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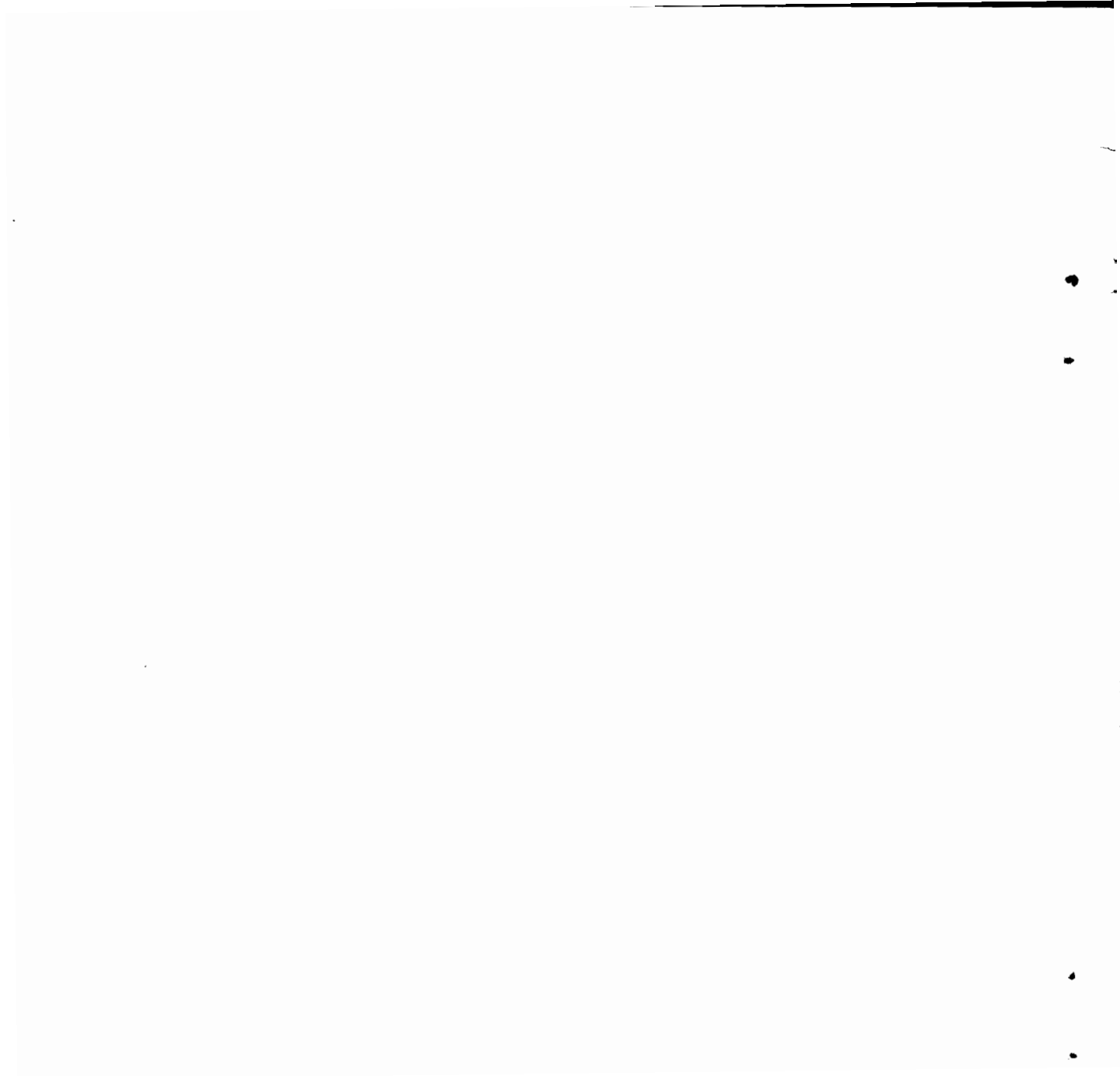


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Chapter I

THE EXPANSION OF INTERNATIONAL ENTERPRISES AND THEIR INFLUENCE ON DEVELOPMENT IN LATIN AMERICA *

The purpose of this study is to analyse some aspects of the behaviour of international enterprises, with emphasis on those owned by United States residents, which are engaged in industry.^{1/}

Experience of industrial development in Latin America shows more and more clearly that the expansion of industrial activities must be oriented to fit into the framework of over-all development strategies. When these strategies are being formulated it must be possible, within certain limits, to forecast the consequences of the different policy options. The importance and accuracy of those forecasts will depend on the validity of the countries' conception of the development process that they are striving to project. The accuracy of this interpretation, in its turn, is partly dependent upon how clearly the operation of the principal agents in the process is understood. And in many Latin American States international enterprises may be said to be one of those agents nowadays.

In particular, these enterprises tend to play an important role in the most dynamic sectors of industry, which are those with the highest economic growth rates in the various countries.

* The present study is a summarized version of a report prepared by ECIA for the Ministry of Planning and General Co-ordination of the Government of Brazil, by virtue of the agreement in force between the two institutions.

^{1/} International enterprises are defined in the present study as firms which are engaged in production activities in various countries; they are generally owned by residents of a single country. Multinational enterprises are owned by residents of different countries; they may come into being at a later stage in the natural process of expansion of international enterprises or, as has happened in Latin America, as the result of specific decisions adopted by the private or public sector in different countries designed specifically to establish this new type of corporation.

As a general rule, the most dynamic sectors are those which expand most rapidly in the world market for manufactures. A point in common in the various countries' development programmes is the diversification of exports through the promotion of exports of manufactures. Therefore, if the above situation continues, any success achieved in this direction will depend partly on the behaviour of international enterprises; and their behaviour will in turn be determined by whatever rules of the game governments may adopt with regard to them.

With the establishment of regional integration groups, it is becoming more and more necessary to co-ordinate the positions adopted by the member countries with respect to international enterprises. It is a well-known fact that these firms are in a better position than the Latin American enterprises to take advantage of the expanded markets resulting from integration. They have the necessary flexibility to select the best location, the financial resources to establish plants of a size and specialization required by that market, and the marketing systems required to distribute their products. This means that the basic trends and prospects of regional integration are conditioned, to a very large extent, by whatever policies the countries adopt towards the activities of international enterprises in Latin America.

A growing proportion of goods transactions between countries are carried out by international enterprises, which act simultaneously as exporters and importers. More and more operations hitherto conducted in the open market are now concluded outside it; thus to a certain extent enterprises avoid competing with one another. In other words, when a subsidiary company is established in a certain country it is tacitly decided to import equipment and components from other subsidiaries of the same enterprise. It is clear from the above observations that it is increasingly important to take the behaviour of international enterprises into account in the formulation of foreign trade policy.

A similar situation arises in connexion with the transfer of technical know-how. International enterprises are perhaps the most important, although not necessarily the most efficient, means of transferring

/technical know-how

technical know-how from one country to another. Each different way of transferring know-how, whether that just mentioned or any other, will affect the capacity to compete on the world market differently. Therefore, in preparing a policy for technological development, particularly when the aim is partly to make the country more competitive in the world market, it would seem essential to consider the consequences of the transfer of know-how through subsidiaries of international enterprises. These also play an important part in the transfer of capital. In addition to their direct role in determining capital flows, they may have a not insignificant influence on the behaviour of other financial agents, both national and international.

Generally speaking, international enterprises are among the most important companies in their respective countries of origin, which indicates that their activities abroad may have considerable influence on those countries' economies. It may be assumed that the attitude of the governments of those countries to the countries where the enterprises are operating partly depends upon the nature and intensity of the effects which such activities have on the home economy. This means that it is necessary to study not only the relationship between international enterprises and the countries in which they are operating, but also the repercussions which their presence in those countries may have on the home country's economy.

These observations may be summed up as follows: international enterprises play an important role in relation both to the countries of origin and to the countries in which they operate, and also to the relations between the two groups. Thus, in formulating development strategies and programmes in the Latin American countries, it is important to know something about the behaviour of this new type of decision-making centre. This applies equally to countries which are, in general, in favour of international enterprises and to those which wish to curtail their activities or even eliminate such enterprises.

The object of this study is to provide some information about the behaviour of international enterprises. There is no intention of making any recommendations regarding a desirable policy, since the deciding

/factor in

factor in determining a country's attitude to these enterprises is the group of objectives which it adopts in both the economic and the political sphere.

Certain objectives are perfectly compatible with the behaviour that international enterprises usually adopt spontaneously. In this case, the policy should be designed mainly to facilitate the enterprises's incorporation, in different respects, in the local environment. In other cases, development aims and procedures are incompatible with the large-scale operation of international enterprises. Lastly, situations may arise where the type of development process adopted might be reconciled with the presence of international enterprises if they modified their behaviour in certain respects. In this case the policy should be such as to guide the enterprises along lines that are consistent with the strategy adopted. Obviously not all countries are in a position to exercise this kind of influence.

Among the types of relationships between countries and international enterprises, two opposing situations may be distinguished: the first would be where the process of expansion and diversification of international enterprises in a particular country is the factor determining the country's industrial development model. In that case, the behaviour of the other economic agents is, to a certain extent, attuned to the growth requirements of the sectors in which those enterprises predominate. Thus production growth and the resulting income distribution depend basically on the decisions adopted by the international enterprises concerned.

At the other end of the scale are the international enterprises which play a part assigned to them by internal decision-making centres, within the context of a development strategy which they have not helped to formulate, either directly or indirectly, and which they have no power to modify. This would occur when governments call for international public bids for the production of certain goods, at a pre-determined price and with a specific present and future volume of production to be sold on previously determined markets. In this case, the countries must not only have a development model defined in generic terms, but must also

/be able

be able to specify the desired quality and quantity of the goods that are to comprise the basket of goods to be consumed by their population and, within certain limits, the relative price structure for the different types of goods.

If the conditions considered acceptable by the government of a particular country are unsatisfactory for an international enterprise, the presence of such an enterprise would not be compatible with the country's industrial strategy objective. Therefore, a government must have a good knowledge of the behaviour of international enterprises before it can determine, in the light of the known objectives, under what conditions it would be to the country's advantage to establish links with such enterprises.

The content of this study has been divided into four parts. In part I the process of expansion of United States firms in other countries is described and analysed. The following topics are dealt with: sectoral and regional distribution of the expansion process, the relation between the rate of return and the rate of growth in various sectors and regions, and the structure of the financing required for expansion abroad.

Part II deals with the links between subsidiary companies abroad and firms established in the United States. The growth of these two groups of companies is compared and a study is made of the flows of goods, technology and capital between these companies in both directions.

In part III some of the methodological problems involved in assessing the role played by international enterprises in the countries in which they are operating are discussed, the foreign take-over of industry in different countries is analysed, and the behaviour of international enterprises in regard to exports from countries where subsidiary firms have been established is examined.

In part IV an attempt is made, on the basis of the data given in previous sections, to interpret the process of expansion of United States firms abroad. For this purpose, consideration is given to the position of the United States in relation to its main competitors, i.e., Western Europe and Japan, and some conclusions are drawn concerning the relative position occupied by Latin America and the general repercussions for the countries of the region of a consolidation of the position of international enterprises.

/Some of

Some of the study's main limitations are obvious merely from this outline of its content; they are discussed below:

(a) The study deals chiefly with United States enterprises. In spite of the importance of direct United States investment abroad compared with that of other countries, it does not seem right to attempt to apply the conclusions reached concerning the behaviour of United States enterprises to all companies operating in other countries. In fact, it may be assumed that the different economic characteristics of the countries of origin are reflected in the behaviour of the enterprises concerned.

The balance-of-payments position of the country of origin is likely to affect the policy of these firms with regard to remittances, financing, exports and imports. The operational sectors of the subsidiary firms will certainly reflect the degree of specialization of the home economy and its supply of natural resources. The behaviour of these firms will also be affected by the relative position of the country of origin in the world context, and by any other links, besides economic links, which may exist between the country of origin and that in which the firms are operating. In other words, the conclusions that may be drawn from the analysis of the behaviour of United States firms are not necessarily applicable to enterprises of other countries.

Attention is centred on these firms only because there is a sufficiently detailed breakdown of the data available on them.^{2/}

(b) Only the economic repercussions of the behaviour of international enterprises are analysed. As indicated above, these enterprises play, or at least are in a position to play, an important role in relation to both the country of origin and the country of operation. This means that in addition to the economic effects deriving from their activities, it is essential to analyse the political effects that are associated with them. Quite obviously, the attitude the countries adopt towards these

^{2/} For a detailed description of the methodology used by the United States Department of Commerce in defining United States enterprises and collecting information about them, see U.S. Business Investment Countries, 1960, pp. 76 et seq. Most of the data were taken from the monthly publication, Survey of Current Business, published by the Department of Commerce.

firms is influenced by economic and political considerations in varying proportions. Since this study deals exclusively with the former group, the conclusions to which it leads will represent only a fraction - and sometimes a very small fraction - of all the criteria that are involved in the whole decision-making process of the different countries regarding international enterprises.

(c) The study does not cover all the economic aspects of the behaviour of international enterprises. Attention is focused exclusively on those which could be analysed quantitatively on the basis of currently available data. These are not necessarily the aspects which are most relevant for evaluating the role played by international enterprises in the various countries. In particular, it has not really been possible to make a thorough study of how these firms act as catalysts on the behaviour of the different economic agents operating in both the country of origin and the countries of operation. It has been possible only to indicate some orders of magnitude which reflect the importance of these enterprises in the different contexts in which they are operating, but not to evaluate any effect they may have, in view of their importance, in determining the rules that will govern their behaviour. Clearly, for this type of analysis, more economic data are required than those currently available, and the analysis should also include sociological and political issues.

(d) Most of the available data were obtained from the United States Department of Commerce. This could be a limitation inasmuch as the type of data gathered by that Department, the criteria used in processing them and the level of aggregation at which they are presented were chosen in line with objectives which are not necessarily in line with those of a study of this type.

The fact that in any attempt to evaluate the behaviour of international enterprises it is necessary to draw upon information supplied by government agencies of the country of origin of such enterprises is a clear indication of the crying need for the Latin American countries to set up a system of information on the international enterprises operating in the region, with the specific purpose of formulating the rules to be applied to these enterprises and of evaluating their actual behaviour. This obviously entails not only the solution of technical problems but the adoption of policy decisions as well.

I. EXPANSION OF UNITED STATES ENTERPRISES IN OTHER COUNTRIES

1. Introduction

In studying the relative positions of the Latin American countries with regard to international enterprises, it will be helpful to take a detailed look at the process of expansion of United States firms in other countries. Moreover, since the country of origin's attitude to international enterprises partly depends upon the effects they may have on its own economy, it will also be necessary to examine the nature and extent of the relationship between the foreign subsidiaries and the economy of the home country.

This chapter tries to provide a basis for specific answers to such questions as the sectoral and regional orientation of United States enterprises abroad, the relation between the rate of return and the rate of growth, and, finally, the structure of the financing required for expansion.

2. Sectoral and regional distribution

In 1968, United States direct private investment abroad, i.e., the investment of enterprises controlled by United States residents, comprised 63.0 per cent of all external private investment and 44.4 per cent of total United States investment and financial assets in other countries. The corresponding figure in 1960 was 37.2 per cent and in 1950 21.7 per cent.

Direct private investment shot up after the Second World War. In regional terms, most of the increased investment went to Europe, while, in sectoral terms, it went mainly into manufacturing. In 1950, investment in Europe accounted for 14 per cent of the total, compared with 30 per cent in 1968. Over the same period, investment in Latin America fell from 39 to 20 per cent, but investment in manufacturing, which stood at 32 per cent of the total in 1950, had risen to 41 per cent by 1968 (see tables 1 and 2).

Table 1
GROWTH OF DIRECT INVESTMENT, 1929-1968

	Value (Thousands of millions of dollars)				Growth rate		Share (percentages)		
	1929	1950	1960	1968	1950-60	1960-68	1950	1960	1968
<u>Regions Total</u>	9.5	11.8	31.9	64.8	10.4	9.3	100	100	100
Canada	2.0	3.6	11.2	19.5	12.0	7.2	31	36	30
Latin America ^{a/}	3.5	4.6	8.4	13.0	6.2	5.6	39	26	20
Europe	1.4	1.7	6.7	19.4	14.7	14.2	14	21	30
Other regions	0.6	1.9	5.6	11.9	11.4	11.0	16	17	20
<u>Sectors</u>									
Manufacturing	1.8	3.8	11.1	26.4	11.3	11.5	32	35	41
Petroleum	1.1	3.4	10.8	18.8	12.3	7.2	29	34	29
Mining	1.2	1.1	3.0	5.4	10.6	7.6	9	9	8
Other sectors	3.4	3.5	7.0	14.2	7.2	9.3	30	22	22

Source: ECLA, on the basis of United States Department of Commerce, Survey of Current Business, various issues.

^{a/} Including non-self-governing territories.

Table 2
SECTORAL DISTRIBUTION OF DIRECT INVESTMENT, BY REGION, 1968
(Percentages)

	Manufacturing	Petroleum	Mining	Other sectors	Total
Canada	43.9	21.0	13.5	21.6	100.0
Latin America ^{a/}	30.8	28.0	14.4	26.8	100.0
Europe	55.6	23.9	0.3	20.2	100.0
Other regions	23.6	50.1	6.2	20.1	100.0
<u>Total</u>	<u>40.7</u>	<u>29.1</u>	<u>8.3</u>	<u>21.9</u>	<u>100.0</u>

Source: ECLA, on the basis of United States Department of Commerce, Survey of Current Business, various issues.

^{a/} Including non-self-governing territories.

/Whereas in

Whereas in Europe 55.6 per cent of investment is channelled into the manufacturing sector, the corresponding figure for Latin America is only 30.8 per cent.

Between 1960 and 1968, investment in Latin America's manufacturing sector rose at an average annual rate of 12.8 per cent, while over the same period in the petroleum sector it grew at 2 per cent, in mining at 4.5 per cent and in other sectors at 4.8 per cent. Over-all investment grew by 5.6 per cent. Latin America is the region where the difference in terms of the growth of investment between the manufacturing sector and the extractive sectors is greatest.

The annual average increase in investment for all regions was 11.5 per cent in manufacturing, 7.2 per cent in petroleum, 7.6 per cent in mining, 9.3 per cent in other sectors, and 9.3 for all the sectors taken together. In other words, the main reason for the drop in Latin America's share of United States external investment is the slow growth of investment in the extractive industries. As far as the manufacturing sector is concerned, investment in Latin America grew somewhat faster than investment in the regions as a whole, being greater than in Canada (7.4 per cent), though a little below the figure for Europe (13.9 per cent) and other regions (16.4 per cent) including, among others, Australia, Japan, the Philippines and South Africa (see table 3).

Table 3

GROWTH RATE OF INVESTMENT, BY SECTOR AND BY REGION, 1960-1968

(Percentages)

	Manufacturing	Petroleum	Mining	Other sectors	Total
Canada	7.4	5.5	9.0	7.6	7.6
Latin America	12.8	2.0	4.5	4.8	5.6
Europe	13.9	12.9	2.7	17.5	14.2
Other regions	16.4	8.9	12.8	10.5	10.9
<u>Total</u>	<u>11.5</u>	<u>7.2</u>	<u>7.6</u>	<u>9.3</u>	<u>9.3</u>

Source: ECLA, on the basis of United States Department of Commerce, Survey of Current Business, various issues.

/Compared with

Compared with Canada and Europe, Latin America's relatively smaller share of investment in manufacturing and greater share in petroleum and mining might seem a conclusive proof of the region's relative economic backwardness, confirming the contention that United States enterprises concentrate on the exploitation of the continent's natural resources - unlike their policy in Europe, where what they are interested in is the purchasing power of the European consumer. (In making this comparison, it should be borne in mind that the petroleum sector operates quite differently in Canada, Europe and Latin America.) In 1957, 74 per cent of investment in this sector in Latin America was used directly for extraction. In Canada, the corresponding figure was 44 per cent and in Europe a mere 9 per cent. On the other hand, 72 per cent of investment in Europe was spent on refining and distribution and the rest on transport, whereas in Latin America only 26 per cent went into refining and distribution. In other words, the conceptual pattern of the petroleum sector and the manufacturing sector is very similar in Europe.

Before classing Latin America as economically backward, however, it would be well to look at the sectoral structure and see whether it reflects the situation in individual countries or is merely the result of lumping together a number of totally different structures. Taking each country separately, it will be seen that the latter is actually the case. On the one hand, there are countries like Chile, Peru, Colombia and Venezuela, where more than half the United States investment is in the extractive sectors (mining in the first two countries mentioned, and petroleum in the last two). Disregarding Colombia, where 31 per cent of United States investment - roughly equal to the regional average - goes into manufacturing, it is 15 per cent or less in the other three countries (see table 4).

Table 4

DIRECT INVESTMENT IN LATIN AMERICA, 1968

(Percentage shares)

Sectoral structure by country							
	Total	Mining	Petroleum	Manufac- turing	Public services	Com- merce	Other sectors
<u>Total for</u> <u>Latin America</u>	100	13	27	33	6	11	10
Mexico	100	8	3	68	2	12	7
Panama	100	2	19	6	6	37	30
Other Central American coun- tries	100	4	25	15	18	6	33
Argentina	100	a/	a/	64	a/	5	31
Brazil	100	5	6	69	2	13	5
Chile	100	61	a/	7	a/	4	28
Colombia	100	-	51	31	5	9	4
Peru	100	61	6	14	3	7	9
Venezuela	100	a/	68	14	1	10	7
Other South American coun- tries	100	8	42	13	11	8	18

Source: United States Department of Commerce, Survey of Current Business,
October 1969.

a/ Included in other industries.

Central America and "Other South American countries" form a second group in which, as in the first group, only a small share of United States investment goes into manufacturing (15 per cent or less), but in which such investment is spread more evenly over the other sectors than is the case in the first group.

/The third

The third group comprises the largest Latin American countries - Argentina, Brazil and Mexico - where over 60 per cent of total United States investment goes into manufacturing. With 37 per cent of all United States investment and 74 per cent of its investment in manufactures in Latin America, these countries' industrial sectors absorb a larger share of total United States investment than the whole of Europe, or the countries of the European Common Market, or Canada. Where the relevant figures are 60 per cent for the Federal Republic of Germany, 48 per cent for Italy, 52 per cent for the Netherlands, 64 per cent for the United Kingdom, 70 per cent for France, 56 per cent for Europe as a whole, 60 per cent for the European Economic Community and 44 per cent for Canada, the corresponding percentages for the largest countries of Latin America are 64 per cent (Argentina), 68 per cent (Mexico) and 69 per cent (Brazil). In absolute terms, the countries which had received the greatest volume of investment in manufacturing at the end of 1968 were Canada, with 8,500 million dollars; the United Kingdom, with 4,300 million; the Federal Republic of Germany, with 2,300 million; Australia, with 1,400 million; France, with 1,300 million; Brazil and Mexico, with 1,000 million; Argentina, with 700 million; Italy, the Netherlands and Belgium-Luxembourg with 600 million; and Japan, with 500 million. (United States direct investment in manufacturing in Brazil and Mexico is roughly twice as much as in Japan.)

This would suggest that, like the European countries, Argentina, Brazil and Mexico are much more attractive as markets for the subsidiaries of manufacturing firms in foreign countries than as suppliers of natural resources, a fact which may be of the utmost importance since the conflicts that may arise between international enterprises and the governments of the countries where they operate are quite different according to whether they involve the extractive sectors or manufacturing industry.

A comparison of the distribution of United States investment in the manufacturing sectors of Latin American countries with the latter's gross domestic product reveals striking similarities, which would tend to confirm the view that the size of the market is an essential determining variable in the decisions taken by manufacturing enterprises regarding

/the location

the location of their plants. Moreover, the total product would seem to be a better guide in defining size than the per capita product or population (see table 5).

Table 5

DISTRIBUTION OF UNITED STATES INVESTMENT IN THE MANUFACTURING
INDUSTRY AND DISTRIBUTION OF THE GROSS DOMESTIC PRODUCT, 1968

(Percentages)

Country	United States investment in manufacturing <u>a/</u>	Distribution of Latin America's gross domestic product <u>b/</u>	Per capita gross domestic product (in dollars at 1960 prices) <u>b/</u>
Argentina	20	18	851
Brazil	27	24	314
Colombia	5	6	336
Chile	2	5	585
Mexico	27	26	631
Panama	2	1	610
Peru	3	4	386
Venezuela	10	7	765
Other South American countries	1	4	...
Other Central American countries	3	1	454

Source: ECLA, on the basis of United States Department of Commerce,
Survey of Current Business, various issues.

a/ See previous tables.

b/ ECLA.

3. Rate of return and growth rate of investment

There does not seem to be any clear relationship between the growth rate of investment in the various sectors and regions and the rates of return that can be calculated on the basis of available information. The following are some of the factors that tend to discourage any such relationship:

(1) The aim of international enterprises may be more complex than just to earn maximum profits. One of the factors that these enterprises seem above all to bear in mind in taking investment decisions is the desire to maintain or increase their share of the international market.

(2) Their desire to maximize profits relates to a specific period rather than a single year. Consequently, their estimates of the potential profits to be made in the different sectors and regions in future years will have at least as much bearing on their decisions as the profits actually earned in the last year or period for which information is available.

(3) The technical and financial interrelationship between the parent company and its subsidiaries, which takes the form of a flow of goods, technology and capital, makes it impossible to analyse the profitability of either separately. In so far as the costs and the profits of the one are to a certain extent tied up with the costs and profits of the other, it would be quite wrong to see them as independent economic activities. Furthermore, over-all costs and profits are nominally distributed between them on the basis of criteria that vary according to the tax system and accounting practices prevailing both in the country of origin of the parent organization and in those where the subsidiaries are operating.

(4) The data published by the United States Department of Commerce can be used to calculate the rate of return, defined as the ratio between the profits earned in a given year and the accumulated direct investment up to that date. Department of Commerce analysts, however, point out that this growth rate does not reflect real returns inasmuch as: (a) it does not include profits earned on exports of goods from the parent company to its subsidiary, which are made on more favourable terms,

/than those

than those it could obtain from an independent firm; (b) the parent company can import from its subsidiary more cheaply than from independent firms; (c) the conditions governing the sale of technology to the subsidiary are more advantageous than they would be with other firms; and (d), the results of technological research carried out by the subsidiaries are transferred to the parent company at a lower cost than that prevailing on the international technology market.^{3/}

Calculated on the basis of available information, the rates of return suggest that the yield on investment would be higher in the extractive than in the manufacturing sector. In Latin America, the rate of return would be 20 per cent in mining, 15 per cent in petroleum and 11 per cent in manufacturing, and the differences between these rates are more marked than in other regions. The fastest-growing sector - manufacturing - actually has the lowest rate of return. This situation can probably be at least partly explained by the fact that the international enterprises' forecasts of future gains are more promising in Latin America's industry than in its extractive sectors.^{4/}

The rates of return for all the regions together is 15 per cent in mining, 14 per cent in petroleum and 11 per cent in manufacturing; in contrast, the annual average growth rates for 1960-1968 are 7.6, 7.2 and 11.5 per cent respectively.

^{3/} Survey of Current Business, September 1967, pp. 48-49.

^{4/} Leland L. Johnson, The Course of United States Private Investment in Latin America since the rise of Castro (RAND Corporation, May 1964), shows that United States investment in Latin America manufacturing industry was apparently unaffected by nationalization in Cuba. The author attributes this to the United States Government's policy of guaranteeing external investments and to the fact that manufacturing enterprises tend to spread their external investment, which in any case only represents a small part of total United States investment, over a large number of countries, so as to diminish the effect of possible expropriation. The figures for United States investment in Latin America's manufactures over recent years fully bear out the author's contention.

The yield on investment in Latin America's manufacturing sector is equal to that for all regions taken together, higher than that of Canada (9 per cent) and lower than estimates for Europe (12 per cent) and other regions (17 per cent). The weight that each region carries in the distribution of external investment in manufacturing should be borne in mind; in 1968, Canada absorbed 32 per cent, Latin America 15 per cent, Europe 41 per cent and other regions 12 per cent (see table 6).

Manufacturing is the only sector where there appears to be some relation between the growth rate of investment and yield. Thus, Canada, where the rate of growth is lowest (7.4 per cent), also has the lowest rate of return (9 per cent); on the other hand, the figures for "Other regions" show the highest rate both of growth of investment (16.4 per cent) and of return (17.0 per cent), followed by Europe with 13.9 and 12 per cent, and Latin America, in third place, with 12.8 and 11 per cent respectively.

If payments received for the transfer of technology are included under the head of profits, the rate of return increases by about two points. In the manufacturing sector, where the transfer of technology is greatest, the over-all regional rate rises from 11 to 14 per cent. In introducing this element into an analysis, the most important aspect is not so much the increased yield calculated on the basis of available data as the tendency for such remittances to represent a larger and larger share of total remittances and profits. Taking all the sectors and regions together, payments for transfers of technology climbed from 17 per cent of total remittances of profits in 1961 to 26 per cent in 1968. In the case of the manufacturing sector, the average over-all regional figure is 59 per cent (55 per cent for Canada, 56 per cent for Latin America and 63 per cent for Europe), (see appendix, tables 1 and 2). During the period 1965-1968, payments for transfers of technology to parent manufacturing enterprises for all regions accounted for a third of total returns, generally in direct ratio to the volume of business. There is therefore a tendency for total remittances to be increasingly affected by the volume of production of subsidiaries abroad. The rate of return of international enterprises from their activities abroad is therefore likely to be

/increasingly dependent

increasingly dependent on the factor of production in which the parent firms have a relative advantage, i.e., their accumulated reserves of technology and their ability to increase them and apply them to new products and processes.

Table 6

RATES OF RETURN ON INVESTMENT, BY SECTOR AND BY REGION

(Percentages)

Region	Total	Mining	Petro- leum	Manufac- turing	Other sectors
<u>All regions</u>					
1961-1964	12.0	13.0	14.0	12.0	11.0
1965-1968	12.0	17.0	13.0	11.0	10.0
1961-1968	12.0	15.0	14.0	11.0	10.0
<u>Canada</u>					
1961-1964	7.0	9.0	5.0	9.0	7.0
1965-1968	8.0	11.0	6.0	9.0	7.0
1961-1968	8.0	10.0	5.0	9.0	7.0
<u>Latin America</u>					
1961-1964	13.0	18.0	14.0	10.0	11.0
1965-1968	13.0	23.0	15.0	11.0	10.0
1961-1968	13.0	20.0	15.0	11.0	11.0
<u>Europe</u>					
1961-1964	12.0	10.0	3.0	13.0	20.0
1965-1968	8.0	14.0	-2.0	12.0	13.0
1961-1968	10.0	12.0	0.0 a/	12.0	15.0
<u>Other regions</u>					
1961-1964	22.0	13.0	27.0	19.0	14.0
1965-1968	22.0	16.0	28.0	15.0	13.0
1961-1968	22.0	14.0	28.0	17.0	13.0

Source: United States Department of Commerce, Survey of Current Business.
 Figures compiled by ECLA.

a/ United States Department of Commerce analysts indicate that over-all rates of return by area, especially in Europe, are frequently influenced by the accounting practices of the petroleum industry. See Survey of Current Business, October 1968, page 26.

/Rates of

Rates of return are almost without exception higher than investment growth rates, above all in the extractive sectors. Profit equals remittances plus reinvested earnings; the increase in investment is equal to new capital investment plus reinvested earnings. Consequently, the fact that the rate of return is higher than the rate of growth necessarily implies that there is a net outflow of capital ^{5/} (i.e., remittances are greater than new capital investment) (see table 7).

Table 7

RATES OF RETURN ON INVESTMENT INCLUDING ROYALTIES
AND TECHNICAL ASSISTANCE, 1965-1968

(Percentages)

	Total	Petroleum	Manufac- turing	Other sectors ^{a/}
<u>All regions</u>	<u>14.0</u>	<u>14.0</u>	<u>14.0</u>	<u>12.0</u>
Canada	10.0	16.0	11.0	9.0
Latin America	15.0	16.0	14.0	10.0
Europe	12.0	10.0	15.0	15.0
Other regions	24.0	29.0	20.0	16.0

Source: United States Department of Commerce, Survey of Current Business.
Figures compiled by ECLA.

^{a/} Including mining.

^{5/} A discussion of this question, based on an analysis of General Motors Holden Ltd. in Australia, will be found in E.E.T. Penrose's "Foreign Investment and Growth of the Firm", Economic Journal, June 1956.

When a sector such as manufacturing is analysed, still assuming that the rate of return on investment is higher than the growth rate, it may be shown that the difference (surplus) between earnings and the financing required for expansion is ploughed into other sectors. In this case there would be no short-term outflow of capital but, on the other hand, future remittances would tend to be greater. If all earnings were reinvested indefinitely and if reinvestment grew faster than local investment, then foreign capital would follow an asymptotic curve towards a total take-over of the country concerned, and would eventually be reached where remittances would have to be resumed. Be this as it may, such a hypothesis is scarcely compatible with the observed behaviour of investors residing abroad.

When the rate of return is higher than the rate of growth, part of the expansion may be financed by new external investment, in which case there will be a margin which may be used for remittances or to increase the amount of profits reinvested. In the extreme case, when expansion would be exclusively financed with new funds and the earnings of existing enterprises reinvested in their entirety, the balance of payments would show an inflow of capital, but the foreign takeover would be more rapid and hence future remittances would be made at an accelerated pace. If, on the other hand, all profits are remitted, there will be a net outflow of capital equal to the product of the existing capital multiplied by the difference between the two rates.

The most favourable situation from the point of view of the balance of payments - but the least favourable in the eyes of the investor - is when the rate of return is lower than the rate of growth. It can only arise, however, when the investor expects there to be a change in this relationship, and it can never be a long-term trend for a whole group of enterprises. Otherwise, not only would the investor receive no profits - as would be the case if they were always reinvested - he would be continually paying out without receiving any yield on his investment whatsoever.

To sum up, the higher the growth rate of direct investment in a given sector, the greater the likelihood of a foreign takeover, whereas

/the wider

the wider the gap between the rate of return and the rate of growth, the greater the present or future net capital outflow. The way remittances are spread over time will depend on the rate of reinvestment in each sector; the higher the present rate of reinvestment, the larger the future remittances will be.

The tempo of remittances which is most advisable for the country receiving the investment will depend upon whether it wishes to have foreign exchange available immediately or prefers it to be available at some future time. If its balance-of-payments situation is critical, it will tend to stimulate reinvestment, even at the risk of hastening a foreign takeover and pushing up the level of future remittances. The latter will of course vary according to the type of activities the capital is being reinvested in; if they involve projects that are geared to the external market, then the future remittances may be offset by additional exports.

The aforementioned flow of capital applies exclusively to direct investment. It may happen that, under the influence of this investment, other inflows of capital, from government and international agencies, are induced in the form of loans or transfer payments which may change the sign of the net balance on direct investment or increase the balance with the same sign.

The inflows and outflows of foreign exchange that are likely to derive from the increase in exports and imports resulting from direct investment still remain to be considered. They are discussed below.

4. The financing of the growth of United States foreign investment

The effects of the operation of United States enterprises depend partly on the way in which their expansion is financed. It is important to analyse these effects in order to lay down policy governing capital markets and to establish the machinery for orienting the growth of these companies. The factors determining the structure of the financing include: the target growth rate, the rate of return, the firms' policy with respect to remittances of profits and control of their total capital, the stage

of development of the capital markets in the different countries in which they operate, and the kind of assets they wish to acquire.

The action or the mere presence of international enterprises may have an effect on how the private and public sectors use their financial resources. The public sector may be encouraged to concentrate resources in areas and sectors whose expansion is a prerequisite if the large-scale projects of international enterprises are to materialize and develop. The private banks may rechannel their short-term resources into the most solvent sectors with the fastest growth rates, in which these companies probably predominate. The firms themselves may also play their part in financing consumption of the products they manufacture. Private investors who formerly sought investment opportunities abroad may decide to invest in the country, attracted by projects directly or indirectly linked to international enterprises. In short, the capital market of a country in which such companies operate constitutes an exogenous factor for them only in the initial stage; subsequently, the capital market tends to develop along lines that will favour the expansion of those companies.

Other circumstances besides those prevailing in the countries where they operate may also affect their action. A critical balance-of-payments position in the country of origin may cause the government of that country to instruct firms to make more use of external capital markets.^{6/}

^{6/} A case in point is the programme approved by the United States Government in February 1965, urging United States firms to increase their exports, develop new export markets, step up remittances of profits from their subsidiaries, postpone direct investment in marginal projects, limit direct investment abroad with funds originating in the United States, accumulate more funds in the developed countries in which they were operating, transfer the ownership of subsidiaries established abroad to foreign nationals and repatriate the capital, reduce to a minimum the amount of short-term financing made available to subsidiaries, and make the fullest possible use of United States transport facilities. The application of this legislation gave rise to discussion in the various countries affected by it. For an analysis of its repercussions in Canada, see A.E. Safarian, Foreign Ownership of Canadian Industry (Ottawa, McGraw-Hill, 1966).

The fact that the rate of growth of investment in manufacturing is, in general, higher than in the extractive sectors means that more financing will be required in the latter; and the fact that the rate of return on investment in manufacturing is higher than the rate of growth indicates that international manufacturing enterprises should be able to finance their expansion from their own resources.

Whether they can do so or not will depend on the remittance policy. As the difference between the rate of return and the rate of growth is bigger in the extractive sectors, it would seem that there is a greater margin here for reinvestment in other sectors or for remittances than in manufacturing. Thus, the first important factor to analyse is the remittance policy in the various sectors and regions.

In the period 1960-1968 the proportion of the profits which were remitted abroad from all regions amounted to 81 per cent in mining, 94 per cent in the petroleum sector and 52 per cent in manufacturing. The figures for Latin America were 94 per cent in mining, 94 per cent in petroleum; and 48 per cent in manufacturing, where it is obviously rising. The proportion for all regions rose from an average of 50 per cent for the years 1960-1964 to 54 per cent for 1965-1968; in Canada, from 46 to 50 per cent; in Latin America, from 42 to 52 per cent; and in Europe, from 56 to 60 per cent. Only in "Other regions" was there a decline from 51 to 44 per cent. These figures suggest that United States enterprises are tending to finance their expansion with an increasing proportion of local resources. (see table 8).

Table 8

PERCENTAGE OF PROFITS OF UNITED STATES ENTERPRISES REMITTED
TO THE UNITED STATES, 1960-1968

Region	Total	Mining and smelting	Petroleum	Manufac- turing	Other sectors
<u>Total</u>					
1960-64	70	83	94	50	52
1965-68	72	80	95	54	62
1960-68	71	81	94	52	57
<u>Canada</u>					
1960-64	55	59	64	46	72
1965-68	59	62	63	50	75
1960-68	57	61	64	49	73
<u>Latin America</u>					
1960-64	79	97	95	42	54
1965-68	79	93	94	52	61
1960-68	79	94	94	48	57
<u>Europe</u>					
1960-64	56	123 <u>a/</u>	104 <u>a/</u>	56	46
1965-68	67	100	-9 <u>b/</u>	60	63
1960-68	62	111	-520 <u>b/</u>	58	57
<u>Other regions</u>					
1960-64	82	69	97	51	42
1965-68	79	74	93	44	44
1960-68	81	72	95	47	43

Source: ECLA, on the basis of United States Department of Commerce,
Survey of Current Business, various issues.

a/ Including repatriated capital.

b/ Negative profits and repatriated capital.

/The slow

The slow growth of United States investment in the extractive sectors in Latin America and the remittance of practically all the profits give grounds for thinking that what might be described as a strategic withdrawal is taking place in those sectors.^{7/} Although admittedly in other regions profit remittance rates are equally high, they go hand in hand with expanding investment, i.e., new capital contributions.

