jewellery—few imports have so far come from Latin America.

Exports of metal manufactures from Latin America, in which it already has some experience, perhaps hold out the best possibilities, the greatest obstacles being the conditions of access to the Japanese market and the conditions of supply compared with those offered by competitors in other countries. It should also be borne in mind that, as ore imports are exempt from customs duties, the tariff applicable to metal manufactures discourages their export. Refined copper and copper alloys, for example, are subject to duties of 10 to 20 per cent, although some concessions were obtained in the Kennedy Round. Conditions are more favourable for crude iron, since the tariff should come down from 10 to 5 per cent. The lowering or elimination of these tariffs would constitute a strong stimulus to exports from Latin America. In this respect, the application of the general system of preferences is important, since, according to this system, manufactured products (chapters 25 to 99 of the Brussels Tariff Nomenclature) will be exempt from duties, or the duties will be reduced by 50 per cent, up to the value or volume of the basic and supplementary quotas.

A similar problem affects other manufactures which Latin America could export, such as textiles and leather goods. In both cases, imports of the raw material (cotton and raw hides) into Japan are duty free, but the articles manufactured from them are subject to a tariff ranging from 15 to 25 per cent, although some concessions were granted in the Kennedy Round. A general system of preferences would also offer incentives for Latin America to export these products.

As regards processed foods, Japan has prepared a list of preferences for developing countries which includes several products of interest to Latin America, such as cocoa preparations. It also includes some fish, shellfish and fruit preparations: sardines and other fish, crustaceans and shellfish, pears and peaches, several kinds of tropical fruit, etc. Of processed meat products, however, it includes only meat extracts and juices.

According to the general system of preferences which is supposed to enter into force in 1971, duty-free entry would be granted, in principle, for all products included in BTN chapters 25 to 99, up to the value (or volume in the case

of some products) of imports from developing countries in the base year (basic quota), plus 10 per cent of the value of imports from other countries in the last year for which import statistics are available (supplementary quota).

Without prejudice to this general rule, a 50 per cent reduction in the customs tariff for similarly established quotas is applicable to 57 products (some textile goods, some leather, nickel, aluminium, lead and tin articles, and a number of miscellaneous products).

The application of this system will be suspended in the case of a product imported from a particular country when preferential imports exceed 50 per cent of the established quota in the course of the year. The supplementary quota will be renewed annually, but it will never be less than the quota for the previous year.

Import preferences are not accorded for ten products, three of which are subject to fiscal tariffs (all three are petroleum products).

As regards the products included in BTN chapters 1 to 24, a list was drawn up with the corresponding margin of preference. Although no limit is fixed for these products, the application of an escape clause is envisaged.

APPENDIX A Japan: tariff and non-tariff barriers to imports of interest to Latin America and value of imports from Latin America and the world

