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Part One

THE LATIN AMERICAN ECONOMY IN 1970

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## CONTENT

Part One of the present Economic Survey deals with recent economic trends in Latin America as a whole and in the individual countries. The analysis relates exclusively to developments in 1970; a longer-term perspective and more sectoral detail concerning the principal macroeconomic variables have been omitted, because they are the subject of a separate study.\*/

The first section contains a description of the growth rate of the Latin American economy and the internal and external factors determining it; in particular, a brief account is given of the position with regard to Latin American integration. This is followed by a review of recent economic trends in each country of the region in 1970. After their main characteristics have been outlined, developments in the main production sectors external relations and the fiscal sector are analysed.

Part Two contains three special studies. The first deals with the expansion of international enterprises, particularly manufacturing enterprises, and their importance in Latin American development. In addition to presenting background information regarding the size of these enterprises and the relationship between the economy of their country of origin and those of the countries in which they are operating, the effects of their expansion on Latin America are reviewed. The second study relates to the development of the relations between Latin America and the European Economic Community and their future prospects; in particular, the scope of the EEC preferential agreements and common agricultural policy and their effects on Latin American exports are discussed. The third study deals with the trends in and prospects of Latin American exports to Japan, taking into consideration Japan's trade policy and Latin America's possibilities of exporting foodstuffs, raw materials and manufactures.

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\*/ ECLA, "Trends and structures of the Latin American economy" (E/CN.12/884).



## Part One

THE LATIN AMERICAN ECONOMY IN 1970 <sup>1/</sup>

## I. RECENT ECONOMIC TRENDS

1. Over-all appraisal

The favourable trends observable in 1969 continued in 1970. Latin America's gross domestic product rose by 6.9 per cent, compared with 6.5 per cent in 1969 and an average of 5 per cent in the period 1965-1968. It is interesting to note that in the last three years (1968, 1969 and 1970) the region's annual growth rate was over 6 per cent. (See table 1.)

Latin America's growth in 1970 is 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 interesting feature of the 1970 trends was that in no country was the growth of the domestic product slower than population growth. Mexico, Brazil, Colombia, Costa Rica, the Dominican Republic, Guatemala and Nicaragua are noteworthy because of the steady pace of their growth since 1965.

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<sup>1/</sup> The estimates for 1970 were prepared on the basis of the data available up to 28 February 1971. They are therefore provisional and subject to revision as new figures are made available by the Governments. The country studies do not include the Cuban economy for want of sufficient data comparable with those on other countries.

Table 1  
LATIN AMERICA: TOTAL SUPPLY AND DEMAND, 1965 TO 1970

	Millions of dollars at 1960 prices				Average annual growth rates		
	1965	1968	1969	1970 <u>a/</u>	1965-68	1969	1970 <u>a/</u>
<u>Total supply</u>	<u>119 201.4</u>	<u>139 218.2</u>	<u>148 434.7</u>	<u>158 849.0</u>	<u>5.3</u>	<u>6.6</u>	<u>7.0</u>
Gross domestic product	109 221.8	126 550.0	134 786.2	144 062.5	5.0	6.5	6.9
Imports <u>b/</u>	9 979.6	12 668.2	13 648.5	14 786.5	4.1	7.7	8.3
<u>Total demand</u>	<u>119 201.4</u>	<u>139 218.2</u>	<u>148 434.7</u>	<u>158 849.0</u>	<u>5.3</u>	<u>6.6</u>	<u>7.0</u>
Exports <u>b/</u>	11 976.6	13 444.2	14 397.2	14 886.9	3.9	7.1	3.4
Total investment	<u>20 116.8</u>	<u>24 026.3</u>	<u>25 801.2</u>	<u>27 981.7</u>	<u>6.1</u>	<u>7.4</u>	<u>8.5</u>
Total consumption	<u>87 108.0</u>	<u>101 747.7</u>	<u>108 236.3</u>	<u>115 980.4</u>	<u>5.3</u>	<u>6.4</u>	<u>7.2</u>
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	95 720.5	102 648.0	5.3	6.6	7.2

Source: ECLA, on the basis of official statistics.

a/ Preliminary figures.

b/ Goods and services, excluding factors.

/Table 2



Table 2

LATIN AMERICA: ANNUAL GROWTH RATE OF THE GROSS DOMESTIC PRODUCT  
AT FACTOR COST, 1965-1968 TO 1970

(Percentages)

Country	1965-68	1969	1970 <sup>a/</sup>
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
Cuba	-	-	-
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
<u>Latin America</u>	<u>5.0</u>	<u>6.5</u>	<u>6.9</u>

Source: ECLA, on the basis of official statistics.

<sup>a/</sup> Preliminary figures.

/Construction, basic

Construction, basic services and manufacturing were the sectors which were mainly responsible for the 1970 economic expansion, 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 is 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, total investment expanded at an accelerated pace (an 8.4 per cent increase over 1969), which means a further rise in Latin America's investment coefficient. This coefficient - the ratio of gross fixed investment to the total domestic product - reaches its nadir for the decade (14.8 per cent) in 1965. From then on, it rose year after year to 18.4 per cent in 1967 and 19.5 per cent in 1970.

The increase may seem insignificant, but this is not so because a fairly large and virtually constant part of it is accounted for by capital depreciation.<sup>2/</sup>

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<sup>2/</sup> See Economic Survey of Latin America, 1968 (United Nations publication, Sales No.: E.70.II.G.1), pages 116-117.