To show that United States manufacturing enterprises are tending to use a growing proportion of local resources, it is necessary to consider the evolution of the structure of their financing. New net capital investment is declining in relation to annual expenditure on plant and equipment. The proportion for all regions dropped from 37 per cent in 1960-1962 to 29 per cent in 1966-1968; in Latin America from 42 to 32 per cent; and in Europe, from 49 to 32 per cent (see table 9).

If the new net capital investment plus reinvestment is compared with the annual expenditure on plant and equipment, the same trend is observable. For all regions the proportion fell from 68 to 52 per cent between the three-year periods 1960-1962 and 1966-1968. The sharpest drop was in Europe (71 to 48 per cent). (See table 10.)

^{7/} Leland L. Johnson, U.S. Private Investment in Latin America: Some Questions of National Policy. The Rand Corporation's Memorandum RM-4092 ISA, of July 1964, analyses the different kinds of conflict that may arise between United States enterprises and the governments of the countries in which they are operating, and how such conflicts affect the United States' position in the region. Albert O. Hirschman, in "How to divest in Latin America, and why", Essays in International Finance No 76 (Princeton University, November 1969) justifies the need to withdraw and suggests ways of doing so.

Table 9

NET PRIVATE CAPITAL INVESTMENT IN RELATION TO ANNUAL
EXPENDITURE ON MANUFACTURING PLANT AND EQUIPMENT

(Percentages)

Region	1960-62	1963-65	1966-68	1960-68
<u>Total</u>	<u>37</u>	<u>35</u>	<u>29</u>	<u>33</u>
Canada	14	28	19	21
Latin America	42	35	32	35
Europe	49	40	32	38
Other regions	30	32	30	31

Source: ECLA, on the basis of United States Department of Commerce,
Survey of Current Business, various issues.

Table 10

NEW NET PRIVATE CAPITAL INVESTMENT PLUS REINVESTMENT IN RELATION
TO ANNUAL EXPENDITURE ON MANUFACTURING PLANT AND EQUIPMENT

(Percentages)

Region	1960-62	1963-65	1966-68	1960-68
<u>Total</u>	<u>68</u>	<u>64</u>	<u>52</u>	<u>59</u>
Canada	64	68	53	60
Latin America	77	69	61	67
Europe	71	63	48	57
Other regions	52	63	56	58

Source: ECLA, on the basis of United States Department of Commerce,
Survey of Current Business, various issues.

/Since expenditure

Since expenditure on equipment is only part of the total investment concerned, the foregoing observations cannot be taken as a final demonstration; a study must be made of the structure of financing of the total assets.

The United States Department of Commerce has investigated the sources and uses of the financing of United States enterprises abroad. It gives the following sources: profits, funds from the United States, funds from abroad, and depreciation. The uses include plant and equipment, stocks, accounts payable, other assets and remittances of profits.

Funds from the United States include contributions not only from parent companies but also from other sources, both public and private. In this respect, the concept differs from the new net capital investment referred to above, which includes private investment only.

Funds from abroad comprise those obtained on local capital markets and from third countries, including small amounts from other United States subsidiaries.

There are accordingly three sources of financing: (1) the firm's own resources, consisting of reinvested profits plus depreciation funds; (2) funds obtained from outside the enterprise and outside the United States, mainly from the local capital market; and (3) resources from the United States, from both parent companies and other private and public sources.

It is interesting to establish the share of each of these sources in investment financing (total uses less remitted profits) and the evolution of this investment.

For all sectors and regions over the period 1957-1965, 52 per cent of the funds which financed the growth of the total assets consisted of the firms' own resources which were generated locally, 27 per cent were obtained in the countries in which the firms were operating or in third countries, and only 21 per cent came from the United States. In manufacturing, only 17 per cent of the total resources came from the United States, 51 per cent were the firms' own funds and 32 per cent were obtained locally.

/Several factors

Several factors may account for this difference in the structure of the financing. Some have already been described. Because of the slower rate of growth of investment and higher rate of return in the extractive sectors, the companies have more internal resources. The fact that investment in machinery represents a much larger proportion of the total in the extractive sectors than in manufacturing and that less of the machinery is manufactured locally may account for the smaller volume of local financing.^{8/} Over half the annual investment in manufacturing was in stocks and liquid assets, for which more financing is available locally. Another factor which may also have some influence is the firms' attitude towards part ownership with local interests; there seems to be more readiness to accept this in manufacturing than in the extractive sectors.

During the period 1957-1965 there was a reduction in the share of the firms' own resources and the funds obtained from the United States, while the resources obtained locally increased. To sum up, the expansion of United States enterprises abroad is financed mainly with resources generated outside the United States. In Latin America this is particularly noticeable in the extractive sectors. Of the resources obtained outside the United States, those generated by the firm itself represent the lion's share, but this is gradually shrinking in favour of funds obtained locally. This pattern of financing presumably indicates that residents of other countries are beginning to share in the control of United States enterprises abroad.

The foregoing observations show that the expansion of United States enterprises depends only in small measure on new capital investment. Most of their growth derives from established enterprises and is based on resources generated or obtained by them. Therefore, in any action aimed at guiding the expansion of United States enterprises, special attention should be paid to the enterprises that are already established and to the operation of the various local sources of financing (see table 11).

^{8/} On an average over the period 1957-1965, expenditure on plant and equipment in Latin America represented 77 per cent of annual investment in mining, 86 per cent in petroleum and only 45 per cent in manufacturing.

Table 11

FINANCING OF INVESTMENT IN UNITED STATES ENTERPRISES, BY REGION, SECTOR AND SOURCE OF FUNDS

Region and sector	1957-59			1960-62			1963-65			1957-65		
	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States	Own funds	Local funds	Funds from United States
<u>All regions</u>	0.52	0.22	0.26	0.57	0.24	0.19	0.48	0.32	0.20	0.52	0.27	0.21
Mining and smelting	0.46	0.13	0.41	0.63	0.20	0.17	0.68	0.26	0.06	0.60	0.20	0.20
Petroleum	0.48	0.23	0.29	0.61	0.15	0.24	0.43	0.29	0.28	0.50	0.23	0.27
Manufacturing	0.57	0.24	0.19	0.53	0.30	0.17	0.49	0.35	0.16	0.51	0.32	0.17
<u>Canada (total)</u>	0.57	0.13	0.30	0.70	0.12	0.18	0.64	0.22	0.14	0.64	0.17	0.19
Mining and smelting	0.40	0.20	0.40	0.52	0.14	0.34	0.75	0.23	0.02	0.58	0.19	0.23
Petroleum	0.42	0.24	0.34	0.66	0.11	0.23	0.58	0.18	0.24	0.55	0.18	0.27
Manufacturing	0.77	0.01	0.22	0.81	0.11	0.08	0.63	0.24	0.13	0.71	0.15	0.14
<u>Latin America (total)</u>	0.50	0.17	0.33	0.71	0.23	0.06	0.60	0.31	0.09	0.59	0.24	0.17
Mining and smelting	0.46	0.11	0.43	1.08	0.26	-0.34	1.04	0.13	-0.17	0.78	0.14	0.08
Petroleum	0.57	0.09	0.34	1.06	0.01	0.07	0.96	0.14	-0.10	0.79	0.08	0.13
Manufacturing	0.36	0.40	0.24	0.38	0.40	0.22	0.38	0.40	0.22	0.38	0.40	0.22
<u>Europe (total)</u>	0.44	0.37	0.19	0.42	0.30	0.28	0.40	0.38	0.22	0.41	0.35	0.24
Mining and smelting	-	-0.50	0.50	1.25	-0.50	0.25	0.32	0.23	0.45	0.44	0.04	0.52
Petroleum	0.30	0.44	0.26	0.33	0.18	0.49	0.22	0.40	0.38	0.27	0.35	0.38
Manufacturing	0.52	0.33	0.15	0.46	0.35	0.19	0.47	0.37	0.16	0.48	0.36	0.16
<u>Other regions (total)</u>	0.58	0.23	0.19	0.51	0.29	0.20	0.38	0.35	0.27	0.46	0.31	0.23
Mining and smelting	0.82	-0.18	0.36	0.48	0.30	0.22	0.29	0.41	0.30	0.40	0.31	0.29
Petroleum	0.57	0.23	0.20	0.55	0.24	0.21	0.36	0.28	0.36	0.47	0.26	0.27
Manufacturing	0.56	0.29	0.15	0.43	0.39	0.18	0.42	0.42	0.16	0.44	0.39	0.17

Source; ECLA, on the basis of United States Department of Commerce, Survey of Current Business, various issues.

II. INTERNATIONAL ENTERPRISES BELONGING TO THE UNITED STATES AND THE UNITED STATES ECONOMY

1. Introduction

In the analysis of the links between foreign subsidiaries and the economy of the home country, it is important to distinguish between: (1) the relationship between the level of activity of the United States firms abroad and the level of activity of the domestic economy; (2) the flow of goods between subsidiaries and firms established in the United States; (3) the exchange of technology between both groups of firms;^{9/} and (4) the flow of capital between the subsidiaries and the domestic firms.

In an enterprise ^{10/} that is initiating or expanding its activities abroad there will be an initial supply of capital from the United States, part of which will be used to acquire equipment, which can, in part, be purchased from the parent firm or from other United States firms at home or abroad. A certain proportion of physical inputs and components that are not manufactured locally may be required for production, and these will be imported, in part, from United States firms, one of which may be the parent company. The design of the equipment and plant, the use of specific processes or trade marks and a certain amount of servicing may involve payments by the subsidiary under the head of transfer of technology. If the subsidiary makes technological innovations that are of interest to the parent company, the process will be reversed, and the parent company will pay the subsidiary for its technology.

Part of the output may be sold locally and part exported to the United States or other countries. Some of the profits will be remitted to the parent company and some reinvested.

^{9/} Technology on goods and services is not included in this item.

^{10/} What is said about United States enterprises in this section applies to enterprises of other countries, as well.

The purchase locally of physical inputs and components may induce certain suppliers to import equipment, some inputs and the know-how to use them from the United States, with a view to meeting the technical requirements of the local United States firm. Events may take a similar course with respect to the users of goods produced by the United States firm. This is particularly true in the case of equipment and new intermediate products. In that case, the local firm will make no attempt to modernize its activities in order to satisfy the technical requirements of the firm to which it will supply its goods; it will merely make adaptations to enable it to take advantage of the potentialities of the new goods purchased and introduced by the United States firm.

Some of the local industries that previously imported goods and technology may exploit any comparative advantages they have in other fields and become exporters, even to the United States. Part of the financing required for the installation and operation of these local firms that have technological links with the United States firms may come from the United States, in which event there will be inflows of funds due indirectly to the presence of the subsidiary companies.

The latter may, besides using their own capital, seek outside funds, which may be provided by the parent company or by financing institutions in the United States or in third countries or by local institutions. Consequently, there will be a certain degree of interdependence between trends in speculative investment in the enterprise and loans to finance its normal operation.

Besides influencing the technology employed by local firms, the subsidiaries may have a financial stake in them also. Depending on what proportion of the local firm's shares they own and on the type of ownership, they may influence its management, which in turn may lead to imports or exports of goods and services and the purchase of technology from the country of origin.

The same sort of relationship that exists between United States and local firms will arise among the United States firms themselves. Thus, the presence of United States outlets will encourage other United States firms to set up subsidiaries which will eventually produce locally

/the parts

the parts and equipment which they used to export from the United States. This process could be speeded if the nationalization index (the proportion of parts that must be locally manufactured) is too high for the established local firms to cope with.

Side by side with this vertical chain reaction there will also be a horizontal chain reaction, as the use of certain goods will require that other complementary goods or services be available that cannot always be supplied locally. A typical example would be the relationship between the production of automobiles, the manufacture of machinery for road building and the provision of engineering skills for the design and construction of a new urban and inter-urban infrastructure.

The extent of the chain reaction will partly depend on how far the local firms can cope with the additional needs generated by the new goods and services introduced by foreign firms.

In short, the flows of goods and services will consist principally in exports of equipment, components and raw materials to the subsidiaries and to non-United States firms with which they have technical or financial links, in imports of goods from those enterprises, and in the freight and insurance paid on the shipments. Financial flows will consist essentially in risk capital (direct capital investment) and loans in one direction, and in remittances of profits, dividends and interest on them in the other. Transfers of technology could produce an inflow to the home country of income from the sale of technology and from royalties paid for the use of technology, and the technology itself may develop abroad in the subsidiaries or in firms which are technologically or financially linked to them.

It may be assumed that a considerable number of the transactions mentioned above appear in the records of the United States Department of Commerce, with all the statistical errors, omissions and adjustments inherent in such compilations. The major difficulty from the point of view of analysis does not lie in those transactions that are not really identifiable; it lies in the fact that only a fraction of those that are recorded can be clearly associated with the operations of subsidiaries

/in foreign

in foreign countries. No information is available which would enable the analyst to identify the transaction of those non-United States firms which, through their technological or financial links with United States subsidiaries, have been encouraged to establish relations with United States enterprises or organizations. But it is not only the transactions resulting from the presence of the subsidiaries that are the problem; the operations in which the subsidiaries participate directly are also a problem.

The flows that can be associated quantitatively with the presence of American firms abroad are those that the United States Department of Commerce records under the heading of Direct private investment abroad, which corresponds to investment in United States firms abroad.

However, this information does not give a full picture of the interaction between the enterprises located abroad and the United economy. The following examples may be cited. First, the financing obtained by United States firms abroad from government financial institutions in the United States is recorded as government financing. However, the amount depends on the level of activity of the enterprises and their financing policies. In the second place, the purchase by United States residents of shares in United States firms abroad that were previously locally owned is recorded in the balance of payments as private investment in United States enterprises. Obviously, the subsidiaries will not receive any new funds from a mere change in the ownership of the shares. Thirdly, portfolio investment - purchases of shares in and financing of non-United-States firms abroad - does not appear under the head of direct investment. It is connected with direct investment, however, and gives rise to physical and monetary flows that influence the United States economy.

2. Level of activity of the subsidiary firms
and of the United States economy

It is useful to know the scale of operations of the foreign-based subsidiaries compared with the economy of the home country, as regards the present situation, growth trends in the recent past, and future prospects.

Such comparisons do not help to assess the influence of the activities of the subsidiaries on the economy of the United States; they merely indicate the quantitative relationship between the scales of activity. The analysis of the interdependence of the subsidiary firms and the country of origin can be effected only through a study of the flows of goods, technology and capital between the foreign-based enterprises and those in the United States. That analysis will be made in the following paragraphs.

Total investment abroad in manufacturing for the years 1950 and 1968 grew three times as fast as the production capacity of United States industry (annual average 12.4 per cent and 4.8 per cent respectively). In Latin America, where expansion is slower than in other regions, investment grew at double the United States rate (9.5 per cent).

Between 1957 and 1965, the growth rate of foreign sales was slightly less than double that of industrial production in the United States. The difference between the two rates increased from 1961 to 1965. In all sectors, the expansion of foreign sales was greater than or equal to the growth of sales in the United States. The most rapidly expanding sectors in the United States were generally those that were booming abroad (chemicals, non-electrical machinery and transport equipment). The growth rate of the most rapidly expanding sectors in the United States was less than the average growth rate for the whole range of manufacturing abroad.

Table 12

COMPARISON BETWEEN THE GROWTH OF UNITED STATES INVESTMENT IN THE MANUFACTURING INDUSTRY ABROAD AND
THE GROWTH OF THE PRODUCTIVE CAPACITY OF THE MANUFACTURING INDUSTRY IN THE UNITED STATES
(1950 = 100)
(1960 = 100)

Indexes	1950	1960	1961	1962	1963	1964	1965	1966	1967	1968	Average annual growth rate		
											1950-68	1950-60	1960-68
United States investment in manufacturing abroad a/	100	345	376	414	466	528	604	690	756	821	12.4	13.2	11.5
		100	109	120	135	153	175	200	219	238			
United States investment in manufacturing in Latin America a/	100	196	220	251	284	323	380	427	461	514	9.5	7.0	12.8
		100	112	128	145	165	194	218	235	262			
United States investment in manufacturing in Brazil a/	100	320	337	380	412	415	449	525	555	634	10.8	12.3	8.9
		100	105	119	129	130	140	164	173	198			
Productive capacity of the manufacturing in the United States b/	100	161	167	172	179	187	195	209	224	232	4.8	4.9	4.7
		100	104	107	111	116	121	130	139	144			

Sources: a/ United States Department of Commerce, Survey of Current Business, various issues.

b/ Statistical Abstract of the United States, 1968, page 719.

Table 13

UNITED STATES: GROWTH OF FOREIGN SALES AND DOMESTIC PRODUCTION
(Percentages)

	Growth rate of industrial production <u>a/</u>			Growth rate of foreign sales <u>b/</u>		
	1958-61	1961-65	1958-65	1957-61	1961-65	1957-65
Manufactures	5.4	7.2	6.5	8.2	14.1	11.0
Food products	3.9	2.7	3.1	6.8	6.0	6.4
Paper and paper products	5.4	5.7	5.6	4.7	14.7	9.5
Rubber products	3.5	9.6	6.9	5.3	8.4	6.9
Chemicals and chemical products	9.2	9.0	9.0	12.7	15.2	13.9
Basic metals	4.2	8.6	6.7	} 4.9 }	} 15.2 }	9.9
Metal products	4.8	8.8	7.0			
Machinery, non- electrical	6.8	10.7	9.0	11.0	16.2	13.5
Electrical machinery	8.6	8.6	8.6	2.2	15.3	8.6
Transport equipment	5.4	9.4	7.6	9.2	15.7	12.4

a/ ECLA, on the basis of United Nations, The Growth of World Industry, 1967, page 241.

b/ ECLA, on the basis of, United States Department of Commerce, Survey of Current Business, November 1966, page 719.

/The food

The food sector, which is the least dynamic sector in the United States, follows a similar trend abroad. The ratio of the foreign growth rate to the domestic growth rate is apparently greater for the two least dynamic sectors in the United States, food, and pulp and paper (2:1 and 1:7 respectively). The lowest ratio is found in the electrical machinery and rubber goods industries. It may thus be concluded that, though the degree of technological complexity may explain the rate of growth, both within and outside the United States, it does not explain the relation between the two rates.

In order to appreciate the relative importance of the activity of foreign-based companies, a comparison may be made of the expenditure on plant and equipment abroad and in the United States. For all the manufacturing industries on which information is available, expenditure abroad accounted for 15.5 per cent of expenditure at home in 1960, and rose to 29.2 per cent in 1966. In the mining and petroleum sectors combined, the proportion rose from 52.1 per cent in 1960 to 60.1 per cent in 1966. In the rubber products sector expenditure abroad was greater than domestic expenditure in both 1960 and 1966 (29.6 and 43.7 per cent, respectively). In 1966, the chemical and transport equipment sectors followed it, with expenditure abroad and at home of 39.2 and 37.4 per cent, respectively.

In analysing the above data, it must be borne in mind that they represent a comparison between the activities of United States firms operating abroad and those of the whole industrial sector in the United States. If the comparison were only between subsidiary and parent companies, the proportion of expenditure abroad would be much higher. Furthermore, only the top flight of United States firms - in terms of size and funds devoted to research and development - are being compared with the universe of United States industrial enterprises.

Table 14

EXPENDITURE ON PLANT AND EQUIPMENT BY UNITED STATES FIRMS AT HOME AND ABROAD, 1960-1966

(Millions of dollars)

Sectors	Manufacturing, total sectors chosen	Food	Pulp & paper products	Chemicals	Rubber and rubber products	Metals and manu- factures	Mechan- ical	Electrical equip- ment	Trans- port equip- ment	Mining and petroleum
<u>1960</u>										
A	7 600	920	750	1 600	230	1 010	1 100	680	1 310	3 630
B	1 185	97	78	237	68	133	132	104	336	1 893
B/A percentage	15.5	10.5	10.4	14.8	29.6	13.2	12.0	15.3	25.6	52.1
<u>1961</u>										
A	7 340	980	680	1 620	220	920	1 100	690	1 130	3 740
B	1 528	116	71	277	91	169	190	141	473	1 892
B/A percentage	20.8	11.8	10.4	17.1	41.4	18.4	17.3	20.4	41.9	50.6
<u>1962</u>										
A	7 840	1 130	710	1 650	250	1 060	1 240	690	1 210	3 820
B	1 702	113	70	329	87	142	185	158	618	2 224
B/A percentage	21.7	11.0	10.0	19.9	34.8	13.4	14.9	22.9	51.0	58.2
<u>1963</u>										
A	8 160	970	720	1 610	240	1 100	1 240	690	1 590	3 960
B	2 028	132	134	436	98	204	330	164	530	2 287
B/A percentage	24.9	13.6	18.6	27.1	40.8	18.5	26.6	23.8	33.3	57.8
<u>1964</u>										
A	9 940	1 060	940	1 970	270	1 410	1 640	660	1 990	4 550
B	2 712	157	166	621	109	299	415	212	733	2 486
B/A percentage	27.3	14.8	17.7	31.5	40.4	21.2	25.3	32.1	36.8	54.6
<u>1965</u>										
A	12 070	1 170	1 130	2 470	350	1 660	1 990	880	2 509	5 140
B	3 554	182	213	870	164	356	594	218	957	2 934
B/A percentage	29.4	15.6	18.8	35.2	46.9	21.4	29.8	24.8	38.3	57.1
<u>1966</u>										
A	15 202	1 440	1 460	2 960	450	1 802	2 990	1 190	2 990	5 910
B	4 435	205	271	1 159	139	463	765	265	1 119	3 553
B/A percentage	29.2	14.2	18.6	39.2	43.7	25.7	25.6	23.5	37.4	60.1

Source: United States Department of Commerce, Survey of Current Business, September 1962, page 21; September 1965, page 30 and September 1966, page 33.

N.B: A = Expenditure in the United States.

B = Expenditure abroad, including purchase of fixed capital assets.

C/ Excluding unprocessed iron and steel products.

/By applying

By applying certain hypotheses, it is possible to estimate the relative size of the stock of equipment abroad and in the United States. For the year 1966, the stock of equipment abroad is estimated at 14 per cent of the stock in the United States; in mining and petroleum the proportion is estimated to be 46 per cent.^{11/} (See table 15.)

Assuming that current trends continue in the next few years, expenditure on equipment by foreign-based subsidiaries in 1980 may be estimated higher than that of national industry in the United States (an estimated 131 per cent).^{12/} The situation would vary in the different manufacturing sectors. In the chemical industry, expenditure abroad would far exceed expenditure at home. At the other end of the scale, foreign expenditure in the food industry in 1980 would be about one-third of domestic expenditure. For mining and petroleum, expenditure abroad would be slightly less than that in the United States (see table 16).

In respect of the manufacturing sector as a whole, it is estimated that the stock of equipment outside the United States is about two-thirds of the stock inside the country. The chemical industry is the only sector where the foreign stock is estimated to be greater than the domestic stock. In mining and petroleum, the proportion would be about the same as that estimated for the manufacturing sector as a whole (two-thirds).

^{11/} $\alpha = \frac{\delta Ex/Ex}{\delta Ed/Ed}$ Ratio of the rate of growth of the stock of equipment outside to its rate of growth in the United States.

$\beta = \frac{\delta Ex}{\delta Ed}$ Ratio between the increments outside and inside the United States. For the final ratio between the stock abroad and at home divided α by β .

^{12/} If total assets in the form of equipment at home and abroad were to grow in terms of $E = e$, the ratio between the growth rates of the two stocks of equipment would be equal to the ratio between the growth rates of the increase in those stocks. Taking account of the fact that the increases on which information is available include some equipment for replacement purposes, it may be assumed that the depreciation rates are such as to leave the ratio of gross to net increases in equipment unchanged. If it is preferred to assume that the depreciation rates are the same at home and abroad, (and less than the growth rate), the quotient of the "gross" growth rates would be underestimated compared with the quotient of growth rates of the "net" increases in equipment. If it is assumed that depreciation abroad is less than depreciation at home, since there is less competition abroad, the figure would be still further underestimated.

Table 15

RELATIONSHIP BETWEEN ASSETS IN THE FORM OF EQUIPMENT ABROAD
AND IN THE UNITED STATES

(Percentages)

	High estimate	Average estimate	Low estimate
Total for the manufacturing sector	17	14	12
Food	9	8	6
Pulp, paper and paper products	11	10	8
Chemicals	17	14	12
Rubber and rubber products	31	26	22
Metals and manufactures	13	11	9
Machinery, non-electrical	16	14	11
Electrical equipment	15	12	10
Transport equipment	30	25	21
Mining and petroleum	55	46	38

Source: United States Department of Commerce, Survey of Current Business,
November 1966.

Table 16

PROJECTION OF THE RELATIVE SHARE ABROAD AND IN THE UNITED STATES
OF ANNUAL EXPENDITURE AND ASSETS IN THE FORM
OF EQUIPMENT, 1980

	Annual expen- diture abroad	Assets in the form of equipment abroad		
		Assets in the form of equipment in the United States		
	Annual expen- diture in the United States (Percentage)	High hypothesis	Average hypothesis	Low hypothesis
Total for the manufac- turing sector	131	77	65	54
Food	32	21	18	15
Pulp, paper and paper products	72	44	37	30
Chemicals	367	158	132	110
Rubber and rubber products	109	78	65	54
Metals and manufac- tures	121	64	53	44
Machinery, non- electrical	150	95	80	67
Electrical equipment	63	40	34	28
Transport equipment	88	70	59	49
Mining and petroleum	84	77	64	53

/With the

With the possible exception of the food sector, it can be assumed that most of the large-scale enterprises that operate abroad would find by 1980 that at least half their business originated outside the United States. Such a shift in the concentration of production implies that the economic development of the countries where subsidiaries are based will have a growing importance for those firms that substantially direct the course of the United States economy; and this means that these countries will be in a stronger position when bargaining with international enterprises belonging to the United States, especially if they co-ordinate their efforts at the regional level.

3. Flow of goods

The effect of subsidiary firms' production activities on United States exports depends, inter alia, on the import coefficient of the subsidiaries, the rate of growth of production abroad, the speed at which the particular type of manufacture produced is modified, the activities of the subsidiaries as distributors of products manufactured by the parent company, and the net effect on the countries' capacity to import.

Exports through subsidiaries over the past decade are estimated on average at 25 per cent of United States exports of manufactures. Since the production of subsidiaries is expanding much more rapidly than exports of United States manufactures, the proportion of total exports made through subsidiaries is tending to increase; assuming that past trends continue, it would be about 63 per cent of the United States total exports of manufactures by 1980.

In this way, a large proportion of United States exports would not flow through the normal international trade channels, which would help to mitigate the effect of a possible loss of competitive capacity of some United States manufactures on the world market. With the establishment of United States subsidiaries in a country it would be tacitly decided to import products from the United States.

Thus, more and more of United States exports of manufactures are being handled by the big United States enterprises, i.e., those operating abroad. These companies are not only responsible for a large part of the

/research and

research and development activities of United States industry, which would account for the structure of its exports,^{13/} but it is increasingly through them that United States exports reach the rest of the world.

Sales by subsidiaries and exports from the United States show different trends in different regions. Latin America has partly replaced imports from the United States by local production by United States subsidiaries. In Canada and Europe, the increase in sales by subsidiaries has run parallel with a rise in imports from the United States, although the latter have grown more slowly. From 1957 to 1965 Latin America declined in importance as a market for United States exports of manufactures, but continued to have virtually the same importance as a market for United States subsidiaries. The opposite was true of Canada. Only in Europe did the market expand and absorb both more United States exports and more products from United States subsidiaries. In 1957 it absorbed 15.9 per cent of United States exports of manufactures and 35.1 per cent of the total sales of United States subsidiaries abroad; in 1965 it absorbed 29.4 per cent and 45 per cent respectively (see tables 17 and 18).

For an analysis of the effect of subsidiaries on imports from the United States a distinction must be made between primary products and manufactures. In the case of primary products, the subsidiaries were established in the countries concerned to seek sources of supply; accordingly, their production is destined mainly for export. In the case of manufactures, what they seek is consumer purchasing power, and with few exceptions they have hitherto been geared to the domestic market (see tables 19 and 20).

^{13/} C.P. Kindelberger, Foreign Trade and the National Economy (Yale University Press, 1962); R. Vernon, "International investment and international trade in the product cycle", Quarterly Journal of Economics, May 1966; D.S. Keesing, "Labor skills and international trade: Evaluating many trade flows with a single measuring device", Review of Economics and Statistics, August 1965.

Table 17
EXPORTS BY UNITED STATES MANUFACTURING ENTERPRISES AND SALES BY
THEIR SUBSIDIARIES, BY REGION OF DESTINATION
(Percentages of world total)

Region	1957	1959	1961	1962	1963	1964	1965
<u>Latin America</u>							
Exports	28.5	24.6	20.5	18.2	16.4	16.5	16.8
Sales	11.5	11.7	13.1	13.1	12.1	12.4	12.0
<u>Canada</u>							
Exports	22.8	24.7	20.2	20.0	20.3	20.9	24.7
Sales	43.9	40.1	33.5	32.8	31.8	30.5	31.6
<u>Europe</u>							
Exports	15.9	17.1	24.5	24.3	25.5	26.9	29.4
Sales	35.1	38.9	44.2	44.4	45.3	45.3	45.0
<u>Latin America, Canada and Europe</u>							
Exports	68.5	66.6	65.3	62.6	62.2	64.4	70.9
Sales	90.6	90.7	90.9	90.2	89.3	88.4	88.6

Sources: a/ Exports: UNCTAD, Handbook of International Trade and Development, 1969. (data presented according to the Standard International Trade Classification (SITC), sections 5, 6 and 7).
b/ Sales: United States Department of Commerce, Survey of Current Business, November 1966 (data presented according to the Department of Commerce Classification). Foodstuffs are not included.

Table 18
RATES OF GROWTH OF UNITED STATES EXPORTS OF MANUFACTURES AND
SALES BY MANUFACTURING SUBSIDIARIES ABROAD, 1957-65
(Percentages)

Sector Region	Chemicals		Machinery and transport equipment		Other sectors		Total	
	Exports	Sales	Exports	Sales	Exports	Sales	Exports	Sales
Latin America	0.8	13.8	-2.0	14.0	-3.5	9.2	-2.2	12.3
Canada	5.6	8.2	6.8	6.9	2.4	7.0	5.2	7.1
Europe	11.2	16.2	13.9	14.9	10.6	15.1	12.3	15.2
<u>World total</u>	<u>6.8</u>	<u>13.2</u>	<u>4.7</u>	<u>11.8</u>	<u>1.8</u>	<u>10.3</u>	<u>4.1</u>	<u>11.6</u>

Source: Exports: UNCTAD, Handbook of International Trade and Development Statistics 1969 (data presented according to the Standard International Trade Classification (SITC), sections 4, 6, 7 and 8).
Sales: United States Department of Commerce, Survey of Current Business, November 1966 (data presented according to the Department of Commerce classification).

Table 19

DISTRIBUTION OF SALES OF UNITED STATES SUBSIDIARIES IN THE
MINING SECTOR (EXCLUDING PETROLEUM)

(Percentages of total sales)

	Year	Total	Canada	Latin America	Europe <u>a/</u>
<u>Exports to the</u> <u>United States</u>					
	1957	44	54	44	6
	1963	40	47	47	4
	1964	36	45	37	<u>b/</u>
	1965	36	43	40	2
<u>Exports to other</u> <u>countries</u>					
	1957	40	29	45	69
	1963	42	30	40	76
	1964	42	28	46	80
	1965	41	28	42	82
<u>Total exports</u>					
	1957	84	83	89	74
	1963	82	77	87	80
	1964	79	73	84	80
	1965	77	72	82	83
<u>Local sales</u>					
	1957	16	17	11	26
	1963	18	23	13	20
	1964	21	27	16	20
	1965	23	28	18	17

Source: United States Department of Commerce, Survey of Current Business,
November 1966.

a/ Little mining activity is in the hands of United States companies.

b/ Less than 500,000 dollars.

Table 20

UNITED STATES: IMPORTS OF MANUFACTURES FROM SUBSIDIARIES
 (Percentages of total imports in each sector)

	1957		1965
	All regions	Canada	All regions
Paper and paper products	46	50	49
Chemicals	34	64	22
Rubber products	19	50	5
Machinery, non-electrical	19	24	14
Electrical machinery	16	44	7
Transport equipment	22	25	23
<u>Total</u>	<u>33</u>	<u>48</u>	<u>25</u>

Source: United States Department of Commerce, Survey of Current Business, November 1966.

United States mining subsidiaries operating in Latin America export about 80 per cent of their output, half to the United States and half to third countries. Exports to the United States represent approximately 80 per cent of that country's total imports of mining products. Manufacturing subsidiaries sell more than 90 per cent of their output on Latin American markets and about 80 per cent to Canada and Europe. Canada's exports go chiefly to the United States and represent about 50 per cent of that country's total imports from Canada. Exports from subsidiary firms in Europe go mainly to the European regional market. United States imports of manufactures from subsidiaries abroad represent one-quarter of its total imports of manufactures and come mainly from Canada. Imports from subsidiaries in other regions represent only a small percentage of total imports from those regions.

4. Flow of technology

Taking it for granted that the rapid expansion of United States enterprises in foreign markets is partly due to United States technological supremacy, it is interesting to establish what role such enterprises play in the transfer of technical know-how.

Payments between enterprises are not a good yardstick for measuring the amount of know-how transferred from one firm to another, since they do not cover the techniques incorporated in goods and services; furthermore, the criterion for assessing the value of the know-how transferred from the parent company to its subsidiaries tends to be somewhat arbitrary. The countries' legislation governing remittances of profits and the introduction of foreign techniques may have no small part to play in this assessment. In spite of these limitations, however, the available data on payments from one enterprise to another for the transfer of technology is the best way of determining what role United States firms established abroad play in this process.

In 1965, receipts from the sale of United States know-how were approximately nine times the amount spent by United States enterprises on acquiring know-how from abroad. From 1957 to 1965 they grew by 15.8 per cent annually, and expenditure by 13.6 per cent annually. In other words, the technological balance of payments reflects not only a very large but also an increasing surplus (see table 21).

Table 21

UNITED STATES: TECHNOLOGICAL BALANCE WITH THE
REST OF THE WORLD, 1957-1965

(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts	378	414	514	650	711	837	927	1 057	1 225
Payments	48	51	52	67	80	100	111	127	133
Balance	330	363	462	583	631	737	816	930	1 092

Source: OECD, Reviews of National Science Policy: United States, 1968, based on data supplied by the United States Department of Commerce.

/The sale

The sale of know-how to independent firms, which represents barely 25 per cent of the total sales, increased by 10 per cent annually from 1957 to 1965. On the other hand, payments for know-how obtained from foreign firms represent 50 per cent of the total payments for know-how introduced in the United States and are increasing by 14.7 per cent annually. That is to say, United States firms show a favourable balance in their transaction with foreign firms relating to technology but the ratio of income to expenditure is declining (see table 22).

Table 22

UNITED STATES: TECHNOLOGICAL BALANCE WITH
FOREIGN FIRMS, 1957-1965

(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts	140	168	166	247	248	257	267	301	301
Payments	22	25	28	40	46	43	50	60	66
Balance	118	143	138	207	202	214	217	241	235

Source: As for table 21.

During the same period, the sale of technology to subsidiaries (75 per cent of the total) rose by 18.5 per cent annually and purchases by 12.6 per cent. From the standpoint of both the United States and other countries, a distinction should be made between these two flows. The parent company has much greater control of the know-how when it is sold to a subsidiary company than when it goes to an independent firm; in the best of cases, this know-how will strengthen the competitive capacity of the country in which the subsidiary is located, but only in relation to less developed third countries. On the other hand, know-how purchased by an independent firm may boost the competitive capacity of industry in the country acquiring it, even in relation to the United States.

/At the

At the same time, the technical innovations introduced by a subsidiary will tend, in general, to reinforce the United States' competitive capacity rather than that of the country in which the subsidiary is operating (see table 23).

Table 23

UNITED STATES: TECHNOLOGICAL BALANCE BETWEEN PARENT
COMPANIES AND SUBSIDIARIES ABROAD, 1957-1965

(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Receipts from sales of technology to subsidiaries	238	246	348	403	463	580	660	756	924
Payments for technology from subsidiaries	26	26	24	27	34	57	61	67	67
Balance	212	220	324	376	429	523	599	689	857

Source: As for table 21.

The regional distribution of the sale of technology to subsidiaries may provide some indication of the technological content of the products concerned. To that end, however, a separate analysis must be made of the two "products" included in the sale of know-how: that consisting of royalties on patents and manufacturing licence fees, and that comprising management services. The former may be assumed to reflect more directly the transfer of production know-how, and the second that of management know-how. By way of a hypothesis, the type of product sold by subsidiaries in developed countries may be assumed to be technologically more complex than those sold by subsidiaries in developing countries. The result is a higher ratio of the sale of production know-how to sales by subsidiaries. In contrast, there would be a greater need for management know-how in the less developed countries; hence the higher ratio of the sale of management know-how to sales by subsidiaries.

/The available

The available data bear out this hypothesis. According to these, subsidiaries in Japan, the United Kingdom and the rest of Europe absorb the most production know-how in relation to sales, and those in Canada, Latin America and the rest of the world absorb the most management know-how. In the more developed regions, the proportion of sales by subsidiaries is lower than the United States sales of production know-how to the subsidiaries. In the less developed regions, the proportion of sales is lower than that of the sale of management know-how (see table 24).

The regional distribution of the purchase of technology from subsidiaries suggests that subsidiaries established in developing countries devote scarcely any attention to research and development, which does nothing to promote local industry; the technological gap between the country of origin and that in which the subsidiary operates is therefore widening (see table 25).

It may be concluded from the foregoing observations that there are no grounds for expecting the best remedy for the technological backwardness of certain countries to be the presence of international firms, and still less reason for thinking that such firms will increase their competitiveness in the world market for manufactures.

From 1957 to 1965 the sale of technology through subsidiaries increased almost three times as fast as sales of goods, a little less than twice as rapidly as income from capital investment abroad, and nearly two-and-a-half times as fast as the resources earmarked by United States industry for research and development.^{14/} If these trends continue in the next few years, by 1980 the United States technological balance will be 16 per cent of its total sales of goods, 69 per cent of its income from capital investment abroad, and 55 per cent of the funds set aside by United States industry for research and development. Therefore, the expansion of subsidiaries abroad would generate resources merely through the transfer of technology to a value which would be more than half the amount United States industry would be investing in order to maintain its technological supremacy.

^{14/} The information on industry's expenditure on research and development is obtained from the National Science Foundation, United States, National Patterns of R-D Resources, 1953-1968.

Table 24

REGIONAL DISTRIBUTION OF SALES BY SUBSIDIARIES AND OF THE SALE OF
KNOW-HOW TO SUBSIDIARIES BY THE UNITED STATES, 1964-1965

(Percentages of the total)

	Canada	Latin America	United Kingdom	Rest of Europe	Japan	Rest of the world
<u>Sales 1964</u>	31.0	13.2	18.3	26.4	1.9	9.2
Sale of production know-how	18.2	12.9	23.3	34.7	4.2	6.7
Sale of management know-how	33.1	13.7	15.6	24.2	1.9	11.5
Total sales of know-how	26.8	13.5	18.8	28.6	2.8	9.5
<u>Sales 1965</u>	31.7	12.9	44.3		11.1	
Sale of production know-how	20.1	11.9	58.5		9.5	
Sale of management know-how	29.5	15.6	41.3		13.6	
Total sales of know-how	25.3	13.9	48.9		11.9	

Source: As for table 21.

