ECONOMIC COMMISSION FOR LATIN AMERICA

ECONOMIC SURVEY OF LATIN AMERICA 1973

UNITED NATIONS
New York, 1975

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E/CN.12/974/Rev.1
October 1973

UNITED NATIONS PUBLICATION
Sales No. E.75.II.G.I

Price: $U.S. 12.00
(or equivalent in other currencies)

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NOTES AND EXPLANATION OF SYMBOLS

The following symbols have been used throughout this Survey:

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

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

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

A plus sign (+) indicates an increase.

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

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

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

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

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

Introduction

CENTRE AND PERIPHERY: NEW BASES FOR NEGOTIATION

1. Confrontation or consensus?

Phases of radical change—stormy times—have a well-known feature which recalls some natural phenomena. They build up gradually and progressively, but the signs and warnings of the process—though they do not escape the keenest or most experienced observers—are not enough to forecast the form and force they will ultimately have, and still less their later repercussions. Thus, when the storm breaks there is always surprise, confusion, sometimes panic, but also resolute attempts to understand what has happened and to face up to the new situation. This is what has occurred in the present state of international turbulence, brought to a head by the so-called energy crisis.

We all know that the old order of the post-war period, the Bretton Woods pattern, has long been breaking down into what has been called the "new disorder". What at first were interpreted as minor or fortuitous disturbances or maladjustments, which could be accounted for and corrected by makeshift explanations and expedients, gradually came to be understood as something more complex and transcendental: the growing inability of the institutions and means of action inherited from the days of the old order to cope with the realities and problems that subsequently arose. Outstanding among these problems was undoubtedly the situation of the developing countries, which, although participating marginally in the expansion of the central economies, were helpless witnesses of their increasing lag behind those economies and of the constant growth of the mass of vital needs which they were unable to satisfy or even alleviate.

The centre of criticism and self-criticism of the existing order was the international monetary and financial system, this being the most visible and sensitive aspect of the situation in question. We will deal with this aspect, which has itself undergone substantial changes, later on. The point which it is desired to make at the moment, however, is that so few people delved below the surface to get to the root of the changes and tensions that had matured deep down below the overlying monetary aspects, while fewer still were able to visualize the original, unexpected and even spectacular forms which the last and still vigorous upheaval would take.

In the Economic Survey for 1971,[1] and later in the document on the appraisal of the Second United Nations Development Decade,[2] an attempt was made to bring out the nature and magnitude of the changes in the centre-periphery system and especially their significance for the developing economies and those of Latin America in particular. The prospects for the world and regional situation as they appeared at the beginning of 1972 were also discussed in the Survey. The major part of those analyses is still relevant, but there have undoubtedly been new developments or changes in existing situations, which make it necessary to reconsider and try to gain a new picture of the main features of the present state of affairs.

It is useless to dwell on or seek excuses in the difficulties involved in this undertaking. There are hundreds and thousands of specialized centres and groups engaged in it, and they are producing a voluminous flow of research and evaluations that is impossible to digest. What is most important, however, is to realize that we are dealing with events which are moving and continue to move, and which every day present new facets and angles. It is much easier to analyse a stage which is completed or close to completion than one which is just beginning, and it seems to be generally agreed that this stormy passage from the 1960s to the 1970s, or rather to the 1980s, is only the beginning of a largely unknown story.

First of all, before starting on this modest attempt, we must try to identify what seems to be the basic fact or point of reference for reviewing the times in which we are living.

From this point of view it may be noted that

[1] *Economic Survey of Latin America, 1971* (United Nations publication, Sales No. E.23.II.G.1).

[2] See ECLA. "Latin America and the International Development Strategy: First regional appraisal" (E/CN.12/947 and Add.1), 7 February 1973.

for various well-known reasons, both at home and abroad, which need not be discussed here, a situation has arisen which has profoundly affected and perhaps permanently altered the relative positions of the industrialized centres and the countries on the periphery. On the one hand, events have shown up the unsuspected fragility of the structure and operation of the economic systems of the former, while the peripheral countries have experienced an equally surprising strengthening of their position in the world economy and their bargaining powers vis-à-vis the countries at the centre.