Table 3

## LATIN AMERICA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

(Average annual growth rate)

	1965-1968	1969	1970 <sup>a/</sup>
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
<u>Total</u>	<u>5.0</u>	<u>6.5</u>	<u>6.9</u>

Source: ECLA, on the basis of official statistics.

a/ Preliminary figures.

/Pursuing the

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 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 to 1970. In 1969 the declining price trends brought the number of countries with less than a 3 per cent increase in domestic prices to fourteen. This number dropped to eight in 1970, since the rate of inflation in the other three fluctuated between 3 and 5 per cent. (See table 4.) In 1969 prices rose less than the year before in eleven countries, but in five of these the rate quickened again in 1970. Argentina was one of these; 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. In the other six countries where the rate of inflation dropped in 1969, it declined further in 1970; this was significant in countries like Uruguay and Brazil because of the galloping inflation they had been suffering from. The price index fell in absolute terms in Haiti and Paraguay. The pace of the price rise quickened again in Chile and, though not so sharply, in four other countries as well.

Table 4

## LATIN AMERICA: VARIATIONS IN CONSUMER PRICE INDEXES

(Annual percentage growth rates)<sup>a/</sup>

Country	1960-65	1965-68	1969	1970 <sup>b/</sup>
Argentina	23.2	25.7	7.7	12.8
Bolivia	5.1	7.8	2.3	4.1
Brazil	60.0	33.1	23.4	19.3
Colombia	12.4	11.1	10.1	7.4
Costa Rica	2.4	1.8	2.7	4.6
Chile	27.0	22.6	30.6	32.5
Ecuador	3.8	4.1	6.3	4.3
El Salvador	0.2	0.9	-0.1	3.4
Guatemala	0.4	1.0	2.2	2.8
Guyana	...	2.7	1.3	3.2
Haiti	3.7	2.1	1.3	-0.8
Honduras	2.8	2.2	2.7	2.6
Jamaica	2.9	3.6	6.3	9.9
Mexico	1.8	3.2	2.1	5.4
Nicaragua	1.6	2.7	0.3	...
Panama	1.0	1.1	1.8	3.1
Paraguay	5.3	1.6	2.0	-1.5
Peru	9.4	12.9	5.5	5.0
Dominican Republic	3.1	0.5	0.9	0.7
Trinidad and Tobago	2.2	4.8	2.5	2.5
Uruguay	29.7	94.9	20.9	17.6
Venezuela	-	1.0	2.4	1.8

Sources: IMF, International Financial Statistics; and United Nations, Monthly Bulletin of Statistics.

a/ Variations between annual averages.

b/ Most of the figures were estimated on the basis of incomplete data compared with the figures for the same period in the previous year. For Argentina, Costa Rica, Guyana, Jamaica, Paraguay, Peru, Dominican Republic, Trinidad and Tobago and Venezuela the data covered 11 months; for Colombia, Ecuador, Guatemala, Honduras and Mexico, 10 months; and for Bolivia, Brazil, El Salvador, Haiti, Panama and Uruguay, 9 months. In the case of Chile, official data were obtained directly for whole year.

## 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 decreasing order of importance (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 production have grown at varying 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 chapter dealing with that country. The Brazilian integration programme is concerned basically with encouraging the incorporation in the national economy of the Northeast and Amazon regions, by means of incentives for setting up new industries in those areas; and in Mexico, foreign capital is limited to a 49 per cent share in six basic branches of industry (steel, cement, glass, fertilizers, pulp 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 increases of 5 per cent or more a year in Costa Rica, Peru, Brazil, El Salvador, the Dominican Republic, Bolivia and Venezuela. Generally speaking, it was a good year for agriculture since, in addition to the above, production fell off slightly in only one country, and the domestic per capita supply of agricultural products decline only in Nicaragua and Honduras.

/Table 5

Table 5

## LATIN AMERICA: TRENDS OF THE MAIN SECTORS OF ECONOMIC ACTIVITY, 1970

(Percentage variation compared with 1969)

Country	Agriculture	Mining	Manufacturing	Construction	Basic services <u>a/</u>	Other services <u>b/</u>
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	<u>c/</u>	8.4	8.8	9.6	6.2
Cuba	-	-	-	-	-	-
Chile	6.0	0.4	0.8	5.5	2.6	3.0
Ecuador	...	...	11.6	2.8	...	...
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	<u>c/</u>	5.2	4.0	...	...
Venezuela	5.0	4.1	7.5	14.4	6.9	5.2
<u>Latin America</u>	<u>4.9</u>	<u>4.6</u>	<u>8.0</u>	<u>10.6</u>	<u>9.3</u>	<u>6.4</u>

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.

/There are

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 on 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; leaving aside 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 continues 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 that country's output, but it recovered in the last 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



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. Lastly, a new offshore deposit was discovered in Nusopa, to the north of Tuxpan, Mexico.

Basic services output 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 at the end of the year. The increase can be broken down as follows: 1,700 MW **hydroelectric** plants and 1,600 MW from 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 changes in voltage, etc., although at present about half the population is 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

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 by industry and mining.