Table 25

REGIONAL DISTRIBUTION OF SALES BY SUBSIDIARIES AND OF THE SALE OF
KNOW-HOW BY SUBSIDIARIES TO THE UNITED STATES, 1964

(Percentages of the total)

	Canada	Latin America	United Kingdom	Rest of Europe	Japan	Rest of the world
Sales by subsidiaries	31.0	13.0	18.3	26.4	1.9	9.2
Sale of know-how by subsidiaries to the United States	20.7	-	23.5	52.9	2.9	-

Source: As for table 21.

/The presence

The presence of subsidiaries abroad also enables United States industry to keep abreast of the world market's technological requirements and in constant touch with the innovations introduced by enterprises in the countries where they are operating, and with which they compete on the world market.

In brief, subsidiaries abroad constitute an important motivation for technological development in United States industry, provide information which is useful in guiding such development, help to finance it, transfer technology to other countries and operate as an efficient way of pouncing on the technological advances made in the countries in which they operate.

5. The flow of capital

This section analyses the flow of capital resulting from United States direct private investment abroad. It deals both with the private capital investment in enterprises established in other countries but controlled by United States residents and with remittances to the United States of profits earned by them on the other hand, the analysis does not cover portfolio investments in enterprises not owned by United States residents or capital contributed by public institutions in the United States, even though it may be invested in United States companies abroad.

Obviously, some of the capital movements not taken into account are connected with direct investment. In fact, net movements associated with direct investment in a given sector and region may sometimes bear a different sign from that of the net flow of capital which has been left out of this analysis but which is nonetheless induced by direct investment. In other words, not only will no attempt be made to measure the total direct or indirect net effect of the transfer of capital from the United States to other countries but it may well be that the sign obtained from the analysis is not the same as it would have been if account had been taken of all capital movements resulting from the presence of United States firms abroad.

Between 1960 and 1968, remittances of profits to the United States by subsidiaries abroad exceeded the capital flow in the opposite direction by 10,000 million dollars, which is roughly a third of all United States capital investment in other countries in 1960. Some 80 per cent of this balance in favour of the United States derived from the petroleum industry, that is, approximately 73 per cent of the capital invested in the sector at the beginning of the period. The manufacturing industry was the only sector where the inflow of capital exceeded the outflow of remittances and where the favourable balance was only about 9 per cent of investment in the sector in 1960.

The only region where the capital inflow was greater than the outflow of remittances was Europe, where the favourable balance was approximately 72 per cent of United States investment in Europe in 1960.

Latin America's negative balance of around 6,700 million dollars was 81 per cent of accumulated investment up to 1960. Here the manufacturing sector alone showed a surplus - equal to 25 per cent of investment in the sector in 1960. Latin America's negative balances in mining and petroleum exceeded the 1960 level of investment by 158 and 137 per cent respectively (see tables 26 and 27). Since investment in extractive sectors was minimal in Argentina, Brazil and Mexico, their balances, unfavourable though they were, did not amount to more than 1 per cent of their exports during the period; in the other countries, however, the negative balance was equal to 11 per cent of total exports (see table 28).

Table 26

DIFFERENCE BETWEEN CAPITAL INVESTMENT AND REMITTANCES
OF PROFITS, 1960-1968
(Million of dollars)

	Total	Mining	Petroleum	Manufac- turing	Other sectors
<u>All regions</u>	-9 964	-2 148	-7 922	949	-806
Canada	-646	61	278	-934	-51
Latin America	-6 745	2 080	-4 285	376	-757
Europe	4 796	-59	3 165	1 399	291
Other regions	-7 368	-107	-7 079	108	-289

Source: ECLA on the basis of United States Department of Commerce,
Survey of Current Business, October 1969. /Table 27

Table 27

BALANCE BETWEEN CAPITAL INVESTMENT AND REMITTANCES, 1960-1968
(Percentage of investment in 1960)

	Total	Mining	Petroleum	Manufac- turing	Other sectors
<u>All regions</u>	-31.3	-71.7	-73.3	+8.6	-11.5
Canada	-5.8	+4.6	+10.4	-19.4	-2.2
Latin America	-80.6	-157.7	-137.3	+24.7	-31.5
Europe	+71.7	-120.4	+179.5	+36.8	+17.1
Other regions	-130.9	-35.2	-217.1	+12.0	-24.8

Source: ECLA, on the basis of previous tables and United States
Department of Commerce, Survey of Current Business, August 1961.

Table 28

GROWTH RATE OF AND RATE OF RETURN ON INVESTMENT AND
CAPITAL BALANCE IN ARGENTINA, BRAZIL
AND MEXICO, 1960-1968

	Argentina		Brazil		Mexico	
	All sectors	Manufac- turing	All sectors	Manufac- turing	All sectors	Manufac- turing
Rate of return						
Average (percentages)	12.0	13.1	8.8	10.2	8.1	8.7
Growth rate						
Annual average (percentages)	10.6	16.6	5.7	8.9	7.9	12.4
Capital balance (investment- remittances; in million of dollars)	-123.0	48.0	-71.0	-17.0	-108.0	143.0

Source: ECLA on the basis of United States Department of Commerce,
Survey of Current Business, various issues.

/Looking to

Looking to the future, the probable outlook is as follows:

(1) continuing high growth rates of investment in manufacturing;
(2) low growth rates in the extractive sectors, particularly in Latin America; (3) a drop in the yield on investment in the extractive sectors of Latin America, Asia and Africa as a result of the growing role of the countries in the marketing of their natural resources; and (4), a growing participation of residents of other countries in the ownership of United States enterprises operating abroad, owing probably to the way the expansion is financed the shift in the concentration of production, and increasing pressure from governments of other countries.

All in all, these hypotheses suggest that, in the medium and long term, the United States' favourable balance will tend to diminish, though this does not mean that, in the short term and in view of that country's precarious balance-of-payments situation, this net inflow of foreign exchange will cease to be a valuable asset.

/III. UNITED

III. UNITED STATES ENTERPRISES AND THE COUNTRIES IN WHICH THEY OPERATE

1. Introduction

As may be seen from the previous chapter, United States enterprises abroad are expanding more rapidly than in the United States. Assuming that the enterprises pursue a rational policy, it will presumably be more to their advantage to expand abroad than to try and corner a larger share of the home market. In order to break into a foreign market, however, they must have some kind of advantage over local firms. Since, as we shall now see, they not only manage to break into those markets but actually grow faster than local firms, then the advantage cannot be due only to passing circumstances but must derive from some permanent superiority in the various fields that determine an enterprise's efficiency. Finally, the governments of the countries where these enterprises have some advantage must be willing for them to operate on their markets.

By and large, the character of an enterprise is determined by its product, its technology, management and capital, and its access to international markets. These factors may have greater or lesser importance, depending on the size of the firm, its position in the country of origin, etc., but the important point is that there is always a combination of these factors. Though some of them may seem more attractive to the host the country, it will have to make a general appraisal of all pros and cons.

In weighing up the economic advantages of having international enterprises operating on its market, a country has to consider, for each factor whether it would be better advised to import the factors separately or as part of the combination of factors that make up the firm. If it seems more advisable to import each factor separately, there are three possibilities. First, it may be advisable to import each of the factors individually, i.e., obtain manufacturing licences, pay royalties for the use of production techniques and trade marks, use local manufacturing

/firms, bring

firms, bring trained personnel from abroad, sign technical assistance agreements for the management of the firms, obtain loans to finance investment, and join international business consortia to promote exports. In this case, there is no point in allowing the international enterprise into the country. Second, it may be advisable to import all the factors combined in an international enterprise. Here too the answer is clear: the presence of the enterprise will obviously be desirable. Third, it may be advisable to import some factors in combination with the enterprise, and other separately. The country may, for instance, decide that the most efficient means of importing technical and management know-how is through international enterprises operating on the local market, but it may be economically sounder to obtain credit than to accept an inflow of capital to the enterprise. If the benefit of importing the technology through the enterprise could be compared with the cost of receiving capital in the form of investment instead of as a loan, then it would be possible to reach a decision strictly on a cost-benefit basis.

In actual fact, this procedure is not really practical as the options to be compared are not independent of each other. Credit institutions will be influenced by the government's attitude towards the enterprises; the same applies to the potential suppliers of technology and agencies for marketing the production abroad.

This is the first obstacle that arises when an attempt is made to evaluate the economic advisability of allowing international enterprises into the country. So far in this paper, however, it has been assumed that their presence would not affect local factors of production or the behaviour of the country's economic agencies, so as to determine the most economical way of meeting a given demand for products, technology, management techniques, capital, foreign currency and trade outlets. This would be perfectly valid if only the different ways of satisfying the demand had the same effect on the country's economy or else if their different effects could be isolated, evaluated and then introduced into the cost-benefit analysis of the individual options.

/If a

If a country has no clearly defined strategy or lacks the necessary internal cohesion to apply it, the presence of international firms may change the composition of the basket of consumer goods, influence the attitude of financing agencies, inhibit or encourage the development of local technology, depending on the conditions prevailing beforehand, and help to form a new pattern of demand for the factors of production and a new pattern for the distribution of the income generated by the productive activity among the various social groups. In a word, they play an important part in determining the country's pattern of development. Their possible repercussions on the country will depend on the pre-existing situation, the type of activity or sector in which they operate, and how much weight they carry in their sector.

Once international enterprises have been introduced, it is easy enough to analyse the economic impact they have on their environment, but it is impossible to reconstitute the situation as it would have developed without them. In other words, although the amount paid in wages and salaries, and taxes, the exports and imports generated, and the investments made by international enterprises can all be calculated, there is no way of knowing what would have happened if the country had denied them entry.

Unless, therefore, the country knows exactly what pattern of development it could pursue without the international enterprises and can quantify its findings and compare them with the development that would be achieved with international enterprises, there would seem to be no way of determining what attitude it should adopt towards them, on the basis of strictly economic criteria.

It is possible to consider in detail whether or not it is advisable to allow a given firm into the country; assuming that this would be a project that is marginal to the country's economy the opportunity cost of the domestic resources to be allocated to it can be calculated and an accurate evaluation of the project's economic cost-benefit ratio obtained.

It would be impossible, however, to evaluate the economic merits of all the international firms that have helped to make the economies of many countries what they are on the assumption that they are of marginal importance.

/That would

That would be tantamount to suggesting that the relative price structure, the pattern of income distribution between social groups and between regions, the population's consumption functions, and the behaviour and relative importance of the public sector did not depend on the pattern of development, which, in many countries, is decided by international enterprises. Where this is the case, any attempt to weigh up the merits of these firms is much the same thing as passing judgement on the economic validity of the country's over-all development model, which obviously cannot be done without introducing value judgements of a political nature. It is nonetheless useful to analyse the economic impact on countries of the presence of international firms, always remembering that, when they are one of the principal economic agents, the conclusions reached do not provide a sound enough basis for deciding whether, as a general rule, they are or are not desirable.

In practice, there are usually conflicts of interest between the enterprises and the economy in which they operate, which vary in nature and intensity depending on the sector involved and their size compared with local firms. The reasons for these disagreements seem to be different in the manufacturing sector from what they are in the extractive sector, possible because, in the latter sectors, international enterprises are identified with a type of development, based on the international division of labour between the suppliers of raw materials and the producers of manufacturers, which the developing countries are anxious to leave behind them. In the manufacturing sector, on the contrary, they reflect a desire to industrialize. Opinions may differ as to the targets and methods of industrialization, but there is general agreement that international industrial enterprises are one way of working towards that goal.

Some sources of conflict are common to both sectors, such are foreign control over certain decisions that affect the country, the volume of remittances of locally generated profits, the tapping of local financial resources and personnel policies of these enterprises.

/In the

In the extractive sectors, tension arises from three factors.^{15/}
In the first place, increases in the enterprise's efficiency are not passed on to local consumers (as they might be, theoretically, in manufacturing) but to the buyers of the exported product. This leads to disagreement about production techniques, wage and salary scales, purchases of local inputs, etc. Secondly, the enterprises and its host country concerned with different parts of the international market. Operating as it does in several countries, the enterprise defines its level of production and prices in terms of the conditions of supply obtaining at its different plants, bearing in mind its place in the market it supplies: but the country is interested only in the trend of costs at the local plants and in the share of the market they command. Both the trend of the costs and the share of the market, however, may look different from the point of view of the enterprise as a whole, and this becomes even more important when the country decides to start exporting in industrial products. Thirdly, whereas spreading the risks involved in foreign operations may have a considerable bearing on the enterprise's investment decisions, this factor is obviously of no concern to the local government. These three factors are reflected in different attitudes to programmes for the expansion of production and for giving products more local processing.

In the manufacturing sector, international enterprises are usually competing with local firms. The greater efficiency of the international enterprises which, from the point of view of the country as a whole, is what justifies their presence on the national market, gives them an advantage over local firms, both on the commodity market and on the market for the factors of production. The local firms cannot be expected to like their being there.

^{15/} A detailed analysis of the possibilities of conflict in the extractive sectors will be found in Leland L. Johnson U.S. private investment in Latin America: Some questions of National Policy, Rand Corporation Memorandum RM-4092-ISA, July 1964.

/From the

From the point of view of firms supplying the international enterprises or using products manufactured by them, their presence may mean lower prices, higher quality and greater reliability than were obtainable previously. While the sectors that are put at a disadvantage by international enterprises will tend to complain about the foreign take-over of industry, those that benefit from the external economies provided by the international enterprises will stress the technological and management know-how they introduce.

Both arguments are valid and are closely interrelated. If international enterprises grow faster than local firms - which is what the foreign take-over means - it is precisely because they have access to more and better capital, technology and organizational know-how than the local enterprises. This is an essential condition for a foreign take-over. From the strictly economic angle, all this means is that international enterprises are better, which is exactly why government try to attract them to their national markets.

This chapter attempts to compare the speed of the foreign take-over in different countries, interpret its significance and examine the behaviour of international enterprises in exporting manufactures. The latter is particularly important inasmuch as: (1) international enterprises play a significant role in the industrial structure of many countries; (2) they operate on the international market under highly favourable competitive conditions; (3), they may become a source of conflict when the distribution of production among subsidiaries in various countries clashes with the interests of the individual governments.

2. Comparison between the level of activity of the subsidiary companies and the industrial growth of the countries in which they operate

If the industry of the different countries in which United States firms operate grows more slowly than the firms' activities, it will be said that foreign firms are taking over.^{16/} Indicators are needed to represent exactly comparable activities of the United States firms and of local industry, but there are none that are comparable in all respects. That being so, the growth of sales will be used to measure the expansion of the enterprises, and the increase in output to measure the growth of industry. As no detailed sectoral information is available, data on the manufacturing sector as a whole will be used. The calculations will be made for all the countries on which information is available (see table 29).

Between 1957 and 1965 United States enterprises grew more rapidly than the industry of the countries in which they operated, except in Brazil. The foreign take-over appears to be particularly rapid in the European countries, in all of which the United States enterprises grew at about three times the rate of local industry, and more rapidly in the second half of the period, than in the first, in most of the countries. The accelerated growth in the second half was due much more to the increase in the growth rate of United States enterprises than to a drop in local industrial output.

In Argentina, for instance, in the period 1957-1961, when the United States subsidiaries grew at a rate of 23 per cent a year, local industry remained virtually stagnant (growth of 0.5 per cent). Thus, the stagnation of the local industry went side by side with the boom in the sales of the United States enterprises. The situation was much the same in other countries, though in a less accentuated form (see table 29).

^{16/} To be precise, there would be a foreign take-over only if the activities of all the foreign firms, not only United States firms, expanded more rapidly than those of local firms. There might be cases where the United States firms grew more slowly than local industry as a whole, but where all the foreign firms were expanding at a faster rate than local industry.

Table 29

GROWTH RATES OF UNITED STATES MANUFACTURING FIRMS ABROAD AND OF LOCAL INDUSTRY, BY COUNTRY

Country	Annual growth rate of sales by subsidiaries			Annual growth rate of local industrial production			Growth rate of sales by United States subsidiaries	
	1957-1961	1961-1965	1957-1965	1957-1961	1961-1965	1957-1965	1957-1961	1961-1965
							Growth rate of local industrial production	
Argentina	23.0	13.7	18.0	0.5	5.7	3.1	46.00	2.40
Brazil	8.6	4.7	6.6	12.5	2.0	7.1	0.69	2.35
Mexico	6.8	16.9	11.7	8.4	7.4	7.9	0.81	2.28
Venezuela	8.8	13.2	11.0	8.4	9.4	8.8	1.05	1.40
Canada	1.7	12.3	6.9	1.7	9.9	5.7	1.00	1.24
South Africa	2.9	15.3	8.9	5.1	10.9	7.9	0.57	1.40
France	13.2	21.0	16.9	4.7	4.7	4.7	2.81	4.47
West Germany	19.4	17.7	18.5	7.4	5.9	6.7	2.62	3.00
Italy	23.0	25.0	24.0	10.1	6.4	8.2	2.28	3.91
United Kingdom	11.2	10.3	10.8	3.3	4.0	3.6	3.39	2.58
Japan	15.0	25.0	19.8	15.5	10.3	12.9	0.97	2.43
Australia	7.8	20.0	13.9	4.5	7.4	5.9	1.73	2.70
Philippines	8.0	11.8	9.9	6.4	5.9	6.1	1.25	2.00

Source: Data on sales by subsidiary firms: United States Department of Commerce, Survey of Current Business, November 1966.

Data on industrial production: ECLA, based on United Nations, Statistical Yearbook, 1965-1968.

The information on which table 29 is based shows that the growth of the United States enterprises is not necessarily due to the same factors that influence that of local enterprises. A restriction of local credit usually causes a slump in local activities, whereas international firms can call on the parent companies for help. Restrictions of import capacity generally hit local firms harder than international enterprises, and the fact that the latter manufacture new products makes them better able to ride out periods when consumer purchasing power is growing slowly or not at all.

Only in Argentina is the increase in industrial activity from one period to another seen to be associated with a big drop in the sales of the United States firms. As a general rule, because they have been better able to withstand the periods of recession or slow growth, international enterprises are in a better position to face the boom periods that follow.

A comparison of the growth rates alone is not enough to evaluate this process of foreign take-over. It is necessary to know what share of the country's total industrial activity is accounted for by United States enterprises. The fact that in Japan, for instance, United States enterprises grow 1.5 times as fast as local industrial output and in Canada 1.21 times, might suggest that the foreign take-over is more serious in Japan than in Canada; but the sales of international firms operating in Japan are only a minute fraction of total production, whereas in Canada they account for nearly 50 per cent.

The indicators that are available for calculating the share of the United States enterprises in local production leave even more to be desired than those used to compare the growth rates. It is all guess-work, and the result is probably grossly underestimated.

The value of sales by United States enterprises will be compared with that of the countries' gross industrial output. It is believed that these indicators must lead to an underestimate for the following reasons: (1) oil refining is not included in the sales of manufacturing firms but it is included in industrial production; (2) sales of intermediate products are counted more than once in estimating the gross industrial output.

/Since a

Since a large proportion of the sales of United States firms - larger than their share in total production - consists of finished goods, the difference between their sales and industrial production will be underestimated; (3) the value of output may include an increase in stocks (a factor which may also decrease the actual value of the output).

However, assuming that the margin of error in the estimates for the different countries is more or less constant, it will at least be possible to make comparisons.

It is observed that in Europe, where the foreign take-over appeared to be most rapid, the relative share of United States firms in production is still small. At the other end of the scale comes Canada, where the foreign take-over has been very slow, but the absolute value of the United States share of production is very high.^{17/} In Japan, the take-over is slow and the United States share of production is small. The opposite is true in Australia, where United States enterprises accounted for 18 per cent of production and local industry is being taken over quite rapidly.

These figures, apart from being very rough estimates, refer to industrial activity as a whole, but the sector in which the international firms operate is a matter of no little importance to the countries concerned. A foreign take-over is more serious for them in some sectors than in others. If the activities of those enterprises were distributed among all the sectors in the same proportion as the country's total production, the figures in table 30 would show now not only their share of total production but also their share of production in each sector. Actually, this is not so, as can be seen in table 31, where the distribution of the sales of United States firms is compared with the distribution of the total value added.

^{17/} In Foreign ownership and the structure of Canadian industry. (Privy Office of Canada, Ottawa, 1968), p. 422, it is pointed out that the proportion of the manufacturing industry controlled by United States residents was 44 per cent in 1964.

Table 30

VALUE OF SALES BY UNITED STATES ENTERPRISES AS A PERCENTAGE
OF THE GROSS VALUE OF INDUSTRIAL PRODUCTION, BY COUNTRY

Year	Country	Percentage
1963	Argentina	11.0
1965	Brazil	11.0
1965	Mexico	17.0
1965	Canada	38.0
1965	West Germany	4.0
1963	United Kingdom	8.0
1965	Japan	11.0
1964-1965	Australia	18.0
1965	Philippines	13.0
1963-1964	South Africa	10.0

Source: Value of sales: United States Department of Commerce, Survey of Current Business, November 1966. Gross industrial production and dollar exchange rates: United Nations, Statistical Yearbook, 1968.

Table 31

SECTORAL DISTRIBUTION OF SALES BY UNITED STATES ENTERPRISES
AND TOTAL VALUE ADDED, BY REGIONS

	Food	Paper and paper products	Chemicals	Rubber and rubber products	Metals and machi- nery	Other sectors	Total
<u>Canada</u>							
Sales by United States enterprises	11.6	10.2	13.7	3.5	50.2	10.8	100.0
Total value added	15.6	8.6	9.2	1.5	38.7	26.4	100.0
<u>Latin America</u>							
Sales by United States enterprises	19.2	3.1	24.9	7.3	33.6	11.9	100.0
Total value added	28.8	2.5	15.3	1.7	23.4	28.3	100.0
<u>Europe</u>							
Sales by United States enterprises	8.5	0.8	14.7	3.0	62.6	10.4	100.0
Total value added	12.3	3.0	11.2	1.4	42.2	30.0	100.0

Source: Sales figures: United States Department of Commerce, Survey of Current Business, November 1966. Value added: United Nations, The Growth of World Industry, 1967, vol. I, 1969.

/The sales

The sales structure by sector varies from region to region and, in each, differs from the structure of over-all production. The metal products and machinery, chemicals, and rubber products sectors always account for a greater share of sales than of the country's total value added. The opposite is true of the food sector and "Other sectors", in the latter of which the textile industry, plays an important part. Thus the take-over is selective and not equal in all sectors. Recent studies in Europe ^{18/} show that United States subsidiaries sell 95 per cent of all integrated circuits sold on the European market, 80 per cent of the computers, 40 per cent of the titanium dioxide and 30 per cent of the products of the automotive industry. All those sectors had high growth rates in the last decade. Studies on the plastics industry, ^{19/} one of the fastest-growing industries in recent years, show that 65 per cent of plastic production in Canada is by United States firms, a small percentage in West Germany and Japan, 5 per cent in France, 10 per cent in Italy, 30 per cent in the Netherlands, 26 per cent in the United Kingdom, and less than 5 per cent is fully controlled by United States subsidiaries in Sweden.

Sales by United States subsidiaries in the chemical sector in Latin America amounted to 1,690 million dollars in 1965. ^{20/} The value of total chemicals production in the same year is estimated at 3,270 million dollars. ^{21/} Consequently, about 52 per cent of the value of production in the chemical sector is accounted for by sales by United States firms. While such sales grew at an average annual rate of 15.4 per cent between 1959 and 1965, production expanded by 9.8 per cent. Production in the manufacturing sector as a whole grew by 5.6 per cent a year.

^{18/} See unpublished report of the commission set up to study United States investment in Europe, under the chairmanship of Jean Rey. Le Monde, 23 July 1970, economic supplement.

^{19/} OECD, Plastics, Gaps in Technology, Paris, 1969, pp. 54 and 56.

^{20/} United States Department of Commerce, Survey of Current Business, November 1966.

^{21/} ECLA, Las industrias químicas en América Latina y su evolución en los años 1959-1967 (E/CN.12.848).

The facts given above show that United States subsidiaries abroad grow more rapidly than the industry of the country in which they operate, and that this occurs most in the more dynamic sectors. The effects of this process both for the enterprises and for the governments concerned must be analysed, since their attitude will be determined by these effects.

3. Behaviour of United States firms in the field
of exports of manufactures

It is of interest for various reasons to analyse the behaviour of international enterprises in the field of exports of manufactures.

In the first place, these firms are playing an increasingly important part in industry in the different countries, with the result that those countries' exports of manufactures are governed increasingly by their behaviour. In certain sectors in the less developed countries - generally the most dynamic - these enterprises control nearly all production, and it is precisely in those countries that the need to increase exports is most pressing.

Moreover, their size, technology, management and marketing channels place them in as good a position as domestic firms - or better - to compete on the international market. Thus, they not only have a large share of the market by virtue of their sales volume, but they also constitute the industrial group that is in the best position to export. Apart from the normal export promotion incentives, the authorities of the countries have another way of exerting pressure on these enterprises, i.e., their attitude to remittances of profits. The success to be obtained by these tactics will depend on the country's position with respect to the enterprises. In other words, the policies they adopt with regard to the enterprises must be the logical reflection both of the importance they attach to having such enterprises in their industry, and of the over-all objectives of their industrialization strategy.

One of the most important questions in industrial strategy is how high the tariff barriers against imports are to be, and it is the height of these barriers that has been one of the factors that have

/determined whether

determined whether or not international firms should enter different markets. If the international firms established in a country require tariff protection to help them to produce locally to replace imports, this means that their prices are higher than those of imported products, so that they will be able to export only if they are subsidized. In addition, the level and selectiveness of the tariff structure will determine how far the international firms can specialize the production of their different plants. High or indiscriminate tariff barriers will induce the subsidiaries to manufacture the whole range of possible products, with a consequent loss of power to compete on the international market. Consequently, the tariff policy that is applied will be one of the factors that determine the performance of international enterprises in the export field.^{22/}

Regional integration, which is aimed at expanding markets and encouraging specialization (thus decreasing production costs), are an additional incentive for the establishment of international firms. The flow of exports of manufactures between the countries of the region will partly be determined by the distribution of the subsidiaries in the different countries. Thus, countries which, in themselves, would not have attracted international enterprises, might interest them as locations for plants to supply the region.

Because of their greater flexibility and because they are completely outside the control of private interests in the countries in which they operate, international firms have an obvious advantage over domestic firms in the struggle for these larger markets. The policies the countries adopt towards international firms will therefore have an immediate effect on the evolution and content of regional integration schemes.

There is a well-known interrelationship between the dynamism of exports of manufactures and their technological complexity. Hence, the rapid growth of the different countries' exports will partly depend on the type of product that the international firms decide to manufacture in each

^{22/} See Joel Bergsman, Brazil, industrialization and trade policies, (Oxford University Press, 1970), chapter III.

country or region. The type of export product manufactured on a large scale may have a decisive effect on the transfer of technology from the international enterprises to the industrial circles in which they operate. If the trend apparently being followed by international firms persists, namely, that of exporting from the less developed countries partially obsolete equipment as replacements, or only the simplest new products, or only the simplest components of the complex products that are assembled in the countries of origin, some of the theories according to which international firms promote technological progress in the countries where they operate would have to be reconsidered. The type of product they manufacture and export may therefore be important in deciding to what extent international firms improve the technological level of the countries in which they are established.

As was pointed out earlier, one of the possible sources of conflict between the international enterprises and governments is the fact that the behaviour of subsidiaries established in a given country is dictated by the general interests of the firm and the conditions prevailing in all the countries in which they are operating. In some cases, the decisions dictated by these considerations may not be the same as those that the subsidiary would have taken if it had taken account only of local conditions and its interests as an independent firm. If the decision was the same in both cases but even so conflicted with the interests of the government, the real problem would no longer have anything to do with the subsidiary being part of an international firm.

The decision to export or to concentrate on the local market is precisely one of those cases where such a conflict of interests might arise. This means that the attitude of the international enterprises to exports may provide an opportunity of evaluating the real economic significance for the countries of the fact that specific policies are adopted by decision-making centres which operate using a different frame of reference from the countries' own.

/The object

The object of this section is to analyse - only in general terms because of the lack of information - the situation with respect to exports of manufactures in the various regions where United States firms operate.

Unlike those in the extractive sectors, manufacturing firms have concentrated up to now on the domestic markets in the different regions. Table 32 shows that the oil companies of the region sold 41 per cent of their output in Latin America in 1957 ^{23/} and exported the rest. The mining and agricultural enterprises sold 17 and 21 per cent of their output in the region, respectively. Manufacturing industry, on the other hand, exported only 4 per cent of its production.

In all regions, United States manufacturing enterprises concentrate on the domestic market. In Europe, where they export most in 1957, 78 per cent of their output was sold in the countries in which the firms had been established. In the same year, the lowest percentage of exports was from Latin American countries, a situation that appears to have persisted up to 1965.

In Canada, exports go chiefly to the United States, but this is not so in the other regions. In Europe, it may be assumed that a substantial proportion of exports are bound up with regional groupings, particularly, the Common Market.

The composition of exports varies from region to region. The chief Latin American exports in 1965 were food and chemicals. The latter were mainly made from vegetable raw materials and the processing was so rudimentary that they can hardly be classified as manufactures. Exports accounted for 22 per cent of sales of food and 11 per cent and 10 per cent respectively, of those of pulp and paper, and chemicals. In all the other sectors, the percentage was less.

^{23/} In Canada, Europe and Oceania there is more refining than extractive activity, which explains the high percentage of local sales.

Table 32

DISTRIBUTION OF PRODUCTION BETWEEN LOCAL SALES AND EXPORTS,
BY SECTOR AND REGION, 1957

(Percentages)

	Total, all regions	Canada	Latin America	Europe	Africa	Asia	Oceania
<u>Total, all sectors</u>							
Local sales	73	83	59	84	79	49	93
Exports to the United States	10	12	21	2	9	8	1
Exports to other countries	17	5	20	14	12	43	6
<u>Petroleum</u>							
Local sales	66	94	41	92	99	41	98
Exports to the United States	10	6	31	- b/	- b/	8	-
Exports to other countries	24	...	28	8	1	51	2
<u>Agriculture</u>							
Local sales	37	97	21	100	-	13 a/	
Exports to the United States	38	3	44	...	96	87 a/	
Export to other countries	25	...	35	...	4	...	a/ b/
<u>Mining and Smelting</u>							
Local sales	16	17	13	26	21	46 a/	-
Exports to the United States	44	54	42	6	32	22 a/	-
Exports to other countries	40	29	45	67	47	31 a/	-
<u>Manufacturing</u>							
Local sales	84	84	96	78	92	80	93
Exports to the United States	6	10	2	3	... b/	6	...b/
Exports to other countries	10	6	2	19	8	14	7

Source: ECLA, on the basis of, United States Department of Commerce,
US Business Investment in Foreign Countries, 1960.

a/ Asia and Oceania, total.

b/ Less than 500,000 dollars.

/In Canada

In Canada, nearly 50 per cent of exports consisted in paper products, and 60 per cent of sales went to exports. Next in importance were basic metals, aluminium in particular, exports of which accounted for 39 per cent of sales. Both here and in Latin America, the main manufacturing exports were natural resources with varying degrees of processing. In Canada, however, in addition to natural resources, there were some exports of machinery and automobiles - though on a smaller scale - in roughly equal amounts to the United States and other countries (see tables 33 and 34).

Automobiles are the chief export of the international firms in Europe, where exports account for one-quarter of sales. Next in importance come non-electrical machinery and chemicals, with one-third and one-quarter of sales, respectively.

In other regions the situation is much the same as in Latin America, though more highly processed products (chemicals, electrical machinery and automobiles) bulk larger in the sales. Exports by subsidiaries in Japan accounted for slightly less than one-third of the total exports by subsidiaries in the region.

The proportion of exports in total sales by subsidiaries and their relative importance in total exports varies from country to country. The highest proportion is in Belgium, the Netherlands and Luxembourg, where exports account for 35 per cent of sales (see table 35). They are followed by West Germany and the United Kingdom, with 27 and 25 per cent, respectively. Concentration on the local market appears to be greatest in Japan, where exports account for only 8 per cent of sales.

In Canada exports by subsidiaries of manufacturing firms account for 48 per cent of total sales, followed by the United Kingdom with 17 per cent, while in Japan such exports account for only 1 per cent of the total.

Table 33
DESTINATION OF SALES BY MANUFACTURING ENTERPRISES

	Local sales				Exports to the United States				Exports to other countries			
	1957	1962	1963	1965	1957	1962	1963	1965	1957	1962	1963	1965
All regions	84	82	82	82	6	4	4	4	10	14	14	14
Canada	84	83	82	81	10	10	10	11	6	7	8	8
Latin America	96	91	92	93	2	1	2	2	2	8	6	5
Europe	78	77	77	77	3	1	1	1	19	22	22	22
Other regions	89	94	93	93	2	2	1	2	9	4	5	5

Source: ECLA, on the basis of table 32 and United States Department of Commerce, Survey of Current Business, November 1966.

Table 34

DISTRIBUTION OF SALES BY MANUFACTURING ENTERPRISES, BY SECTOR AND BY REGION, 1965

(Percentages of total sales)

	Total for the sectors	Food pro- ducts	Paper and paper pro- ducts	Che- mi- cals	Rubber and rubber pro- ducts	Metals and manu- fac- tures	Machi- nery, non- electri- cal	Elec- trical equip- ment	Trans- port equip- ment	Other pro- ducts
Total										
Local sales	82	87	53	84	91	75	77	88	84	83
Export to the United States	4	3	35	2	0	8	3	1	3	3
Export to other countries	14	10	12	14	9	17	20	11	13	14
Canada										
Local sales	81	90	40	88	98	61	87	93	89	87
Export to the United States	11	2	47	5	1	17	7	2	6	8
Export to other countries	8	8	13	7	1	22	6	5	5	5
Latin America										
Local sales	93	78	89	90	99	96	94	98	100	97
Export to the United States	2	5	3	2	-	-	1	0	0	2
Export to other countries	5	17	8	8	1	4	5	2	0	1
Europe										
Local sales	77	92	92	76	78	82	68	84	73	74
Export to the United States	1	1	-	1	0	1	2	1	1	1
Export to other countries	22	7	8	23	22	17	30	15	26	25
Other regions										
Local sales	93	73	95	91	96	97	95	90	96	95
Export to the United States	2	9	-	3	-	-	1	2	-	1
Export to other countries	5	18	5	6	4	3	4	8	4	4

Source: ECLA, on the basis of United States Department of Commerce, Survey of Current Business, November 1966.

Table 35

RATIO OF EXPORTS BY MANUFACTURING SUBSIDIARIES
TO TOTAL EXPORTS, 1965

Countries	Manufacturing subsidiaries			Total, by country	
	Total sales	Exports	Ratio	Export of manufactures	Ratio
	(1) (millions of dollars)	(2) (millions of dollars)	(2)/(1) (3) (percent-ages)	(4) (millions of dollars)	(2)/(4) (5) (percent-ages)
Canada	13 445	2 537	19	5 280	43
Belgium, Netherlands and Luxembourg	1 580	557	35	8 800	6
France	2 685	440	17	7 330	6
West Germany	4 356	1 160	27	15 920	7
Italy	1 272	184	14	5 610	3
United Kingdom	7 510	1 887	25	11 180	17
Japan	920	72	8	7 830	1

Source: United States Department of Commerce, Survey of Current Business, November 1966.

The ratio of exports by subsidiaries to total exports depends on the share of the subsidiaries in total output. To find out whether the United States enterprises export more or less than the other enterprises in each country, a comparison may be made between the ratio (see column 5 of table 35) of exports by subsidiaries to total exports, and the proportion of the country's industrial output produced by United States subsidiaries. If the ratio of exports by subsidiaries to total exports, and the proportion the ratio of production by subsidiaries to total production, it can be said that subsidiaries export more than local enterprises. Even though only very rough estimates for the second ratio are available, it seems possible to say, at least in respect of the four countries mentioned in table 36, that the subsidiaries have at least as large a share in exports as local firms.

/Table 36

Table 36

SHARE OF SUBSIDIARIES IN EXPORTS AND PRODUCTION, 1965

(Percentage)

Countries	Exports by subsidiaries as a percentage of total exports	Sales by subsidiaries as a percentage of total production
	(1)	(2)
Canada	48	38
West Germany	7	4
United Kingdom	17	8
Japan	1	1

Source: United States Department of Commerce, Survey of Current Business,
November 1966.

Assuming that the figures in column (2) of table 36 are reasonable estimates, it may be concluded that the subsidiaries export twice as much of their output as local firms in the United Kingdom and West Germany; slightly more than local firms in Canada, and an equal amount in Japan. Assuming that the figures in column (2) are underestimated by about 30 per cent, the subsidiaries' share on exports would be greater still in the United Kingdom and West Germany, slightly less in Canada and about 30 per cent less in Japan.

The fact that the proportion of their output which the subsidiaries export is not less (but perhaps more) than the export production of local firms means that when the subsidiaries are criticized for not increasing their exports, what is being complained of is that they are not making the most of their export potential, which is assumed to be greater than that of the local firms, particularly in the less developed countries, whose local firms are known to have difficulty in competing on the international market.

The situation may have changed in recent years compared with 1965. For instance, United States firms are encountering growing competition from Japanese products, not only on the international market but in the

/United States

United States itself. This is apparently inducing United States firms to transfer certain lines of production or certain stages of the production process that are more labour-intensive, to countries with cheap manpower. Moreover, as their foreign markets expand, the subsidiaries are in a better position to produce on a scale that is suitable for the international market. Another important factor seems to be the growing competition among international enterprises operating in developing countries. Enterprises which previously enjoyed a near-monopoly and could permit themselves an economic scale of production are now being forced to expand their plant in order to improve their export potential and to make the production of their subsidiaries more specialized so as to facilitate access to regional markets. They are strongly encouraged to do so by the growing range of government incentives to exports of manufactures. Besides applying incentives, governments are apparently beginning to exert direct pressure on international enterprises to make them increase their exports so that remittances of profits are offset by imports of parts and components. These imports grow in proportion to the increase in sales by these firms, that is to say, faster than total local industrial production and much faster than exports by local firms. For their part, the enterprises are becoming aware that any limitation of the countries' external sector will affect them since restrictions will be placed on remittances of profits. Thus, if they help to solve current balance-of-payments problems, they are more or less sure of being able to make future remittances of profits.

After a few years, the rapid growth of sales by international enterprises in slow-growth markets results in problems of saturation, which may be solved by finding outlets on foreign markets. Lastly, the developing countries, which up to now have been exporters of raw materials, are beginning to insist on local processing, so that they may export semi-finished and finished products. This is forcing international enterprises to move to countries which are the sources of raw materials and establish processing plants there.

/To sum

To sum up, the following trends in respect of exports of manufactures are characteristic of the international enterprises:

(a) Establishment of factories to supply the regional market to which the country concerned belongs. This market might be the British Commonwealth for firms established in Canada and the United Kingdom; the Latin American Free Trade Association (ALALC) for firms in Argentina, Brazil and Mexico; South-East Asia for firms in India, and the European Common Market for the numerous firms established in the countries of the Six.^{24/}

(b) Establishment of enterprises in countries with abundant and cheap labour. As the factories would supply the market of the country of origin and other traditional markets of the international enterprise, the size of the local market and the extent of its industrialization would not matter. This has happened in South Korea, Hong Kong, Taiwan, India, the less developed countries of Europe (Portugal, Spain, Greece and Turkey). The international enterprises have not yet adopted this approach to Latin America. In South-East Asia, they appear to have concentrated on electronic and optical products and clothing.^{25/}

^{24/} In Brazil, Olivetti, Mercedes Benz, Pirelli, IBM, Burroughs, Singer, Bosch and other firms supply the ALALC market. A large proportion of the enterprises that are parties to ALALC sectoral complementarity agreements are international.