The vulnerability of the powerful and the strengthened position of the weak open up all kinds of queries regarding the exact nature of these phenomena, their probable duration, the resulting reactions and policies, the possibilities of conflict or consensus, the short- and medium-term prospects, etc. We propose to discuss some of these questions now, and later in the second part to go more specifically into some particular aspects of the general situation.

(a) *Just how weak are the strong in reality?*

If we start our analysis with the industrialized economies, it is useful to recall from the start the contradiction which had been taking shape between a material expansion of unparalleled dynamism and persistence, and a growing malaise coming from the most varied sources and manifesting itself in the form of a state of uncertainty and distrust with regard to future prospects. This state of affairs has been associated with several elements which it is useful to bear in mind.

One of these, and a very general one, is the growing dissatisfaction with what has been termed the myth or cult of pure growth, which is offset by the concern for the "quality of life". Along with these sentiments there has been increasing concern over the environmental deterioration implicit in the prevailing style of development. In its most utilitarian acceptation, this concern has been focused on the exhaustion and higher cost of basic, and especially energy resources, and the dependency on foreign countries for their supply.

Outstanding on another level are the increasing difficulties in reconciling the main economic objectives: expansion and full employment, control of inflation and equilibrium of the external balances. In practice, an obvious *quid pro quo* system has been used to cope with this problem, although of course with different characteristics in each nation. While the first objective seems to have been dominant in all countries (although with frequent ups and downs or only partial success), in many it has been achieved at the cost of a reactivation of the inflationary process and/or maladjustments in the balance of payments. As noted in an earlier study, these incompatibilities have shaken confidence in both the orthodox and the liberal or Keynesian instruments of economic policy and aggravated the atmosphere of despondency.

Against this very summarily sketched backdrop there has now arisen the trauma of the oil crisis and the increased price trends of almost all primary products, exacerbating existing balance of payments problems and introducing others which are more or less unexpected and difficult to overcome. As the concrete consequences of all this, nearly all the central economies anticipate a decrease in growth rates for 1974, an increase in unemployment, a revival of inflation and a substantial increase in the current account deficit.

This over-all panorama naturally obscures a number of substantial differences in the individual situations of the central economies. These differences are particularly interesting because their effects tend to modify the trends of the last decade as regards the relative positions of these economies. A notable feature of that period was the increased strength and dynamism of the European Economic Community and Japan (particularly the latter) in comparison with the evolution of the United States, but the most recent developments appear to have interrupted and to some extent turned back this course since, despite all upsets, the North American economy has proved well able to stand up to the crisis, because of its wider range of energy products and because it has benefited from the increased prices of basic commodities, especially foodstuffs,[3] even though in the short term some direct effects of the crisis will probably be more marked than in other centres. These effects, however, do not alter the fact of the greater general solidity of the United States economy, based on its wide range of resources, its size, its structure of production and its technological resources.

From this point of view it could be speculated that the recent or current crisis has strengthened the relative positions of the two super-powers (United States and USSR) to the detriment of the process of depolarization or diversification of the central countries which had been taking shape.

Neither a retrospective view nor an evaluation of the current economic situation leave any doubts

[3] While self-sufficiency in petroleum is estimated to be around 74 per cent in the United States (and 98 per cent, in Canada), in the Federal Republic of Germany it amounts to 7 per cent, in France 5 per cent in the United Kingdom 2 per cent, and Japan does not produce any petroleum at all. Furthermore, it is estimated that in 1974 the United States will make an extra profit of around 6,000 million dollars because of the higher prices of exports of foodstuffs. See J. P. Grant, *Energy Shock and the Development Prospect*, Overseas Development Council (ODC), Washington, D.C., February 1974.

as to the gravity of the problems which the central economies have to face. Both approaches are useful for demonstrating that their intrinsic power does not make them invulnerable and that, furthermore, their dominant position in the world concert is not without a certain degree of dependence (in this case with respect to certain basic commodities) which would have been unthinkable not so many years ago.