## II. THE EXTERNAL SECTOR

### 1. 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 half of 1970, compared with 1969.<sup>3/</sup> 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 less than 3 per cent, as opposed to 7.3 per cent in 1969. Contributory factors were the 2.7 drop in industrial

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<sup>3/</sup> United Nations, Monthly Bulletin of Statistics, February 1971.

production in the United States and the slow rate of growth (1.2 per cent) of industry in the United Kingdom. The industrial product of the EFTA countries grew by 2.7 per cent (5 per cent in 1969), owing to the decline in Sweden's output and the slow growth of output in the United Kingdom. The industrial product of the EEC countries grew by 6.3 per cent, less than the 12.2 per cent recorded in 1969 but still above the world average. Japan's industrial product grew by 18 per cent in 1970.<sup>4/</sup>

Nevertheless, the trade of the industrialized countries expanded by approximately 14 per cent in 1970, i.e., at roughly the same pace as in 1969. The growth rate of United States exports rose from 9.7 per cent in 1969 to 13.7 per cent in 1970, and that of Canada's exports from 9.4 to 20.6 per cent. High rates of export growth were also maintained by Japan (20.6 per cent), EEC (17.2 per cent) and EFTA (12.5 per cent). It should be noted that inflation in these countries and areas has continued to have affected unit export prices. 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 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 16 and 9 per cent respectively. Thus, the share of the developing regions in world trade continued its downward trend, and even dropped more rapidly than in 1969, when the developing countries' exports grew by 13 per cent. Merchandise exports from Latin America (excluding Cuba) grew by 9.5 per cent, which does not compare favourably with the 11 per cent increment recorded in 1969.

Between the end of 1969 and the end of 1970, the international reserves of the fourteen major developed countries (Austria, Belgium, Canada, Denmark, France, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the

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<sup>4/</sup> The figures for 1969 and 1970 are based on data for the period January-September.

United States and United Kingdom and the Federal Republic of Germany) rose from 54,500 to 65,300 million dollars,<sup>5/</sup> having fallen from 55,600 to 54,500 million between 1968 and 1969. However, 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.<sup>6/</sup>

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 defense spending.<sup>7/</sup> 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 16 per cent, respectively), with the result that the surplus trade balance rose from 600 million dollars for the first three quarters of 1969 to 2,880 million for the same period in 1970. This is what was mainly responsible for the decrease in its balance-of-payments deficit from 7,400 million dollars in the first three quarters of 1969 to 3,300 million in the same period in 1970.

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<sup>5/</sup> Includes 2.4 million units of special drawing rights.

<sup>6/</sup> See International Monetary Fund, International Financial Statistics, March 1971, p. 18.

<sup>7/</sup> See, for example, President Nixon's comments in his Message on the State of the Nation, delivered on 22 January 1971.

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 (9 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.

2. Export prices and the terms of trade:  
trends 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 which covers twenty-one export products (based on 1963 = 100) reached a level of 111.7, 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 difference of 10 per cent.

Table 6  
LATIN AMERICA: PRICE INDEX FOR MAJOR EXPORTS <sup>a/</sup>  
(1963 = 100)

	Weight ing	1968	1969	1970 <sup>b/</sup>	Percentage variation	
					1969	1970
<b>I. Food, beverages and tobacco</b>	<b>41.61</b>	<b>90.4</b>	<b>99.5</b>	<b>117.4</b>	<b>10.1</b>	<b>18.0</b>
<b>A. Tropical zone</b>	<b>35.36</b>	<b>89.8</b>	<b>99.5</b>	<b>118.8</b>	<b>10.8</b>	<b>19.4</b>
Sugar (Open market)	6.61	24.9	41.1	44.4	65.1	7.1
Sugar (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 N°. 4)	9.80	109.7	119.6	158.7	9.0	32.7
Coffee (Manizales)	9.83	107.6	113.6	140.9	5.6	24.0
<b>B. Zona templada</b>	<b>6.25</b>	<b>96.1 <sup>c/</sup></b>	<b>99.2 <sup>c/</sup></b>	<b>103.4 <sup>c/</sup></b>	<b>3.2</b>	<b>4.2</b>
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	0.0	-3.2
<b>II. Agricultural raw materials</b>	<b>12.14</b>	<b>97.2</b>	<b>97.2</b>	<b>100.2</b>	<b>0.0</b>	<b>3.1</b>
Cotton (Matamoros)	3.89	106.1	96.9	101.4	-8.7	4.6
Cotton (Sao 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
Wool (Buenos Aires)	2.06	54.7	59.0	59.3	7.9	0.5
<b>III. Metals</b>	<b>12.51</b>	<b>147.9</b>	<b>174.0</b>	<b>172.1</b>	<b>17.6</b>	<b>-1.1</b>
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
<b>IV. Petroleum and petroleum products</b>	<b>33.74</b>	<b>91.8</b>	<b>89.4</b>	<b>87.0</b>	<b>-2.6</b>	<b>-2.7</b>
<b>Total, excluding petroleum and   petroleum products</b>	<b>66.26</b>	<b>103.2</b>	<b>113.9</b>	<b>125.0</b>	<b>10.4</b>	<b>9.7</b>
<b>Total, 20 products <sup>a/</sup></b>	<b>100.00</b>	<b>99.2</b>	<b>106.1</b>	<b>111.7</b>	<b>7.2</b>	<b>5.1</b>

Source: ECLA, on the basis of United Nations, Monthly Bulletin of Statistics.