^{25/} In the last four years, forty Japanese firms have been established in Taiwan, and Rollei-Werke (West Germany) is investing 12.6 million dollars in Singapore. A subsidiary of Corning Works sends components to Korea where they are made into integrated circuits. The Società Generale Semiconduttori - the largest Italian manufacturer of electronic components - is building a factory in Singapore, and so are Philips and Plessey, the largest English electronics firm. Generators and compressors for Ford cars will be manufactured by Tokyo Shibaura Electronic and Diesel Kiki, both Japanese firms.

(c) Establishment of factories in neighbouring countries to the country of origin. This would appear to be a real process of industrial integration in which equal attention is given to such factors as manpower, tax legislation, distance, and transport costs. This is apparently the case of Canada and, to a much smaller extent, Mexico, for United States firms, and of Spain, Portugal, Yugoslavia, Greece and Turkey for European firms. In addition to the traditional labour-intensive sectors, this process also seems to be under way in the automotive industry.^{26/}

(d) Installation of plants in countries that have important natural resources that are difficult to find on the world market and which show a decided interest in processing these materials locally before exporting them. Many international firms, for instance, are showing interest in establishing iron and steel plants in countries like Australia and Brazil,^{27/} to produce for export to the markets of the countries of origin and to world markets.

(e) Establishment of factories in developing countries with a large domestic market and some industrial development to supply the local market and part of the world market with products that are no longer being manufactured in the developed countries. These would be the simplest types of product manufactured by the international firm or products which, as a result of technological development, have been rendered partially obsolete but for which there is a guaranteed demand on the spare-parts market.^{28/}

^{26/} For instance, the agreement between Canada and the United States on the automobile industry; programme for the integration of the production of engines between Chrysler subsidiaries in Mexico and the United States, and the Daimler-Benz factory in Yugoslavia, which exports parts and components to West Germany.

^{27/} U.S. Steel, August Thyssen-Hütte (West Germany) and Yawatta Iron-Steel (Japan). In semi-manufactures of copper, this is the case of Phelps-Dodge, which has projects in Thailand and Zambia. In aluminium, the Canadian firm of Alcan is considering a project in Guyana.

^{28/} Electronic valves and punching machines, exported from Brazil by Philips and IBM, respectively; certain castings purchased by Volvo in Portugal: injection pumps exported by subsidiaries in India to West Germany; agreements for the exchange of components for railway carriages and trucks between Egypt and the Italian firm of Fiat.

(f) Enterprises intended mainly to supply the local market. They would be established in countries that are not in a good position to act as regional distribution centres and have neither plentiful and cheap labour nor abundant natural resources.

The direction and speed of these types of development and the way in which the profits from exports are distributed between the countries and the enterprises will depend on how decisively governments act, separately or in the context of regional groupings.^{29/}

^{29/} The above cases are drawn from various sources: inquiries made among the principal international enterprises operating in Brasil; Jack Baranson, Automobile industries in developing countries, International Bank for Reconstruction and Development, 1969; Jack Baranson, The export of manufactures from developing countries, An interim Report; International Bank for Reconstruction and Development, 1969; Time, 21 September 1970; Le Monde, economic supplement, 11 August 1970; and "Japan, Special Survey", The Economist, 27 May and 3 June 1967.

IV. THE EXPANSION OF UNITED STATES ENTERPRISES ABROAD AND THE IMPLICATIONS FOR LATIN AMERICA: AN INTERPRETATION

1. The expansion of United States enterprises abroad

For the purposes of this analysis, the regions can be divided into three categories according to the degree of foreign take-over and the existence or absence of enterprises capable of competing with those of the United States: (1) regions such as Europe, where the foreign take-over is proceeding apace and there are enterprises capable of competing with those of the United States; (2) regions (specifically Japan) where large firms compete successfully with United States enterprises on the world market, while at the same time virtually excluding them from their domestic market; (3) regions where the foreign take-over is substantial and has met with little resistance from local enterprises that are capable of competing either at home or abroad (generally speaking Latin America, Africa and Asia and, to a lesser degree, Canada, Australia and South Africa).

The encounter is different in each of the three categories of region: in Europe local enterprises are competing against United States firms on both the home and the world market; in Japan the local enterprises keep the domestic market for themselves and compete on the international market; while elsewhere, local enterprises have difficulty in competing even on their own market, though this does not prevent them from surviving but merely makes them uncompetitive.

J.-J. Servan-Schreiber ^{30/} is mainly concerned with the situation in Europe and the central theme of his study is United States encroachment on the domestic markets of the European countries. The size of United States enterprises and the consequent power of their financial and business organization, along with their capacity for technological innovation, mean that they are cornering an increasing share of the European markets, particularly in sectors that are technologically complex.

^{30/} J.-J. Servan-Schreiber, Le Defi Américain (Paris, Denöel, 1967).

This approach to the problem, however, overlooks one factor that plays a decisive role in the behaviour of the big United States enterprises, namely, their loss of ground on the world market since the beginning of the 1950s. The slower growth of the United States economy compared with that of Japan and the European Economic Community constituted a challenge for the major United States enterprises which however powerful they might be, found their competitors catching them up on the international market.

Servan-Schreiber's book gives a brilliant and exhaustive analysis of the circumstances which enabled them to expand in Europe, but he does not go into why they needed to expand.

It is necessary to analyse the motives of these United States enterprises in order to understand the reaction of European and, above all, Japanese firms, which are apparently those that have increased their share of the world market most in the past twenty years. In other words, the slow growth of the United States economy, especially during the 1950s, was reflected in a shrinkage of its major enterprises' share of the world market, and this forced them to seek fast-growing markets where they could, at least in part, make up for the slow growth of their home market.

Obviously, this was only one of the reasons. The establishment of regional markets left them no choice but to expand abroad if they did not want to lose the export markets as well. Expansion did not entail any financial sacrifices in terms of yield and, to a very large extent, could be financed with local funds. It is as yet too early to tell how far the shift of much of their activities to foreign markets has enabled them to recover their position on the world market, but one thing that is certain is that there is still a gap between the economic growth rates of the United States and Japan and that United States enterprises abroad are expanding increasingly rapidly.

A comparison with the growth of United States enterprises is an inadequate yardstick for measuring their share of the world commodity markets. The high degree of diversification of the big corporations, the

/different rates

different rates at which they expand, and the extent to which they are concentrated in each country, make it impossible to establish an unequivocal ratio between an enterprise's growth rate and its share of the world market for a given product.

Another way of measuring this process - though less specific and open to other objections - is to compare national economic indicators at various levels of aggregation, starting with the growth rate of the gross domestic product.

Table 37 shows that the difference in the growth rate in the United States and in other countries, which was very marked during the period 1953-1960, disappeared during the period 1960-1968, except in the case of France and, above all, Japan, a situation which is reflected in the foreign trade of the countries concerned (see table 38)

Table 37

GROWTH RATE OF THE GROSS DOMESTIC PRODUCT IN THE UNITED STATES, IN SELECTED EUROPEAN COUNTRIES AND IN JAPAN

(Averages)

	1953-60	1960-68	1953-68
United States	2.5	4.8	3.7
France	4.7	5.6	5.1
Federal Republic of Germany	8.1	4.4	6.1
Italy	6.5	4.4	5.4
United Kingdom	2.9	2.7	2.8
Japan	8.8	10.8	9.9

Source: United Nations, Statistical Yearbook, 1969 (United Nations publication, Sales No: E/F.70.XVII.1).

/Table 38

Table 38

SHARE OF SELECTED COUNTRIES IN TOTAL EXPORTS OF MARKET
ECONOMY COUNTRIES

(Percentages)

	1953	1960	1968
United States	20.9	18.1	16.1
France	5.4	6.1	6.0
Federal Republic of Germany	6.3	10.1	11.7
Italy	2.0	3.2	4.8
United Kingdom	9.6	9.0	7.0
Japan	1.7	3.6	6.1

Source: United Nations, Statistical Yearbook, 1969.

The United States' main competitors accounted for 25 per cent of the world exports in 1953, compared with 20.9 per cent for the United States. In 1960 the corresponding figures were 32 and 18.1 per cent and in 1968 35.6 and 16.1 per cent. Japan's exports, which represented only 8 per cent of the United States' in 1953, grew to 38 per cent in 1968. Between 1953 and 1968, the growth rate of exports from the European Economic Community was roughly double that of the United States (10.3 per cent as against 5.3 per cent) and that of Japan more than three times as high (16.7 per cent). The trend was similar in manufactures.

The United States' share of chemical exports dropped less than those of machinery and transport equipment and other manufactured goods, but even so it fell from a quarter of total chemical exports to a fifth. While there was practically no change in Western Europe's share of exports of machinery and transport equipment and other manufactures, Japan gained roughly as much ground as the United States lost (see table 39).

Table 39

SHARE OF MARKET ECONOMY OF COUNTRIES a/ IN TOTAL
EXPORTS OF MANUFACTURES

(Percentages)

Sector	Year	United States	Western Europe	Japan	Total, market economy countries
Chemical <u>b/</u>	1955	25.5	60.0	2.1	100.0
	1960	26.3	62.9	2.5	100.0
	1967	20.6	65.4	5.0	100.0
Machinery and transport equipment <u>c/</u>	1955	36.9	58.0	1.7	100.0
	1960	29.2	63.9	3.9	100.0
	1967	25.3	59.5	7.7	100.0
Other manufactured goods <u>d/</u>	1955	14.4	58.3	6.4	100.0
	1960	13.3	59.9	8.1	100.0
	1967	10.2	59.9	9.9	100.0

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1969 (United Nations publication, Sales No: E/F 69.II.D.15).

a/ Economic Class I and II countries.

b/ Section 5 of the SITC.

c/ Section 7 of the SITC.

d/ Sections 6 and 8 of the SITC.

/Comparing the

Comparing the production of the Federal Republic of Germany (the fastest-growing European country during the period), Japan and the United States product by product (see tables 40 and 41) shows further how sharply the United States' share of world production declined. Between 1960 and 1968, the share of the Federal Republic of Germany increased only in synthetic rubber, and plastics and resins, decreasing everywhere else. Japan's share not only rose appreciably for every product but even topped that of the United States in two cases. Steel is the most striking example. Where Japan boosted production at an annual rate of 15.5 per cent, the United States only managed 1.1 per cent; this pushed up Japan's share of world production from 3.3 to 12.6 per cent while that of the United States fell from 43.1 to 22.6 per cent.

The comparison is not entirely valid, since it omits certain technological complex products, such as computers and supersonic aircraft, where the United States appeared to maintain its relative advantage. Moreover, some of the Federal Republic of Germany's production may come from United States firms (in the case of Japan, this is only a negligible amount).

Be this as it may, wherever Japan's production of the goods considered is compared with that of the United States, it is apparent that, unless the concentration of industry has become appreciably less in the former and substantially greater in the latter, the major United States manufacturers of these goods have lost ground on the world market while the major Japanese firms have forged ahead. If the 1960-1968 growth rates are maintained over the next few years, by 1980 Japan will have overtaken the United States in the production of every one of these items.

It would be well to consider more carefully whether, despite the soaring growth rates of United States subsidiaries abroad, United States enterprises as a whole really have grown more slowly than their principal European competitors. As far as Japan is concerned, the comparison is superfluous since Japanese enterprises expanded even faster than United States subsidiaries.

Table 40

GROWTH RATE OF SELECTED PRODUCTS

(Annual Averages)

Product	Federal Republic of Germany			Japan			United States		
	1953-60	1960-68	1953-68	1953-60	1960-68	1953-68	1953-60	1960-68	1953-68
Synthetic rubber	44.0	14.3	27.0	-	42.0	-	7.8	5.0	6.3
Plastics and resins	-	16.2	-	-	25.0	-	-	11.3	-
Cement	7.4	3.7	5.5	14.4	9.9	12.0	3.2	2.6	2.9
Crude steel	9.4	2.4	5.6	16.4	14.8	15.5	-1.5	3.5	1.1
Radio Receivers	6.9	0.7	3.6	38.0	12.3	24.0	3.1	2.0	2.5
Television receivers	a/	2.3	32.0	a/	12.4	a/	-2.3	7.5	2.7
Cargo ships	4.2	2.7	3.4	17.6	22.0	20.0	-1.1	-1.1	-1.0
Motor vehicles	23.0	5.3	13.1	27.0	23.0	25.0	1.0	1.0	3.9

Source: ECIA, on the basis of United Nations, Statistical Yearbook, 1969.

More than 50 per cent.

Table 41

SHARE OF THREE COUNTRIES IN WORLD PRODUCTION

(Percentages)

Product	Federal Republic of Germany			Japan			United States		
	1953	1960	1968	1953	1960	1968	1953	1960	1968
Synthetic rubber ^{a/}	0.6	4.0	5.6	-	1.2	9.0	84.9	72.3	51.4
Plastics and resins ^{a/}	-	14.5	14.9	-	8.2	15.7	-	42.1	30.7
Cement ^{a/}	8.4	7.9	6.5	4.9	7.1	9.3	25.0	17.7	13.4
Crude steel ^{a/}	7.7	9.8	7.8	3.3	6.4	12.6	43.1	26.0	22.6
Radio receivers ^{b/}	10.4	8.3	5.2	5.4	25.8	38.2	50.9	31.7	21.6
Television receivers ^{b/}	0.5	10.9	6.7	0.2	18.1	23.6	76.3	28.3	25.9
Cargo ships ^{c/}	16.1	13.1	8.0	10.9	20.7	50.8	10.4	5.8	2.6
Motor vehicles ^{b/}	4.7	12.5	11.0	1.4	4.6	14.5	69.8	47.7	37.9

Source: ECIA, on the basis of United Nations, Statistical Yearbook, 1969.

a/ Thousands of tons. b/ Thousands of units. c/ Thousands of gross tons.

/Between 1957

Between 1957 and 1965, sales by United States subsidiaries abroad grew by 11 per cent a year, United States industry by 4.7 per cent, German industry by 6.7 per cent and sales by United States enterprises in the Federal Republic of Germany by 18.5 per cent. That is, the subsidiaries grew at more than double the rate of United States industry, and rather more than one and a half times the rate of the German industry, while subsidiaries operating in the Federal Republic of Germany expanded at nearly three times the rate of German industry. It may be assumed that the United States parent companies and the largest German firms expanded at the same rate as the industries in their respective countries, that is, by 4.7 and 6.7 per cent, and that the assets of the United States subsidiaries amounted to about 20 per cent of the assets of the parent companies. (In section II the estimate given was 14 per cent for manufacturing industry as a whole.) This means that the largest United States firms, parent companies and subsidiaries combined, must have grown by 6 per cent compared with 6.7 per cent for their German rivals. This means that, while the German firms felt threatened by the United States subsidiaries, the United States firms as a whole had the same view of the German firms. While the European countries saw what was happening as a definite foreign take-over, the United States firms saw that they were being pushed out of the world market.^{31/}

For a better understanding of this situation, where enterprises that have a good competitive position on their national markets feel threatened on the world market, it is necessary to look at the technological aspect. Several sectors in which the United States firms operate are of high technological complexity (spearhead sectors). The United States has a near-monopoly of know-how in these industries, which the other countries, particularly in Europe, feel as a threat, not only to their economies but to their sovereignty. It is argued, for instance, that countries that do not possess their own computer

^{31/} Assuming that, in the United States and the Federal Republic of Germany, the largest enterprises grow K (more than one) times as fast as the industry of their respective countries, the difference between the growth rates of the German and United States firms, will be even greater.

industries cannot hope to be politically independent. The assumption implicit in this argument is that the interests of the country might one day conflict with those of the United States, in which event this "monopoly of know-how" would constitute an advantage for the United States. So long as this does not happen, in the prosaic world of international economic relations, the more sophisticated industries are valued according to their export performance, volume of output or profits. The United States exports of computers and calculators equal to 40 per cent of its imports of textiles, and exports of aircraft and parts are on roughly the same scale as its imports of steel (1968). The United States exports aircraft to Japan in an amount equal to 15 per cent of its steel imports from Japan.

The United States enterprises are apparently facing stiffer competition on the world markets for products produced with easily available know-how, not only in sales to third countries but on its own domestic market. This is another reason that prompts the biggest enterprises - i.e., those that have the power to do so - to seek conditions of production abroad that will enable them to compete on the world market and on their own domestic market. Although such expansion abroad may make sense for the big United States firms, it may only help to weaken the United States economy. In present circumstances, what is sauce for the goose is not necessarily sauce for the gander: the interests of the big enterprises may not be the same as those of other United States enterprises.

It may be wondered how almost absolute control of the spearhead sectors can exist side by side with a growing inability to compete in manufacturing products demanding only easily available know-how, (which are not necessarily the traditional sectors.^{32/} While the United States is capable of designing television and telecommunications

^{32/} In order to demonstrate that it is not only in the field of light manufactures that Japan has an advantage over the United States, that the exports and imports of machinery between the two countries are compared in table 3 of the statistical appendix.

equipment to observe the landing of the Apollo spaceship on the moon, it has a deficit of 450 million dollars on its balance of payments with Japan under the head of telecommunications equipment, which is nearly five times the value of its exports of aircraft and aircraft equipment to Japan.

Among the factors that may serve to clarify this point, one stands out. While the United States was devoting vast human and financial resources to projects that enabled it to maintain its lead in the technologically most advanced sectors, countries like Japan were pouring the same amount of money into the general modernization of their industry and into innovations in many different sectors.

If this trend continues over the next few years, the expansion of United States firms abroad will have to be speeded up if they are to be enabled to maintain their position on the world market. This may possibly lead to increased pressure on the local markets of European firms, and there may well be increased pressure on Japanese firms to share their fast-growing domestic market with firms of other countries.

The European and Japanese firms may speed up the process of establishing subsidiaries abroad to compete with the United States on the world market - which they have hardly done at all up to now - instead of competing only in exports. If they do, they will be embarking on a stage of development which United States firms entered on in a big way in the 1950s. The increasing number of mergers in Europe and Japan may be the first step in that direction. The enterprises may be increasing their size just as much - or more - so as to be able to establish themselves abroad and compete on the international market, as to defend their domestic markets.

/The keenest

The keenest competition between United States, Japanese and European enterprises is probably on the markets of the developing countries.^{33/} United States direct and portfolio investment (including reinvestment) in the developing countries grew at an average annual rate of 15.4 per cent between 1964 and 1968. During the same period, it grew at an annual rate of 32 per cent in Japan, and 50 per cent in the Federal Republic of Germany, where investment increased more than 300 per cent between 1967 and 1968. (Between 1964 and 1967 the rate was 13.5 per cent.)^{34/}

The supremacy of United States firms in the technologically most complex sectors, which seems to have been one of the decisive factors in the conquest of European markets, may cease to be important and even become a handicap in their struggle for markets in the less developed countries, which are normally more sensitive to the cost of the product than to its technological content.

^{33/} At the present time, the principal European and Japanese firms are already operating in Latin America. By way of example, mention may be made of the chief German firms established in Latin America: Bayer, Hoechst and BASF in chemicals; Volkswagen and Daimler Benz in the automotive sector; Siemens and Bosch in electrical equipment; SKF in ball and roller bearings; Mannesmann, Krupp and Thyssen in the iron and steel industry; Metallgesellschaft and Degussa in mining and metallurgy; Demag in machinery; and Hochtief and Philipp Holzman in the building industry.

^{34/} United Nations, The external financing of economic development (United Nations publication, Sales No.: E.70.II.A.3).

2. Implications for Latin America

As can be seen from the foregoing analysis, it is reasonable to expect that in the next few years the competition will be fiercer between United States, European and Japanese firms for the markets of their respective regions and of third countries. One of the regions in which these firms will be competing is Latin America. The principal aim of United States international enterprises will be to make up for the slower growth of the United States economy and thus maintain their share of the world market. European and Japanese firms will be trying to defend themselves against United States pressure on their own markets. It may be assumed that this pressure will increase in Japan, whose policy it has been to reserve the domestic market for its own enterprises. Expansion through their subsidiaries will guarantee them outlets for their exports of equipment and components, and will make it easier for them to export products that are not yet being manufactured by their subsidiaries abroad.

A first effect of this increasing competition between subsidiaries of international companies may possibly be to weaken the position of the individual companies in the countries in which they wish to operate. Up to now, the market for foreign investment has been characterized by the fact that international enterprises could take their pick of the countries, selecting whichever offered them the greatest tax incentives, while governments vied with each other in finding ways of attracting more foreign investment.

Because of the growing need for firms to invest abroad, the consolidation of regional groupings in which efforts are made to equalize the conditions for the entry of foreign capital, and the governments' increasing concern about the gradual take-over of their industries, it may well be that the balance in the foreign capital market will gradually incline in favour of the governments of the countries in which the enterprises are operating.

The strengthening of the countries' bargaining position would force firms to adopt a more and more flexible attitude to the terms imposed by countries or regional groupings. There are already signs of greater pliability among international enterprises in both the extractive and the

/manufacturing sectors.

manufacturing sectors. Firms are agreeing to being minority share holders and to much more restrictive conditions than in the past. They are entering into association with public, semi-public and private enterprises in countries with different economic systems (including enterprises operating under the workers' management system in Yugoslavia). This means that firms are showing more and more willingness to fulfil the functions that the countries assign them according to the development model they have adopted.

The expansion of international manufacturing companies in Latin America has hitherto been almost the decisive factor in determining the rate of growth of industry, and their diversification policy has largely dictated the structure of industrial supply. The public sector's investment policy has been influenced by the need to establish the infrastructure for the expansion of the most dynamic sectors. In addition, financial mechanisms have been developed for stepping up demand, even if only temporarily, for the goods produced by these sectors. International enterprises have played, and continue to play, a central role in Latin America's industrial development model. They do not have to dominate the market, however, to be willing to invest in the Latin American countries. It is clear, for example, that when they produce certain goods in countries with partially or completely centralized economies, their role is to provide some of the items in a basket of consumer goods which are selected according to a model which they have little chance of modifying. When those countries need to have international enterprises, it is presumably because they consider the enterprises will be more efficient producers of these goods than local firms. The basic difference is therefore that in one case the type and volume of the goods to be produced are decided by the enterprises, and in the other by the country concerned. It is impossible to judge in advance the advantages or disadvantages of either method.

The only way to judge would be to see how far the results obtained through the method it decides to adopt are consistent with the country's economic and political objectives. The important point is that international enterprises are willing to accept much more restrictive terms than has hitherto been believed.

/Even if

Even if it is thought that over the next few years the behaviour of international enterprises may change in some respects and in certain circumstances, it is important to know what general trend they have so far followed before deciding what policy to adopt towards them. First some attention should be paid to the structure of the financing used for the expansion of these companies abroad. As shown in section I, 83 per cent of the funds used by United States manufacturing firms abroad were generated in the countries in which they were operating. Accordingly, the growth of these enterprises mainly depends upon what use they make of the profits generated in the country and what access they have to the local capital market. Thus, if the countries wish to stimulate or restrict or reorient the expansion of international enterprises, they should focus their attention on the ways in which the locally generated savings are utilized.

As regards the know-how introduced by international enterprises, the developing countries should remember that, up to now, this has consisted in introducing techniques that are already widely known in the developed countries and not in developing the ability to improve them or to create new processes and products. This is perfectly all right as long as the enterprises are producing goods to replace former imports on the domestic market, but if Latin America wishes to attain high enough standards of quality in certain sectors to enable it to compete on the world market for manufactures, the know-how thus acquired will be completely inadequate. International enterprises do no technological research in the less developed countries, and even if they did, there would be no guarantee that these countries would be in a better position to compete on the world market. On the contrary, it is more than likely that any innovations that might be made would be transferred to the parent companies, thus improving the competitive position of the country of origin.

Although international enterprises may be an efficient means of transferring know-how to meet domestic consumption requirements, they can hardly be considered as a basis for any industry that aims at competing on the developed countries' market for manufactures.

/Nevertheless, international

Nevertheless, international enterprises might play quite an important role in the export of Latin America's manufactured products. There is every likelihood that manufacturing subsidiaries abroad will step up their exports in the next few years, and that a large proportion of those exports will go to the regional market to which the host country of the subsidiary belongs (ALALC in the case of South America). They will probably also start to manufacture products in which the subsidiaries in developed countries have lost interest, for export to both ALALC and the developed countries. These would generally be the simplest products of the firms' production range and would be intended partly for replacement purposes.

Other subsidiaries are likely to be established in Latin America because of the lower cost of labour, in particular for the assembly of products with a high content of imported components. Last but not least are the exports of processed and semi-processed natural products from countries with abundant natural resources; most of these exports would go, of course, to the developed countries.

The outlook for these commodities would not seem to guarantee the attainment of the objectives generally assigned to exports of manufactures, i.e., ensuring that exports grow at a steady and increasing rate, promoting local industrial technology and improving the efficiency of industry and giving the countries more freedom of action in handling their foreign trade.

If past trends continue unchanged in the next few years, exports of the Latin American regional groupings will grow more slowly than the developed countries' trade in manufactures. In the case of the simpler products or spare parts and replacements, the growth target could perhaps be attained in quantitative terms, but their manufacture would not provide much incentive to improve technology. As regards items or components produced by labour-intensive methods, Latin America seems to be losing ground to the countries of South-East Asia. Moreover, if the aim is to achieve a substantial increase in productivity, and

/therefore in

therefore in wages, the export strategy could scarcely be based on the lower cost of labour in Latin America. Nor would there be any significant spread of technology to other industrial sectors from the manufacture of these types of products.

Exports of highly-processed natural resources possibly hold out the best prospects as regards volume; but this is just where there is most chance of replacing international by national enterprises, although some of their know-how would come from foreign sources.

For a country to base its exports of manufactures on decisions adopted by international enterprises does not seem to be the best way for it to achieve more independence and stability in the handling of its foreign trade. The export strategy of international firms takes into account production conditions and demand in all the different countries in which they operate. That being so, if most of a country's industrial exports are produced by international enterprises, the country's position cannot be described as stable, nor can it be said to reflect an independent policy for the handling of foreign trade.

This should not prevent countries from doing all they can to promote the export activities of international enterprises. There are some circumstances which favour the expansion of the enterprises' exports. The contention is, however, that if they delegate the main responsibility for increasing and diversifying exports of finished products to international enterprises, the countries will not be able to reap all the benefits they hope to obtain from changes in the structure of their exports.

Another question examined in previous sections which should be borne in mind is the relationship between the foreign take-over of industry and the sign and extent of the difference between new capital investment by international firms and their remittances of profits. The more they invest, the easier it will be for them to take over industry. At the same time, once an acceptable rate of return has been established for these companies, the faster investment grows, the more likely it will be

/that new

that new capital investment will equal or even exceed remittances of profits. In other words, the effect on the balance of payments may not be so unfavourable, and may even be favourable. If the take-over process continues indefinitely, there will come a time when the international enterprises will have practically no opportunity to reinvest in the country. If this were to happen the balance-of-payments position would be most unfavourable, since the companies would have no alternative but to remit all their profits.

The over-all effect on the balance of payments will depend on the international firms' attitude to exports, which, as mentioned above, will be influenced by the countries' export policy.

The present study has been confined to an analysis of the behaviour of international enterprises and specific suggestions have been made regarding the most advantageous policy for countries to adopt, since whether or not it is advantageous will depend exclusively on the economic, political and social objectives adopted by their governments.

/Statistical appendix

Statistical appendix

Table 1

PATENT ROYALTIES AND TECHNICAL ASSISTANCE AS A PERCENTAGE OF TOTAL
REMITTANCES OF PROFITS, 1961-1968

Region	Year or period	Total	Petroleum	Manufactures	Other sectors
<u>All regions</u>					
	1961	17			
	1962	19			
	1963	21			
	1964	21			
	1965	23	8	52	32
	1966	26	7	59	41
	1967	25	8	61	34
	1968	26	7	65	38
Average	1961-64	20			
Average	1965-68	25	7	59	36
Average	1961-68	23			
<u>Canada</u>					
	1965	26	7	46	21
	1966	28	13	47	21
	1967	31	13	63	19
	1968	32	9	66	25
Average	1965-68	29	11	55	21
<u>Latin America</u>					
	1965	17	6	64	48
	1966	16	5	59	47
	1967	16	77	51	36
	1968	19	7	55	49
Average	1965-68	17	6	56	45
<u>Europe</u>					
	1965	48	171	52	30
	1966	63	725	68	42
	1967	56	650	62	31
	1968	59	1 075	68	29
Average	1965-68	56	452 ^{a/}	63	33
<u>Other regions</u>					
	1965	12	6	54	29
	1966	14	5	60	70
	1967	14	5	70	68
	1968	12	4	61	70
Average	1965-68	13	5	61	59

Source: OECD, Reviews of National Science Policy (Paris, 1968); and ECLA, on the basis of United States Department of Commerce, Survey of Current Business, various issues.

^{a/} This anomaly is explained in the text.

/Table 2

Table 2

PATENT ROYALTIES AND TECHNICAL ASSISTANCE AS A
PERCENTAGE OF TOTAL PROFITS, 1961-1968

Region	Year or period	Total	Petroleum ^{a/}	Manufactures	Other sectors
<u>All regions</u>					
	1961	12			
	1962	14			
	1963	14			
	1964	15			
	1965	17	7	28	20
	1966	18	7	31	24
	1967	19	7	36	23
	1968	18	7	33	24
Average	1961-64	14			
Average	1965-68	18	7	32	23
Average	1961-68	16			
<u>Canada</u>					
	1965	15	5	24	14
	1966	17	8	26	16
	1967	18	8	30	15
	1968	18	6	30	18
Average	1965-68	17	7	28	16
<u>Latin America</u>					
	1965	13	5	27	28
	1966	12	5	25	28
	1967	13	6	37	26
	1968	14	7	29	29
Average	1965-68	13	6	29	28
<u>Europe</u>					
	1965	38	-71	32	18
	1966	39	-37	39	26
	1967	41	-39	41	22
	1968	39	-32	39	20
Average	1965-68	38	-40	38	22
<u>Other regions</u>					
	1965	10	6	25	16
	1966	11	5	27	26
	1967	13	5	30	29
	1968	10	4	26	28
Average	1965-68	10	5	27	25

Source: OECD, Reviews of National Science Policy (Paris, 1968); and ECLA on the basis of United States Department of Commerce, Survey of Current Business, various issues.

a/ The figures for Europe have a minus sign because the firms declared losses for those years.

Table 3

UNITED STATES: EXPORTS AND IMPORTS OF MACHINERY TO AND FROM JAPAN, 1968

(Thousands of dollars)

SITC			Product	Exports to Japan	Imports from Japan	Balance
Sec- tion	Divi- sion	Group				
7			Machinery and transport equipment	636 827	1 223 373	-586 546
	71		Machinery, other than electric	393 737	226 795	166 942
		711	Power-generating machinery	73 059	20 684	52 375
		712	Agricultural machinery	12 088	1 192	10 896
		714	Office machines (including computers)	84 027	44 477	39 550
		715	Metal-working machinery	60 889	20 367	40 522
		717	Textile and leather machinery	9 994	62 742	-52 748
		718	Machines for special industries	28 184	7 562	20 622
		719	Machinery, other than electrical	125 495	69 772	55 723
	72		Electrical machinery	116 179	672 212	-556 033
		722	Electric power machinery	18 930	42 723	-23 793
		723	Machinery for distribut- ing electricity	1 414	28 326	-26 912
		724	Telecommunications equipment	24 763	476 281	-451 518
		725	Domestic electrical equipment	1 676	16 200	-14 524
		726	Medical equipment	2 613	1 262	1 351
		729	Other electrical machinery	66 784	107 420	-40 636
	73		Transport equipment	126 912	324 365	-197 453
		731	Railway rolling-stock	291	2 431	-2 140
		732	Road motor vehicle	21 971	290 513	-268 542
		733	Road vehicles other than motor vehicles	248	14 440	-14 192
		734	Aircraft	102 605	14 096	88 509
		735	Ships and boats	1 797	2 885	-1 088

Source: United Nations, Commodity Trade Statistics, 1968, New York, 1969.

Chapter II

RELATIONS BETWEEN LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY

I. REVIEW OF THE PERIOD 1958-1968

As soon as the Rome Treaty ^{1/} came into force, and even earlier, the Latin American countries began to express their concern as to the effects that might be produced by some aspects of the operation of the European Economic Community (EEC), and some of its instruments, on their future trade relations with the six States members. This concern related especially, although not exclusively, to the possible impact of the common agricultural policy and the policy of granting preferential trade treatment to the Association of African and Malagasy States (Etats Africains y Malgache Associés - EAMA), and also to the extension of agreements based on this discriminatory principle to other African countries and, more recently, to countries in other regions, such as the Mediterranean area.^{2/}

On various occasions in the course of the past few years, the Latin American countries have made representations to the Community in connexion with the above-mentioned aspects of its policy, and have sought to outline the bases for closer co-operation with EEC and to establish permanent and more effective liaison with the Community, so that due consideration may be given to Latin America's causes for concern.

The Community, for its part, has from the outset shown itself very favourably disposed towards the principle of maintaining active economic and trade co-operation with Latin America, as can be seen from the memorandum ^{3/} which it transmitted to the Latin American Governments in April 1958. In this same document, reference was made to the

1/ See Treaty establishing the European Economic Community and connected documents, published by the Secretariat of the Interim Committee for the Common Market and Euratom (Brussels, 1957).

2/ See below, "Preferential trade agreements".

3/ See EEC, "Memorandum des Etats Membres de la Communauté Européenne aux pays de l'Amérique Latine", Strasbourg, 19 March 1958.

Community's willingness to contribute to the development of international commerce and the reduction of barriers to trade, as set forth in article 18 of the Rome Treaty. To that end, the memorandum stated the Community's intention of entering into reciprocal and mutually advantageous arrangements directed to the reduction of customs duties below the general level which would prevail as a result of the establishment of a customs union among its States members. As regards relations with Latin America, the memorandum proposed a general frame of action and made some suggestions relating to specific procedures for implementing co-operation between the two regions. Thus, the Community expressed its wish to institute, in its relations with the Latin American countries, arrangements for closer co-operation based on respect for the rights of both parties (primarily the right to maintain a policy of economic integration in conformity with existing international commitments) and on mutual benefits. For this purpose "consultation arrangements" could be agreed upon; these would serve as the framework for the study of economic, financial or trade problems - including difficulties in respect of raw materials which arose or might arise in relations between the EEC countries and the Latin American countries - with due regard to the entry into force of the Rome Treaty, and in a spirit of reciprocity.

It was likewise deemed appropriate to seek bases for common action by the European Economic Community and the Latin American countries with respect to all trade matters and to prices of basic commodities (such as coffee and cocoa, for example).

Lastly, the memorandum put forward the view that the fact of the six Governments having prepared a programme for financing expenditure on economic and social infrastructure in the overseas countries and territories associated with the Community was no bar to the development of a policy for exporting capital to Latin America.

The document concluded with an assurance to the governments of the Latin American countries that the problem of economic, financial and trade relations between the European Economic Community and the Latin American countries as a whole was being studied with the greatest care, and recommended that the two parties should compare their views on the subject at an early date.

/In July

In July 1960, the governments of the Latin American countries replied to the EEC documents, transmitting to the Community, in accordance with a proposal formulated by Brazil, a memorandum in which they suggested that EEC should adopt an economic programme for the Latin American region, based on fuller liberalization of trade, reduction of customs duties as between the Community and Latin America, and improvement of the terms on which EEC provided financial assistance. The document likewise referred to the need for an office to be set up in one of the Latin American countries which would serve not only as an information centre but also as a centre for studies on the economic development problems of the countries of the region.

Later, in June 1962, the Commission of EEC submitted to the governments of the States members a document outlining an action programme, under the title of "Nota relativa a los componentes de un programa de acción comunitaria respecto a América Latina". It was advocated that the primary objective of this programme should be the establishment of liaison and information machinery which would permit the continuing exchange of views and information, and would help to dispel the misgivings aroused in Latin America by European union. With regard to trade policy, the Commission confined itself to indicating the role that would be incumbent upon the six member countries in the reorganization of trade in the basic commodities exported by the countries of Latin America. It agreed to continue giving its support to action aimed at stabilizing the prices of the commodities in question, and to examine the possibility of reducing duties and taxes affecting their consumption; and declared its willingness to study the conditions required to encourage Latin America's exports of industrial products.

In January 1963, the Commission presented a further document containing the following proposals: that a liaison office be established in Latin America, to be responsible for the two-way transmittal of information and studies relating to trade between the two regions; and that a group be set up in Brussels through which contact could be maintained between the representatives of the Commission and the heads of the diplomatic missions of the Latin American countries accredited to the Community,

/enabling the

enabling the latter to put forward their views with respect to problems of common interest and keep themselves informed of EEC activities. Of the several proposals submitted to it, the Council approved only those relating to the establishment of an EEC information office, in Montevideo, and to the holding of periodic informal meetings between the representatives of the Commission and the Latin American diplomatic missions accredited to the Community.

The object of the first round of meetings between the Commission's representatives and the heads of Latin American diplomatic missions, which started in July 1963, was to report to the Latin American governments on the structures, policy and prospects of the Community, and on its possible lines of action vis-à-vis Latin America. At the conclusion of the meetings, the Latin American Ambassadors submitted a report in which the Commission was invited to pass on from the consideration of general problems to the discussion of certain more specific questions relating to the adoption of a preferential system in favour of the African countries and to the entry into operation of the common agricultural policy. It was urged that financial and technical assistance programmes should be co-ordinated and that action should be streamlined within the framework of a system of co-operation with the Latin American regional organizations.

A second round of meetings began in February 1966, when the heads of diplomatic missions submitted a memorandum to the Commission in which they once again voiced Latin America's uneasiness as to the way in which its exports would be affected by certain aspects of the common agricultural policy and by the preferential treatment granted to the African countries and formulated specific proposals with respect to some of the effects in question. The following were among the measures suggested in this memorandum: with regard to temperate-zone products, the establishment of tariff quotas and the modification of those of the Community's agricultural regulations which were considered detrimental to Latin American products; and in respect of tropical products, the elimination of tariff and non-tariff barriers to Latin America's exports and the conclusion of specific commodity agreements (for coffee, cocoa, bananas).

/When this

When this second round of meetings, during which the problems had been studied in greater depth by means of the establishment of several working groups, was brought to a conclusion in July 1966, the Commission drew up a report in which it stressed the need for the States members to give careful consideration to the possibility of adopting special trade measures that would help to solve some of the problems arising in Latin America; it pointed out, however, that the proposals relating to tariffs could not be examined until the Kennedy Round negotiations had been completed and the results of the second session of UNCTAD had been made known.

In November 1966 the Latin American missions were notified that the EEC Council of Ministers had declared itself in favour of the continuance of the meetings between the Commission and the group of Latin American Ambassadors and had decided to make a thorough study of the suggestions contained in the February 1966 memorandum. It considered inappropriate, however, the establishment of a joint standing committee of the type proposed by the group of Latin American Ambassadors, the functions of which would have been to study and discuss the measures to be adopted for fostering relations between the two areas and examining Community relations or projects which affected or might affect Latin American interests. It was learnt indirectly that in its report to the Council of Ministers the Commission had expressed the view that the situation with respect to trade between EEC and Latin America did not warrant the apprehensions voiced by the representatives of the Latin American countries, and, furthermore, that since the Community's hands were tied not only by the Kennedy Round negotiations then in process and the forthcoming proceedings of the second session of UNCTAD, but also by the necessity of respecting the provisions of the Yaoundé Convention signed with the African countries, the only thing it could do was to maintain permanent liaison with the Latin American diplomatic missions.