This relative fragility should not be overexaggerated, however. Anyone believing that the difficulties which these economies face internally and externally imply a substantial reversal in the relative positions of the Centre and the Periphery would be completely mistaken.

The reasons are obvious and stand out clearly when it is borne in mind that the central economies have many ways and means of adjustment to the new situation within their grasp, even though the possibilities or room for manœuvre of each of them differ considerably.

In the short term, of course, and taken as a whole, they are virtually certain that a large part of the financial resources which they will have to disburse on account of the increase in prices of raw materials and especially of petroleum will return in one way or another to their points of origin, either through investments by the beneficiaries or through increases in the developed countries' own exports of manufactures and military equipment, which will themselves go up in price because of the intensification of those countries' inflation processes. Thus, as will be seen below, the international financial system seems to be aiming at giving priority to the satisfaction of its present needs.

This, of course, does not mean that there will be no real transfer in favour of the primary producers or, at least, in favour of those in a stronger trading position, but it will be much less than it appears to be at first sight, and the final amount will be financially manageable for the central economies.

Furthermore, it is also clear that the industrialized countries have numerous obvious possibilities of seeking special arrangements, as they already have been doing, with certain primary producers or groups of producers, to soften the effects and improve their positions.

The longer the period taken for analysis, the greater are the possibilities open to the industrialized economies for taking action. It is believed to be almost certain that the oil crisis will bring about a new wave of investment and technological innovation to improve the supply of primary products, to rationalize their use and to reduce their present vulnerability.

However, the need for a realistic appraisal of the situation of the major economies should not make one underestimate or overlook a few key facts which point to the far-reaching effects of recent events.

Above all, whatever may have been the appraisal of the position of the industrialized countries and those on their periphery, there seems to be no doubt that the events in question have strengthened the negotiating position of primary producers.[4] Some will be in a strong position, some in a less strong position, and for some the position will remain unchanged, but on the whole, and depending on the strategy used—an aspect to be dealt with further on—the peripheral economies will feel that they are in a better position at the negotiating table, that they hold better cards, and that they are being treated with greater respect than in the past. This is a change which can be of historic importance.

The second fact is that the industrialized economies—as a result of the events mentioned—will probably introduce major structural changes in their production processes and perhaps in their development patterns. As already pointed out, an industrial society based on oil at one dollar a barrel will not be the same with prices several times higher. A further factor likely to favour change is the associated increasing concern over the environment, the conservation of non-renewable resources and urban overcrowding. Thus, a more or less optimistic outlook is possible, although it is much more difficult to guess what form things will take and what the repercussions are likely to be for the developing countries.

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[4] A United States expert put the situation this way: "... The United States is rapidly joining the rest of the industrialized countries in depending on the Third World for a critical share of its energy supplies and other natural resources. For oil alone, annual U.S. imports are expected to rise by $20 billion by the end of the decade. But is not only much-publicized oil; accelerating imports of other raw materials will raise these figures significantly. Four countries control more than 80 per cent of the exportable supply of world copper, have organized, and have already begun to use their oligopoly power. Two countries account for more than 70 per cent of world tin exports, and four countries raise the total close to 95 per cent. Four countries combine for more than 50 per cent of the world supply of natural rubber. Four countries possess over one-half the world supply of bauxite and the inclusion of Australia (which might well join the "Third World" for such purposes) brings the total above 90 per cent. In coffee, the four major suppliers have begun to collude (even within the framework of the International Coffee Agreement, which includes the main consuming countries) to boost prices. A few countries are coming to dominate each of the regional markets for timber, the closest present approximation to a truly vanishing resource. The percentages are less, but still quite impressive, for several other key raw materials and agricultural products. And the United States already meets an overwhelming share of its needs for most of these commodities from imports, or will soon be doing so." C. Fred Bergsten, "The Threat from the Third World", in *Foreign Policy*, No. 11, Summer 1973.