<sup>a/</sup> Less important products carrying little weight in the index (tobacco, linseed oil, Pima cotton N°. 1 and quebracho extract) are excluded.

<sup>b/</sup> Incomplete data and partial estimates.

<sup>c/</sup> Excluding meat.

/Tropical products

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 1969/70 and 1970/71, 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 this year's 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 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 1969/70. Cocoa prices dropped sharply as a result of surplus production in 1969/70, and a further surplus is expected in 1970/71.

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 is 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 defense reserves (which account for 13 per cent of the 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 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 2).



Table 7  
LATIN AMERICA: TERMS OF TRADE FOR SEVENTEEN COUNTRIES, BY MAJOR EXPORT COMMODITY  
(Index: 1963 = 100)

Countries exporting:	Metals (tin and copper)		Coffee		Bananas		Sugar		Cotton		Livestock products a/		Petro- leum		Miscel- laneous products		Total Latin America b/
	Bolivia	Chile	Peru	Brazil	Colombia	Costa Rica	El Salvador	Guatemala	Honduras	Panama	Ecuador	Dominican Rep.	Nicaragua	Argentina	Uruguay	Venezuela	
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

/Last years

Source: ECLA.

a/ Beef, leather and wool.

b/ Excluding Cuba.

c/ Preliminary estimate.

Last years Survey <sup>8/</sup> 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 the 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 downslide, followed by Panama, where it 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.

### 3. 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 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.

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<sup>8/</sup> United Nations, Economic Survey of Latin America, 1969 (United Nations publication, Sales No: E.71.II.G.1. - in the press).

Table 8

## LATIN AMERICA: BALANCE-OF-PAYMENTS POSITION BEFORE COMPENSATION, 1958-1970

(Millions of dollars)

Country	Sum of the period 1958- 1962	Sum of 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	29.3	0.2	0.4	-4.5	0.4
Brazil	-650.0	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
<b>Total</b>	<b>-2 783.9</b>	<b>3 555.8</b>	<b>457.3</b>	<b>834.6</b>	<b>826.8</b>	<b>1 140.5</b>
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.

/Under this

Under this arrangement, established 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 twelve countries (980 million dollars) and in 1970 for 60 per cent of that registered by thirteen 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 improvements 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.

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In the period from 1963 to 1970 the combined 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 1956 and 1962 (2,784 million) caused by the decline in the prices of Latin America's raw materials exports. 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 1956 and 1962; the IMF position improved considerably, especially the gold tranche position, and in 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 thirteen 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 (10 per cent), Mexico (7.6 per cent) and Colombia (3.6 per cent). It is interesting to note that, out of the thirteen 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 eleven 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 which have adopted this method of increasing their international reserves.

#### 4. The current account on the balance of payments

##### (a) 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 an 11 per cent growth rate despite the decline in the exports of Ecuador, Venezuela, El Salvador, Honduras and Nicaragua. In 1970 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 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 shortages 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.

Table 9

## LATIN AMERICA: MERCHANDISE TRADE, 1958-1970

(Millions of dollars)

Country	Exports				Imports				Balance on merchandise account						
	1958-62	1963-65	1966-70	1969	1970 a/	1958-62	1963-65	1966-70	1969	1970 a/	1958-62	1963-65	1966-70	1969	1970 a/
Argentina	1 052.4	1 422.7	1 565.4	1 612.0	1 790.0	1 094.3	944.3	1 160.4	1 371.0	1 483.0	-41.9	+478.4	+405.0	+241.0	+307.0
Bolivia	57.1	91.7	162.6	177.8	196.0	74.4	110.5	162.0	174.0	184.0	-17.3	-18.8	+0.6	+3.8	+12.0
Brazil	1 282.2	1 477.3	2 057.4	2 311.0	2 700.0	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
Colombia	489.2	559.0	627.8	667.0	796.0	470.1	503.0	637.4	648.0	821.0	+19.1	+56.0	-9.6	+19.0	-25.0
Chile	442.7	591.0	984.8	1 128.0	1 144.0	480.1	553.3	785.0	850.0	928.0	-37.4	+37.7	+199.8	+278.0	+216.0
Ecuador	141.4	164.0	203.8	188.1	233.0	105.7	138.0	197.8	217.9	233.3	+35.7	+26.0	+6.0	-29.8	-0.3
Mexico	801.8	1 045.3	1 296.4	1 435.0	1 445.0	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
Paraguay	38.2	48.8	55.0	55.2	66.0	43.2	47.7	71.2	81.2	72.0	-5.0	+1.1	-16.2	-26.0	-6.0
Peru	422.9	641.6	845.8	881.0	1 058.0	361.5	552.0	720.8	664.0	717.0	+61.4	+89.6	+125.0	+217.0	+341.0
Uruguay	144.2	178.7	190.5	201.0	228.0	170.8	147.8	161.2	176.0	209.0	-26.6	+30.9	+29.3	+25.0	+19.0
Venezuela	2 443.0	2 475.3	2 509.0	2 523.0	2 554.0	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
Haiti	35.5	39.7	35.6	36.6	38.2	45.2	39.6	41.5	42.0	43.0	-9.7	+0.1	-5.9	-5.4	-4.8
Panama	44.7	82.3	118.7	131.4	132.0	113.5	174.4	260.4	282.8	325.2	-68.8	-92.1	-141.7	-151.4	-193.2
Dominican Republic	144.8	159.7	171.4	184.0	215.0	108.1	162.6	201.7	210.0	267.0	+36.7	-2.9	-30.3	-26.0	-52.0
Costa Rica	86.4	107.0	175.1	189.6	237.1	95.9	133.1	206.5	221.5	281.3	-9.5	-24.1	-31.4	-31.9	-44.2
El Salvador	118.0	171.9	207.1	202.5	222.7	104.2	168.0	199.9	190.5	205.0	+13.8	+3.9	+7.2	+12.0	+17.7
Guatemala	112.1	173.3	242.4	261.3	284.8	126.1	179.0	237.4	245.3	275.8	-14.0	-5.7	+5.0	+16.0	+9.0
Honduras	72.5	102.5	167.6	172.1	185.1	67.3	98.7	164.6	170.2	193.2	+5.2	+3.8	+3.0	+1.9	-8.1
Nicaragua	66.6	121.4	154.6	154.6	178.3	62.4	111.6	165.0	158.4	177.5	+4.2	+9.8	-10.4	-3.8	+0.8
Latin America, excluding Cuba	7 995.7	9 653.2	11 771.0	12 511.2	13 703.2	7 131.2	7 737.2	10 559.0	11 320.8	12 740.3	+864.4	+1 915.3	+1 212.0	+1 190.4	+962.9
Latin America, excluding Cuba and Venezuela	5 552.7	7 177.2	9 262.0	9 988.2	11 149.2	5 860.0	6 551.6	9 038.4	9 698.8	11 001.3	-307.3	+626.3	+223.6	+289.4	+147.2