In addition to the foregoing events, reference should also be made to other background material such as the reports prepared and the positions assumed by the European Parliament, which has concerned itself on several occasions with the problem of the relations between Latin America

/and EEC.

and EEC. Cases in point are the provisional report of the Committee on External Trade Relations of the European Parliament, dated June 1963, and the report on the European Economic Community and Latin America ("La Comunidad Europea y América Latina") submitted on behalf of the same Committee in November 1964, and prepared under the direction of Mr. Eduardo Martino. This report, which outlined the bases of a programme for EEC co-operation with Latin America, gave rise to a resolution of the European Parliament in which the Commission of the Community was invited to submit new proposals to the Council of Ministers with a view to organizing relations between the two regions. It is of interest to note that the European Parliament has consistently adopted an attitude highly favourable in general to Latin America, and has urged the adoption of a policy of liberal co-operation in all fields, with due regard to Latin America's interests.

The governments of the States members of the Community have also shown themselves disposed to support the establishment of a policy of closer financial and trade co-operation with Latin America. The Government of Italy is known to have accorded a very favourable reception to the memorandum addressed to the Commission in 1966 by the Contact Group in Brussels, which was also well received by the Governments of the Federal Republic of Germany and the Benelux countries. In November 1966 the Government of Italy submitted to the Council of Ministers, in connexion with the said memorandum, a report in which it stressed the need to formulate a specific programme of economic, financial and technical co-operation for the benefit of Latin America. This report advocated trade measures designed to facilitate imports of Latin American products (both primary commodities and manufactured goods) and the co-ordination of EEC's technical assistance, and expressed the view that it would be especially appropriate to set up a mixed standing committee as an instrument for maintaining contact and ensuring efficient co-operation between the two regions. In a further memorandum to the Council of Ministers, dated 4 November 1968, the Government of Italy renewed its proposals, laying particular emphasis on the need to establish relations between the Community and the Latin American countries on a proper institutional

/basis, and

basis, and also recommending that the Community should play a part in the financing of the development of Latin America.

Hence it is clear that during the first ten years of the Community's existence consideration was given to several proposals directed towards the same end: that of outlining, in view of the importance of the relations between EEC and Latin America, the bases for a programme of constructive Community action which would contribute to the economic and social development of the Latin American countries. The fact that in the three years following the presentation of the 1966 memorandum, up to July 1969, no specific step was taken to give concrete expression to EEC's goodwill towards Latin America would seem to suggest that until recently the Latin American countries have held only a secondary place in the Community's order of priorities, as against, for instance, the Mediterranean countries, the United Kingdom or the United States. In the case of the African countries - at any rate the EAMA members - justification might be found for this state of affairs in the existence of special relations between them and some of the States members of the Community and in the natural desire of the States in question to protect and further their economic interests in their one-time colonies. The argument adduced by EEC itself upon launching its policy of extending the association agreements to other countries in Africa with which it had no traditional relationship, such as the English-speaking countries, was that its interest in them had its grounds or justification in the fact that most of the African countries are relatively less developed.^{4/}

It might also be suspected that the Community's reluctance to take the views of the Latin American countries into account and to engage in a formal and systematic dialogue with them, despite the firm declarations contained in the memorandum addressed to the Latin American governments in 1958, is perhaps largely attributable to the internal problems which the organs of the Community have had to tackle and solve during the transition period, especially at the levels of the common agricultural policy and of internal reforms.

^{4/} The special relationship argument has now been reinvoked to justify association and trade agreements with almost all the Mediterranean countries.

II. NEW PROSPECTS: THE MARTINO REPORT AND THE DECLARATION OF BUENOS AIRES

Nevertheless, there was one major new development that was to provoke a marked change in the reticent, even negative, attitude that the Community had adopted towards the Latin American proposals.

On 29 July 1969, the Commission submitted a note to the Council of Ministers on relations with Latin American countries ^{5/} which opened up new prospects for co-operation between the two regions. This note, known as the Martino Report, recognized the need to take a fresh look at the various problems hampering trade and financial relations between the two regions and recommended that the Community should adopt a co-ordinated policy in favour of Latin America. The report did not, moreover, restrict itself merely to general considerations, but made specific suggestions as to the kind of measures that could be adopted to promote these relations.

On 17 October, the Council decided to submit the report to the Committee of Permanent Representatives of Governments of States members of the Community requesting it to examine the proposals therein and study the possibility of implementing them. The Council also asked the Committee to examine the suggestions contained in the November 1968 memorandum of the Italian Government regarding the creation of a mixed standing committee for maintaining permanent contact and regular relations with Latin American missions in Brussels.

In May 1970, the working group on Latin America set up by the Permanent Representatives Committee, submitted a preliminary analysis of the technical aspects of the Martino Report. ^{6/} In June the same

^{5/} The note was prepared under the supervision of Mr. Eduardo Martino, then a member of the Commission, and thus became generally known as the Martino Report, which is the title used in this document. References to the note are based on data obtained from various publications.

^{6/} According to available information, in its preliminary report the working group did not take up any position on the proposals in the Martino Report or shed any new light up the questions raised in it but, owing to the conflicting views among its members, preferred to adopt on the whole a very cautious approach.

year, the Committee of Permanent Representatives submitted to the Council a number of suggestions of a fairly general and limited character for it to take into account when it took up the question of relations with Latin America in the course of the year. With regard to trade, it was proposed that the application of some of the new tariff cuts negotiated in the Kennedy Round should be speeded up in respect of the Latin American countries and that they should be granted certain new non-preferential tariff reductions and more advantageous offers under the General System of Preferences. As regards financial assistance, it was suggested that the bilateral assistance provided by member States should be co-ordinated and a guarantee system for private investment in Latin America should be considered.

On 25 November 1969, the European Parliament adopted a resolution based on a report on the European Community and Latin America ^{7/} that had been prepared by Mr. Emile de Winter in connexion with the Martino Report, which drew attention to the lack of a common EEC policy towards Latin America. In the resolution, the Parliament requested the Council of Ministers to promote effective and permanent co-operation between the two regions as a means of improving market conditions for Latin American products and credit and technical assistance terms. With regard to institutions, the European Parliament recommended setting up a joint EEC-Latin America committee, extending generalized and non-discriminatory preferences to as many processed agricultural products as possible, and gradually reducing the consumer taxes imposed on tropical products in several EEC countries. The European Parliament also reaffirmed that any policy of aid to the countries of Latin America should be on a genuine community basis and not be restricted to the co-ordination of isolated national initiatives.

Feeling that the preceding months had brought a number of indications - the most significant being the Martino Report - that the Community's attitude towards relations between the two regions was taking a more positive turn, the Latin American countries decided to hold a special meeting in order to adopt a joint and comprehensive policy towards the Community. The decision to hold the meeting under the auspices of the

7/ See Documentos de la Comunidad Europea N°12. Las Comunidades Europeas y América Latina.

Special Committee on Latin American Co-ordination (CECLA) was reached in November 1969, when Argentina put forward the proposal that the Latin American countries should take up a united position with regard to EEC along similar lines to that adopted vis-à-vis the United States at the previous CECLA meeting in Viña del Mar. The conference, which was held in Buenos Aires from 29 to 31 July 1970, began its deliberations at the expert level and concluded them at the ministerial level with the approval of the Declaration of Buenos Aires on relations between Latin America and the European Communities.

In the substantive part of this document, the Governments of the countries members of CECLA proposed that the Council of Ministers of the Community adopt jointly the following measures:

1. The establishment of a system of co-operation leading to a strengthening of their mutual relations based on principles of justice, equity, international solidarity and mutual respect. To this end, agreement must be reached on the objectives, the policy and the general characteristics of the system, and on its mechanisms for consultation and negotiation.
2. To hold, as soon as possible, a meeting at the ministerial level for the purpose of arriving at decisions on these subjects.
3. To begin, as soon as possible, so as to prepare the meeting properly, preliminary talks at the ambassadorial level between representatives of Latin American countries, of member countries of the European Communities and of the Commission.

In the same document, the countries members of CECLA expressed their desire to give the dialogue between Latin America and the European Communities an institutional status and conduct it at a high political level in order to:

- (i) Study and make decisions on matters affecting their relations;
- (ii) Establish a frame of reference which would facilitate the dynamic development of bilateral, regional and subregional relations between Latin America and the European Communities; and
- (iii) Agree on solutions, including the conclusion of sectoral or global agreements in the fields of commerce, financing, transportation and scientific and technological co-operation.

/It is

It is evident from the foregoing that the Declaration of Buenos Aires is mainly political in content, in so far as its fundamental purpose is to give the Community an official indication of the desire of the Latin American countries to initiate a constructive dialogue and institutionalize relations between the two regions. However, because the Governments of the member countries of CECLA had not reached prior agreement on the possible nature of closer co-operation with the Community, it proved impossible to adopt sufficiently well defined proposals on the subject at the Buenos Aires meeting.

In order to remedy the situation, a resolution was adopted listing the most important matters that the Latin American countries should bring to the attention of the Community at proposed meetings with their representatives. The suggestions it contains with regard to trade are still of a very general nature; they cover the fulfilment of statu quo commitments, the improvement of conditions of marketing and access of commodities and manufactured and semi-manufactured goods produced in Latin America, and the repercussions of the common agricultural policy on the region's exports. With regard to financing, the resolution recommends the following: an intensification of the flow of financial resources from EEC countries to Latin America and an improvement in the terms and conditions; attending to the special requirements of the relatively less developed countries of the area; and the assignment of resources to promote the financing of Latin American exports. The resolution also comprises some general recommendations on technical assistance and industrial and technical collaboration.

The Buenos Aires resolution goes on to list a set of subjects suitable for immediate action by the Community, such as: the early establishment of a system of general non-reciprocal and non-discriminatory preferences in keeping with a presentation of their position made by the Latin American delegations at UNCTAD; the extension of the credit operations of the European Investment Bank to Latin American countries, either directly or through the Inter-American Development Bank; an improvement in the conditions of access of these countries to the capital markets of the States members of the Community; the granting of technical

/assistance in

assistance in specific fields, such as economic integration; and support for the positions adopted by Latin American countries in international forums.

It was generally felt, however, that, because no meeting of experts had been held prior to the Buenos Aires Conference, the countries represented could not adopt any proposals that were sufficiently constructive and well defined to serve as a basis for future negotiations with the Community. Bearing in mind the need for specific proposals, the Governments of the countries members of CECLA decided shortly to hold further meetings to complete preparations for Latin America's participation in the projected meetings with representatives of EEC.

The diplomatic representative of Colombia in Brussels officially submitted the text of the Declaration of Buenos Aires and the accompanying resolution to the Presidents of the Council and the Commission of the Community at the end of September 1970, in the presence of the Latin American ambassadors to the Community. One of EEC's first reactions to the Buenos Aires Conference was to point out that the joint meeting advocated by the member countries of CECLA could only come about once a sufficiently detailed analysis had been made of the problems of co-operation between the two regions to make it possible to deliberate and adopt decisions at the ministerial level. On receiving the text of the documents approved at Buenos Aires, the President of the Council of Ministers of the Community stated on 1 October 1970 that the Community wished to promote closer co-operation with Latin America, for which concrete projects should be formulated; he referred to the offer of improving trade outlets for Latin American goods and to the provision of technical assistance for developing the region's natural resources. He further pointed out that the Council of Ministers would soon be deliberating on the subject of the Community's relations with Latin America in the hope of making real progress towards co-operation between the two regions.^{8/}

In his speech to the European Parliament on 15 September 1970 on assuming the presidency of the EEC Commission, Mr. F. Malfatti likewise reaffirmed the Commission's intention to promote better and closer

^{8/} See Agence Internationale d'Information pour la Presse, Europe, Thursday, 1 October 1970.

relations between Latin America and the Community. He moreover expressed its satisfaction at the progress represented by the Declaration of Buenos Aires and the Commission's desire to adopt a more constructive and positive attitude towards the proposals stemming from the Conference.^{2/}

Lastly, the outcome of the work done by the Commission was that the Council of Ministers, meeting in Brussels, adopted a Declaration on 14 December 1970 in which it noted with great interest the Declaration and resolution adopted by CECLA members in Buenos Aires, and especially their political content. The Council felt that the development of the traditional relations between the European Community and Latin America could not fail to be to their mutual advantage, and endorsed CECLA's proposal of "setting up lasting co-operation between the two groups of countries enabling the problems which are posed in the framework of economic and trade relations to be solved by common agreement and in a balanced manner". Finally, the Council emphasized the need to devote detailed study to the specific means of fostering co-operation between the two regions and, with this in view, suggested that a meeting should shortly take place between the Latin American ambassadors and the representatives of the EEC member States and of the Commission. At the same time, the Council requested the Committee of Permanent Representatives to continue making preparations for the projected contacts and to report back to it on the subject.

By and large, the Declaration of the Council of Ministers is a positive and encouraging response to Latin America's statement of its position in the Declaration of Buenos Aires, in so far as it reaffirms the need for greater co-operation between the two regions and for a dialogue to be initiated between them to determine what form this co-operation should take. Being an essentially political document intended to outline the general position of the Community vis-à-vis Latin America, the Brussels Declaration obviously could not go into the details of the Latin American

^{2/} See Europe, Wednesday, 30 September 1970.

proposals, and it does not refer explicitly to the suggestion that a conference should be convened at the ministerial level to establish the form that future co-operation between Latin America and the Community should take. However, the fact that it endorses the idea of holding meetings at the ambassadorial level as soon as possible, so as to define the aims, limits and procedures of a fruitful dialogue between Latin America and the Community, is only the first step in a long process of negotiation which must ultimately culminate in decisions at the political level. On the other hand, there seems to be no doubt that the Community really does see the ambassadorial meetings advocated in the Council's declaration as serving to prepare, within a reasonable time (from six months to a year), the meeting at the ministerial level proposed by the member countries of CECIA.

/III. THE

III. THE NEED FOR A NEW APPROACH AND FOR NEW METHODS IN CO-OPERATION BETWEEN LATIN AMERICA AND THE COMMUNITY

The general aim of the proposals that the Latin American countries have made to the Community since its establishment has been to secure a revision of certain fundamental aspects of Community policy, relating either to the common agricultural policy or to association with certain developing countries, on the grounds that they are incompatible with the commitments entered into by the developed countries in such international bodies as GATT and UNCTAD.

The proposal made by the Argentine in October 1968 in which it requested the opening of trade negotiations with the Community is a good illustration of a constructive dialogue between the two sides. In the document it presented to the Commission, Argentina proposed that an agreement should be concluded on a number of points: establishment of suitable machinery for consultation on a permanent basis; adoption of measures for resolving problems connected with certain of its exports to the Community, notably beef; better treatment, both tariff and non-tariff, for certain manufactured exports of which could be suitably promoted in the Community; improvement of financial co-operation, etc.

As regards Argentina's main export to the Community, namely beef, the proposal suggested combining provisions to improve access to the Community market with a commitment to promote the stability and security of supplies to the Community within the framework of the common agricultural policy. It also made mention of the adoption of provisions by means of which the Argentine Government could ensure that regular access to the Community for its products would not cause disruptions in the internal Community market. The last part of the proposal referred to the adoption of suitable measures to facilitate the expansion of Community exports to Argentina and the participation of the member States of the Community in the economic development of Argentina. This last provision indicated that Argentina was prepared to consider arrangements for a certain degree of reciprocity in respect of any advantages it might receive from the Community.

/It should

It should be noted that the Community welcomed the Argentine memorandum, and particularly the fact that it had the merit of proposing a contractual framework for the discussion of common problems. In its report to the Council of Ministers, the Commission considered that the negotiation of a trade agreement would make it possible to raise the question of reciprocity,^{10/} and quite unequivocally expressed its preference for a process of negotiation, which in its view was much more likely to yield a constructive dialogue than unilateral requests of the kind that the Latin American countries had thus far addressed to the Community.

^{10/} Letter dated 25 March 1969 from Mr. Jean Rey, President of the Commission of the European Communities to the President of the Council of Ministers.

IV. THE COMMON COMMERCIAL POLICY AND THE SPREAD OF PREFERENTIAL AGREEMENTS WITH THIRD PARTIES

With the signature, on 9 July 1961, of an agreement of association with Greece, the Community initiated a policy of establishing special relationships - in trade and also in financial and technical assistance - with a large and growing number of countries. After having concluded agreements with the African countries, especially those that had had special links with some of its member States, the Community is now entering into negotiations with virtually all the Mediterranean countries with a view to concluding trade agreements, generally of a preferential character. Although the Community is acting for a variety of motives and each case has its own particular features, it would appear that its policy is to bring the Mediterranean area into its sphere of economic and commercial influence. The authorities of the Community themselves bear out this interpretation when they refer in some of their official statements to the Community's "Mediterranean policy", as will be seen below. For several years now, particularly since the signature of the first Yaoundé Convention in 1964 granting wide-ranging tariff concessions to the African and Malagasy States, the Latin American countries have been concerned about the possible effect on their exports of the preferential treatment granted by the Community, which is the second largest market in the world for their products. Both the increase in the number of agreements entered into by the Community, especially more recently, and the fact that such agreements are being entered into with countries that did not formerly have special relationships with member States of the Community, are sufficient grounds for Latin America to take a hard look at the over-all scope of this policy and its implications for Latin America's relations with the Community.

None the less, recent trends in the common commercial policy vis-à-vis third States do also have a positive feature for the Latin American countries in the sense that they show that the position of the Community members regarding the problems of relations with the rest of the world and particularly with developing regions are becoming more co-ordinated and harmonized. On 16 December 1969, the Community member States formally

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accepted the principle of the progressive standardization of agreements covering trade relations with third States and the negotiation of Community agreements. In other words, the Council pronounced itself in favour of the application of the provisions of article 113 of the Rome Treaty, which states that after the expiry of the transitional period, the common commercial policy shall be based on uniform principles and that to this end the Commission shall submit proposals to the Council. This development is creating the institutional conditions for a useful dialogue between the Community and Latin America and it should provide the Community with a suitable framework for its future negotiations with Latin America.

1. Agreements of association and their recent proliferation

The Rome Treaty laid down the legal basis for such specific economic and commercial relations as the Community might establish with non-member States. The most favourable regime that can be adopted with respect to such States is that of association, as defined in articles 131 to 136 of the Treaty, and it was especially designed for the non-European countries and overseas territories that at the time of the establishment of the Community had special relationships with certain of the member States. Article 131 states that association between the Community and the countries and territories listed in an annex to the Treaty was designed to promote their economic and social development, chiefly by permitting entry to their products free of tariff or other duties and without quantitative restrictions. Up to March 1970, the products subject to market organization under the common agricultural policy were excluded from this treatment. The regulation adopted by the Council on 17 March 1970 lifted tariff duties, and in specified cases other barriers such as variable levies, on a large number of major products such as beef, edible oil products, processed fruit and vegetables, etc. Although as yet it cannot be foreseen how far the African Associated States will be capable of taking advantage of these new export possibilities, it must be considered that, potentially at least, the scope of their preferences has been expanded since hitherto they have competed with Latin American exports only as regards tropical-zone products.

/The Community's

The Community's products enjoy the same treatment in the Associated States,^{11/} and thus it can be said that one of the purposes of the regime of association, as defined in articles 131 to 136 of the Rome Treaty, is the creation of a free-trade area between each Associated State and the Community.

Another important feature of the regime of association, which is clear from the same articles of the Treaty, is that it does not confine the content of agreements of association to purely commercial matters. The Convention annexed to the Rome Treaty contains provisions relating to the financial and technical assistance granted by the European Development Fund (EDF) and the European Investment Bank (EIB) to the Associated States. The Yaoundé Conventions, both the first signed on 23 July 1963 and the second signed on 29 July 1969, establish the over-all total of loans that these agencies, whose resources come from the official contributions of each member State, will be authorized to grant to the African Associated States during the period of validity of each Convention.^{12/}

The regime of association, as defined in articles 131 to 136 of the Rome Treaty, is the closest and most comprehensive form of co-operation that EEC is able to offer to third countries under the Treaty. In practice, as noted above, the regime was conceived exclusively for the African and Malagasy States listed in an annex to the Treaty, which subsequently signed the two successive Yaoundé Conventions with the Community. The Treaty does, however, provide for the possibility of other forms of association with third countries in article 238, which states that the Community may conclude with a third country, a union of States or an international organization agreement creating an association embodying reciprocal rights and obligations, joint actions and special procedures. To date, the Community has applied the provisions of article 238 in its relations with four countries: Greece, Turkey, Morocco and Tunisia. It is evident from

^{11/} The Associated States are entitled to levy customs duties which correspond to the requirements of their industrialization or have the object of contributing to their budgets.

^{12/} Loans by EDF, which form the bulk of the financing that can be used by the African Associated States, are virtually all in the form of non-reimbursable assistance, while less than one-tenth of its resources is used in the form of long-term credit at low interest rates.

the main features of the agreements with these countries that, for the Community authorities, the concept of association, as applied specifically under article 238, does not have a simple meaning or content. On the contrary, the Community has taken advantage of the rather general wording of the article to give the different agreements of association it has signed with these countries a very broad range as regards both purely commercial matters and also their implications in other fields, such as financial and technical assistance.

The first time that article 238 was applied was on 9 July 1961, when the Community concluded an agreement of association with Greece to establish a customs union. Under the agreement, tariffs were to be eliminated reciprocally under a linear programme, over a transitional period of twelve years as far as the Community is concerned. Having regard, however, to the difference in levels of development, Greece was authorized to eliminate tariffs on a number of products listed in an annex to the agreement at a slower pace, over a period of twenty-two years. Furthermore, the general liberalization provided for under the agreement also applies to a fairly large range of agricultural products of special interest to Greece. The customs union part of the agreement takes the form of a commitment by Greece to adopt the common customs tariff during the transitional period. Lastly, the liberalization of trade between Greece and the Community was to be accompanied by financial assistance to Greece.^{13/}

Since its entry into force on 1 November 1962, the provisions of the agreement between Greece and the Community have been gradually implemented, and trade relations between the two parties have moved closer to a customs union. From 1 July 1968, Greek manufactures have been entering the Community free of duty and quantitative restrictions, while agricultural products of interest to Greece have received tariff reductions ranging between 85 and 100 per cent of the basic common duties. Grapes and tobacco - Greece's major agricultural exports - are completely duty free, and fruit and vegetables - either fresh or canned - enjoy sizable tariff reductions.

^{13/} A protocol annexed to the agreement provides that the European Investment Bank may extend loans to Greece up to a total amount of 125 million dollars over the period 1962-1967 in the form of long-term credit at low interest rates.

The Community has a 50 per cent tariff concession in respect of its manufactures, except for those products for which a slower pace of trade liberalization has been laid down in the agreement. Greece has also granted substantial tariff reductions for many of the Community's agricultural products, and has begun to align its customs tariff with the EEC common customs tariff.

The second agreement of association concluded by the Community under article 238 was with Turkey. The agreement was signed on 12 September 1963 and, as with Greece, relates to the creation of a customs union between the two parties. Having regard, however, to the fact that Turkey needed to strengthen its economy before liberalizing trade with the Community, the agreement provides for the establishment of a customs union in three stages. During the preparatory stage, lasting five years but extendable, association is virtually confined to tariff concessions, reviewed annually, covering certain products of special interest to Turkey, such as tobacco, grapes and dried figs. The agreement provides that, four years after its entry into force, consideration shall be given to beginning the transitional stage, lasting twelve years, during which a customs union is to be gradually established based on the elimination of barriers of all types to reciprocal trade and the adoption by Turkey of the common customs tariff. The council of the association, set up under the agreement, is to decide when conditions are ripe for moving on to the customs union. Although association is the main aim of the agreement, it does not automatically lead on to the establishment of a customs union with the Community. Lastly, a protocol to the agreement limits the amount of financial assistance that can be granted by the Community to Turkey to a total of 175 million dollars during the period 1965-1969.

The Community subsequently established regimes of association, under article 238 of the Rome Treaty, with various African countries that did not have special relations with any of its member states, as the countries that adhered to the Yaoundé Convention had. The first such agreement was signed with Nigeria in 1966, and the second, with the countries of East Africa (Kenya, Uganda and Tanzania), was signed at Arusha in 1968.

/Generally speaking,

Generally speaking, these agreements are very similar, in so far as they provide for substantial liberalization of reciprocal trade, both in respect of tariff and of quantitative restrictions. In the case of Nigeria, that country's products are not subject to duties in the territory of the Community, with some exceptions (groundnut and palm oil, cocoa and certain types of timber), which are subject to annually reviewable quotas. As regards the three East African countries, the Arusha agreement in principle provides for duty-free entry of their products, except for some products that are subject to annual import quotas in the Community (coffee, cloves and canned pineapple).^{14/} The Community's products, in exchange, are allowed into Nigeria duty-free, with immediate effect, except for some products, such as radio receiving sets, beer and some types of textiles, on which the duties are to be lifted over a period of four years. Trade with the East African countries is liberalized even more, since all the Community's products, without exception, are completely exempted from customs duties and similar charges. However, each of the Associated States retains the right to levy customs duties as required for their industrial development or to contribute to their budgets. Although the agreements with these four African countries have the practical effect of creating a free-trade area between them and the Community, no reference is made to this idea or to that of a customs union in the text of those agreements, whereas a customs union was specifically mentioned in the Community's agreement with Greece and Turkey. Moreover, it should be pointed out that there is no provision for financial and technical assistance to the Associated African States.^{15/} The last two countries to be given the benefit of the

^{14/} In May 1970, the Commission proposed extending to the signatories of the Arusha agreement the benefit of the regulations approved in March 1969 in favour of temperate-zone products exported by the member countries of the Association of African and Malagasy States.

^{15/} The agreements with these countries were to remain in force up to 31 May 1969, the date on which the Yaoundé Convention (setting up the Association of African and Malagasy States) expired, so that their renewal could be negotiated at the same time as the new Convention; but the agreements with Nigeria, Kenya, Tanzania and Uganda were not ratified by all the ECC countries, they never entered into force. When the second Yaoundé Convention was signed, a new five-year agreement was negotiated with Kenya, Tanzania and Uganda; the agreement was signed in September 1969 and is currently awaiting ratification. There has as yet been no move to negotiate a new agreement with Nigeria.

regime of association defined in article 238 of the Rome Treaty were Morocco and Tunisia, which signed agreements with the Community in March 1969. Although the legal basis of these agreements is the same as those signed by Greece and Turkey, the form of association established is, in fact, very different. First, the preambles to the agreements with Tunisia and Morocco mention the resolve of the Contracting Parties to eliminate the obstacles of their reciprocal trade but do not refer to the establishment of a free-trade area or a customs union between them as one of the objectives of association. Provision is merely made for the possibility of initiating negotiations with a view to the conclusion of a new agreement on a broader basis not later than the end of the third year following the date of the entry into force of the agreements, but there is no reference to a programme or timetable for removing tariff barriers to reciprocal trade, as in the case of Greece and Turkey. Secondly, Tunisia and Morocco do not commit themselves to aligning their tariff levels with the EEC common customs tariff, which confirms the view that the drafters of the agreements did not wish, at least at the present stage in their relations, to envisage the creation of a customs union.

As regards the content of the agreements with Morocco and Tunisia, the first feature worthy of mention is that manufactures and semi-manufactures from these two countries covered by sections 25 to 99 of the Brussels Tariff Nomenclature (BTN), with a few exceptions, enter the EEC market duty-free and with no quantitative restrictions. Several different regimes are applied to agricultural products. Certain types of meat, leguminous and canned vegetables, dates and pepper pay no duty at all, citrus fruits, olive oil, wheat and fresh and canned fish pay less than the Community tariff. Tunisia and Morocco, for their part, have granted varying customs concessions, to be applied progressively, to specific EEC products. For Tunisia, the average reduction will be 70 per cent and for Morocco, 25 per cent by the end of three years. Lastly, it should be pointed out that in the case of these countries also, in the regime of association there is no provision for financial or technical assistance.

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On the basis of the different regimes of association that have been tried out so far - which have been described above - it can be said that the Community has applied the concept of association embodied in article 238 to two different groups of countries: first, European countries which might eventually join the Common Market, with which customs union with the Community is planned with that possibility in mind (Greece and Turkey); secondly, in accordance with the "declarations of intention" following the Final Act annexed to the Rome Treaty, non-European, or to be more precise, African countries, characterized by economic structures and types of production comparable to those of the countries associated with the Community under articles 131 to 136 of the Rome Treaty (signatories of the Yaoundé Convention). This definition of the scope of the applicability of article 238 emerges from the Community's actual experience, for the article itself does not specify any geographical limits.

2. Preferential trade agreements

Lastly, in order to carry out its common commercial policy with third countries, the Community may take advantage of the legal framework provided in article 113 of the Rome Treaty, which stipulates that after the expiry of the transitional period, that is, as from 1 January 1970, the common commercial policy shall be based on uniform principles, particularly in regard to tariff amendments, the conclusion of tariff or trade agreements, and that where agreements with third countries require to be negotiated, the Commission shall make recommendations to the Council, which will authorize the Commission to open the necessary negotiations. Lastly, it provides that the Commission shall conduct these negotiations on behalf of the Community in consultation with a special Committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it. In other words, article 113 confers broad powers on the Commission, under the control of the Council of Ministers, to negotiate with third countries more extensive trade agreements than would be possible strictly within the framework of the common commercial policy.

/Negotiations have

Negotiations have been conducted with many countries under article 113 in the last few years with a view to concluding trade agreements between them and the Community; some of those agreements have been concluded and others are still being negotiated. In view of the obvious trend towards a proliferation of such agreements between the Community and third countries, which are generally of a preferential nature, the time has come to make a brief analysis of the content of each so as to assemble some meaningful facts about the features of the commercial policy the Community is now applying.

After three years of negotiations, on 29 June 1970, the Community signed a preferential trade agreement with Spain, article 1 of which states that its aim is to abolish restrictions on reciprocal trade in most products, and provides that this should be done in two stages, the first of which will have a minimum duration of six years and the second will be initiated as agreed by the two contracting parties. The agreement is confined to the concession of selective and progressive tariff reductions. The Community approved two lists of industrial products from Spain that will be given preferential treatment on its market. For the products on the first list, there will be reductions of 30 per cent by 1 October 1970, 50 per cent by 1 January 1972, and 60 per cent by 1 January 1973.^{16/} The second list contains twelve textile products on which there will be a progressive reduction of duties from 10 to 40 per cent in four years. In the field of agriculture, Spain has been granted reductions on grapes, citrus fruits (tariff concession of 40 per cent), olive oil, some canned fruits and vegetables and certain types of wine.^{17/} The Community, for its part,

^{16/} Excluding refined petroleum products.

^{17/} Before completing negotiations with Spain and Israel, the Community requested GATT to be allowed to waive its obligations under article 1 of the General Treaty in order to be able to reduce its customs duties on imports of citrus fruits from Spain and Israel by 40 per cent. The reduction began to be applied on 1 September 1969, before the Contracting Parties of GATT could adopt a decision on the matter. Most of the countries on the working group set up to study the request for a waiver considered that it should not be granted, in view of which EEC agreed to withdraw the request. The tariff reduction was nevertheless included in the commercial agreements it signed with Spain and Israel.

benefits from progressive concessions of from 25 to 60 per cent over a period of six years for two lists of manufactures. In reality, the preferential reduction of 25 per cent is applied to roughly half the products included on the lists of concessions to the Community. Spain will liberalize nearly all its imports from the Community over a period of six years.

The terms of the agreement with Spain, in particular the mention of a possible second stage of tariff reductions which may not be put into effect until much more than six years have elapsed, and the absence of any definite programme for abolishing tariff and other barriers to reciprocal trade, mean that the creation of a customs union or a free-trade area with the Community is not envisaged in the agreement. For political reasons, the text of the agreement makes no more explicit reference to the establishment of closer relations between the Community and Spain, and its scope is confined to that of a preferential trade agreement.

On 29 June 1970, a preferential trade agreement between Israel and the Community was also signed. The agreement provides for the concession of selective and progressive tariff concessions and is for a period of five years. As regards the benefits to Israel, more than 85 per cent of its exports of manufactures to the Community subject to customs duties are given tariff concessions. In general, these take the form of a tariff reduction of 50 per cent applicable in the following stages: 30 per cent at the date of entry into force of the agreement and 5 per cent at 1 January of every year from 1971 and 1974. In the agricultural sector, concessions are made for Israel's main export products. As in the industrial sector, these concessions are applied to about 80 per cent of the Community's agricultural imports from Israel subject to the payment of customs duties or other charges. Citrus fruits benefit by a reduction of 40 per cent on the common customs tariff, which is granted under certain price conditions.

Israel grants concessions for more than half the Community's exports both industrial and agricultural, that are subject to customs duties. The products on which these reductions are granted have been divided into four lists, and the concessions, applicable in four annual stages, will be from 10 to 30 per cent, depending on the circumstances.^{18/}

^{18/} Like the agreement with Spain, the agreement with Israel entered into force on 1 October 1970.

On 19 March 1970, a three-year trade agreement was signed between the Community and Yugoslavia, which provides for the reciprocal application of the most-favoured-nation clause and the adoption of specific tariff provisions. For instance, the immediate application of all the tariff reductions on certain products granted during the Kennedy Round. However, the key provision of the agreement is the special treatment accorded to Yugoslavia's beef exports to the Community. Given certain conditions of price, quality and rate of exports, there will be a reduction in the variable levy applicable to meat from countries outside the Community. There will be a reduction of 25 per cent during the part of the year when the Community's stocks of beef are at their lowest, and of 20 per cent for the other part of the year, when beef is plentiful.

The protocol annexed to the agreement is drafted in such a way that it cannot be considered to establish a preferential system in favour of goods from Yugoslavia. However, the description of the meat to which its provisions are applicable is so detailed that only meat exported by Yugoslavia could really benefit by the system. Such an interpretation is supported by the fact that the protocol itself creates a new sub-item in the Community tariff schedule covering the types of meat referred to.^{19/}

^{19/} According to the text of the agreement published in the Journal officiel des Communautés européennes, N° L 58 of 13 March 1970 it is as follows:

02.01

bb) Fully grown bovine cattle:

ex. 11 Whole carcasses, sides and quarters:

Whole carcasses of not less than 180 kg and not more than 270 kg and sides or quarters of not less than 90 kg and not more than 135 kg, with little bone in the gristle (especially in the public symphysis and the vertebral apophyses), the meat being pale pink in colour and the fat very fine-grained and from white to pale yellow in colour.

ex. 22 Front quarters:

Weighing not less than 45 kg and not more than 68 kg, with little bone in the gristle (especially in the vertebral apophyses), the meat being pale pink in colour and the fat very fine-grained and from white to pale yellow in colour.

/In other

In other words, the machinery established in the agreement between the Community and Yugoslavia, while not formally preferential, is a typical example of indirect discrimination against non-privileged suppliers in the region.

In March 1970, the Commission requested the Council's authorization to open negotiations with Austria with a view to the signing of a preferential trade agreement. The intention is shortly to sign a provisional agreement covering reciprocal tariff reductions of about 30 per cent for industrial products and special measures in favour of agricultural commodities. As regards agricultural products, the Community could accord Austria preferential concessions (reduction of the movable levy) for beef and certain types of cheese. Austria is in favour of the rapid conclusion of a trade agreement, whose explicit purpose would be the complete elimination of obstacles to reciprocal trade.

Negotiations between the Community and the United Arab Republic are also in the preliminary stages. In February 1970, the Commission submitted a report to the Council on the preferential trade agreement with that country that was being prepared. The agreement would consist essentially of reciprocal tariff concessions of varying scope, allowing for the different levels of development reached by the Community and the United Arab Republic. The Commission favours a linear preference of 60 to 70 per cent for industrial products, but it considers that this system cannot be extended under the same conditions to textiles, which are a sensitive sector of the Community's imports. Since to exclude textile products would take the heart out of the agreement in the eyes of the United Arab Republic, the Commission has left the door open for possible approval of concessions in this sector, which would be accompanied by a safeguard device. It is

19/ (Cont.)

ex. 33 Hind quarters:

 Weighing not less than 45 kg and not more than 68 kg - or not less than 38 kg and not more than 61 kg for the "Piccola" cut - with little bone in the gristle (especially in the vertebral apophyses), the meat being pale pink in colour and the fat very fine-grained and white to pale yellow in colour.

/proposed that

proposed that concessions in the case of agricultural commodities should be restricted to certain products - such as garlic, onions and rice - which are of particular interest to the United Arab Republic. In return, the UAR would grant concessions in connexion with both customs duties and quantitative restrictions.

In February 1970, the Government of Algeria made a formal request for the opening of negotiations with the Community with a view to signing an economic co-operation agreement to step up trade, financial and economic assistance, and technical and social co-operation. The agreement proposed by Algeria is broader in scope than the exclusively commercial agreements which the Community concluded with the other two Maghreb countries - Tunisia and Morocco - in 1969. After approving the Algerian Government's request, the Commission decided to present a report to the Council of Ministers.

The negotiations for an agreement with Malta on the establishment of a customs union were completed on 24 July 1970. Two successive stages are envisaged: in the first five years, Malta will be accorded a 70 per cent reduction in the common customs tariff for its exports of industrial products and quantitative restrictions will be eliminated, except in the case of petroleum products and textiles, for which the Community will maintain tariff quotas. Malta will apply 35 per cent reduction of duties on Community products over a period of four years. The customs union will enter into effect in the second stage, with the complete elimination of customs duties and other barriers to reciprocal trade and the adoption of appropriate measures in connexion with agricultural commodities. Moreover, in the second stage, Malta should adopt the EEC common customs tariff, and there will be an escape clause to protect its industrial development.

In March 1970, the Government of Cyprus expressed a wish to conclude a trade agreement with the Community, whose essential purpose would be to protect sales of citrus fruit, which comprise 20 per cent of its total exports to that market.

A trade agreement between Japan and the Community is also currently being negotiated under article 113. The two main points under discussion are the liberalization of reciprocal trade through the gradual elimination

/of quantitative

of quantitative restrictions and non-tariff barriers on both sides, and the drafting of an escape clause that would be applicable in case of market disruption. The Japanese Government has shown its willingness to discuss reciprocal trade liberalization, but has been very reluctant to accept the actual principle of a generally applicable escape clause. In talks with a representative of the Commission in Tokyo, Japan expressed interest not only in increasing reciprocal trade, but also in closer financial and technological co-operation.

In February 1969, the Government of Argentina addressed a memorandum to the Commission in which it expressed a wish to enter into negotiations with the Community for the purpose of laying down bases for economic, trade and financial co-operation. Following the exploratory conversations which took place towards the end of 1969, the Commission requested the Council's authorization in April 1970 to open negotiations with a view to concluding a non-preferential trade agreement with Argentina based on reciprocal concessions. Argentina is interested in obtaining tariff concessions for agricultural commodities of which it is the principal - or one of the principal - suppliers of the Community, e.g., linseed oil, horse meat, some types of fruit and honey, and for industrial products, such as leather articles, woollens, tractors, etc. As regards frozen beef, the Argentine Government has proposed a special arrangement based on an agreed price. The Commission's general approach has been to explore the possibility of according Argentina non-preferential tariff reductions for a smaller range of products than that included in Argentina's request. Argentina would also make some tariff reductions for certain of the Community's exports.

Yet another Latin American country (Uruguay), whose trade problems with EEC are very similar to Argentina's, has requested the Community to open negotiations on a trade agreement.