BTN	Product	Customs tariff		Non-tariff barriers	Japanese imports		Japanese imports from Latin America		Major Latin American suppliers (thousands of dollars, 1987)	Major suppliers to rest of world (thousands of dollars, 1987)
		Pre Kennedy Round			Thousands of dollars c.i.f.		Thousands of dollars c.i.f.			
					1982	Percentage increase 1982-1987	1982	Percentage increase 1982-1987		
0201-A	Meat of bovine animals, fresh, chilled or frozen	25%	(25%)	OQ	2,519	539.0	13,577	21,836	1,063.1	Australia (8,797)
0303	Crustaceans and molluscs; lobsters and shrimps	5-15%	5; 7.5% (10; 15%)	ex OQ	6,905	1,359.3	93,857	2,054	Mexico (19,442)	Mainland China (10,789); Thailand (10,335)
0801-A	Bananas, fresh	10; 15%	(70%) (60%) ^a		12,534	598.1	74,965	4,834	Ecuador (11,694)	China (Taiwan) (62,547)
0801-B	Coconuts, Brazil nuts and cashew nuts, fresh and dried	20%	(5; 10%) ^c		4,369 ^b	317.2	13,858 ^b			United States (5,323); Mainland China (5,516)
0802-A	Oranges	20; 40%	(20; 40%)	OQ	81	658	812.3			United States (11,983)
0802-B	Other citrus fruit	20%	(20%)	OQ*	1,485	11,983	806.9			Ivory Coast (3,731)
0901-A	Coffee	20%	(20%)	OQ*	10,124	260.9	26,413	6,131	240.4	Brazil (7,259); Colombia (4,421)
0902	Unroasted	30% (0) ^a	0	IC (5%)						Ceylon (6,775)
0902	Roasted	35%	(35%)	ex OQ; IC (5%)	2,386	7,425	311.2			United States (159,043); Canada (113,664); Australia (34,937)
0904	Tea	5-35%	0-35%	ex OQ* IC (5%)	793	1,679	211.7			United States (110,255); South Africa (47,854); Thailand (47,498)
1001	Pepper or pimento	5-25%	0-10%	ST; PS	180,944	307,645	170.0			Mainland China (33,983); Thailand (18,535); United States (15,832)
1001	Wheat	20%	(20%)							Mainland China (3,643)
1005	Maize	0; 10% (0) ^a	(0; 10%)		133,748	270,983	202.6	3,022	1,082.9	Mainland China (3,649); Thailand (4,430)
1006	Rice	15% (0) ^a	(15%)	ST; PS	23,818	82,238	345.3			
1201-A	Groundnuts	20% (10%) ^a	0; 20%	OQ*	742	7,555	1,018.2			Mexico (24,610); Argentina (4,079); Brazil (4,015)
1201-G	Castor oil seeds	0	0		4,299	8,416	195.8			
1507	Vegetable oils				8,487	1,366	16.1			
1602	Soya bean oil	Kg. 28% 0-10% (28%) 0-10% (20-30%) ^c	(28%) 0-10% (20-30%)	OQ*				155		
1602	Other oils	Kg. 20-30%								
1603	Other prepared or preserved meat or meat offal	20; 25%	15; 25%	ex OQ	194	810	417.5			
1701	Meat extracts and meat juices	30%	25%	ex OQ; PS	118,374	122,138	103.2	27,518	78.4	Cuba (24,357)
1801	Sugar	Kg. 41-63% ^c (a.v.e. 52-76%) ^c	(41-63%)							
1801	Cocoa beans	5% (0) ^a	0		11,570	19,320	167.0	2,725	1,918	Ryukyu Islands (40,228); Australia (29,919); South Africa (16,846)
1803	Cocoa paste	20%	10%		5,727	17,636	307.9	866	758	Ghana (11,562); Nigeria (4,875)
1804	Cocoa butter	9%	5%							
1805	Cocoa powder, unsweetened	30%	(30%)	IC (5%)	451	818	181.3			Netherlands (7,326); Ghana (4,452)
1806	Chocolate, etc.	25; 35%	(25; 35%)	ex OQ**	1,321	4,762	360.5			
2006	Fruit prepared or preserved	45%	(45%)	OQ	8,514	19,921	234.0			
2102	Pineapple	20-35%	(45%)	OQ						Ryukyu Islands (12,672)
2102	Other fruit	20-35%	20-30%	ex OQ						
2102	Extracts and essences of coffee				13,625	3,371	24.7	401	145.6	United States (1,661); Federal Republic of Germany (917)
2301	Soluble coffee	25%	(25%)							
2301	Other	35%	30%							
2301	Flours and meals of meat, offal, fish, etc., unfit for human consumption	0	0	OQ**	7,038	18,006	255.8	3,859	6,434	Peru (5,141); Argentina (1,264)
2304	Oil-cake and other residues resulting from the extraction of vegetable oils			ex OQ*	1,938	7,286	376.0	1,683		South Africa (7,202)
2401	Soya bean oil	5%	(5%)							
2401	Other oils	0	0							India (3,416)
2401	Unmanufactured tobacco	35%	(35%)	ST	32,265	56,881	176.3	90,962	231,886	United States (39,734)
2601-A	Iron ore and concentrates	0	0		318,289	717,978	225.6			India (131,726); Australia (97,710); South Africa (61,843)
2601-B	Roasted iron pyrites	0	0		1,298	104	8.0			
2601-C	Copper ore	0	0		90,863 ^c	223,085	245.5	24,262 ^c	36,906	Canada (85,560); Philippines (63,224)
2601-E	Bauxite and concentrates	0	0		13,238	21,771	164.5			Peru (19,026); Chile (10,574)
2601-G	Zinc ore and concentrates	0	0							
2601-H	Tin ore	0	0		6,701	48,590	725.1	2,076	26,812	Indonesia (7,000); Australia (6,399)
2601-H		0	0		1,462	667	45.6			Canada (9,651); Australia (7,336)

APPENDIX
Japan: main imports from Latin
(Thousands of

<i>SITC</i>	<i>Product</i>	<i>Unit of volume</i>
	<i>Over-all total</i>	—
0.1	<i>Food</i>	—
01	Meat	MT
011-5	Meat of horses	MT
03	Fish	—
ex 031-3	Frozen lobsters	MT
051	Bananas	MT
061-1, 2	Sugar	MT
071	Coffee	MT
071-1	Coffee beans	MT
072	Cocoa	MT
072-1	Cocoa beans	MT
072-3	Cocoa butter	MT
ex 044	Maize, not used in animal feeding	MT
08 ex 044, ex 045	Feeding-stuff for animals	MT
ex 044	Maize	MT
081-2	Bran, pollard, etc.	MT
081-4	Meat and fish meal	MT
2.4	<i>Crude materials</i>	—
26	<i>Textile fibres</i>	—
262-1, 2, 8	Wool	MT
262-1	Raw wool	MT
263	Cotton	MT
263-1	Raw cotton	MT
264, 265-1	Flax	MT
28	<i>Ores</i>	—
281	Iron ore and concentrates	thousands of MT
283, 285-01, 02, 286	Ores of non-ferrous base metals	—
283-11	Copper	MT
283-12	Copper matte	MT
283-3	Bauxite	MT
283-4	Lead	MT
283-5	Zinc	MT
283-7	Manganese	MT
ex 283-93	Molybdenum	MT
	<i>Other crude materials</i>	—
211	Hides and skins, undressed	MT
221	Oilseeds	—
221-6	Cotton seed	MT
276-3	Salt	thousands of MT
3	<i>Mineral fuels</i>	—
331	Crude petroleum	thousands of KG
332	Petroleum products	—
332-4	Residual fuel oil	thousands of KG
332-5		
332-91-94 }	Lubricating oils, etc.	—
5-8	<i>Manufactured goods</i>	—
5	Chemicals	—
71	Machinery	—
735	Ships and boats	—
735-8	Ships for breaking up	—
6.8 (ex 861, 864, 891-1)	<i>Other manufactured goods</i>	—
667-2-4	Diamonds and other precious and semi-precious stones	—
67	Iron and steel	MT
671-2	Pig iron	MT
68	Non-ferrous metals	—
682	Copper and alloys	MT
684	Aluminium and aluminium alloys	MT
9	Unclassified commodities	—