Source: IMF, Balance of Payments Yearbook, vols. 15, 20, 21 and 22.

a/ ECLA estimates.

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 price 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 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 goods 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 counter-balanced their deficits with net inflow from travel and the foreign earnings of residents. Furthermore, eleven 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 ten, 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

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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.

(b) 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 import. And the outflow is proportionally greater if the merchandise trade surplus represents a declining proportion of the net cost of 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. This proportion rose to 80 per cent during 1963-1965, which was a period of recovery, but from 1966 onwards it steadily shrank to barely 25 per cent 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 is a net inflow. Seven countries ran surpluses (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 on tourism fell by 15 per cent as a result of an upswing in expenditure under this head in Brazil, Chile and Mexico

/Table 10

Table 10

LATIN AMERICA (EXCLUDING CUBA): NET TRANSACTIONS ON MERCHANDISE ACCOUNT, COMPARED WITH SERVICES TRANSACTIONS OR NET EXPENDITURE ON INVISIBLES, AND THEIR EFFECTS ON THE BALANCE-OF-PAYMENTS POSITION ON CURRENT ACCOUNT, 1958-1969

(Millions of dollars)

Period or year	Exports fob a/	Imports fob a/	Balance on merchandise account	Balance or net expenditure on invisibles account				Net private transfer payments	Balance-of- payments position on current account
				Freight, insurance and other transport	Travel	Other services	Net payments of profits and interest on foreign capital	Total net expend- iture on invis- ibles	
1958-62	8 024.4	7 148.0	876.4	-669.8	+147.4	-182.7	-1 237.4	-1 942.5	-1 149.0
1963-65	9 680.1	7 762.9	1 917.2	-693.9	+187.9	-270.4	-1 623.7	-2 400.1	-499.8
1966-70	11 805.2	10 586.2	1 219.0	-861.7	+293.1	-333.7	-2 366.4	-3 268.7	-2 026.9
1969	12 522.6	11 344.4	1 178.2	-955.1	+335.3	-353.6	-2 555.1	-3 528.5	-2 324.5
1970 b/	13 712.7	12 760.4	952.3	-1 063.1	+284.3	-386.5	-2 623.5	-3 788.8	-2 794.3

Source: IMF, Balance of Payments Yearbook, vols. 15, 20, 21 and 22.

a/ Including non-monetary gold.

b/ ECLA estimates.

/The ratio

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 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.

(c) 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 dollars higher than in 1969 and continuing the downward trend that began in 1966. In 1968 and 1969, Argentina 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 current account deficit of 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 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 compression 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, thirteen countries (Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and the Dominican Republic) recorded steady increases in their current account deficits, making it necessary for them to increase their external financing.

Table 11  
LATIN AMERICA: BALANCE-OF-PAYMENTS POSITION ON CURRENT ACCOUNT, 1958-1969  
(Millions of dollars)

Country	Averages			1969	1970 <sup>a/</sup>
	1958-62	1963-65	1966-70		
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
<u>Latin America, excluding Cuba</u>	<u>-1 149.1</u>	<u>-499.7</u>	<u>-2 026.9</u>	<u>-2 324.5</u>	<u>-2 794.3</u>
<u>Latin America, excluding Cuba and Venezuela</u>	<u>-1 343.8</u>	<u>-734.4</u>	<u>-1 892.7</u>	<u>-2 071.5</u>	<u>-2 432.3</u>

Source: IMF, Balance of Payments Yearbook, vols. 15, 20, 21 and 22.

<sup>a/</sup> ECLA estimates.

/(d) The

(d) 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 to approximately 3,935 million dollars, which falls to 3,620 million if allotments of IMF special drawing rights are deducted. 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 to some extent 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 1969, in Bolivia, Costa Rica, Ecuador, Paraguay, Peru and Uruguay, with the last two recording a net disinvestment. (See table 12.)