3. Economic and institutional implications of the
Community's Commercial Policy

(a) Extension of discrimination against Latin America's trade and
establishment of a sphere of influence in the Mediterranean
and Africa

The brief analysis of the agreements signed or in course of negotiation between the Community and a certain number of third countries within the framework of the common commercial policy defined in article 113 of the Rome Treaty brings to light some facts of considerable importance to the Latin American countries. In the first place, none of the agreements - except that concluded with Yugoslavia, whose indirectly discriminatory nature is referred to above - were signed by the Community within the context of article I of the General Agreement on Tariff and Trade, i.e., under the most-favoured-nation clause. In actual fact, they are preferential agreements based on reciprocal concessions, which usually allow for differences in the stages of development reached by the contracting parties.^{20/} Nevertheless, all the agreements signed by the Community since its inception - under articles 238 (regime of association) and 113 (common agricultural policy) - provide for a certain tariff reciprocity on the part of third countries in return for concessions granted by the Community. Secondly, in EEC's recent commercial policy there has been an accentuation of the trend towards regionalization that was already evident in its earliest years. It is currently taking deliberate steps to apply a specific policy in the Mediterranean basin and extend it to Africa. The Community began to penetrate this region through the signing of association agreements with Greece and Turkey in 1961 and 1963, respectively, with a view to forming a customs union. The 1964 Yaoundé Agreement with the former French and Belgian colonies confirmed EEC's economic and commercial interests in Africa. Subsequently, the Community concluded agreements in the western Mediterranean area with Morocco and Tunisia, which had formerly been associated with France. Lastly, in 1969 and 1970, the Community redoubled its efforts to establish a system of preferential trade agreements with the Mediterranean countries

^{20/} As in the recent EEC agreements with Israel and Spain.

/which had

which had kept aloof from such relationships. Taking into account the countries which have concluded or are negotiating agreements with the Community, only three countries in the Mediterranean basin - Libya, Syria and Albania - have thus far shown no sign of wishing to enter into a special relationship with it, although it is quite probable that the Community's commercial policy will embrace Libya and Syria in the near future. Furthermore, it may reasonably be assumed that the United Kingdom's entry into the European Common Market will also be accompanied by the adoption of a regime of association favouring the African Commonwealth countries, which is yet another reason for believing that the Mediterranean and Africa really are a centre of prime interest for EEC's current trade strategy at the present time.

The representatives of the Commission, for their part, have issued statements in connexion with the twenty-sixth session of GATT and the criticisms that were then levelled at EEC's commercial policy, thus strengthening the idea of deliberate action by the Community in the Mediterranean area. On 26 February 1970, a high official of the Commission declared that EEC's commercial policy in that region was dictated by special circumstances, and he endeavoured to justify it by invoking essentially political arguments. First, under the agreements with Morocco and Tunisia, the Community merely took over the links that already existed between these countries and France by virtue of the Rome Treaty itself. Secondly, the Commission considers that the agreements which have been or are about to be concluded with other Mediterranean countries are merely a normal extension of the Community's previous activities in that area, and that it would have been difficult, if not impossible, to reject those countries' requests for the establishment of special relations with the Community. In the document presented to the Council of Ministers in April 1970 on the Community's current policy of preferential agreements, the Commission stated that its Mediterranean policy was the result of the movement for European unity, EEC's historical links with Africa and its resolve to give all the different countries of that region equal treatment within the framework of an over-all policy. The Commission also stated

/that it

that it would be as well to bear in mind that those countries sold three-quarters of their exports of certain agricultural products to the Community, that they had different structures of production and that, in general, the trade agreements between them and the Community had not harmed the trade of third countries. Furthermore, in the face of the severe criticism which the conclusion of these preferential agreements had aroused in GATT,²¹ the Commission said that EEC had no intention of extending this policy to other parts of the world but would confine its sphere of action strictly to the Mediterranean countries and the developing African countries, particularly those belonging to either of the groups which could invoke special relationships with an EEC member State. Within these geographical limits, the Commission considers that the Community's action, which is justified by special situations and circumstances, is unlikely to constitute a threat to the established international trade regulations.

The point to be stressed here is that a set of circumstances in a certain region are shaping a specific trade policy on the part of EEC which cannot but have an increasing effect on flows of goods and services between EEC and the rest of the world, especially the flows which interest the Latin American countries most. Considering, first, that a system of preferential agreements is being built up in one particular geographical area and covers nearly all the countries in that area, and, secondly, that the links thus forged tie a particularly important economic centre, as the Community is, with a group of countries of limited economic size, it seems no exaggeration to say that EEC is establishing an economic sphere of influence in that region. Such influence, based on trade agreements which will probably lead to growing economic co-operation between the Community and the Mediterranean countries, could eventually eliminate the influence of the other important centres at least partially. To the extent that EEC's economic and commercial penetration in the Mediterranean area genuinely reflects a certain trend towards reserving for itself exclusive influence in that particular geographical area, such a strategy could be

^{21/} See section (b) below, "Disagreements over the compatibility of EEC's trade policy with GATT regulations".

decisive in dividing the developing world into different blocs, each under the influence of one of the principal developed countries or groups of countries.

(b) Disagreements over the compatibility of EEC's commercial policy with GATT

The Community's trade policy described in broad outline above, characterized as it is by the establishment of preferential relations with an increasing number of third countries, is bound in the normal course of events to have as yet unforeseeable repercussions on the distribution of international trade flows, and, more specifically, to result in more intensive trade between EEC and the countries that have entered into agreements with it. In view of the potential impact of this policy on their own foreign trade, many countries - in particular, those of Latin America, and the United States - have criticized it severely alleging that it contravenes the international trade regulations currently in force, especially those adopted under the General Agreement on Tariffs and Trade. This attitude is founded essentially on the failure of the policy in question to respect the basic principle of non-discrimination or to comply with the provisions of the General Agreement covering such an eventuality.

More specifically, the criticisms levelled against EEC's policy of preferential trade agreements are based on the provisions of article XXIV of the General Agreement which stipulates that any Contracting Party wishing to enter into a customs union or free-trade-area - the only circumstances in which GATT authorizes such a party, on given conditions, to waive the principle of non-discrimination defined in article I of the Agreement - shall submit to the Contracting Parties a plan and schedule for the formation of one or other of these types of organization. Under the terms of article XXIV, paragraph 7 (b), if, after having studied the plan and schedule, the Contracting Parties find that the relevant interim agreement is not likely to result in the formation of a customs union or a free-trade area within the period contemplated or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement, which in their turn shall not maintain or put into force such agreement if they are not prepared to modify it

/in accordance

in accordance with these recommendations. Accordingly, the entry of a GATT Contracting Party into a trade agreement of which the provisions have been declared incompatible with article XXIV constitutes a violation of the General Agreement.

The first time that a preferential agreement concluded by EEC with a third country was studied by GATT in the light of the provisions of article XXIV was in 1963,^{22/} when the agreement establishing an association between EEC and Greece was considered. On that occasion, some members of the working party felt that the transitional period of twenty-two years allowed for the creation of a complete customs union between Greece and EEC was unduly long, and could not be considered a reasonable length of time as required in article XXIV. Despite these strictures, however, the conclusions adopted by the working party did not expressly declare that the agreement with Greece constituted an infringement of the General Agreement, but left the matter open until its provisions could be further analysed in the light of additional information. In the case of the agreement with Turkey, the GATT discussion underlined the lack of precision in the time-table drawn up for the formation of the projected customs union between Turkey and EEC.^{23/} It was pointed out that the preparatory stage might in fact be of undetermined duration, and that, moreover, no definite pattern whatever had been established for the transitional stage. Furthermore, under the terms of the agreement, the decision whether to proceed with the formation of the customs union was to be taken only at the end of the preparatory stage, having regard to the economic situation of Turkey, so that there was no absolute guarantee that the customs union would in fact be created. In the opinion of the GATT working party, the tariff quotas for the benefit of Turkey constituted a unilateral preferential arrangement which widened the area of discrimination against third countries.

^{22/} See GATT, Basic Instruments and Selected Documents, Eleventh Supplement (Geneva, March 1963).

^{23/} See GATT, Basic Instruments and Selected Documents, Thirteenth Supplement (Geneva, July 1965).

Several members of the working party seriously questioned whether the agreement could be approved as leading to the formation of a customs union, but the conclusions adopted deferred the final decision on the subject.

Consideration of the Yaoundé Convention, signed in July 1963 by EEC and the African and Malagasy States, also gave rise, at the corresponding GATT session, to criticisms based on the same arguments. Several members of the working party stressed that the text of the agreement made no express reference to the formation of a free-trade area, and did not define with sufficient precision the procedures to be adopted for the elimination of tariff or equivalent barriers to reciprocal trade: that is, it did not conform to the requirements laid down in article XXIV, to the effect that there should be a plan or schedule for the achievement of free trade within a reasonable period of time. The States members of EEC and the associated countries rejected this interpretation, pointing out that the process of reducing duties and charges was being carried out in line with the progressive elimination of the Community's internal tariffs. Another apprehension voiced by some members of the working party was that the creation of a large number of new bilateral preferential arrangements might be repeated, and would ultimately result in the practical disappearance of general most-favoured-nation treatment, in the more widespread practice of discrimination, and in a fundamental change in the structure of GATT. In the end, given the divergent opinions expressed, the working party could only confine itself to recognizing the views put forward, without making any pronouncement on the compatibility of the Yaoundé Convention with the GATT regulations.

The current proliferation of preferential agreements between EEC and an increasing number of third countries has given impetus to the tendency to censure the Community's trade policy on the grounds that it violates the established international trade regulations. At the twenty-sixth session of the Contracting Parties of GATT, held in February 1970, several of the member countries - in particular, Canada and the United States - declared that the preferential agreements concluded by the Community were imperilling the basic principles of GATT, and, more specifically, the

/principles of

principles of equality of treatment for all the Contracting Parties and of general most-favoured-nation treatment. On this occasion, stress was again laid on the fact that article XXIV of the General Agreement authorized the conclusion of discriminatory agreements only in the event of the creation of a customs union or a free-trade area, based on the adoption of a plan or schedule for the removal of tariff or equivalent barriers within a reasonable period of time. With reference to the first agreements signed by EEC - those with Greece and Turkey - some delegations recalled that they had never been formally approved by GATT, although they did make provision for the formation of a customs union with EEC and included a programme for bringing it into operation; whereas in the agreements between EEC and such countries as Spain, Israel and the United Arab Republic, no distinction was made between the formation of a free-trade area and the creation of a customs union, and the granting of reciprocal tariff concessions of a preferential type was not presented as the first stage in a process of complete and properly programmed elimination of duties and charges, but simply as a set of measures which might ultimately lead, in three or five years' time, to negotiations on broader bases.

The GATT meetings held in March 1970 for the purpose of studying the agreements concluded by EEC with Tunisia and Morocco also afforded several countries an opportunity of stating their objections to the Community's trade policy. From the proceedings of the working party, however, it transpired that opinion among the Contracting Parties was not unanimous in opposing it. A number of the countries represented declared that the agreements with Morocco and Tunisia did not conform to the pattern laid down in article XXIV, paragraph 4 to 9, of the General Agreement; others averred that they were perfectly compatible with the terms of the article, while two members thought that, despite some deficiencies, the agreements made it quite clear that the ultimate intention was to form a free-trade area. The representatives of the Community, in their turn, observed that the preambles to the agreements expressed the determination of the parties

/to remove

to remove the barriers to "substantially all" their trade, and that in effect they had already created a free-trade area for a high proportion of the trade concerned. Notwithstanding EEC's explanations, however, some countries were still opposed to such agreements. By way of a compromise, it was proposed that their entry into force should be made contingent upon acceptance of certain conditions, such as the following: that their operation should be annually reviewed by the Contracting Parties of GATT; that consultations should be held between the signatories to the agreements and any Contracting Parties which felt that the agreements were prejudicial to their own export trade, with the aim of coming to a mutually satisfactory arrangement; and that any change in the agreements should be reported to the Contracting Parties.

It is as yet impossible to foresee the possible repercussions of the conflict aroused in GATT by EEC's trade policy vis-à-vis third countries, particularly in so far as they may affect the operation and policy of this agency in the next few years. It should be borne in mind, however, that the decade just ended has been a period of radical change in the power relations between the major centres participating in world trade, the effects of which should normally make themselves felt at the institutional level.

V. COMMON AGRICULTURAL POLICY AND ITS EFFECTS ON LATIN AMERICA'S EXPORTS

1. General characteristics of the common agricultural policy

According to the basic provisions on the agricultural sector of the EEC economy laid down in Part Two, title II, of the Rome Treaty, both agriculture and trade in agricultural products ^{24/} are subject to a special regime, i.e., the common agricultural policy established in article 38 of the Treaty. Article 39 provides that the common agricultural

24/ In the first paragraph of article 38 of the Rome Treaty, agricultural products are understood to mean the products of the soil, of stock-breeding and of fisheries as well as products after the first processing stage which are directly connected with such products. The products referred to in article 38 are listed in annex II to the Treaty. The list includes not only agricultural commodities produced by the Community (essentially temperate-zone products: live animals, meat and edible meat offals, dairy products, fish, crustaceans and molluscs, cereals, flour and other products of the milling industry, vegetables, edible fruit and nuts, oilseeds and oleaginous fruit, animal or vegetable fats and oils, residues of the milling industry, sugar, wine, etc.), but also tropical products, including oilseeds and oleaginous fruit and oils thereof, bananas and other tropical fruit, coffee, cocoa, tobacco, cork, flax and hemp.

The common agricultural policy is not yet applicable to all these products, however, i.e., they are not all subject to rules for the common organization of their markets. The rules laid down thus far relate to: cattle; beef, pork and poultry; cereals (including feed grains), cereal flour and cereal preparations; dairy products; eggs; sugar; prepared animal fodder; malt and starches; oilseeds, oleaginous fruit, and flour and residues thereof; animal or vegetable fats and oils; wine; unmanufactured tobacco; and fish products.

There is, at least in theory, a possibility that the common agricultural policy will extend to the remaining products listed in annex II to the Treaty, which would materialize if regulations were agreed on for the common organization of their markets, or more probably, in the case of coffee, cocoa, bananas and other similar products, through a market organization agreement between EEC and the Associated African States (like the banana agreement which is said to be under negotiation), or through an international market organization agreement, to which all the main countries producing and importing each product would be parties. Moreover, the Community, and France in particular, have repeatedly insisted that this would be the best way of dealing with the problem of special preferences for some of the products concerned.

/policy shall

policy shall have the following specific objectives: (a) to improve agricultural productivity by promoting technical progress, the rational development of agricultural production and optimum utilization of the factors of production, particularly labour; (b) to ensure thereby a fair standard of living for the agricultural population, particularly by increasing the earnings of persons engaged in agriculture; (c) to stabilize markets, (d) to guarantee regular supplies; and (e) to ensure reasonable prices in supplies to consumers.

The Treaty provides that the common agricultural policy shall be developed gradually during the transitional period and shall be established not later than at the end of this period, i.e., by 1 January 1970, and that the objectives outlined above shall be achieved through a common organization of agricultural markets, which may involve all measures necessary to achieve the objectives set out in article 39, in particular, price controls, subsidies as to the production and marketing of various products, arrangements for stock-piling and carry-forward, and common machinery for stabilizing importation or exportation. In order to enable the common organization referred to above to achieve its objectives one or more guarantee funds may be established and the EEC Council of Ministers may authorize the granting of aid: (a) to protect agricultural enterprises handicapped by structural or natural conditions; and (b) within the context of economic development programmes.

In practice, the main instrument for the application of EEC's agricultural policy has been the fixing of domestic prices for agricultural products (usually at much higher levels than world prices). These prices are maintained by an intervention price mechanism, combined with the application of variable levies (prélèvements) on imports to make up the difference between the price of imported products (c.i.f. price plus

/fixed customs

fixed customs duties established in the common customs tariff) and the guaranteed domestic price.^{25/} In actual fact, the main feature of this mechanism is that it is markedly protectionist; the domestic intervention prices are very high compared with world prices, as will be noted in table 1.

Therefore, this mechanism for the protection of agricultural prices, which is much the same as that used by the United States since the 1930s, has a much greater restrictive effect on imports - and also on consumption - than the mechanism that has been traditionally applied by the United Kingdom, also with the aim of maintaining a fair agricultural income, which consists in the direct payment of subsidies to farmers (deficiency payments); this mechanism leaves market prices to be freely determined by supply and demand and entails only minor import restrictions. Moreover, with the EEC mechanism, imports are restricted not only by customs duties and variable levies, but also by the complexity and other characteristics and procedures for determining the amount of those levies, by the uncertainty due to the frequent changes in the levies, and, in some cases, by requirements with regard to standards, quality, packing, etc., which either in themselves or because of the way they are applied usually constitute hidden restrictions.

Furthermore, the measures adopted by the Community to deal with special internal difficulties or circumstances in connexion with products covered by the common agricultural policy lead to new direct or indirect restrictions on imports of other products, whether or not the policy is applicable to them. This happened in the case of some of the measures that were adopted to mitigate the serious dairy products

^{25/} In practice, this mechanism is rather complex: for most products there is an indicative price (which is sometimes split into two indicative prices, one for production and the other for the market) and an intervention price (for durum wheat there is also a minimum price guarantee to producers); for other products (beef) there is a guide price, etc. These prices are established for every "marketing year" by the Council of Ministers, on the proposal of the Commission. There are also minimum import prices, which are increased or reduced over the period according to circumstances.

Table 1
EUROPEAN ECONOMIC COMMUNITY INTERVENTION PRICES AND WORLD MARKET PRICES FOR SELECTED PRODUCTS, 1969/70
(Dollars per ton)

Product	European Economic Community ^{a/}		World market price ^{b/}
	Indicative price	Intervention price	
Durum wheat	125.00	117.50 c/	59.00 United States f.o.b. export price
Soft wheat	106.25	98.75	57.00 United States f.o.b. export price
Maize	95.94	-	66.00 C.I.f. import price in London
Hulled rice	189.70	-	185.00 F.o.b. export price in Bangkok (white rice)
			136.00 Contract export price in Burma
Soft sugar (refined)	223.50	212.30	212.30 Raw sugar, United States domestic market price
Butter	...	1 735.00	1 735.00 Unit value of exports from Denmark
Beef (on the hoof), live weight	680.00 d/		450.00 Approximate export price of live cattle in Argentina

Source: United States Department of Agriculture, Foreign Agriculture, 16 March 1970; Troisième Rapport Général sur l'activité des Communautés, 1969, Brussels-Luxembourg, February 1970; United Nations, Monthly Bulletin of Statistics.

- a/ Prices for the 1969/70 crop year taken from the Troisième Rapport Général sur l'activité des Communautés, 1969.
- b/ Equivalent in dollars per ton (average for 1969), calculated on the basis of data published in the United Nations Monthly Bulletin of Statistics.
- c/ Minimum price guarantee to the producer (wholesale trade): 145 dollars per ton.
- d/ Guide price.

/problem; there

problem; there has been an enormous increase in production under the stimulus of the high domestic price of milk and the exceptionally high support price for butter. Some of these measures were proposed by the Commission in December 1968, with a view to reducing the output of dairy products, stimulating the consumption of these products, and, more generally, encouraging producers to switch to other products. The short-term measures that have already been adopted by the Council of Ministers include a premium of 10 dollar cents per kilogramme (live weight) for fattening cattle and an additional premium of 200 to 250 dollars for each dairy cow slaughtered for meat, in compliance with a programme to eliminate 250,000 dairy cows in 1970 and 1971. This means the production of an extra quantity of about 68,000 tons of meat annually, with an additional subsidy of 50 million dollars a year; this will be detrimental to imports of frozen meat, which come mainly from Latin America. This situation is already reflected in the meat balance sheet approved by the Council of Ministers.

The same is true of another of the Commission's proposals, made early in 1969, that the Council should grant a subsidy of 26.25 dollars for every 100 kilogrammes of skimmed milk used as animal feed. This would allow milk to compete with imported products used for the same purpose, such as feed grains, oilcake and other oleaginous residues, and fish meal.

There is another of the Commission's proposals in the above-mentioned programme which would have the same results, i.e., the levying of a variable tax of 20 to 60 dollars per ton on all domestic production and imports of oils, oilcake and fish meal, in order to reduce their consumption and encourage the use of Community surpluses of dairy products instead. As pointed out by the heads of the Latin American missions in a memorandum addressed to the Commission, this measure would affect sales to the Community not only of Latin America's considerable volume of traditional exports, such as oleaginous and other products (maize, fish meal) for human or animal consumption, but also of oilseeds, by reducing the Community's consumption of the fats that compete with milk. The Commission tacitly recognized that the measure was detrimental to the interests of

/the developing

the developing countries which exported these products when it suggested at the same time that the Associated African States and overseas territories should receive financial compensation for the losses in export earnings they would suffer as a result. These measures do not seem to have been put into effect, and the Community is understood to be changing over to the idea of paying a subsidy direct to farmers as part of the innovations that are to be introduced in the common agricultural policy.

It is as well to remember, in this connexion, that the Rome Treaty itself and several official statements by the Community fully justify a firm stand by Latin America with regard to substantive changes in those aspects of the common agricultural policy which jeopardize its interests. In the preamble of the Rome Treaty, among the reasons given for its conclusion was the desire to contribute by means of a common commercial policy to the progressive abolition of restrictions on international trade; and in article 110 on the common commercial policy, it is stated that by establishing a customs union between themselves, the member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers. All the agricultural regulations contain a special article in specifying that in applying the regulations, due account will be taken of the objectives mentioned in articles 39 and 110 (article 39 lays down the objectives of the common agricultural policy). In its approach to this question, what Latin America should strive for is full compliance with the special article, i.e., the effective application of article 110.

The desire for a more liberal trade policy for agricultural products has been expressed in international forms. For instance, at the meeting of the GATT Council of Ministers held in November 1961, the EEC representatives agreed with the Ministers of other countries that the extent of agricultural protectionism, the widespread use of non-tariff measures, and the repercussions of such measures on world trade in agricultural products were a source of grave concern. The Council

/accordingly invited

accordingly invited the Contracting Parties to take the necessary steps to establish bases for the negotiation of practical measures, with a view to laying down acceptable conditions for the access of agricultural products to world markets.

At the first session of the United Nations Conference on Trade and Development, the Community assumed an important commitment when it supported recommendation A.II.1 on international commodity arrangements and removal of obstacles and expansion of trade, which contains very precise recommendations in regard to the preservation of the status quo (standstill commitment), the removal of tariff and non-tariff barriers, internal fiscal charges, quantitative restrictions, domestic policies affecting production, export subsidies, etc.

Notwithstanding all the statements, commitments and provisions contained in the Rome Treaty, the agricultural regulations, etc., the common agricultural policy has had, from the very beginning, an increasingly marked protectionist and dictatorial slant, a situation that was made worse by heavily subsidized sales of agricultural surpluses. At the same time - as the Latin American countries have pointed out on several occasions - the Community has hitherto shown no particular willingness to give favourable consideration to, or to take due account of the representations made by these countries regarding the general trend of that policy, or their more frequent complaints about specific problems resulting from the measures adopted or proposed in connexion with it.

2. Effects of the common agricultural policy

Since EEC is the leading importer of agricultural commodities, both the general direction and the specific features of its common agricultural policy have had and are still having significant repercussions on world trade in such products and, in particular, on Latin America's export trade. To give some idea of the scale of Latin America's interest in the EEC market, suffice it to mention that in recent years the Community has absorbed 20 per cent of the Latin American countries' total exports, and 24 per cent and 25 per cent of their exports of food, beverages and tobacco and of raw materials, respectively. As regards individual

/countries, EEC

countries, EEC has been the purchaser of nearly 40 per cent of Argentina's total exports, 36 per cent of Chile's, 28 per cent of those of Ecuador, Honduras and Uruguay, 27 per cent of Peru's, 26 per cent of Brazil's, 25 per cent of El Salvador's and 23 per cent of Colombia's.^{26/}

This explains why from the very date of signature of the Rome Treaty the Latin American governments began to express concern regarding the adverse effects the common agricultural policy might eventually have on their exports.^{27/} The process of establishing EEC's common market for agricultural products has been virtually completed since 1968, with the adoption of the definitive regulations for most of the products of major importance to trade. Hence, at the present time, approximately 86 per cent of EEC's agricultural production comes under common market organizations, and if any doubts could formerly be entertained as to the final direction and impact of the common agricultural policy, they have now been completely dispelled. What is more, its effects are exemplified in a fact which shows how well-founded were the misgivings of the Latin American countries: their exports to EEC of products covered by the

^{26/} It must be taken into account, however, that out of the exports of the countries mentioned only those of Argentina and Uruguay consist mainly of products covered (at any rate up to now) by the common agricultural policy - typically, temperate-zone crops - although such commodities also represent a fairly high proportion of the exports of other Latin American countries. On the other hand, many other products, largely tropical crops, which constitute the bulk of the export trade of Brazil, Colombia, Ecuador, the Central American countries, etc. (coffee, cocoa and bananas, for example) may in theory, at least, fall within the scope of the common agricultural policy, since they are among the commodities referred to in article 38 of the Rome Treaty. Moreover, some products not covered by this policy have been or may be directly affected by measures adopted in pursuit of it.

^{27/} In this connexion, mention may usefully be made of two ECLA studies relating to the problems which troubled the Latin American countries during the years that immediately followed the entry into force of the Rome Treaty: "Recent developments and trends in Latin American trade with the European Economic Community" (E/CN.12/631), 22 July 1962; and "The achievement of co-ordination in Latin American trade policy: Relations with the European Economic Community", a report prepared by a group of consultants convened by the ECLA secretariat, which was published in the Economic Bulletin for Latin America, vol. VII, No. 2, October 1962.

common agricultural policy, after expanding considerably for a time and securing a larger share in the satisfaction of the Community's internal consumer requirements, underwent a sudden reversal of this trend, which was apparent in the case of many products as early as 1967, and became still more marked in 1968 (although for some of the products concerned the situation improved appreciably in 1969).

Generally speaking, the strongly protectionist bent of the common agricultural policy - which finds its chief expression in the fixing of support prices for domestic production at levels much higher than those prevailing on the world market, and in the consequent import restrictions - has had gravely detrimental effects on world trade in most of the products that are covered by the policy (and also on some that are not), with serious and potential repercussions on Latin America's exports of the commodities concerned, not only to EEC but also to other traditional markets. These effects are closely interrelated (as likewise the various measures that go to form the common agricultural policy), in the sense that some are almost inevitably consequent upon others.

(a) High degree of protection for the Community's production and isolation of the EEC market

The establishment of very high support prices for the Community's agricultural production, in combination with other measures, has resulted in a striking disparity between the prices in question and those quoted on the world market, in powerful protection for EEC's own agricultural production, and in a marked isolation of the EEC market from the world market, in respect of most of the goods covered by the common agricultural policy.

The following table shows the relative level of protection accorded to various products in 1967, and, consequently, the similarly relative isolation of EEC's commodity market from that of the world (see table 2).

Table 2

EUROPEAN ECONOMIC COMMUNITY: RELATIVE LEVEL OF PROTECTION
ACCORDED TO SELECTED PRODUCTS, 1967

Product	Import price <u>a</u> /	Movable levy	World price <u>b</u> /	Level of protection
	(Dollars per 100 kilogrammes)			(Percentage)
Soft wheat	10.73	4.94	5.79	85
Durum wheat	16.14	8.07 <u>c</u> /	8.07	100
Maize	9.01	3.38	5.63	60
White sugar	22.35	17.25	5.10	338
Beef (cattle on the hoof)	68.00	29.18	38.82	75
Butter	187.44	136.30	47.25	288
Oilseeds	20.19	10.08 <u>c</u> /	10.11	100

Source: Societé d'Édition des Coopératives La Fayette (SECLAF)
Plan Mansholt (Paris, 1969).

a/ Real import price of product in EEC after application of the variable
levy and, where appropriate, customs duty.

b/ This normally represents the best price quoted on the world market
for consignments to be shipped within the month.

c/ Including direct subsidizing of production.

/(b) Considerable

(b) Considerable expansion of EEC's agricultural production

The policy of high internal prices, in addition to other forms of aid and protection for the Community's agriculture, has promoted the continual expansion of its production of a number of staple commodities. It is estimated that over the past ten years the annual growth rate of agricultural production within EEC has been 3 per cent, i.e., a good deal higher than that of consumption. Today EEC's demand for foodstuffs rises only in direct ratio to population growth, and the increase in per capita consumption is practically nil. Moreover, in the decade just ended the technical progress made by the agricultural sector in the European countries has been a factor of great importance in the steady expansion of production. A case in point is that of wheat.^{28/} The high support prices have encouraged investment, or, in other words, the introduction of the most efficient production techniques, and in the upshot have acted as a spur to production. But agricultural price ratios have tended to encourage the growing of crops of which surpluses are already piling up, not only in EEC but also at the world level (for instance, wheat, barley, sugar, milk), and to discourage, on the whole, additional production of commodities in short supply (such as beef and maize).

Nevertheless, the expansion of agricultural production has not prevented an uninterrupted decline in the share of agriculture in EEC's gross product, which dwindled by as much as 40 per cent between 1958 and 1966 in the three leading producer countries - the Federal Republic of Germany, France and Italy. At the present time it is less than 10 per cent in all the member countries, and under 4 per cent in Belgium and the Federal Republic of Germany. Concurrently, the number of persons employed in agriculture has steadily decreased, and since 1958 has fallen by about 5 million.

^{28/} Although the area sown to grains - 21 million hectares - remained virtually unchanged between 1960 and 1969, output increased from 53 million tons to 70 million.

/Furthermore, despite

Furthermore, despite the common agricultural policy, the gap between the levels of living of the rural and the urban population has widened, and to maintain an equitable relation between them, it has been necessary to transfer income on an increasing scale from other sectors of the economy to the agricultural sector, by means of various forms of aid and intervention. But it is not only the non-agricultural sectors of the EEC countries that help to keep up the level of agricultural earnings; the countries exporting agricultural products to EEC also make a contribution, and a very substantial one, through the payment of customs duties and, above all, movable levies on imports (which play an important part in the financing of the expenditure incurred by the European Agricultural Guidance and Guarantee Fund - EAGGF -, of which they covered 45 per cent in 1968/1969), and also through the actual limitation of their sales not only to the EEC market but also to others in which the Community disposes of its surpluses, and the pressure exerted by those surpluses on world prices.

(c) Increased self-sufficiency

The noteworthy expansion of the Community's production, appreciably outstripping that of consumption, has considerably raised in its turn EEC's degree of self-sufficiency, both as regards the whole group of products covered by the common agricultural policy and in respect of most of them individually. Between 1958 and 1968 the Community's degree of self-sufficiency rose from 83 per cent to over 90 per cent in terms of value, which means that in the latter year only 10 per cent of its consumption of the products concerned was satisfied by imports, as against 17 per cent in 1958. Another facet of the same situation is the substantial increase in intra-EEC trade in products subject to agricultural regulations, with the consequent displacement of actual or potential imports from third countries; for example, in only five years - between 1962 and 1967 - the value of intra-EEC trade rose from about 1,100 million dollars to over 2,100 million, i.e., by about 100 per cent, while imports of the same products from third countries increased only from 2,560 million dollars to 2,850 million, i.e., by little more than 1 per cent (so that the ratio between the two increases was 10 to 1).

/When individual

When individual products are considered, the degree of self-sufficiency is particularly high in the case of wheat, sugar, pork and poultry, and milk products. What is more, the Community's production of these items (except pork and poultry) exceeds its consumption, with the result that it has become a net exporter, especially of wheat, butter and some other milk products, and sugar. In contrast, the percentage of self-sufficiency in respect of beef, after declining, became relatively stabilized in the later years of the period under review at a level of roughly 85 per cent; in the case of grains (except wheat) it followed a downward trend up to 1966/1967, while in that of oils and fats (except butter), it rose to a level of only 38 per cent, where it remained constant. These trends especially affected the share of Latin American exports in EEC's consumption: in respect of wheat, after increasing from 1.1 per cent in 1961 to 4.4 per cent in 1965, it dropped to 1.9 per cent in 1968; the corresponding percentages for maize are 13.3 per cent, 21.3 per cent and 16.0 per cent; for beef, 2.7 per cent, 5.3 per cent, and 3.0 per cent; and for vegetable fats and oils, 7.3 per cent, 7.3 per cent and 5.8 per cent.^{29/}

- (d) Rising import restrictions, the corollary of the policy of high support prices for, and increase in, Community production, and of greater self-sufficiency

These restrictions comprise not only customs duties and movable levies to bring the price of the imported product up to the Community price, but also other measures introduced under the regulations relating to agricultural products; these include obstacles deriving from the complexity of the regulations themselves and from the arbitrary way in which they are applied, and technical barriers such as health standards, provisions regarding trade-marks and packing, etc., all of which tend to be far more effective than the normal tariff and similar barriers.

^{29/} These percentages are calculated on the basis of the figures for EEC's imports from Latin America, in relation to the apparent consumption of the Community, as shown in the publications of the EEC Statistical Office.

Though these restrictions have not so far led to a drop in absolute terms, in total imports of the products coming under the regulations, they have helped to make the growth of imports very slow - a bare 10 per cent in the whole of the period 1962-1967. Imports of products covered by the common agricultural policy have followed a far more unfavourable, or less favourable, trend than those of other agricultural products. The increase in imports, moreover, has been mainly in those products the output of which has grown relatively slowly in the Community or failed to keep pace with consumption (as has been the case, up to now at least, with beef and feed grains, especially maize). Elsewhere, by contrast, EEC production has either entirely replaced imports (wheat) or substantially reduced them (sugar).

If the common agricultural policy follows the same lines as in the past or, rather, if it is modified only so as to boost production in sectors suffering from under-production, the Community is almost bound to become even more self-sufficient, moving towards complete self-sufficiency in temperate-zone agricultural products and, in any case, towards raising further barriers against imports of products that are in direct or indirect competition with those of the Community. If this happens, imports may in the future play only a minor role, as a very secondary or occasional source of supply.

Of all Latin American exports to EEC that are subject to market restrictions, maize is the only major agricultural product whose sales have been steadily rising. Wheat sales fell sharply as a result of an increase in EEC's own production; in 1964, exports of beef, which had been on the upswing up to then, came up against serious problems when regulations were introduced imposing a whole complicated set of restrictions on its access to the Community's markets - often applied quite arbitrarily - and more and more changes in tariff rates and other conditions. Only the regulations regarding meat for processing, and indispensable raw material for the Community's meat preparations and preserved meat industry, were slightly less stringent as far as the extent of the restrictions was concerned; as regards the changes in the way they were applied, however, the situation was just as bad and made it impossible to plan shipments in such a way as to maintain a steady trade.

/(e) Surplus

(e) Surplus production and its disposal on international markets

The increase in the Community's agricultural output has done more than cause growing difficulties for imports from third countries and reduce those countries' share in the Community's total imports - which has already shrunk to negligible proportions or vanished altogether in some cases; its production of certain items has exceeded requirements of the Community market. The resulting surpluses - which occur regularly and in huge proportions in the production of wheat, butter, powdered milk and, more recently, sugar ^{30/} and more rarely and as yet in smaller proportions in the case of certain other products - are exported and a "restitution" (or subsidy) is paid to make up the difference between the Community's price and the world price, which in the case of wheat and butter is half or less of the Community's price.

Placing these surpluses on the world market has an adverse effect on Latin America's exports, especially when the surpluses are sold on Latin America's traditional export markets. Quite apart from the unfair competition it represents, subsidizing exports of agricultural products also depresses world prices for these products, as happened in 1969 when there was a sharp drop in the price of wheat.

It is worth bearing in mind, moreover, that a substantial proportion of the resources of the European Agricultural Guidance and Guarantee Fund are derived from customs duties on imports of products covered by the common agricultural policy from third countries, so that these countries in effect help to finance the Community's agricultural exports.

(f) High cost of financing

Apart from the aspects outlined above, which have a direct bearing on the interests of Latin American countries, the common agricultural policy has had other highly significant repercussions which have adversely

^{30/} According to the Commission, the largest surpluses at the end of 1969 were of butter (320,000 tons); at the start of the 1969/1970 crop year there was an 8 million ton surplus of wheat and a 2 million ton surplus of sugar. (Third General Report on the Activities of the Communities, Brussels, February 1970.)

affected the Community's internal situation. One of these is the tremendous increase in the cost of financing the agricultural policy, i.e., the cost of support prices and export subsidies.

This enormous increase is reflected in the level of expenditure of EAGGF, the body responsible for regulating the Community's agricultural markets. As new common market organizations have been set up, EAGGF's demand for resources has also grown, with the result that its ever-growing share in agricultural financing now accounts for all the agricultural expenditure of the member States.

The need for more resources sprang mainly, however, from the rapid expansion of EEC's own agricultural production. Owing to the growing surpluses of wheat and butter, the temporary support-buying of beef, the destruction of fruit and vegetables and the high cost of subsidizing exports of soft wheat (up to 65 dollars per ton) and butter (up to 1,400 dollars per ton), tremendous resources were needed to finance the EEC's agriculture.

Taking only expenditure on support-buying (purchase of products at guaranteed prices) and subsidies (compensatory payments to exporters) - that is to say excluding expenditure on guidance activities connected with bringing structural improvements to the agricultural sector - the trend of EAGGF's costs has been as follows:^{31/}

<u>In millions of dollars</u>			
1962/1963	29	1968/1969	1 996
1966/1967	370	1969/1970	2 782 (prevision)
1967/1968	1 034		

It is estimated that, unless there is a change in EAGGF's current financing programme, its expenditure in the financial year 1970/71 might be as high as 4,000 million dollars.^{32/} Taking each major product or group of products separately, the bulk of the EAGGF's total expenditure

^{31/} EAGGF, 1969 budget and 1970 budget estimates.

^{32/} H. Ziljmans, Director of EAGGF, "Le financement de la politique agricole commune", Revue du Marché Commun, November -December 1969.

is seen to go on milk products - an expenditure which may soar from 319 million dollars in 1967/68 and 624 million in 1968/69, to 1,204 million in 1969/70 - and on cereals, for which the corresponding figures are 429 million, 676 million and 921 million dollars. Together, these two groups of products would absorb a total of 2,125 million dollars in the 1969/70 crop year, i.e., 77 per cent of the Fund's total expenditure on guaranteeing market prices. Two other products also absorb a substantial share of the Fund's resources: sugar (with 308 million dollars in 1968/69) and oilseeds (273 million).^{33/}

The cost of improving the structure of production has so far been a relatively small item in EAGGF's total expenditure, remaining at a more or less constant 285 million dollars. This amount, however, has essentially been earmarked for joint activities of the six Community countries in the sphere of agriculture, and little has been left over for national projects.

^{33/} Ibid.

Chapter III

RELATIONS BETWEEN LATIN AMERICA AND JAPAN

I. TRENDS IN LATIN AMERICA'S EXPORTS TO JAPAN

1. Over-all analysis

During the past ten years trade between Latin America and Japan has been greatly intensified. Between 1956-1958 and 1966-1968, the average annual value of the region's exports to Japan rose from 248 million dollars to 593 million, i.e., at a cumulative annual rate of 9.1 per cent. This growth rate was more rapid than that of Latin America's exports to other parts of the world, except in the case of the socialist countries, whose imports from Latin America increased, mainly on account of shipments of sugar from Cuba. The cumulative annual rate of expansion of exports to Japan was two and a half times higher than the corresponding average for Latin America's total exports (see table 1). The upswing was particularly vigorous in the second half of the 1960s, when the rate referred to reached 9.9 per cent, bringing up the total value of Latin America's exports to Japan in 1969 to 840 million dollars (f.o.b.) an amount which represented 6.4 per cent of the region's total exports.

Some of the individual countries achieved exceptionally large increases. In the space of ten years, Chile's exports to Japan climbed from 3.6 million dollars (average for 1956-1958) to 108 million (average for 1966-1968). Similarly, the corresponding figure for Peru rose from 16 million dollars to 103 million in the same period. Mexico's exports increased from 27 million to 80 million dollars; those of Ecuador, from 700,000 dollars to 16 million; those of Venezuela, from 700,000 dollars to 42 million; and those of Central America from 18 million dollars to 88 million.

/Table 1

Table 1

LATIN AMERICA: EXPORTS BY REGIONS AND BY GROUPS OF PRODUCTS 1956-1958 AND 1966-1968

(Millions of dollars, f.o.b.)