The third and last fact concerns the unknown possibilities raised by the trends towards horizontal or vertical integration of the world economy. Both movements were discernible in the past, but recent events seem to have weakened the process of horizontal integration in the major countries, even among groups which already exist such as the European Economic Community. At the same time, it has become more difficult to forecast the future development of the relations between the super-powers.

Consequently, the tendency so far implies the strengthening of vertical arrangements and ties between the major industrial economies and developing regions which have both geographical and historical ties with them.

Both options involve risks and unknowns for the marginal countries which can only be tackled through a coherent global strategy. We shall come back later to this important point.

(b) *How important is it to strengthen the weak?*

With regard to the current situation and future prospects of the developing countries in the face of the crisis of the old order and the boom in primary products, it is unnecessary to restate the points touched on in the preceding analysis of the industrialized economies, such as the strengthening of the negotiating position of the peripheral countries. Emphasis here will be placed on other aspects.

In two sections of this Economic Survey[5] the evolution of the terms of trade of the Latin American countries and the prices of their main export products are reviewed in detail. The research involved has brought out a number of facts of undeniable importance.

The first and most obvious of these is the illusory nature of any generalization. It goes without saying that this aspect, to which attention has already been drawn in respect of the industrialized economies, applies even more to such a heterogeneous group of countries as those on the periphery.

As already stressed in other studies, the trend of the last few decades has been to accentuate the differences between these countries, whether the phenomenon is viewed on the basis of a comparison of geographical areas or in terms of the situations existing inside each area.

It is all too obvious that recent events have taken this process far beyond its original bounds. One of the basic variables of this differentiation has proved to be the type of product exported by the peripheral countries, which has come to have more bearing on the matter than geographical or regional location or the extent of diversification of the productive structure. At least in the short term, this has become a factor, outweighing even the more traditional yardstick of levels of income, for the countries that have benefited from the situation have registered unprecedented changes in income levels, thanks to their position as exporters.

From this standpoint—though without overlooking other considerations—a number of classifications have been attempted. One of the most frequently employed, which is useful for analytical purposes, groups the developing countries as follows: (*a*) petroleum-exporting countries (further divisible according to political nature and geographical area); (*b*) exporters of other "strong" products, more or less dependent upon imports of petroleum but able to offset its increase in price by raising their own prices (a subdivision of this category contains countries which, in addition, have easy access to international financing and are able to step up their sales of manufactures); and (*c*) countries that have little export potential, no appreciable reserves or means of obtaining resources from abroad, and which depend entirely or very largely on imported petroleum.

Taking the periphery as a whole or by number of countries, most of its population is unquestionably in the third category—consider India and China, for example. This is not the case with Latin America, however, where most countries are in one of the other categories, although one cannot overlook the fact that in many of the region's poorest economies the present state of affairs is very definitely negative.

This marked differentiation has obvious implications for the strategies that can be applied by the developing countries. Under certain circumstances, it could be a way of strengthening the position of the group of countries as a whole vis-à-vis the industrialized economies. In other circumstances, it might widen the gaps between the developing countries, whether at the world or at the regional level. We shall return to this point later.

The second factor to be borne in mind is the contradictory and more or less unforeseeable nature of the boom in the export of primary commodities, which dampens the optimism of those who would otherwise believe that the long-term trend towards a deterioration of the terms of trade is virtually over or that the erstwhile belief in the international division of labour between producers of manufactures and producers of primary commodities has been vindicated.