/Table 12

Table 12

/III. RECENTa/ ECLA estimates.

### III. RECENT DEVELOPMENTS IN LATIN AMERICAN INTEGRATION

#### 1. 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 increased 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 continues 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 the region.

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.

Table 13  
LATIN AMERICA: TOTAL VOLUME OF INTRA-REGIONAL TRADE, 1969  
(Cif value of imports in millions of dollars)

Importing country	Origin	Argentina	Bolivia	Brazil	Colombia	Chile	Costa Rica	Mexico	Paraguay	Peru	Uruguay	Venezuela
		tira	via		bia		dor		gray		gray	zuela
Argentina		x	11.7	174.5	9.4	71.6	5.2	21.5	15.9	14.1	3.7	38.4
Bolivia	a/	14.7	x	3.1	0.4	1.8	0.1	0.5	-	2.7	0.1	0.1
Brazil		155.9	0.7	x	2.0	29.5	0.7	21.0	0.4	8.4	12.0	60.8
Colombia		9.7	-	3.0	x	4.8	8.6	26.9	0.2	7.3	5.1	9.7
Chile		92.4	1.4	31.5	7.0	x	12.2	21.2	1.8	9.6	3.9	36.0
Ecuador		2.2	-	0.4	15.4	3.2	x	1.3	0.6	2.0	0.1	11.7
Mexico		12.4	1.3	11.5	0.6	8.3	0.8	x	0.4	10.9	1.6	4.1
Paraguay		13.6	-	1.8	0.1	0.2	0.1	0.3	x	x	1.0	-
Peru		62.0	0.2	4.0	13.1	5.5	2.8	6.5	0.3	-	2.3	9.3
Uruguay		20.8	-	26.4	0.2	2.9	-	1.8	3.2	1.0	x	1.9
Venezuela		12.6	-	5.7	7.1	5.1	0.1	24.1	0.1	6.4	0.3	x
Costa Rica	a/	0.2	-	-	2.1	-	-	4.7	-	-	-	6.2
El Salvador		0.2	-	0.1	0.8	-	0.1	3.3	-	0.4	-	7.1
Guatemala		0.5	-	0.2	1.1	0.1	0.1	9.2	-	0.3	-	1.1
Honduras		0.3	-	0.1	0.6	-	-	2.4	-	0.1	-	7.4
Nicaragua		0.2	-	-	0.8	-	0.1	2.3	-	0.1	-	6.7
Cuba		...	...	...	...	...	...	...	...	...	...	...
Haiti		...	...	...	...	...	...	...	...	...	...	...
Panamá	a/	1.0	-	-	2.9	0.6	-	2.0	-	-	-	60.3
Dominican Republic	a/	-	-	-	0.3	-	-	0.7	-	-	-	5.0
Total Latin America		398.7	15.3	262.3	63.2	133.6	30.2	149.7	22.2	63.3	30.1	265.8

/Table 13 (concl.)



Table 13 : TOTAL VOLUME ..... (concluded)

Importing country	Origin	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Cuba	Haiti	Panama	Dominican Rep.	Total Latin America
Argentina		-	-	-	-	-	-	-	2.4	0.3	368.7
Bolivia a/		-	-	-	-	0.8	-	-	1.2	-	25.5
Brazil		-	-	-	-	-	-	-	6.4	-	297.8
Colombia		0.1	-	-	0.1	-	-	-	3.7	0.1	79.3
Chile		-	-	-	-	-	-	-	3.1	-	220.1
Ecuador		...	...	...	...	...	...	...	...	...	36.9
Mexico		1.3	0.1	1.0	0.1	0.1	-	-	7.9	-	62.4
Paraguay		-	-	-	-	-	-	-	0.2	-	17.3
Peru		-	-	-	-	-	-	-	0.6	-	106.6
Uruguay		-	-	-	-	-	0.1	-	3.0	0.7	62.0
Venezuela		0.2	0.1	0.1	0.1	0.5	-	-	2.0	0.4	64.9
Costa Rica a/		x	14.2	17.6	5.8	13.6	-	-	3.3	-	67.7
El Salvador		8.5	x	38.2	7.3	6.2	...	...	3.3	-	75.5
Guatemala		7.5	33.3	x	6.0	4.6	-	-	0.5	-	64.5
Honduras		7.4	12.4	17.8	x	6.4	-	-	0.6	-	55.5
Nicaragua		12.7	11.9	12.9	4.7	x	-	-	4.8	-	57.2
Cuba		...	...	...	...	...	x	...	...	...	...
Haiti		...	...	...	...	...	...	x	...	...	...
Panama a/		3.9	-	0.8	0.9	0.4	-	-	x	-	72.8
Dominican Republic a/		-	0.1	0.2	3.5	0.5	-	-	1.2	x	11.5
Total Latin America		41.6	72.1	88.6	28.5	33.1	0.1	-	44.2	1.5	1 746.2

Source: Official foreign trade statistics.

a/ Estimates based on incomplete data.