SITC	Average		1968	Index of Cumulative growth, annual rate		Geographical distribution	
	1956-58	1966-68		1966-1968 (1956-1958=100)	1966-68 1956-58	1956-1958	1966-1968
0-9 <u>Total</u>	<u>8 500</u>	<u>11 847</u>	<u>12 193</u>	<u>139.4</u>	<u>3.4</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>6 813</u>	<u>8 760</u>	<u>9 030</u>	<u>128.6</u>	<u>2.6</u>	<u>80.2</u>	<u>73.9</u>
Canada and United States	3 937	4 222	4 395	107.2	0.7	46.3	35.6
EEC	1 423	2 373	2 370	166.8	5.2	16.7	20.0
EFTA	1 010	1 117	1 140	110.6	1.0	11.9	9.4
Japan	248	593	660	239.1	9.1	2.9	5.0
<u>Developing countries</u>	<u>1 540</u>	<u>2 283</u>	<u>2 420</u>	<u>148.2</u>	<u>4.0</u>	<u>18.1</u>	<u>19.3</u>
Latin America	727	1 253	1 380	172.4	5.6	8.6	10.6
<u>Socialist countries</u>	<u>135</u>	<u>810</u>	<u>755</u>	<u>600.0</u>	<u>19.6</u>	<u>1.6</u>	<u>6.8</u>
0 and 1 <u>Food, beverages and tobacco</u>	<u>3 963</u>	<u>5 070</u>	<u>5 190</u>	<u>127.9</u>	<u>2.5</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>3 540</u>	<u>3 897</u>	<u>4 010</u>	<u>110.1</u>	<u>1.0</u>	<u>89.3</u>	<u>76.8</u>
Canada and United States	2 067	1 855	2 000	89.7	-1.1	52.2	36.6
EEC	763	1 213	1 180	159.0	4.7	19.3	23.9
EFTA	530	418	400	78.9	-2.3	13.4	8.2
Japan	79	101	120	127.8	2.5	2.0	2.0
<u>Developing countries</u>	<u>358</u>	<u>522</u>	<u>590</u>	<u>145.8</u>	<u>3.8</u>	<u>9.0</u>	<u>10.3</u>
Latin America	272	385	425	141.5	3.5	6.8	7.6
<u>Socialist countries</u>	<u>60</u>	<u>657</u>	<u>593</u>	<u>1 095.0</u>	<u>27.0</u>	<u>1.5</u>	<u>12.9</u>
2 and 4 <u>Crude materials (excluding fuels)</u>	<u>1 530</u>	<u>2 190</u>	<u>2 130</u>	<u>143.1</u>	<u>3.7</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>1 320</u>	<u>1 787</u>	<u>1 710</u>	<u>135.4</u>	<u>3.1</u>	<u>86.3</u>	<u>81.6</u>
Canada and United States	553	522	477	94.4	-0.6	36.1	23.8
EEC	372	553	540	148.7	4.0	24.3	25.3
EFTA	192	248	260	129.2	2.6	12.5	11.3
Japan	160	397	375	248.1	9.5	10.5	18.1
<u>Developing countries</u>	<u>138</u>	<u>265</u>	<u>285</u>	<u>192.0</u>	<u>6.7</u>	<u>9.0</u>	<u>12.1</u>
Latin America	125	195	210	156.0	4.5	8.2	8.9
<u>Socialist countries</u>	<u>68</u>	<u>138</u>	<u>144</u>	<u>202.9</u>	<u>7.3</u>	<u>4.4</u>	<u>6.3</u>

Sources: United Nations, Monthly Bulletin of Statistics, March 1961 and March 1970.

/According to

According to estimates, in 1970 exports from Latin America to Japan amounted to about 900 million dollars, thus representing about 7 per cent of the region's total exports. This is quite an impressive figure in view of the fact that in 1956-1958 the share of Latin America's exports to Japan in its total exports was only 2.9 per cent. By 1966-1968, sales to Japan had come to constitute as much as about 10 per cent of the total exports of the countries where they expanded most (Chile, 12 per cent; Peru, 13 per cent; Central American Common Market 10 per cent; Mexico 7 per cent, etc.)

Nevertheless, although Latin America's exports to Japan grew relatively faster than its sales to other countries, and their share in the region's total exports rose steadily, as the volume of Japan's foreign trade expanded even more rapidly, these favourable trends did not suffice to prevent a decline in the proportion of Japan's aggregate imports for which Latin America accounted in the ten years under review. Japan increased its total purchases abroad at a cumulative annual rate of 13.1 per cent, or, in other words, from 2,800 million dollars (average for 1956-1958, f.o.b.) to 9,600 million dollars (average for 1966-1968), in contrast with the cumulative annual rate of 9.1 per cent noted for Latin America above. The following were the annual rates of expansion achieved by Latin America's chief competitors: Canada and the United States, 10.9 per cent; Africa and the Middle East, 18.6 per cent; Asia, 10.4 per cent; the socialist countries, 22.0 per cent; Australia, New Zealand and South Africa, 13.1 per cent (see table 2).

These considerable increases reduced Latin America's share in Japan's total imports from 8.8 per cent in 1956-1958 to 6.2 per cent in 1966-1968.

In short, although the average growth rate of the region's exports to Japan easily outstripped that of its total exports, its share in the Japanese market followed a downward trend, because of the still more rapid increase in Japan's total purchases abroad.

2. Export trends by products

The high rate of growth of Latin America's exports to Japan is attributable to the increase in purchases of a small number of products, in particular, iron ore and non-ferrous metals, animal feeds and tropical food crops.

Table 2

JAPAN: IMPORTS BY REGIONS AND BY GROUPS OF PRODUCTS

(Millions of dollars, f.o.b.)

SITC	Average		1968	Index of growth, 1966-1968 (1956-1958=100)	Cumulative annual rate 1966-68 1956-58	Geographical distribution	
	1956-58	1966-68				1956-1958	1966-1968
0-9 <u>Total</u>	<u>2 813</u>	<u>9 627</u>	<u>10 920</u>	<u>342.2</u>	<u>13.1</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>1 657</u>	<u>5 110</u>	<u>5 770</u>	<u>308.4</u>	<u>11.9</u>	<u>58.9</u>	<u>53.1</u>
Canada and United States	1 110	3 135	3 490	282.4	10.9	39.5	32.6
EEC	147	543	640	369.4	14.0	5.2	5.6
EFTA	100	383	425	383.0	14.4	3.6	4.0
Australia, New Zealand and South Africa	290	997	1 165	343.8	13.1	10.3	10.4
<u>Developing countries</u>	<u>1 067</u>	<u>3 860</u>	<u>4 450</u>	<u>361.8</u>	<u>13.7</u>	<u>37.9</u>	<u>40.1</u>
Latin America	248	593	660	239.1	9.1	8.8	6.2
Africa and Middle East	308	1 698	2 015	551.3	18.6	10.9	16.6
Asia	552	1 480	1 670	286.1	10.4	19.6	15.4
<u>Socialist countries</u>	<u>90</u>	<u>657</u>	<u>695</u>	<u>730.0</u>	<u>22.0</u>	<u>3.2</u>	<u>6.8</u>
0 and 1 <u>Food, beverages and tobacco</u>	<u>477</u>	<u>1 523</u>	<u>1 600</u>	<u>319.3</u>	<u>12.3</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>263</u>	<u>937</u>	<u>1 019</u>	<u>356.3</u>	<u>13.6</u>	<u>55.1</u>	<u>61.5</u>
Canada and United States	203	633	635	311.8	12.0	42.6	41.6
EEC	12	43	56	358.3	13.6	2.5	2.8
EFTA	3	22	26	733.3	22.1	0.6	1.4
Australia, New Zealand and South Africa	41	224	275	546.3	18.5	8.6	14.7
<u>Developing countries</u>	<u>195</u>	<u>485</u>	<u>510</u>	<u>248.7</u>	<u>9.5</u>	<u>40.9</u>	<u>31.8</u>
Latin America	79	101	120	127.8	2.5	16.6	6.6
Africa and Middle East	5	44	44	880.0	24.2	1.0	2.9
Asia	112	337	340	300.9	11.6	23.5	22.1
<u>Socialist countries</u>	<u>19</u>	<u>103</u>	<u>81</u>	<u>542.1</u>	<u>18.4</u>	<u>4.0</u>	<u>6.8</u>
2 and 4 <u>Crude materials (excluding fuels)</u>	<u>1 383</u>	<u>3 433</u>	<u>3 730</u>	<u>248.2</u>	<u>9.5</u>	<u>100.0</u>	<u>100.0</u>
<u>Developed countries</u>	<u>737</u>	<u>1 787</u>	<u>1 970</u>	<u>242.5</u>	<u>9.3</u>	<u>53.3</u>	<u>52.1</u>
Canada and United States	473	1 173	1 299	248.0	9.5	34.2	34.2
EEC	9	23	22	255.6	9.8	0.7	0.7
EFTA	19	22	23	115.8	1.1	1.4	0.7
Australia, New Zealand and South Africa	232	550	610	237.1	9.0	16.8	16.0
<u>Developing countries</u>	<u>597</u>	<u>1 370</u>	<u>1 440</u>	<u>229.5</u>	<u>8.7</u>	<u>43.2</u>	<u>39.9</u>
Latin America	160	397	375	248.1	9.5	11.6	11.6
Africa and Middle East	55	119	138	216.4	8.6	4.0	3.5
Asia	370	820	880	221.6	8.3	26.8	23.9
<u>Socialist countries</u>	<u>46</u>	<u>277</u>	<u>325</u>	<u>602.2</u>	<u>19.7</u>	<u>3.3</u>	<u>8.1</u>

Source: United Nations, Monthly Bulletin of Statistics, March 1961 and March 1970.

/Exports of

Exports of industrial raw materials (SITC, sections 2 and 4) from Latin America to Japan rose from 160 million dollars (average for 1956-1958) to 397 million dollars (average for 1966-1968), i.e., at a cumulative annual rate of 9.5 per cent, which was three times higher than the average rate for Latin America's total exports of products in this group.

Sales to Japan represented 18.1 per cent of the region's total exports of these products in the closing years of the period (average for 1966-1968), whereas ten years earlier the corresponding proportion had been 10 per cent (average for 1956-1958).

In the case of food products, however, Latin America's exports to Japan remained relatively quiescent, with a cumulative growth rate of 2.5 per cent, although this was higher than the average rate for Latin America's total sales of products in this group to the developed countries.

The expansion of exports of only a few products of course gave rise to disparities in the development of trade in the various Latin American countries, largely on account of the characteristics of Japan's total imports.

One of the most striking of these characteristics is the high proportion of Japan's total imports that is represented by food and raw materials, because of its being so meagrely endowed with natural resources and cultivable land. The country has 100 million inhabitants living on a number of islands whose total area is only 370,000 square kilometres. Of this area only 16 per cent is cultivable land, and local supplies of iron ore, copper and other non-ferrous metals, coal, petroleum, etc., are scanty.

Accordingly, taking the average for 1966-1968, primary commodities (SITC sections 0-4) accounted for 72 per cent of Japan's imports, whereas the corresponding proportion in the European countries (EEC and EFTA) and in the United States ranged from 35 to 40 per cent.

This circumstance, in conjunction with the fact that its imports expanded more rapidly than those of other developed countries (at a rate of 13.1 per cent as against 5 or 6 per cent), converted Japan into one of the largest markets for primary commodities in the world, and the leading importer of raw materials (SITC sections 2-4). In 1969 the c.i.f. value of its imports of primary commodities (SITC sections 0-4) totalled about 11,000 million dollars, a sum which almost equalled the figure for the

/United States,

United States, and exceeded those for the United Kingdom and the Federal Republic of Germany. Furthermore, the cumulative rate of increase of imports of these items was more rapid in Japan's case than in that of other industrialized countries, reaching 13.7 per cent, while the average for the OECD countries was 6.2 per cent.

Japan's imports of primary commodities from Latin America also rose very fast, until they came a close second to those of the Federal Republic of Germany, which took the lead.

Industrial raw materials, especially iron ores, copper, other non-ferrous metals, cotton, wool, oil-seeds, hides and skins, rubber, wood and pulp, and fertilizers (SITC sections 2 and 4), hold an outstanding place among Japan's imports. Japan accounts for 20 per cent of OECD's total imports of these products, which means that it is a bigger importer than either the United States or the EFTA countries in the aggregate (see table 3).

In the case of some products, Japan absorbs an even larger proportion of the raw materials sold in the world market. For example, in the last three years of the period under review (1966 to 1968), Japan's external purchases of iron ore (SITC item 281) amounted to 719 million dollars, while the value of imports of this product effected by the OECD countries totalled 2,087 million dollars. In other words, Japan was responsible for 34.5 per cent of OECD's total imports of iron ore, as well as for the following proportions of its purchases of other products: non-ferrous metals (SITC group 283), 24.2 per cent; cotton (SITC group 263), 31.2 per cent; wool (SITC group 262), 21.5 per cent; oil-seeds (SITC division 22), 24.6 per cent; and wood (SITC division 24), 27 per cent (see table 4).

Table 3

OECD COUNTRIES: IMPORTS OF RAW MATERIALS, ^{a/} 1962-1968

(Millions of dollars, constant prices)

Country or group of countries	(1) 1966	(2) 1967	(3) 1968	(4) 1966-68 (average)	(5) 1962-64 (average)	(6) Index of growth (1962-1964 = 100)	(7) 1965-68 1962-64 Cumulative Annual rate	(8) Imports from Latin America, 1965-1968 (average)	(9) Percentage share of imports from Latin America, 1966-1968
OECD	21 087	20 635	22 340	21 347	17 150	121.5	5.0	2 021	9.5
Japan	3 813	4 443	4 816	4 357	2 729	162.2	12.5	570	13.1
United States	3 265	2 964	3 296	3 175	2 853	112.3	2.7	453	14.3
EEC	8 329	7 886	8 541	8 252	6 930	119.1	4.5	608	7.4
EFTA	4 251	4 008	4 238	4 166	3 887	107.2	1.8	322	7.7
(Percentage distribution)									
OECD total	100.0	100.0	100.0	100.0	100.0			100.0	
Japan	18.1	21.5	21.6	20.4	15.5			28.2	
United States	15.5	14.4	14.8	14.9	16.2			22.4	
EEC	39.5	38.2	38.2	38.7	39.4			30.1	
EFTA	20.2	19.4	19.0	19.5	22.1			15.9	

Source: OECD, Statistics of Foreign Trade, Series B, Trade by Commodities, 1964 and 1968.

^{a/} Products included in Standard International Trade Classification (SITC), section 2 (crude materials, inedible, except fuels).

Table 4

OECD COUNTRIES: IMPORTS OF PRINCIPAL RAW MATERIALS, 1966-1968

SITC divi- sion	Products	OECD (total)	Japan	United States	EEC	EFTA	Percentage share of imports from Japan in total OECD imports
(Annual average, millions of dollars c.i.f.)							
21	Hides and skins	1 096	92	183	513	234	8.4
22	Oil-seeds	1 668	418	62	790	255	24.6
23	Rubber	1 000	134	210	356	194	13.4
24	Wood	3 442	928	486	1 066	773	27.0
25	Pulp	1 631	115	424	598	431	7.1
26	Textile fibres	4 300	926	360	1 822	878	21.5
262	Wool	1 848	397	215	744	398	21.5
263	Cotton	1 469	459	30	625	255	31.2
27	Crude ferti- lizers, etc.	1 743	199	286	724	317	11.4
28	Mineral products	5 388	1 486	984	1 822	803	27.6
281	Iron ore and con- centrates	2 087	719	454	651	215	34.5
283	Non-ferrous metals	2 004	484	450	528	396	24.2
2	Total raw mate- rials	<u>21 347</u>	<u>4 357</u>	<u>3 175</u>	<u>8 252</u>	<u>4 166</u>	<u>20.4</u>

Source: OECD, Statistics of Foreign Trade, Series B, Trade by Commodities, 1968.

/Moreover, Japan

Moreover, Japan increased its imports of agricultural products 2.5 times over in the decade under consideration, at a cumulative annual rate of 9.6 per cent. This expansion however, is considerably less than the increase in its imports of mineral raw materials and of petroleum, so that the share of agricultural commodities in total imports dropped from 47 to 27 per cent during the ten years reviewed. In particular, the proportion represented by agricultural raw materials decreased from 29 per cent to 13 per cent, largely as a result of the slow growth of demand for cotton and wool in face of the boom in the man-made fibers. In contrast, imports of fish, meat, fruit and beverages expanded very fast. Purchases of tropical crops (sugar, bananas, coffee, cocoa, pineapples, etc.) rose from 453 thousand dollars in 1960 to 1,674,000 dollars in 1967, and those of animal feeds from 81,000 dollars to 419,000, owing to the increase in consumption of meat.

These growth characteristics of Japan's total imports partly account for the decline in Latin America's relative share in the Japanese market. The above-mentioned stagnation of Japanese imports of raw materials for the textile industry was a major determinant of this downward trend, since up to a relatively short time ago (1960-1962) more than one-third of Latin America's exports to Japan had consisted of cotton and other textile raw materials.

The over-all trend of Japan's imports shows a rise in demand for Latin America's staple export products, but full advantage was not taken of the opportunities offered, owing, inter alia, to keen competition from various quarters, especially the developed countries, and to some Latin American supply problems which are analysed in section III of the present chapter.

Outstanding among the developed countries that were vigorous competitors in the Japanese market were those whose export structure is similar to that of Latin America, such as Australia, New Zealand and South Africa, which retained their shares in the market in question. Canada and the United States were also major suppliers of some products of concern to Latin America (see again table 2). The Asian countries, on the other hand, lost ground.

II. PROSPECTS FOR LATIN AMERICA'S EXPORTS TO JAPAN

The outlook for Latin American exports to Japan is highly favourable, owing to the following factors:

- a) The great potential demand for Latin America's export products;
- b) The trade policy of the Government of Japan, which leans towards increased liberalization of its foreign trade and diversification of its imports;
- c) The substantial existing possibilities for a rapid tightening-up of economic and technical co-operation between the developing countries and Japan.

1. Japanese market prospects

Potential demand for imported goods is directly dependent upon two factors: the elasticity of demand for the goods concerned in relation to the increase of the gross domestic product, and the rate at which that increase takes place. Both these factors are more powerfully operative in the market of Japan than in other leading world markets.

According to projections for the near future, Japan's rate of economic development will be higher than that of the other industrialized countries. In Japan's new official economic and social development plan for 1970-1975, the cumulative annual growth of the gross domestic product, expressed in dollars at current prices, is estimated at 14.7 per cent, which is the equivalent of 10.6 per cent in real terms. All projections agree in indicating that Japan's vigorous growth will continue for the next few years at least, and it is calculated that in general the rate of increase of the gross product will be double the average for the industrialized countries.

Furthermore, to judge from the studies carried out on the elasticity of imports of various groups of commodities in relation to the rise in the gross product in the major industrialized countries, this elasticity is higher in Japan than in the rest, especially for the items of most interest to the Latin American countries: foodstuffs and raw materials. The product/elasticity of Japan's food imports is 1.29 per cent, which compares favourably with the figures for other countries: 0.35 for the

/United Kingdom

United Kingdom, 0.74 for the United States, 0.79 for France, etc. (see table 5). This high elasticity is due to several factors, which include the relatively low level of current food consumption in Japan in comparison with that of other countries, and the gradual change in diet which is reflected in increased consumption of foreign foods and therefore in a higher product/elasticity of food imports.

The elasticity of imports of raw materials is also a good deal higher in Japan than in other industrialized countries: 0.60 per cent as against rates fluctuating around 0.40 per cent. This high figure is attributable, in the first place, to the extreme scarcity of natural resources in Japan as compared with other countries, and secondly to the substantial contribution made by the manufacturing sector to the increase in Japan's gross product in the period under consideration.^{1/}

The two factors mentioned afford grounds for reaching a very favourable conclusion with respect to the prospects held out by the Japanese market for Latin American products. If the rate of increase of the gross national product projected for the next five years is related to the import elasticity quoted above, the estimated annual growth rate of imports works out at 19.0 per cent, for food products 8.8 per cent for industrial raw materials and 15.8 per cent for mineral fuels. The new official economic and social development plan gives 15.3 per cent as the annual growth rate of Japan's total imports over the next five years.

This estimate is based on the elasticity of demand recorded for the preceding period, and its validity therefore depends upon the assumption that during the next few years the elasticity in question will remain at an equally high level, in which connexion the following observations must be made.

^{1/} The elasticity estimate relates to the period 1960-1961 to 1966-1967. See Economic Planning Office of Japan, Economic Survey of Japan 1968-1969 (Tokyo, 1969).

Table 5

INDUSTRIALIZED COUNTRIES: ELASTICITY OF DEMAND FOR
IMPORTS, BY GROUPS OF PRODUCTS
(Average, 1960-1961 to 1966-1967)

Country	Food	Raw materials	Mineral fuels
Japan	1.29	0.60	1.07
United Kingdom	0.35	-0.03	0.90
United States	0.74	0.37	0.81
Federal Republic of Germany	0.95	0.99	1.59
France	0.79	0.31	0.85
Canada	0.48	0.44	0.55
Sweden	0.92	0.41	0.49

Source: Economic Planning Office of Japan, Economic Survey of Japan, 1968-1969 (Tokyo, 1969).

In the first place, the relatively high elasticity of Japanese demand for industrial raw materials will undergo little change, since the shortage of natural resources will become even more acute in the future. As domestic suppliers decrease, in relative terms Japan's dependence on external resources increases, and with it the product/elasticity of demand for imports. According to projections prepared by the Ministry of Industry and International Trade, for example, internal demand for iron ore will reach 138.9 million tons in the fiscal year 1973/1974, whereas it amounted to 66.1 million tons in 1967/1968, which implies that the rate of external dependence will have increased from 83.7 per cent to 87.3 per cent, since in 1973/1974 imports of iron ore will total 122 million tons.

External dependence will be still further aggravated as regards coal for steel-making, since in the same period the proportion imported will rise from 70.1 per cent to 86.0 per cent. In respect of petroleum, the rate of dependence, which is already very high (99.4 per cent in 1968), will increase to 99.6 per cent in 1975-1976. Similarly, a steadily growing proportion of non-ferrous metals such as, for example, copper and zinc will come from abroad, pushing up the external dependence rate from 72.5 per cent and 39.3 per cent to 73.0 per cent and 42.2 per cent, respectively, between the fiscal years 1968/1969 and 1975/1976. Where bauxite and nickel are concerned, Japan will remain totally dependent on supplies from external sources; and a trend in the same direction may be noted with respect to wood, of which the proportion obtained from abroad will be 48.9 per cent in 1975.

Secondly, the manufacturing sector, which is a consumer of industrial raw materials, will continue to play a major part in raising the gross domestic product.

On the other hand, there are some factors which will militate against the expansion of imports. Substitution of synthetic products for natural raw materials has taken place fairly rapidly in Japan, although it has been confined to textile fibres, leather, rubber and a few other items. Another point to be noted is the swifter pace of development in the more complex branches of industry, where the input of industrial raw materials is smaller in relation to the end product than in activities which consume such materials on a large scale. Cases in point are those of steel-making, manufacture of products based on non-ferrous metals, etc.

/Despite the

Despite the influence of these unfavourable factors, however, the relatively high elasticity of imports of raw materials will not decrease to any considerable extent in the near future, for the reasons mentioned above.

Again, as regards demand for food products, two factors peculiar to Japan must be taken into consideration: the relatively low level of food consumption, and the Japanese diet.

Although the elasticity of food consumption in relation to the rise in per capita income shows a downward trend, the following factors suggest the existence of a great potential demand for food products, especially those of a non-traditional type, and a diminishing likelihood of any further decline in the elasticity in question.

In the first place, the level of food consumption is very low in terms of calories, in comparison with the position in the major developed countries. According to OECD statistics, daily per capita consumption in Japan stood at 2,206 calories in 1966, i.e., between 30 and 40 per cent less than the amount consumed in the European countries and the United States.^{2/} Moreover, in Japan the proportion of consumption represented by cereal-based foods is still very high. The share of carbohydrates in total consumption is as much as 59.9 per cent, as against about 30 per cent in the Western countries. In per capita terms, about 50 per cent of consumption in the leading European countries is made up of proteins. The great potential demand for food products referred to above could not be satisfied from domestic sources, for despite the gradual increase in agricultural production, of which the growth rate was higher than that of the population, the country has become increasingly dependent on external markets for its supplies.

The other factor to which allusion was made is the modification of Japan's traditional diet, which used to consist mainly of rice, fish, shellfish, fruit and local beverages. During the post-war period, as a result of Western influence, and particularly in the later 1960s, with the increase in the purchasing power of the masses, consumption of non-traditional foods expanded so rapidly that bread and meat are now staple articles of diet. Consumption of fruit and beverages such as bananas, pineapples, coffee, cocoa, etc., has soared in recent years, another contributory cause having been the lifting of import restrictions and the elimination or reduction of customs duties

^{2/} OECD, Observer, N° 38 (February 1969).

on these products. Nevertheless, consumption of non-traditional foods continues to fall short of European standards. Annual per capita consumption of meat is still only 8.4 kilogrammes in Japan, as against 100 kilogrammes in the United States and Argentina.

The situation with respect to meat underlines the immense possibilities for the expansion of imports of food products. If meat consumption in Japan were to rise to half the current United States figure, the increase implied would amount to 4 million tons of meat or 50 million tons of grains for fodder.

This big potential demand both for raw materials and for food products might easily give rise to a sharp upswing in imports, since Japan's trade policy follows the principles of reducing import restrictions and widening the scope of financial and technical co-operation with a view to expansion of the developing countries' exports to Japan.

Latin America would be especially able to benefit by all the opportunities that the Japanese market offers, if it increased its capacity to compete with other potential suppliers of the products mentioned above. On the assumption that Latin America's exports to the rest of the world will keep up the same rate of expansion as during the ten years under review, if the growth rate of Japan's total imports (15.3 per cent) is applied to exports from Latin America to Japan, the latter could reach a value of about 2,000 million dollars, absorbing 12 per cent of total Latin American exports by 1975. Even if the rate of increase applied were the average for Latin American exports to Japan over the past ten years (9.1 per cent), the corresponding proportion would be as much as 9 per cent. This is enough to show the potential importance of the Japanese market for Latin America in the near future.

/Lastly, brief

Lastly, brief reference must be made to the prospects for exports of manufactured goods from Latin America to Japan. Generally, speaking imports of such products will necessarily increase, in view of the shortage of manpower which is gradually making itself felt in Japan. The Government of Japan is planning to adopt measures aimed at encouraging industrial imports from the developing countries, by means of a general system of preferences, for instance, and adjustments in certain domestic industries. These steps, however, will not imply an immediate increase in Latin America's exports of manufacturers, since they will encounter keen competition from exporters in Asia, especially the countries nearest to Japan.

2. Japan's trade policy

The trend of Japan's trade policy has been towards increased liberalization and diversification of trade, owing to the following factors:

- (a) The need to obtain a more secure and stable supply of foodstuffs and of raw materials for industrial production;
- (b) The need to curb inflation which began to set in some years ago;
- (c) The need to hold down the accumulation of foreign exchange accruing from the trade balance surplus and;
- (d) The need to secure equilibrium in the trade balance with certain countries.

After the inflation of the immediate post-war period, Japan managed to maintain itself free of inflationary movements, even those of a transitory nature, and several times reduced wholesale prices, while its unit export prices fell virtually constantly. Some six or seven years ago, consumer prices began to creep up, although wholesale prices remained very stable until recently.

Although inflation in Japan is closely associated with the relative scarcity of labour, chiefly young labour, that began to be felt some years ago, and with the inefficiency of the traditional marketing and services system, it can also be considered due to the import restrictions designed to protect certain sectors, in particular agriculture. According to the Economic Survey of Japan, 1969, agricultural products accounted for some 44 per cent of the rise in the cost of living in 1968 and for 54 per cent of the rise in 1967,

/with rice

with rice accounting for between 5 and 10 per cent. The prices of many agricultural products in Japan are between 50 and 100 per cent above world prices, although it should be remembered that world prices do not necessarily reflect real production costs since the main exporters - the EEC countries and the United States - grant export subsidies that artificially hold prices down.

The greatest differential between domestic prices and world prices occurs with imports subject to restrictions. For example, products reserved for State marketing or the like have a comparatively greater price differential: the world price for rice equals 62 per cent of the domestic price and that of butter 54 per cent, with other milk products having a similar differential.

The price differential is smaller, however, with respect to less restricted products: the world price equals 71 per cent of the domestic price for beef; 75 per cent for wheat; and 78 per cent for nori (an edible seaweed). And there is no differential with respect to chicken, which can be imported virtually without restrictions.

In contrast with the balance-of-payments position of earlier years - which was extremely vulnerable and prone to crisis - over the past two or three years the situation has completely changed, and there has been a growing surplus owing to the fact that the rapid rate of expansion of exports (25 per cent in 1968 and 22 per cent in 1969) was not matched by that of imports. At the end of 1969, there was a balance-of-payments surplus of 2,300 million dollars, bringing foreign exchange and monetary gold reserves up to an estimated 3,500 million dollars.

A number of international agencies analysed this situation and some came to the conclusion that it was the result of structural rather than transitory factors, and that unless the Japanese Government took suitable measures it would continue to accumulate foreign exchange.^{3/}

Some circles even raised the possibility of revaluing the yen, to which the Government was opposed, but it did state that in view of the balance-of-payments situation and domestic inflation, it firmly intended to further liberalize imports and adopt measures to set up financial and technical co-operation to the developing countries with a view to increasing its imports from them.

^{3/} See OECD, Economic Survey, Japan, August 1969.

The main short-term measures adopted or proposed to this end are listed below:

a) Advance implementation of the Kennedy Round concessions. The Government is considering implementing the concessions eight months earlier than the agreed date of 1 January 1972.

b) Authorization of imports of all products up to a level of 2 per cent of domestic consumption, which would have a sizable impact on imports subject to quantitative restrictions such as meat, fish, shellfish, meat products (ham, bacon, sausages, etc.), milk products, fruit juices, etc.

c) A programme is under way to liberalize quantitative restrictions. Until recently over one hundred products were subject to such restrictions, more than in the European countries. The number is to fall to sixty in April 1971 and forty in September 1971.

d) The Bank of Japan is to improve import financing by granting, longer repayment periods, lower interest rates, etc.

e) The expansion, already approved, of special import financing by the Export-Import Bank of Japan to include metals, petroleum, natural gas, wood pulp, etc., in addition to products already covered, namely, mineral ores, coal, salt, wood and scrap steel.

Other measures, in addition to these direct measures, are planned with a view to increasing imports over the longer term. The Government has worked out arrangements for investment and for financial and technical co-operation designed to promote the production abroad of imports for Japan. In contrast to direct measures designed to improve access to the Japanese market, these arrangements are designed to help create production oriented towards export to Japan, accompanied by measures relating to marketing. These arrangements benefit both the exporting countries and Japan, for they will guarantee secure and stable supplies of necessary raw materials over an extended period. Moreover, this programme should help to increase diversification of supplies and thus bring partial equilibrium to Japan's trade balances with certain countries.

3. The expansion of financial and technical co-operation
connected with imports

There is great potential for increasing financial and technical co-operation between Japan and the developing countries. Japan's growing surplus on its trade balance provides it with an increasing supply of foreign exchange that will enable it to expend its financial and technical assistance and step up public and private investment abroad.

In early 1970, the Japanese Government, at a meeting at the Ministerial level of the OECD countries, stated that Japanese foreign aid would have the following indicative targets:

- a) A maximum effort to ensure that the total value of Japan's foreign aid is equivalent to 1 per cent of its gross national product before 1975; and
- b) An effort to increase Japan's public foreign aid to the equivalent of 0.7 per cent of the gross national product before 1980.

Furthermore, at the meeting of the OECD Development Assistance Committee in September 1970, the Japanese Government announced its support for the principle that public financial assistance to the developing countries, whether made available directly or through international agencies, should be not tied.

At present, Japan's foreign aid amounts to only 0.7 per cent of the gross national product, but the product is expected to grow at an annual rate of 16.5 per cent in the coming years, which should bring a considerable increase in foreign aid, provided the indicative targets mentioned above are met. As it is estimated that the gross national product will amount to 400,000 million dollars by 1975, annual foreign aid should rise from the 10,490,000 dollars recorded in 1968 to 4,000 million dollars by 1975, a sum which is comparable with the total amount of the United States foreign aid in 1968, namely 5,676 million dollars.

A substantial proportion of this assistance will be in the form of combined "development and trade" projects, i.e. projects that cover not only the development or exploitation of a resource but also its marketing and, in particular, its export to the Japanese market. In other words, they would be projects of financial and technical co-operation aimed at promoting exports to Japan.

Some of these projects are already under way under the title of "development and import" projects (kaihatsu yunyu), with the joint collaboration of four semi-State agencies. The Export-Import Bank of Japan and the Economic Co-operation Fund finance, inter alia, projects relating to production and transport; the Overseas Technical Co-operation Agency (OTCA) sends technical assistance experts and engineers abroad and trains foreign technicians; and the Japan External Trade Organization (JETRO) has created a special fund to promote imports of primary commodities from the developing countries, one of its activities being the organization of exhibitions in Tokyo of developing countries' primary commodities and manufactures. In 1970, The Japan Overseas Development Corporation was established to finance construction of the infrastructure required for the production of primary commodities and the importation from the developing countries of primary commodities at prices higher than the world price.

With respect to the programme of "development and import" projects for industrial raw materials, mainly mineral ores, a centre for natural resources development planning is to be set up in 1971 with the following tasks: (a) to provide the developing countries free of charge with comprehensive plans for natural resources covering the exploitation of resources and the establishment of basic infrastructure: ports, railways and highways; and (b) to make recommendations to the Export-Import Bank and the Economic Co-operation Fund regarding the financing of exploitation and infrastructure projects. The centre is also to establish an integrated programme for the development and importation of natural resources in collaboration with private enterprise and will act in close co-operation with the Metallic Minerals Exploration Agency of Japan another para-State agency that has begun operations under the auspices of the Ministry of International Trade and Industry (MITI).

Starting in 1961, a system of subsidies for research was established, designed to promote imports of primary commodities from the developing countries, the subsidies normally being granted to associations of industrialists and ranging as high as 75 per cent of total costs. Up to 1968 some eighty missions had been sent abroad under this system with the task of investigating products suitable for export to Japan, and examining the main barriers to trade and then, after carrying out in-depth studies of the products, determining what measures should be taken.

/In 1965

In 1965 a standing board was established to formulate specific policies and measures to streamline commodity imports, on both a country and a product basis, in co-operation with the Institute for Developing Economies. The board's research activities are financed by the Ministry of International Trade and Industry, and it carries out its work in co-operation with the countries concerned.

It is also expected that the regime covering Japanese private investment abroad will be liberalized, owing to the favourable balance-of-payments situation. In this connexion the Japanese Government has adopted the following measures:

- (a) Automatic authorization to Japanese private enterprises for investment abroad up to a value of 200,000;
- (b) Semi-automatic authorization for investment abroad up to a value of 300,000 dollars.

As a result of the "development and import" programme and the measures mentioned, and also the expansion of public financing, Japanese enterprises have been able to undertake more projects abroad in recent years. By the end of 1969, Japanese enterprises had invested in some fifty mines in the non-ferrous metals sector alone, and in the near future will be undertaking approximately forty projects for the exploration and exploitation of mineral resources at a total cost of at least 500 million dollars.

Although a large proportion of Japanese investment will be devoted to the exploitation of foreign natural resources, owing to the size of potential demand and the urgent need to secure stable supplies of raw materials, some will go to promote agricultural development and the production of manufactures suitable for export to Japan.

As regards agricultural development, the "development and import programme" is under way in a number of Asian countries, a notable example being that of maize in Thailand. The pre-investment studies on maize production and marketing were undertaken by the Japanese commercial firms providing technical and financial assistance. Exports of maize are regulated by an agreement on quality, monthly volume, etc., between the Thai Ministry of Economic Affairs and the Japanese association for the importation of maize from Thailand, with the participation of the major Japanese farm co-operatives

/purchasing maize.

purchasing maize. Although a number of obstacles were encountered the efforts made to overcome them led to a substantial increase in imports of Thai maize, and also provided Japan with some very valuable experience.

It can be concluded, then, that, in view of the great potential demand for Latin America's export products, together with Japan's favourable policies as regards trade and financial and technical assistance, there are great possibilities for expanding Latin America's exports to Japan.

/III. TREND

III. TREND OF LATIN AMERICA'S EXPORTS OF ITS MAIN PRODUCTS AND FUTURE PROSPECTS

1. Foodstuffs

Meat

Partly because of a gradual change in the country's eating habits and because of the inability of domestic producers to keep pace with the growing demand, there was a boom in Japan's meat imports, whose annual average c.i.f. value rose from 14 million dollars between 1960 and 1962 - and a very much lower level before that - to 120 million dollars during the period 1967-1969. One of the most striking aspects of these imports is their composition, almost half of it being lamb on which, for lack of domestic production, there are none of the quantitative restrictions that apply to beef and pork. Moreover, the tariff on lamb is only 10 per cent, compared with 25 per cent on beef and 20 per cent on chicken. Horsemeat receives similar treatment and is mainly used for sausages and other preparation of which there has been an extraordinary increase in consumption in Japan. Imports of meat preparations, such as ham, bacon, sausages, etc., are subject to quantitative restrictions and to a 25 per cent tariff.

The import restriction of beef and pork are designed to protect domestic production which has risen considerably, above all that of pork. For the most part, the imports are used to stabilize domestic prices, which means that they vary in volume according to Japan's own output. Pork imports have been particularly irregular, since emergency import quotas are only granted when the Ministry of Agriculture decides that domestic prices have risen too high. Beef imports, which have been gradually rising, follow a similar though less erratic pattern, with import quotas being granted twice a year. However, certain restrictions do apply to the place of origin in accordance with the law on the prevention of infectious diseases in animals, although imports of cooked meat are permitted.

This being so, Latin America's meat exports to Japan have been mainly of horsemeat from Argentina and Brazil, with a corresponding boom in Japanese imports of beef and lamb from Australia and New Zealand.^{4/}

^{4/} A great deal of meat is also re-exported from the Rynkyn Islands where most of the animals imported from Australia and New Zealand are slaughtered, since these islands are exempted from the 25 per cent import duty.

With imports currently accounting for 15 per cent of a domestic consumption whose annual growth rate is between 10 and 15 per cent, the Japanese meat market is likely to become very important in the near future. Naturally, however, for Latin America's exports to increase, the various restrictions that were hardly affected by the Kennedy Round, especially as regards preparations of meat, would first have to be lifted.

Fish and shellfish

Imports of fish and shellfish rose faster than those of meat, increasing in value from between one and four million dollars before 1960 to an annual average of 159 million dollars during the period 1967-1969 and exceeding meat imports from 1963 onward. More than 50 per cent of this consists of deep-frozen lobsters. Almost all Latin America's exports to Japan (95 per cent) are made up of lobsters from Mexico, a large proportion of which are purchased through the United States under North American trade marks.

Japan is currently the second largest consumer of this crustacean, following the United States, with more than a quarter of its consumption coming from abroad, mainly from Mexico and partly from mainland China. Potential demand is still very great, the drop in imports in 1968 being due almost entirely to a shortage of supply as a result of the poor catches in Mexico and China. The lobster import boom began when quantitative restrictions were lifted in 1961.

Restrictions on other fish and shellfish have also been gradually lifted except in the case of coastal fish and certain types of seaweed, fish roes and crustacea, all of which are consumed on a large scale in Japan. Though customs duties, between 10 and 15 per cent, were not reduced in the Kennedy Round, the volume of imports rose as fast during recent years as that of frozen lobsters.