Let us consider the first point. The increase in price of primary products sometimes overshadows

[5] See sections VI and VII of Part One of this document.

the basic fact that the prices of manufactured goods and services that the developing countries purchase are also rising. From this angle, the present situation is somewhat different from other boom periods for basic products, when the prices of the other goods and services were not readjusted to the same extent or else took some time to catch up. A new factor, as has already been mentioned, is the persistence and possible recrudescence of inflation in the central economies which is so easily exported and to which no great attention was devoted in the old discussions over terms of trade. As can be appreciated below from the section dealing with this subject, the net effect varies quite widely, save in the exceptional case of petroleum exports.[6]

At the same time, consideration must be given to the possible effect of the current crisis on the expansion of the central countries and, consequently, on their demand for primary goods and for manufactures coming from the periphery.

Finally, the present situation will undoubtedly affect the flow of credit resources, particularly from the public sector, towards the developing countries.

Some uncertainty also exists regarding the duration of the boom. The best informed observers seem to believe that the price increases of the end of 1973 and beginning of 1974 will be followed by something of a decline, and that prices will subsequently settle at a level which will at all events be higher than when they first started moving. These movements will be affected by such factors as the drop in the level of activity of the industrialized economies, the increases in supply, and the decline of speculative operations. Whatever happens, and assuming there are no major changes in the nature of these factors, the feeling is that the boom is not just a momentary or transitory phenomenon but is governed by deeper influences that may make it last longer than in other similar phases.

[6] An eloquent illustration of this point was provided by the head of the Chilean Copper Corporation (CODELCO), Mr. Andrés Zausquevich. Questioned as to the significance of the extraordinary increase in the price of copper as it affected that branch of activity (and not the economy as a whole), he pointed out that, along with higher prices for copper, there had been an increase in those of copper inputs. An alarming rise had occurred in the cost of foreign and domestic spare parts, machinery, sophisticated equipment, chemical reagents, insurance, sea freight, etc. Petroleum, lubricants, and petroleum products such as plastics had had serious repercussions on the production costs of copper. Consequently, almost half the increase in the price of copper on the international market was swallowed up by these higher production costs. In the best of cases, the net increase in price amounted to only 14 per cent. (Reported in "*La Tercera*", Santiago, Chile, 23 March 1974.)

Precarious though such hypotheses are, they have an unquestionable relevance to the definition of a strategy for the periphery.

(c) *Confrontation, negotiation, consensus?*

The situation described earlier on concerning the strengthening of the negotiating position of the marginal countries could be used as a basis for examining the aims and options of such a strategy. It does no more, however, than indicate some potentialities. As in a game of cards, having good cards may prove to be no use if they are not played with skill.

One of the first unknown quantities requiring a solution is whether the developing countries should follow a policy of confrontation or one of bargaining and compromise.

Before embarking on any abstract speculation, a major fact which greatly influences the problem must be recognized: that confrontation is only open to very few of the economies at the periphery, mainly the exporters of oil, and even for these there are serious medium- and long-term risks. Moreover, if this line is taken the internal differences of the marginal countries will be highlighted and the ensuing split will make a common stand impossible.

There is no choice, therefore, but to take the other line. This is far from being an easy one, neither does it ensure success, but it is the only viable one.

Its main objective is some convergence of interests and mutual benefits from the present situation for both the developing and the central countries. This will not eliminate the differences between them but it will in any case provide a new dimension, thus creating perhaps a historic opportunity.

(d) *What are the bases for mutual agreement?*

One possibility is the need of the developed countries to protect themselves against an upsurge of prices far above "reasonable levels" occurring at irregular intervals and continuing for indefinite periods. They need, in short, certainty of access to supplies of primary products which come largely, though not totally, from developing countries. The benefit to the latter—stable prices for their products negotiated at new and higher levels rather than set according to market forces, and aimed at reversing the long-standing trend in the terms of trade—would be self-evident.

On the other hand, the increased income that this process would achieve for the marginal countries as a whole—and possibly also in the shorter term the distribution of the oil surpluses (a point dealt with later on)—could play a major role

in stimulating the central economies and their financial operations.

For these possibilities to materialize there must be a certain minimum of cohesion between the developing countries in deciding on their objectives and tactics. UNCTAD's experience is an eloquent example of the possibilities and limitations in this respect, all the more so if one bears in mind the widening gaps between the marginal countries and their heterogeneity.