Table 14

## LATIN AMERICA: TOTAL VOLUME OF INTRA-REGIONAL TRADE, 1970s/

(Cif value of imports in millions of dollars)

Origin Importing country	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Cuba	Haiti	Panama	Dominican Republic	Total ALALC
Argentina	x	9.2	185.1	10.1	78.6	4.2	15.8	20.5	17.7	6.9	37.8	-	-	-	-	-	-	-	-	-	338.1
Bolivia	10.7	x	3.1	0.4	1.8	0.1	11.1	-	3.5	0.3	0.1	-	-	-	-	-	-	-	-	-	33.1
Brazil	158.1	0.9	x	2.0	30.0	0.7	18.6	2.0	9.2	12.7	47.9	-	-	-	-	-	-	-	-	-	288.5
Colombia	15.8	-	3.0	x	4.8	8.6	14.2	0.4	6.1	2.6	15.9	0.1	-	-	-	-	-	-	-	-	75.4
Chile	99.5	1.4	37.8	7.0	x	15.0	27.7	2.1	7.6	3.4	15.0	-	-	-	-	-	-	-	-	-	219.6
Ecuador	1.9	-	0.4	15.4	3.2	x	1.7	1.2	3.8	0.1	4.0	-	-	-	-	-	-	-	-	-	31.7
Mexico	14.7	0.8	16.6	0.8	8.3	0.3	x	0.8	11.0	2.4	3.8	0.5	0.1	1.6	0.2	1.2	-	-	-	-	76.5
Paraguay	12.9	-	2.2	0.1	0.3	0.1	0.2	x	0.1	1.6	0.1	-	-	-	-	-	-	-	-	-	17.7
Peru	41.4	0.2	5.3	28.6	11.3	2.2	13.2	0.2	x	2.7	3.7	-	-	-	-	-	-	-	-	-	103.2
Uruguay	34.9	-	41.9	0.1	3.5	-	2.3	3.7	1.0	x	1.1	-	-	-	-	-	-	-	-	-	90.0
Venezuela	8.5	-	10.4	5.1	6.3	-	16.2	0.2	5.8	0.2	x	0.1	0.1	-	-	-	-	-	-	-	56.7
Costa Rica	0.3	-	-	2.1	-	-	6.8	-	0.2	-	10.5	x	17.1	20.1	8.1	17.7	-	-	-	-	36.2
El Salvador	0.2	-	0.1	0.8	-	0.1	3.3	-	0.4	-	2.0	13.0	x	35.6	-	11.4	-	-	-	-	70.1
Guatemala	0.9	-	0.2	1.1	0.1	0.1	9.8	-	0.2	-	17.0	13.9	43.5	x	8.5	9.0	-	-	-	-	104.8
Honduras	0.1	-	0.1	0.6	-	-	3.0	-	0.1	-	11.0	11.8	-	29.9	x	16.0	-	-	-	-	73.2
Nicaragua	0.3	-	-	0.8	-	0.1	2.7	-	0.1	-	10.0	15.2	12.2	13.8	7.4	x	-	-	-	-	67.4
Cuba	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	x	...	...	...	...
Haiti	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	-	x	...	...	...
Panama	0.9	-	-	3.5	0.6	-	1.8	-	0.8	-	57.3	3.9	-	0.8	0.9	0.4	-	-	-	-	70.9
Dominican Republic	0.1	-	0.1	0.3	-	-	1.2	-	-	-	8.5	-	0.1	0.2	3.5	0.5	-	-	-	-	15.7
Total Latin America	401.2	12.5	306.3	78.8	148.8	31.5	149.6	31.1	67.6	32.2	245.7	58.5	73.1	102.0	28.7	57.0	0.1	47.3	2.1	1	874.8

Source: Official foreign trade statistics.

a/ Estimates based on incomplete data.

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) - 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 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.

## 2. The Latin American Free Trade Association (ALALC)

The main developments in 1970 relate to the establishment of an order of priorities for the studies provided for 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.

Table 15  
LATIN AMERICA: NET BALANCE ON INTRA-REGIONAL TRADE  
(Millions of dollars)

Country	1960	1967	1968	1969 <u>a/</u>	1970 <u>b/</u>
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	+0.1	+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	291.0	339.9	377.4	347.9	312.8

Source: Based on 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 AND 1970

	1968		1969		1970	
	Millions of dollars cif	Percentage of total intra- regional trade	Millions of dollars cif	Percentage of total intra- regional trade	Millions of dollars cif	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 <u>a/</u>	1 497.2	100.0	1 746.2	100.0	1 874.8	100.0

Source: Based on 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
<u>Total exports</u>							
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
<u>Intra-regional exports</u>							
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).

/During the

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, with completion dates set at 1980 or before, 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 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 result of the annual negotiations discussed at the tenth session were disappointing, not only because so few new concessions were granted - thirty-one 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: Argentina, 3; Brazil, 9; Chile, 1; Mexico, 12 and Venezuela, 6. (See table 18.)

There is a noticeable increase in the tendency of the relatively less developed countries and the members of the Cartagena Agreement not to negotiate within ALALC.

Table 18

ALALC: EVOLUTION OF THE 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
<u>Total</u>	<u>10 869</u>	<u>11 018</u>	<u>11 049</u>
Increase compared with the previous year	487	149	31

Source: ECLA.

/During 1970,



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 agreement with special features - based on concessions covering specified volumes and periods - on the petroleum products industries (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.