SOURCE: Ministry of International Trade and Industry, Japan, *Tsusho Hakusho* (Foreign Report), 1969 (Tokyo 1969).

B

America,^a 1966–1968
dollars c.i.f.)

1966		1967		1968		Average value 1966–1968
Volume	Value	Volume	Value	Volume	Value	
—	780,980	—	855,392	—	960,847	865,740
—	135,676	—	159,271	—	191,403	162,117
34,002	14,528	26,543	12,287	38,843	18,076	14,964
26,194	12,713	22,051	11,721	32,710	17,040	13,825
—	11,759	—	23,011	—	17,358	17,376
4,945	11,550	9,286	22,696	6,535	16,752	16,999
71,423	10,697	79,785	11,694	280,931	44,924	22,438
361,012	20,003	553,955	27,518	643,800	33,950	27,157
18,057	15,111	22,168	15,795	27,834	18,096	16,334
17,849	14,600	21,948	15,212	27,536	17,377	15,730
5,138	3,438	3,757	2,703	6,162	4,511	3,551
4,018	2,284	3,077	1,945	5,317	3,388	2,539
1,090	1,150	600	745	800	1,155	1,017
231,140	15,398	343,355	22,859	151,036	8,504	15,587
454,916	39,006	510,056	37,027	435,291	34,770	36,934
61,207	4,298	143,577	9,864	183,135	10,793	8,318
107,036	7,674	54,037	3,613	18,201	1,199	4,162
62,254	11,862	31,760	5,511	97,004	12,781	10,051
—	563,860	—	567,107	—	593,679	574,882
—	238,510	—	191,635	—	210,917	213,687
15,181	18,457	14,044	15,844	13,262	11,608	15,303
14,735	17,696	13,376	14,897	12,288	10,485	14,359
373,068	217,536	305,136	173,245	309,069	197,087	195,956
360,020	215,361	285,372	169,691	291,370	194,463	193,172
3,212	1,181	3,405	1,373	3,626	1,355	1,303
—	279,453	—	326,782	—	337,477	314,571
14,440	198,250	17,353	231,867	18,269	234,015	221,377
—	78,341	—	91,968	—	101,970	90,760
75,499	25,623	143,993	36,903	118,863	34,868	32,465
15,200	14,418	13,785	9,349	13,983	10,011	11,259
46,919	2,015	56,987	2,517	61,914	2,770	2,434
13,715	3,258	25,093	5,405	41,198	10,601	6,421
293,942	25,962	323,906	26,809	434,446	32,661	28,477
63,941	2,125	33,526	1,138	91,154	2,785	2,016
585	2,093	837	1,990	1,247	2,766	2,283
—	45,897	—	48,689	—	45,285	46,624
8,235	6,020	7,829	4,548	6,006	3,686	4,751
—	18,654	—	11,672	—	6,303	12,210
147,347	13,288	77,647	7,087	55,084	5,165	8,513
1,184	12,476	2,027	17,940	2,611	23,472	17,963
—	46,311	—	52,557	—	55,581	51,483
566	8,655	497	8,099	965	9,447	8,734
—	37,599	—	44,296	—	45,952	42,616
1,554	30,598	1,889	38,450	1,951	40,949	36,666
—	6,694	—	4,332	—	2,967	4,664
—	33,539	—	75,434	—	112,361	73,778
—	8,158	—	11,906	—	11,349	10,471
—	6,830	—	7,865	—	10,985	8,560
—	6,584	—	7,700	—	10,620	8,301
—	2,016	—	2,880	—	1,220	2,039
—	18,551	—	55,664	—	90,026	54,747
—	3,009	—	4,971	—	5,988	4,656
39	5	249,752	14,353	85,068	4,688	6,349
—	0	240,980	13,032	78,105	3,899	5,644
—	14,250	—	34,978	—	77,670	42,299
8,096	10,968	29,122	31,683	50,217	64,027	35,559
—	0	—	0	9,341	4,411	1,470
—	1,414	—	1,023	—	7,823	3,420

^aCountries members of ALALC and CACM, Panama, Caribbean countries and dependent territories.

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre librairie ou adressez-vous à: Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.