However, the new dimensions of the situation should not be overlooked, for they offer possibilities where none existed before. The new factor which stands out most clearly is the unique and strong position of the exporters of oil, who are assuming or may assume a very special position as *de facto* leaders with the backing of their large financial resources. An enlightened policy in these countries could unify and mobilize the peripheral countries in a manner and to a degree which were previously unimaginable.[7]

In the following section, which examines the new dimensions and character of the international monetary and financial situation, the options and the proposals put forward concerning the channelling and the use of the resources which are flowing into the oil countries will be dealt with. In this section there only remains to add a few ideas on the ways of reaching agreement on the action to be taken by the developing countries, bearing in mind the two ways in which these countries can be grouped: either regionally and sub-regionally, or by groups of producers of certain commodities.

There is no doubt that in recent times, and particularly at present, the second form of grouping has proved more efficient and carries more weight. The most outstanding examples have been the oil, copper and coffee producers, which have been the trend setters. This example may be difficult to follow in the case of other products, but the possibilities are still far from being exhausted. Although the industrialized centres have looked on these trends towards grouping with apprehension, many of their reservations could be eliminated in a general climate of negotiation and a search for areas of agreement.

The regional or sub-regional groups have not been as strong, and one can even say that their ties have weakened, but this does not mean that the necessary change in direction cannot be made if the general circumstances change.

Moreover, it seems obvious that both forms of groupings of the peripheral countries can and must be mutually strengthening. In this, the major responsibility will have to be borne by the countries which are relatively stronger because of their position in the markets, or by the more developed countries in each region.

If these prospects are examined in the light of the horizontal and vertical trends in the structure of the world economy, it seems clear that the opportunities for negotiation open to the developing countries depend to a great extent on their own horizontal integration in one of the existing or possible ways. This need not run counter to vertical arrangements with industrialized economies or regions, but the exercise of one or other option to a greater or lesser extent is essential. If vertical links do not go hand in hand with or rest upon clearly established horizontal agreement between the peripheral countries, the possible short-term advantages of these links could be offset by a greater degree of dependence in the long run. If the horizontal association of the developing countries were to proceed vigorously, however, there would also be a greater possibility of establishing mutually beneficial vertical links.

In any event, it is important to place the foregoing discussion in a wider context. For this purpose, mention may be made here of the statement in the 1971 Economic Survey regarding the new world order being sought: "The interests of the periphery would in any event be better safeguarded if the new order involved some definite progress towards true international integration which neither alienated the developing economies from the dynamic influence of the material, scientific and technological progress of the advanced nations nor entailed an accentuation of the new forms of dependence that have evolved under the system that is now in a state of crisis. There is no reason why this prospect should negatively affect the groupings of countries that have taken shape in recent years; nor could it justify disregarding the blatant inequality of the component parts of the world community and more specifically the difference between the objective positions of the industrialized and developing economies, which calls for special treatment for the countries at the periphery within the context of a new world order. In a word, international integration necessarily presupposes the existence of systems or arrangements that will substantially improve the status of the peripheral countries within the community of nations".[8]

Finally, it should be mentioned that in the various options and alternatives existing in the process outlined, both the United Nations system of organizations and the groups of regional

[7] In this connexion it is worthwhile recalling the initiative taken by some of these countries, such as Venezuela and Iran, to channel part of their oil revenue surpluses to the developing countries. This point is dealt with again in the monetary and financial section.

[8] *Economic Survey of Latin America, 1971*, op. cit., p. 9.

financial and development institutions have a vital role to play. With respect to the former, it seems obvious that a global negotiating strategy would find in them and in their universal role the instruments and forums most suited to the achievement of the objectives sought.