### 3. The Central American Common Market

The main institutional developments during 1970 regarding 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 a set of measures to promote national production and regulate foreign trade;<sup>9/</sup> and a joint declaration by the Ministers of Foreign Affairs of Guatemala, Nicaragua and Costa Rica on Central American economic integration.<sup>10/</sup>

#### (a) 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 advanced at the meeting of the Ministers of Foreign Affairs of the five Central American countries on 4 December

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<sup>9/</sup> Decree No. 97 of the National Congress of Honduras (30 December 1970).

<sup>10/</sup> Declaration of the Alcázar de la Antigua Guatemala (12 January 1971).

1969, with a view to resolving the differences arising out 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 agencies of economic integration 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 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 have arisen during the first ten years of its existence; and (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 a week later from 8 to 11 December, it proved impossible to reach a multilateral agreement. First, one of the participants stated that his Government was not in a position to subscribe to the section of the agreement dealing with the Fund because it involved industrial and agricultural policy. Secondly, another participant pointed out 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.

(b) Measures adopted by the Government of Honduras

On 31 December 1970, the Government of Honduras introduced a series of measures to promote national production and regulate its foreign trade,<sup>11/</sup> 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.<sup>11/</sup>

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.

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<sup>11/</sup> Decree No. 97 of the National Congress of Honduras.

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 imposed on 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, they 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 increasing 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.

(c) 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 prepare drafts and carry out studies on reorganizing the Common Market's 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.

(d) Some of the economic repercussions 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 and Nicaragua's trade continued to increase, as they actually profited from the supply difficulties of the countries engaged in the conflict.

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.

4. The integration process of the Andean Subregional Group

The most important integration activities carried out since the signing of the Cartagena Agreement <sup>12/</sup> and the creation of the Commission and the Board 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.

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<sup>12/</sup> 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 Bogota on 26 May 1960.

A. Principal decisions adopted at the meetings of  
the Commission

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.

(a) Minimum common external tariff

The first extraordinary session was convened in order to adopt the minimum common external tariff regarding 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 in 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

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:

- (i) 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 accepts 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.
- (ii) 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.

(b) 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 applied in c.i.f. ad valorem terms and would be the only tariffs applicable to subregional products. The Commission later adopted base levels expressed in terms of the ALALC Tariff Nomenclature (decision No. 23 (III-E)).

/In accordance

In accordance with article 52, 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 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 only be obliged to start reducing their tariffs in the seventh year after the signing of the Agreement, completing the process in 1985.

(c) 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 regime for multilateral enterprises is to be settled by the Commission before the end of 1972.

/The various



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 shall not 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

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, and consequently, they 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 that 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

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; and (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 ten 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:

(a) The rights conferred on foreign and mixed national and foreign enterprises shall be the maximum rights that the member States are able to confer;

(b) Remittances abroad of net profits derived from direct foreign investment are permitted up to a yearly maximum of 14 per cent of such investment;

(c) 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;

(d) 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;

/(e) Before

(e) Before 31 December 1970, the Commission shall approve an agreement designed to prevent double taxation between the member States;

(f) 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 also be agreed upon for the application of norms relating to the ownership of industrial property;

(g) 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.

(d) 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 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.

(e) 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, motor-vehicle and iron and steel sectors, a large number of chemicals, some petrochemicals, many of the manufactures produced by light industry, and some 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

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 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.

(f) 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.

(g) Agricultural Sector

In decision No. 16 (II-E), the Commission approved the schedule of agricultural products to be covered by the saving 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 experts <sup>13/</sup> on the short-term prospects of intra-subregional trade, products can be divided into four

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<sup>13/</sup> 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).

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; and (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.

(h) 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, 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 Commission

the 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 Andean Subregional Integration 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.

(i) 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.

B. 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

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, ship-building and maritime transport in August, September and October 1970 respectively. 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 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.

### C. 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



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 assembly 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:

(a) 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.

(b) Natural persons acquiring B series shares corresponding to the 40 per cent purchasable by private individuals must be nationals of the respective country of the subregion; 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.

(c) 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.

##### 5. Integration in the Caribbean Free Trade Association (CARIFTA)

CARIFTA 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. During its brief existence so far, it has made significant progress towards this objective, as regards institutional matters, trade and the identification of 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 itself is 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 exempted from customs duties, except for a number of products included in a list of exceptions. The larger members of CARIFTA, who 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 by 50 per cent on 1 May 1973.

The other provisions governing trade among the members of CARIFTA have been implemented in line with the respective programmes and relate to customs measures proper, such as export duties, and to other measures, such as quantitative restrictions.

At all times, account has been taken of the fact that the relatively less developed territories forming the West Indies Associated States need additional advantages. These States have formed the East Caribbean Common Market (ECCM), which has enabled them not only to harmonize 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

(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 their imports and their exports.

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 contribution, 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, there are not enough ships, and those there are are inadequate. This situation is aggravated by the growing freight demands and the high international cost of hiring cargo boats. Moreover, most of the harbour installations are defective.

The Governments of the CARIFTA countries have studied this problem, paying particular attention to the feasibility of a special treaty comprising a restructuring of the institutions that control commercial shipping within and outside CARIFTA.

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-Tobago	16.4	16.0	23.2
<u>Subtotal</u>	<u>62.9</u>	<u>69.8</u>	<u>88.4</u>
ECCM	26.8	(30.0) a/	(37.0) a/
<u>Total</u>	<u>89.7</u>	<u>(99.8) a/</u>	<u>(125.4) a/</u>

Source: Official foreign trade statistics.

a/ Calculated on the basis of partial data.