The recent increase in the consumer price of fish and shellfish in Japan points to a great potential demand and the need to lift the remaining quantitative restrictions.

Latin American countries with extensive marine resources could take far greater advantage of the Japanese market, than they do, though this would require market research and better conditions of supply, which could be arranged under joint projects with Japan.

Cereals

Although imports of rice, Japan's most popular cereal, amounted in some years to over 100 million dollars in value, they have recently been dropping off as a result of a remarkable increase in harvests which brought a surplus of 7 million tons in 1969. Despite official steps to slow down rice production (for example, the Government decision to freeze the purchase price for the past two years and encourage the conversion of rice-fields to other crops), no significant increase in imports is to be expected from these measures which will have only a long-term effect.

There was, on the other hand, a steady increase in wheat imports during recent years, averaging 300 million dollars in value (4,200 million tons) during the period 1967-1969, compared with an annual average of 160 million dollars (2,300 million tons) ten years previously. More than 90 per cent of these imports came from the United States and Canada, though there was also a large increase in wheat from Australia. Faced with problems of price, quality, reliability of shipments, etc., Latin America did not export a great deal, although an experimental purchase by Japan of 3,600 tons of Argentine wheat in 1968 was an important step forward and led to big orders in subsequent years.

The importation and marketing of wheat and rice is State controlled, the domestic purchase price being fixed by the Government each year considerably higher than the international price (110 dollars per ton of wheat compared with a c.i.f. price for Australian and United States wheat of approximately 70 dollars, and 382 dollars per ton of rice in 1969 - more or less double the international price). However, as a large section of the rural population lives off the production of these cereals, there is a fear that any sharp drop in prices or increase in imports might damage the rural sector's interests and provoke a major socio-political problem. As a result, measures intended to rationalize the sale of cereals for human consumption will be introduced very gradually and this, combined with the relatively slow increase in domestic consumption, means that the prospects for imported rice are likely to be less promising than for meat. On the other hand, the new demand for meat will bring a great demand for animal foods.

/Animal foods

Animal foods

During recent years, imports of animal foods rose very sharply from an annual average value of less than 180 million dollars prior to 1962 to 483 million dollars during the period 1967-1969, with a large share coming from Latin America. Animal foods alone accounted for around a quarter of Japan's total food imports. The most important item, maize, accounts for 50 per cent of cereal imports and 35 per cent of Japan's domestic consumption of basic commodities for animal foods, and is largely used as the main ingredient in mixed feeds. Over ten years, Japan's maize imports have climbed from an average 700 million tons (1957-1959) to almost 5,000 million tons (1967-1969), between 50 and 60 per cent of which come from the United States. Imports from Thailand, South Africa and Mexico ^{5/} also increased considerably while those from Argentina and Brazil fluctuated greatly, largely as a result of irregular harvests. The increase in Thailand's share was attributable to the special efforts made by producers and importers under a "development and import" project which boosted Thailand's exports to Japan from virtually nothing in 1958 to 800 thousand tons in 1964, dropping off a little thereafter to an annual average of 680 thousand tons for the period 1966-1968. Unlike other cereals, maize is not subject to quantitative restrictions, except for use in starch.

Though there is a very promising export market for animal foods, and therefore maize, to Japan, the demand for maize is dependent upon its price relative to sorghum, a new animal food which, since 1959, started to be used in mixed feeds, first in conjunction with maize and later as a substitute for it, in view of the fact that it costs 10 to 15 per cent less. When the price gap between the two products disappears, however, as happened in 1968, the import of sorghum declines. Up to 1963, prior to the lifting of quantitative restrictions on sorghum were lifted in 1964, almost all Japan's

5/ Most of the maize imported from Mexico and South Africa is used industrially as a basic ingredient of alcohol, starch, etc. Unlike maize for fodder, which is duty free, there is a 10 per cent tariff on imports of the industrial product. Nonetheless, in recent years imports of the latter have increased faster than those of the former.

imports came from the United States; from 1964 on, however, Argentina became a major exporter to Japan followed later by South Africa, Australia Thailand and Mexico. Japan does not produce any sorghum of its own which means that the greatest potential demand for it will be reflected in increasing imports.

Although there has been an increase in imports of other animal foods, especially from Latin America, they involve smaller quantities. Imports of bran, which were stable during recent years, began to come from other countries instead of just Argentina and Thailand. There was a steady rise in imports of fish meal from Peru from 1964 onwards and a bigger increase in those of oilseed cakes (groundnuts, soya beans, etc.), in which Brazil, Mexico and Peru participated.

There are less restrictions on imports of animal foods than on imported meat and cereals for human consumption. At present, no quantitative restrictions are imposed on this group, except in the case of certain types of oilseed cakes, and import duties are either relatively low or non-existent.

Sugar

Unlike the United States, the United Kingdom and some other countries, Japan is not a party to any special sugar purchasing agreements and has thus become the biggest buyer of sugar on the free market. The system of currency quotas for sugar imports, introduced in 1965, replaced the earlier barter system and was itself abandoned in 1963. In 1965, owing to the unreliability of prices, an official body was set up by law to stabilize the price of sugar.

Domestic production is low but, combined with sugar produced in the Ryukyu island - currently administered by the United States - and imported duty-free into Japan, represents a fifth of domestic consumption.

Total imports have risen quite quickly, from a pre-1960 figure of 1,200,000 tons to around 2 million tons in recent years. Cuba continues to be Japan's largest supplier, though from 1959 its sugar sales dropped to half the average for 1956-1958; it subsequently made a gradual recovery and in recent years regained the former level, averaging 633,000 tons for the period 1967-1969. Imports from Formosa, on the other hand, which remained

/around 400,000 tons

around 400,000 tons between 1958 and 1966, have fallen off sharply in recent years. There has also been a decline in Brazil's and Peru's sugar trade with Japan, while Mexico and Colombia started exporting in 1967.

Australia and South Africa stepped up their sales considerably and now provide Japan with half its imported sugar. This situation, however, is likely to change now in view of a new International Sugar Agreement, to which Japan is a signatory, allocating the biggest quotas to developing countries.

Bananas

Until relatively recently, Japan's banana imports were minimal, amounting to a mere 37,000 tons in 1959 and an average of 30,000 tons for the whole of the 1950s, which was scarcely a tenth of the imports of any of the main European countries. From 1963, however, with the lifting of quantitative restrictions and the improvement in the purchasing power of the Japanese in recent years, imports shot up from 82,600 tons in 1962 to 256,000 tons in 1963 and 732,000 tons, or 117 million dollars' worth, in 1969.

Despite the tremendous increase, per capita banana consumption is still somewhat lower in Japan than in Europe, partly because of high customs duties. The lifting of the quantitative restrictions was accompanied by an effective reduction of the import duties by 10 per cent, following the removal of the 30 per cent tax surcharge on top of the 50 per cent customs duties and the fixing of the latter at a new rate of 70 per cent. In 1967, it was decided to drop the tariff by a further 10 per cent.

The relatively high tariff on bananas was imposed by the need to protect production of other fruit in Japan, particularly apples, since bananas account for over 80 per cent of the country's total imports of fruit. Consequently, a system of seasonal tariffs is to be introduced, the lower rates being applicable when domestic production of fruit, i.e., mainly apples, is poorest.

A tremendous, though slightly irregular, increase in Latin America's exports of bananas to Japan began in 1962 when a sanitary control was imposed on imports from Formosa; as a result, Ecuador's sales shot up to 33,000 tons, i.e., 50 per cent of Japan's total imports, whereas, previously, Formosa had catered to more than 90 per cent of its total demand for bananas. A year after the adoption of restrictions on Formosan bananas, quantitative

/restrictions were

restrictions were lifted, whereupon Ecuador boosted its exports to 200,000 tons while Formosa failed even to regain its former level. Though Ecuador's exports fell off in subsequent years, it recently managed to push them up to 266,000 tons in 1969. Meanwhile, the Central American countries, especially Honduras, increased their own exports, marketed very successfully under the trade name "Chiquita". Ecuador improved its position partly by stepping up its production of Cavendish bananas, instead of the Grossmitchel variety, the former being closer in flavour to the Formosan type to which the Japanese consumers are accustomed.

Another problem affecting Formosa's exports to Japan is irregular supply, owing to the prevalence of typhoons responsible for the sharp drop in exports in 1968. Although the Government of Formosa is taking steps to alleviate the problem, there is unlikely to be any major increase in its exports and Latin America will therefore benefit from the situation. A large increase in banana imports from the Philippines is also expected in the next few years.

Quite apart from tariff reductions, one measure that could be adopted by Latin American countries would be to improve their transport and packing system, as a large part of the c.i.f. price for bananas goes on freight.

Coffee

There was a big increase in imports of this item from 1961 onward, when quantitative restrictions on soluble coffee were lifted one year after those on coffee beans. As the domestic price of soluble coffee has dropped, it is being bought for private use whereas it used to be mostly in restaurants; consequently, soluble coffee now accounts for 60 per cent of Japan's total coffee consumption. Despite the progress made since 1961, however, per capita consumption is still much lower than in European countries and the United States, (0.98 pounds in Japan compared with 16.69 pounds in the United States in 1968), owing to the traditional Japanese predilection for green tea.

The value of imports, previously no more than 9 million dollars (10,000 tons of coffee beans), rose to 18 million dollars in 1961 and 24 million dollars in 1962, thereafter increasing steadily up to 49 million dollars (59,000 tons of coffee beans and 2,300 tons of soluble coffee) in 1969.

/It is

It is notable that almost all the soluble coffee comes from developed countries like the United States and the Federal Republic of Germany and the coffee beans from developing countries, particularly Brazil followed by other Latin American countries and by Africa. In recent years, the United States and Germany supplied 20 per cent of the total value of Japan's coffee imports. Brazil's share was on the steady increase during the 1960s and reached 25,000 tons in 1969, followed by Colombia with 6,500 tons. Other Latin American countries like Peru, Guatemala and El Salvador also increased their exports considerably, while African countries like the Ivory Coast, Uganda and Ethiopia suffered considerable ups and downs, though they did manage to increase their share from less than 10 per cent to 20 per cent between 1961 and 1968.

The basic tariff of 35 per cent on unroasted coffee had been temporarily suspended and is to be eliminated altogether in accordance with the Kennedy Round negotiations; the internal tax of 10 per cent has moreover been reduced to 5 per cent. Soluble coffee, on the other hand, carries a 25 per cent import duty and received no concessions in the Kennedy Round.

It should also be borne in mind that Japan classified itself as a "new market" under the International Coffee Treaty and is therefore exempt from the quotas fixed therein; this is of some importance in view of the fact that the price or quality restrictions would discourage the popular consumption of coffee, a fairly recent phenomenon in the country.

Cocoa

The importation of cocoa was freed in 1960 and increased greatly over the next few years (1961 to 1963), overtaking coffee imports in 1967 and reaching 50 million dollars in value (43,000 tons) by 1969. The main source of supply is Africa, particularly Ghana, the Ivory Coast and Nigeria which together have provided 70 per cent of Japan's imports in recent years. Latin American countries like Ecuador, Brazil and Venezuela have also boosted their exports considerably, though Brazil failed to maintain the level it attained in 1963 and 1964.

As in the case of coffee, cocoa preparations come mostly from developing countries, such as the United States and the Federal Republic of Germany, whose exports of powdered cocoa and cocoa butter have continued to grow.

/However, whereas

However, whereas the duty on cocoa preparations is fairly high (between 10 and 30 per cent), the 5 per cent tariff on cocoa beans is to be eliminated under the Kennedy Round. The developing countries will have an excellent opportunity when Japan introduced the general system of preferences, which reduces the import duty on cocoa preparations from developing countries by half.

2. Raw materials

Iron ore

Imports of iron ore have been increasing rapidly from the past fifteen years, except in 1958 when Japan experienced an economic depression. The average annual figure rose from 8 million tons (1956-1958) to 83 million in 1969, to a value of 969 million dollars, which represented 6.5 per cent of total imports. This period marked a diversification of the sources of supply, which shifted from neighbouring to distant countries. At the outset, Japan obtained most of its imports from Asian countries - India, Thailand and the Philippines - and the United States and Canada, these five countries representing 70 per cent of its total imports, while Peru and Chile together accounted for less than 5 per cent (average for 1956-1958). In ten years the share of Latin American countries (Chile, Peru and Brazil) rose to 31 per cent (average for 1966-1968), while Australia became Japan's biggest supplier. Thus, the weighted average of distance between Japan and its sources of supply, which in 1960 was already greater than that of other importers, doubled in 1964.

The rapid and steady expansion of imports may be ascribed to the extraordinary growth of demand for steel, which Japan also exports. Iron ore imports will continue to be substantial, since steel production will probably increase equally fast in the future. Japan's total steel output, which rose from 11 million tons in 1956 to 80 million in 1969, is expected to be 130 million tons in 1975.

With the prospects of a considerable and sustained demand for iron ore, imports of which are unrestricted, Latin America has an excellent chance of stepping up its exports to Japan. Compared with other suppliers, however, supply and transport conditions involve certain disadvantages for Latin America, which might be overcome through renewed co-ordinated efforts by Latin America and Japan.

/Transport costs,

Transport costs, which represent 35 to 40 per cent of the c.i.f. value, are a serious obstacle, although it has to a great extent been surmounted by the construction of special large-tonnage ships.

In 1970, special ships of 130,000 tons for the transport of iron ore began operating between Chile and Japan. The high cost of carrying ore from Brazil to Japan, which made the operation uneconomic, was greatly reduced by the construction of ships of considerable capacity for the transport of iron ore and petroleum. These ships leave Japan empty and proceed to the Middle East to take on oil for Brazil, where the iron ore is loaded. In order to reduce transport costs still further, ships of 250,000 tons are being built for this trade, while port operations have been mechanized, the ore is carried in semi-liquid form (slurry) by pipelines, and in some cases conveyor belts are used between the port and the mine, etc.

It is of prime importance to have a stable and reliable source of supply of metal ores, particularly iron, and imports are usually based on long-term agreements, often covering more than ten years. While most long-term contracts for the purchase of ore involve financing of mine operations and the construction of infrastructure by Japan, developed exporting countries like Australia and South Africa sometimes have better conditions to offer because of their greater technical or financial capacity. For example, an Australian firm decided to build an ore supply centre on an island near Osaka in order to maintain a regulating stock of about 2 million tons as a stable and reliable supply of ore for Japan that would be secure against strikes or any other difficulties that might arise.

The unfavourable factors, including transport costs, could be overcome through financial and technical co-operation between Latin America and Japan, which could include the search for new mines suitable for exploitation, under the development and import formula.

Non-ferrous metal ores

Imports of copper ore also rose rapidly, from an average annual figure of 180,000 tons (23 million dollars) in the period 1956-1958 to over a million tons in the last few years (since 1967), reaching a value of 340 million dollars in 1969, which reflected a sharp upturn in imports from Canada and the Philippines and a somewhat smaller increase in imports

/from Peru.

from Peru. Over 100,000 tons have been imported from Latin American suppliers (Peru, Chile and Bolivia) since 1967, which constitutes 10 per cent of Japan's total copper ore imports.

This rising trend will continue in the future and copper ore imports in 1975 are expected to be at least 50 per cent higher than in 1967, when Japan's demand totalled 1,213,000 tons. The favourable prospects in regard to demand for copper ore - and refined copper to which reference will be made later - could be turned to account by the Latin American producer countries. As in the case of iron ore, it would be useful to invest in mining production for export over the long-term, through financial and technical co-operation with Japan.

Among other non-ferrous metal ores, in order of importance, are nickel, zinc, manganese, lead, bauxite and molybdenum. Imports of each amount to over 20 million dollars, the total value of non-ferrous metal ores, excluding copper, being over 324 million dollars (average for 1967-1969).

Latin America has obtained a considerable share in this trade, the main metals being zinc from Peru and Mexico, manganese from Brazil, molybdenum from Chile and lead from Peru and Bolivia, which also benefit from the favourable demand prospects and the free-import regime.

Textile and raw materials

Imports of textile raw materials, which in 1951 represented 38 per cent of Japan's total imports, have gradually lost ground, their share declining from 20 per cent in 1957 to 10 per cent in 1965, although in absolute terms they maintained their value at about 900 million dollars, of which Latin America accounted in the last few years for some 200 million dollars (over 20 per cent), but with a tendency to remain at the same level, in contrast with the trend of other products obtained from Latin America.

It is interesting to note that the share of wool increased gradually - from 220 million dollars in 1956-1958 to over 360 million in 1966-1968 - while that of cotton remained at around 450 million dollars. In spite of this general trend, however, wool exports to Japan from Latin America (Argentina, Uruguay, Brazil, Peru and Chile) remained at a standstill, while Australia's exports soared, their share in the Japanese market rising steadily from 70 per cent in the 1950s to 80 per cent in the 1960s. In contrast, the share

/of the

of the principal cotton suppliers (Latin America and the United States) did not change much, although imports from the Central American countries have increased considerably in recent years.

In 1961 the quantitative restrictions on cotton and wool were eliminated, and subsequently those on various types of flax, except for ramie, which caused imports to soar in 1961 (when the value of wool and cotton imports reached its highest level in the post-war period), although it subsequently declined. Since imports of textile raw materials are duty free, their stagnation is mainly due to the small increase in the consumption of textile manufacturers owing to the boom in synthetic fibres and the increase in imports of manufactured articles.

3. Manufactured products

The last few years have witnessed an increase in Japan's imports of manufactures from developing countries, particularly metal and textile products, although they grew more slowly than those of other developed countries. The total value of textile imports rose from 24 million dollars in 1962 to 61 million in 1964, 69 million in 1966 and 200 million in 1969. Although a large volume of these imports came from Europe, those from countries in South-East Asia also increased considerably, from less than 2 million in 1962 to 8 million in 1966, 31 million in 1967 and 58 million in 1968, consisting mainly of cotton yarn and fabrics from Formosa, Korea, Pakistan, etc., and silk fabrics from Korea and China. Some of these countries, like Korea and Formosa, have to import their raw material, while the Latin American countries, which are traditional exporters of textile raw materials, have not yet succeeded in exporting manufactured articles to Japan. There were also increases, albeit on a smaller scale, in imports of flax fabrics and jute sacks and mats from several Asian countries, and dresses from China, Hong Kong and Korea, which amounted to 14 million dollars in 1968. The substantial increment in exports from Asian countries, notwithstanding the relatively high duties payable on these articles, is indicative of Latin America's possibilities of trading with Japan.

Another interesting development for Latin America is the growth of Japan's metal imports in recent years. Imports of iron (particularly in the form of ingots) and steel rose from 100 million dollars at the beginning

/of the

of the 1960s to over 200 million in the last few years. Although most of this supply was obtained from the socialist States, the Asian and African countries also stepped up their exports. Meanwhile, imports from Brazil and Venezuela fluctuated greatly, but managed to increase their share.

Latin America's position is more favourable with regard to non-ferrous metals. Chile and Peru have boosted their exports of copper and copper alloys in recent years, accounting for over 80 per cent of Japan's metal imports from Latin America. On the whole, imports of non-ferrous metals rose rapidly and steadily, from 100 million dollars in 1962 to 917 million in 1969. The chief non-ferrous metals imported were copper and copper alloys (30 to 40 per cent), aluminium, tin and tin alloys.

The considerable increase in imports of miscellaneous consumer goods was largely due to the lifting of quantitative restrictions, their total value being 69 million dollars in 1968. In contrast with the growing share of Asian countries in imports of this group of products - which includes travel and sport articles, furniture and jewelry - few imports have thus far come from Latin America.

Exports of metal manufactures from Latin America, in which it already has some experience, perhaps hold out the best possibilities, the greatest obstacles being the conditions of access to the Japanese market and the conditions of supply compared with those offered by competitors in other countries. It should also be borne in mind that, as ore imports are exempt from customs duties, the tariff applicable to metal manufactures discourages their export. Refined copper and copper alloys, for example, are subject to duties of 10 to 20 per cent, although some concessions were obtained in the Kennedy Round. Conditions are more favourable for crude iron, since the tariff should come down from 10 per cent to 5 per cent. The lowering or elimination of these tariffs would constitute a strong stimulus to exports from Latin America. In this respect, the application of the general system of preferences is important, since, according to this system, manufactured products (chapters 25 to 99 in the Brussels Tariff Nomenclature (BTN)) will be exempt from duties, or the duties will be reduced by 50 per cent, up to the value or volume of the basic and supplementary quotas.

/A similar

A similar problem affects other manufactured products which Latin America could export, such as textiles and leather goods. In both cases, imports of the raw material (cotton and raw hides) are duty free, but the articles manufactured from them are subject to a tariff ranging from 15 to 25 per cent, although some concessions were granted in the Kennedy Round. A general system of preferences would also offer incentives for Latin America to export these products.

As regards processed foods, Japan has prepared a list of preferences for developing countries which includes several products of interest to Latin America, such as processed cocoa. It also includes some fish, shellfish and fruit preparations: sardines and other fish, crustaceans and shellfish, pears and peaches, several kinds of tropical fruit, etc. Of processed meat products, however, it includes only meat extracts and juices.

According to the general system of preferences which would enter into force in 1971, duty-free entry would be granted, in principle, for all products included in BTN chapters 25 to 99, up to the value (or volume in the case of some products) of imports from developing countries in the base year (basic quota), plus 10 per cent of the value of imports from other countries in the last year for which import statistics are available (supplementary quota).

Without prejudice to this general rule, a 50 per cent reduction in the customs tariff for similarly established quotas is applicable to fifty-seven products (some textile goods, some leather, nickel, aluminium, lead and tin articles, and miscellaneous products).

The application of this system will be suspended in the case of a product imported from a particular country when preferential imports exceed 50 per cent of the established quota in the course of the year. The supplementary quota will be renewed annually, but it will never be less than the quota for the previous year.

Import preferences are not accorded for ten products, three of which are subject to fiscal tariffs (all three are petroleum products).

As regards the products included in BTN chapters 1 to 24, a positive list was drawn up with the corresponding margin of preference. Although no limit is fixed for these products, the application of a safeguard mechanism is envisaged.

JAPAN: TARIFF AND NON-TARIFF BARRIERS TO IMPORTS OF INTEREST TO LATIN AMERICA AND VALUE OF IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN

BTN	Product	Customs tariff		Non-tariff barriers	Japanese imports			Japanese imports from Latin America			Major Latin American suppliers (Thousands of dollars, 1967)	Major suppliers in rest of world (Thousands of dollars, 1967)
		Pre-Kennedy R.	Post Kennedy R.		Thousands of dollars c.i.f.		Percent- age increase 1962-67	Thousands of dollars c.i.f.		Percent- age increase 1962-67		
					1962	1967		1962	1967			
0201-A	Meat of bovine animals, fresh, chilled or frozen	25%	(25%)	OQ	2 519	13 577	539.0				Australia (8 797)	
0303	Crustaceans and molluscs; lobsters and shrimps	5-15%	5; 7.5%	ex OQ	6 905	93 857	1 359.3	2 054	21 836	1 063.1	Mexico (19 442)	Mainland China (10 789); Thailand (10 335)
	Other	10; 15%	(10; 15%)									
0801-A	Bananas, fresh	70% (60%) a/	(70%) (60%) a/		12 534	74 965	598.1	4 834	11 694	241.9	Ecuador (11 694)	Formosa (62 547)
0801-B	Coconuts, Brazil nuts and cashew nuts, fresh and dried	20%	(5; 10%)		4 369 b/	13 858 b/	317.2					United States (5 323); China (5 516)
0802-A	Oranges	20; 40%	(20; 40%)	OQ	81	658	812.3					United States (11 983)
0802-B	Other citrus fruit	20%	(20%)	OQ (*)	1 485	11 983	806.9					Ivory Coast (3 731)
0901-A	Coffee				10 124	26 413	260.9	6 131	14 737	240.4	Brazil (7 259); Colombia (4 421)	
	Unroasted	30% (0) a/	0	IC (5%)								
	Roasted	35%	(35%)	ex OQ; IC (5%)								Ceylon (6 775)
0902	Tea	5-35%	0-35%	ex OQ* IC (5%)	2 386	7 425	311.2					
0904	Pepper or pimento	5-25%	0-10%		793	1 679	211.7					
1001	Wheat	20%	(20%)	ST; PS	180 944	307 645	170.0					United States (159 043); Canada (23 664); Australia (34 937)
1005	Maize	0; 10% (0) a/	(0; 10%)		133 748	270 983	202.6	3 022	32 725	1 082.9	Mexico (24 610); Argentina (4 079); Brazil (4 015)	United States (110 255); South Africa (47 854); Thailand (47 498)
1006	Rice	15% (0) a/	(15%)	ST; PS	23 818	82 238	345.3					Mainland China (33 983); Thailand (18 535) United States (15 832)
1201-A	Groundnuts	20% (10%) a/	0; 20%	OQ (*)	742	7 555	1 018.2					Mainland China (3 643)
1201-G	Castor oil seeds	0	0		4 299	8 416	195.8					Mainland China (3 649); Thailand (4 430)
1507	Vegetable oils				8 487	1 366	16.1					
	Soya bean oil	Kg. 28% 0-10%	(28%) 0-10%	OQ*								
	Other oils	Kg. 20-30%	(20-30%)									
1602	Other prepared or preserved meat or meat offal	20; 25%	15; 25%	ex OQ	194	810	417.5		155			
1603	Meat extracts and meat juices	30%	25%									
1701	Sugar	Kg. 41-63% (a.v.e. 52-76%)	(41-63%)	ex OQ; PS	118 374	122 138	103.2	35 094	27 518	78.4	Cuba (24 357)	Ryukyu (40 228); Australia (29 919); South Africa (16 846)
1801	Cocoa beans	5% (0) a/	0		11 570	19 320	167.0	2 725	1 918	70.4	Venezuela (1 191)	Ghana (11 562); Nigeria (4 875)
1803	Cocoa paste	20%	10%		5 727	17 636	307.9	866	758	87.5	Brazil (758)	Netherlands (7 326); Ghana (4 452)
1804	Cocoa butter	5%	5%									
1805	Cocoa powder, unsweetened	30%	(30%)	IC (5%)	451	818	181.3					
1806	Chocolate, etc.	25; 35%	(25; 35%)	ex OQ**	1 321	4 762	360.5					
2006	Fruit prepared or preserved				8 514	19 921	234.0					Ryukyu (12 672)
	Pineapple	45%	(45%)	OQ								
	Other fruit	20-35%	20-30%	ex OQ								
2102	Extracts and essences of coffee				13 625	3 371	24.7	401	584	145.6	Guatemala (425)	United States (1 661); Federal Republic of Germany (917)
	Soluble coffee	25%	(25%)									
	Other	35%	30%									
2301	Flours and meals of meat, offals, fish, etc., unfit for human consumption	0	0	OQ**	7 038	18 006	255.8	3 859	6 434	166.7	Peru (5 141); Argentina (1 264)	South Africa (7 202)
2304	Oil-cake and other residues resulting from the extraction of vegetable oils			ex OQ*	1 938	7 286	376.0		1 683		Brazil (1 683)	India (3 416)
	Soya bean oil	5%	(5%)									
	Other oils	0	0									
2401	Unmanufactured tobacco	35%	(35%)	ST	32 265	56 881	176.3					United States (39 734)
2601-A	Iron ore and concentrates	0	0		318 289	717 978	225.6	90 962	231 886	254.9	Chile (12 247); Peru (89 604) Brazil (30 035)	India (131 726); Australia (97 710); South Africa (61 843)
2601-B	Roasted iron pyrites	0	0		1 298	104	8.0					
2601-C	Copper ore	0	0		90 863 a/	223 085	245.5	24 262 a/	36 906	152.1	Peru (19 026); Chile (10 574)	Canada (85 560); Philippines (65 224)
2601-E	Bauxite and concentrates	0	0		13 238	21 771	164.5					Indonesia (7 000); Australia (6 399)
2601-G	Zinc ore and concentrates	0	0		6 701	48 590	725.1	2 076	26 812	1 291.4	Peru (24 528)	Canada (9 651); Australia (7 336)
2601-H	Tin ore	0	0		1 462	667	45.6					
2601-M	Fluorspar ore	0	0	OQ*	ND	14 161	-	ND	4 022	-	Bolivia (1 885); Peru (1 433)	Republic of Korea (4 867); Mainland China (1 674)
2601-P	Lead ore and concentrates	0	0		4 886	20 175	412.9	3 517	5 405	153.7	Bolivia (1 811); Peru (3 595)	Canada (7 544); Australia (5 194)
2709	Petroleum oils, crude	Kilo-litre 530% (640%) a/	(530%)	ex OQ	620 564 d/	1 457 240 d/	234.8	3 999 d/	8 100 d/	202.6	Venezuela (7 408)	Iran (499 485); Kuwait (461 826)
					212 057 a/	340 976 a/	160.8	10 999 a/	18 726 a/	170.3	Venezuela (15 707)	Saudi Arabia (36 610); USSR (30 651); Kuwait (25 659)
2710	Bituminous petroleum and shale oils											
	Lubricating oils	15-22.5%	7-11.25%									
	Other	Kilo-litre 640-955%	(640-955%)									

JAPAN: TARIFF AND NON-TARIFF BARRIERS TO IMPORTS... (concluded)

BTN	Product	Customs tariff		Non-tariff barriers	Japanese imports		Japanese imports from Latin America			Major Latin American suppliers (Thousands of dollars, 1967)	Major suppliers in rest of world (Thousands of dollars, 1967)
		Pre-Kennedy R.	Post Kennedy R.		Thousands of dollars c.i.f.		Thousands of dollars c.i.f.		Percent- age increase		
					1962	1967	1962	1967	1962-67		
4001	Natural rubber	0; 15%	0; 7.5%		108 893	102 316		236	2 311	979.2	Guatemala (925); Brazil (662)
4101	Raw hides and skins	0	0		63 150	74 740		2 827	4 548	160.9	Argentina (2 017); Colombia (1 763)
4102	Bovine cattle leather	15-20%	(15-20%)	OQ							Indonesia (30 777); Thailand (28 374); Malaysia (26 621)
4103	Sheep and lamb skin leather			OQ	202	1 019					United States (43 436); Australia (9 321); Netherlands (3 497)
	Dyed or coloured	20%	(20%)								
	Other	15%	7.5%								
4104	Goat and kid skin leather			OQ							India (3 723); Pakistan (1 660)
	Dyed or coloured	20%	(20%)								
	Other	15%	7.5%								
4105	Other kinds of leather	15-25%	7.5-12.5%								
5301	Sheep's or lambs' wool, not carded or combed	0	0		296 642	362 914		13 568	15 669	115.5	Argentina (13 130); Uruguay (2 011)
5305	Sheep's or lambs' wool, carded or combed				9 024	5 211		229	229	100.0	Argentina (163)
	Wool tops	0	0								
	Roving	5%	(5%)								
	Other	0	0								
5501	Cotton, not carded or combed	0	0		376 696	432 353		121 645	169 704	139.5	Mexico (73 629); Nicaragua (44 378)
5509	Other woven fabrics of cotton	10-25%	7-17.5%		1 392 g/	25 400 g/					United States (134 351); USSR (36 718)
5704	Other vegetable textile fibres	0	0		7 446	5 649		436			United States (5 411); Pakistan (7 091)
6203	Sacks and bags				ND	149					Ceylon (2 061); Tanzania (1 907)
	Of jute, unused	20%	20%								
	Of jute, used	0	0								
	Of synthetic fibres	20%	10%								
	Other	15-20%	7.5-10%								
7301	Pig iron	10%	5%		83 300	304 831		4 708	13 033	276.8	Brazil (10 731); Venezuela (2 303)
7401	Unwrought copper										USSR (61 697); Federal Republic of Germany (45 694); South Africa (39 256)
-A	Copper matte	0	0			14 905			9 350		Israel (2 060); Formosa (794)
-B	Copper waste and scrap	5% (0) g/	(5%)		52 058	63 324		145	415	286.2	United States (28 906); Canada (14 826); Hong-Kong (4 723)
-C	Unrefined copper	0; 10%	0-10%		1 647	294 008	17 851.1		31 685		Zambia (134 386); South Africa (29 982); United States (32 703)
-D	Refined copper										
7402	Master alloys	10; 20%	10; 15%								
7801	Unwrought lead	10-20%	5-12%		65	4 591	7 063.0		703		South Africa (2 168)
											Mexico (703)

Sources: United Nations, Commodity Trade Statistics 1962 and 1967; GATT, Import Restrictions, (L/3260) 1969, (L/3438) 1970, (L/3488) 1971; ECLA, Latin America and the Second Session of UNCTAD (E/CN.12/803), 1967; GATT, Tropical Products - Internal Charges and Revenue Duties (COM. TD/W/121), 1970; Ministry of International Trade and Industry (MITI) Information Service, Press Release 19 January 1971.

a/ Duties currently applied.

b/ Includes 0805.

c/ Includes 7401-A (Copper matte).

d/ Includes 2710-A (Partly refined petroleum).

e/ The import value of products listed under SITC group 332, corresponding approximately to BTN classification 2710.

f/ Includes all prepared hides and skins other than bovine.

g/ Includes all woven fabrics of cotton.

Symbols: () = Duties not negotiated in the Kennedy Round.

OQ = Over-all quota.

IC = Internal charges.

ST = State trade.

PS = Production subsidy

a.v.e. = ad valorem equivalent.

* = Quantitative restrictions to be lifted before the end of April 1971.

(*) = Quantitative restrictions to be partially lifted before the end of April 1971.

** = Quantitative restrictions to be lifted before the end of September 1971.

Y = Yen.

SITC	Product	Unit of volume	1966		1967		1968		Average value 1966-1968
			Volume	Value	Volume	Value	Volume	Value	
	<u>Over-all total</u>	-	-	780 980	-	855 392	-	960 847	865 740
0.1	<u>Food</u>	-	-	135 676	-	159 271	-	191 403	162 117
01	Meat	MT	34 002	14 528	26 543	12 287	38 843	18 076	14 964
011-5	Meat of horses	MT	26 194	12 713	22 051	11 721	32 710	17 040	13 825
03	Fish	-	-	11 759	-	23 011	-	17 358	17 376
ex 031-3	Frozen lobsters	MT	4 945	11 550	9 286	22 696	6 535	16 752	16 999
051	Bananas	MT	71 423	10 697	79 785	11 694	280 931	44 924	22 438
061-1,2	Sugar	MT	361 012	20 003	553 955	27 518	643 800	33 950	27 157
071	Coffee	MT	18 057	15 111	22 168	15 795	27 834	18 096	16 334
071-1	Coffee beans	MT	17 849	14 600	21 948	15 212	27 536	17 377	15 730
072	Cocoa	MT	5 138	3 438	3 757	2 703	6 162	4 511	3 551
072-1	Cocoa beans	MT	4 018	2 284	3 077	1 945	5 317	3 388	2 539
072-3	Cocoa butter	MT	1 090	1 150	600	745	800	1 155	1 017
ex 044	Corn, not used in animal feeding	MT	231 140	15 398	343 355	22 859	151 036	8 504	15 587
08 ex 044, ex 045	<u>Feeding-stuff for animals</u>	MT	454 916	39 006	510 056	37 027	435 291	34 770	36 934
ex 044	Corn	MT	61 207	4 298	143 577	9 864	183 135	10 793	8 318
081-2	Bran, pollard, etc.	MT	107 036	7 674	54 037	3 613	18 201	1 199	4 162
081-4	Meat and fish meal	MT	62 254	11 862	31 760	5 511	97 004	12 781	10 051
2.4	<u>Crude materials</u>	-	-	563 860	-	567 107	-	593 679	574 882
26	<u>Textile fibres</u>	-	-	238 510	-	191 635	-	210 917	213 687
262-1,2,8	Wool	MT	15 181	18 457	14 044	15 844	13 262	11 608	15 303
262-1	Raw wool	MT	14 735	17 696	13 376	14 897	12 288	10 485	14 359
263	Cotton	MT	373 068	217 536	305 136	173 245	309 069	197 087	195 956
263-1	Raw cotton	MT	360 020	215 361	285 372	169 691	291 370	194 463	193 172
264,265-1	Flax	MT	3 212	1 181	3 405	1 373	3 626	1 355	1 303
28	<u>Ores</u>	-	-	279 453	-	326 782	-	337 477	314 571
281	Iron ore and concentrates	thousands of MT	14 440	198 250	17 353	231 867	18 269	234 015	221 377
283,285-01,02,286	Ores of non-ferrous base metals	-	-	78 341	-	91 968	-	101 970	90 760
283-11	Copper	MT	75 499	25 623	143 993	36 903	118 863	34 868	32 465
283-12	Copper matte	MT	15 200	14 418	13 785	9 349	13 983	10 011	11 259
283-3	Bauxite	MT	46 919	2 015	56 987	2 517	61 914	2 770	2 434
283-4	Lead	MT	13 715	3 258	25 093	5 405	41 198	10 601	6 421
283-5	Zinc	MT	293 942	25 962	323 906	26 809	434 446	32 661	28 477
283-7	Manganese	MT	63 941	2 125	33 526	1 138	91 154	2 785	2 016
ex 283-93	Molybdenum	MT	585	2 093	837	1 990	1 247	2 766	2 283
	<u>Other crude materials</u>	-	-	45 897	-	48 689	-	45 285	46 624
211	Hides and skins, undressed	MT	8 235	6 020	7 829	4 548	6 006	3 686	4 751
221	Oil-seeds	-	-	18 654	-	11 672	-	6 303	12 210
221-6	Cotton seed	MT	147 347	13 288	77 647	7 087	55 084	5 165	8 513
276-3	Salt	thousands of MT	1 184	12 476	2 027	17 940	2 611	23 472	17 963
3	<u>Mineral fuels</u>	-	-	46 311	-	52 557	-	55 581	51 483
331	Crude petroleum	thousands of KG	566	8 655	497	8 099	965	9 447	8 734
332	Petroleum products	-	-	37 599	-	44 296	-	45 952	42 616
332-4	Residual fuel oil	thousands of KG	1 554	30 598	1 889	38 450	1 951	40 949	36 666
332-5	Lubricating oils, etc.	-	-	6 694	-	4 332	-	2 967	4 664
332-91-94		-	-	-	-	-	-	-	-
5-8	<u>Manufactured goods</u>	-	-	33 539	-	75 434	-	112 361	73 778
5	Chemicals	-	-	8 158	-	11 906	-	11 349	10 471
71	Machinery	-	-	6 830	-	7 865	-	10 985	8 560
735	Ships and boats	-	-	6 584	-	7 700	-	10 620	8 301
735-8	Ships for breaking up	-	-	2 016	-	2 880	-	1 220	2 039
6.8 (ex 861, 864, 891-1)	<u>Other manufactured goods</u>	-	-	18 551	-	55 664	-	90 026	54 747
667-2-4	Diamonds and other precious and semi-precious stones	-	-	3 009	-	4 971	-	5 988	4 656
67	Iron and steel	MT	39	5	249 752	14 353	85 068	4 688	6 349
671-2	Pig iron	MT	-	0	240 980	13 032	78 105	3 899	5 644
68	Non-ferrous metals	-	-	14 250	-	34 978	-	77 670	42 299
682	Copper and alloys	MT	8 096	10 968	29 122	31 683	50 217	64 027	35 559
684	Aluminium and aluminium alloys	MT	-	0	-	0	9 341	4 411	1 470
9	Unclassified commodities	-	-	1 414	-	1 023	-	7 823	3 420

Sources: Ministry of International Trade and Industry, Japan, *Tsusho Hakusho* (Foreign Report), 1969 (Tokyo 1969).

^{a/} Countries members of ALALC and CACM, Panama, Caribbean countries and dependent territories.