2. The new nature of the monetary crisis

As pointed out earlier, the most vulnerable element in the scheme under review has been the international monetary system. Like other institutions and means of action, even before the oil crisis it had been displaying a growing inability to face up to new realities and problems, especially those connected with the developing countries. It was thus obvious from 1971 onwards that a fundamental restructuring of the prevailing monetary system was necessary, confirming an impression which had been forming for several years past. This conviction sparked off work on the preparation of an over-all monetary reform which was not simply a refurbishing of the Bretton Woods system. Work really began around mid-1972, with the creation of the Committee of 20 after more than a year of intensive discussion in the various international forums on possible orientations for the reform.

The present crisis, and in particular the repercussions of the trade in and prices of petroleum have heightened the urgent need for monetary reform, but now in terms of and in connexion with many relatively new questions.

To give a clear idea of this change in the problem, it seems appropriate to identify in this section first of all what the priority questions in the monetary field were--especially as regards reform--before the oil crisis, and then to examine how ideas have now changed and how some of the basic requirements put forward have come to be different.

(a) *The monetary and financial situation and the status of reform up to the end of 1973*

A picture of the monetary and financial situation and the status of the work aimed at reform up to the end of 1973 may be given by reviewing the aspects considered to be of most consequence in the work and negotiations which were taking place.[9]

Of these, the first two aspects considered were the adjustments of balances of payments and the convertibility of reserves; these were closely interrelated and fitted in particularly with the features of trade and financial relations among the industrialized countries up to 1973. The United States deemed it indispensable to set up a mechanism for the adjustment of balances of payments, so as to avoid the continuing surpluses in other countries (particularly some European countries and Japan) which produced a corresponding deficit in the United States economy, but the Europeans, in particular, insisted on the need to ensure the convertibility of the principle reserve currencies without the impediments which existed under the old system, so that the loss of non-dollar reserves which the United States would experience on finding itself obliged to convert the dollars presented by other countries would induce it to adopt measures destined to eliminate or prevent deficits in its balance of payments.

As regards the mechanism for adjusting balances of payments, a consensus was growing up in favour of exchange rates based on stable but flexible rates, with provision for floating under certain circumstances. Complementing this, although with big differences of opinion among the countries, progress had been made in formulating proposals linking the need for and desirability of adjustments with some system of objective indicators which would make it possible to receive periodic information on and evaluate the international reserve positions of the different economies. On the matter of convertibility, the role of growing importance which the Special Drawing Rights were to have as central (*numéraire*) reserve assets of the system had been accepted and there was a generally shared view that it was indispensable to improve the protection of the real value of these rights and their rate of interest. It had moreover been recognized that the rights and liabilities should apply equally to countries with deficits and those with surpluses, but progress aimed at defining norms for the convertibility of reserves had been scanty, mainly owing to the different positions upheld by the countries--particularly the developed countries--and the failure to define a gold policy.

A third major aspect was the global liquidity of the system and the consolidation of the surplus international reserves accumulated by various European countries and Japan. Apart from a rather general agreement that the volume of global liquidity should be subject to an effective form of international control, success in that respect had been very limited. There was an underlying fundamental difference between the majority opinion of the industrialized countries and that of the developing countries. While the former maintained

[9] In this context it may be noted that the work of the Committee of 20 and the International Monetary Fund was structured around five working groups of a technical nature which coincided with the points considered to be of most relevance for the reform, the idea being to obtain political sanction for the agreements later. At the last Assembly of the Governors of IMF (September 1973), it was agreed that the date for the completion and final termination of the work and agreements required for the reform should be July 1974.

that there was excessive liquidity, the latter argued that this was not so. Furthermore, quite apart from the implications of this difference of opinion concerning what was to be done with possible surplus reserves, concrete formulas had not yet been devised and adopted for their consolidation.

Linked with the foregoing was the failure of IMF to agree on the issue of new Special Drawing Rights after the first issue which was made in 1970-1972. Thus, several industrialized countries argued that the excess liquidity of the system and the consolidation of reserves could, under certain conditions, make the Special Drawing Rights "polluted", since their proliferation was likely to make them less attractive as reserves.

The developing countries considered that a fourth essential factor in the reform was the real transfer of resources to the third world. They made the basic point that if the general equilibrium of the international trade and monetary system was to be safeguarded, adequate structural guarantees were needed to bring together the surplus on current account of the developed countries and the deficit of the developing ones. A prerequisite for that purpose—not only for the sake of co-operation but also, and in particular, in order to guarantee the rational operation and expansion of the world economy—was the establishment of a continuous flow of resources, under acceptable terms, from the industrialized countries to the developing ones.

In spite of the importance of the matter and the soundness of the arguments put forward by the developing countries, very little had been done to solve the problems related to this aspect of reform. There were major differences of opinion between the developed countries and the developing ones, and there even seemed to be a failure to define clearly and to reach agreement on the specific points to be examined.

Nor had sufficient progress been made with respect to the "link" to be established between the creation of Special Drawing Rights and additional finance for development. The developing countries stated their preference for the establishment of a link arrangement in which the corresponding Special Drawing Rights would be channelled directly from the IMF to them, but the very idea of a link continued to be objected to by some relatively powerful developed countries, who maintained that its operation would lead to an unnecessary increase in world liquidity.

Finally, a fifth item was the restructuring of the IMF, since many developed and developing countries had decided that the IMF's authority and the way in which the institution exercised its supervisory functions in respect of the international monetary system should be strengthened and improved. In that connexion, the idea had been accepted of setting up a permanent and representative 20-member Governing Council, at a level between the Board of Governors and the Executive Directors, which would meet regularly three or four times a year and have the necessary faculties for administering and adapting the monetary system, supervising the functioning of the adjustment process, and dealing with any disturbing factors which might affect the system. In practice, the Council would replace (with a greater degree of authority) the Committee of 20, which would be done away with in mid-1974, when it was expected to complete its work.

As regards other specific points, little is known about the agreements that may have been reached. It is known, however, that the developing countries asked for a significant increase in their participation in the quotas and votes of the IMF, although no information is available on the degree of acceptance achieved by this proposal.

To sum up, the status of international monetary reform just before the oil crisis can be described in a few main features. Firstly, in spite of the great efforts made by the entire international community, there were only a few scattered points in the reform on which an adequately concrete and specific degree of progress had been achieved. This was due at least partly to the differences of opinion existing between the industrialized countries themselves, quite apart from those between the developed and developing countries. Secondly, on some points it was obvious, as we have already seen, that the concerns and interpretations which predominated were those of the developed countries, which were naturally in keeping with the way in which those countries participated in the world economy and trade. Thirdly, it was clear that the active efforts of the developing countries in the work of reform were not winning from the developed world sufficient acceptance or consideration of the aspects which the developing countries considered to be essential for their own development and the normal functioning of the world economy.

In spite of the fact that the situations and problems referred to became more and more acute in 1973, and that it was not possible to complete or even make any significant headway in monetary reform, the existing monetary system continued to operate and permitted a new expansion of world trade. However, its operation was affected by the emergence of tensions rarely experienced with such intensity before 1971. Thus, on the one hand inflation became more widespread and accentuated in the industrialized countries, while on the other hand—and to a large extent linked with this factor—various develop-

ments of an essentially monetary and financial character took place, such as the further official devaluation of the dollar at the beginning of the year, the floating of the main reserve currencies, the sharp fluctuations in the price of gold, and the changes in policy regarding interest rates and movements of capital in a number of countries.

Notwithstanding these developments and a certain loss of momentum in their own growth, the industrialized countries, as a whole, reflected a sound position in their external accounts and in their levels of international reserves in 1973, although of course there were differences between them, and there were also individual cases, such as the United Kingdom, which did not follow that general pattern. Thus, the Organisation for Economic Co-operation and Development (OECD) countries were showing a balance of payments surplus on current account of about 10,000 million dollars, they had raised their reserves by some 15,000 million dollars between December 1972 and September 1973, and on the latter date they possessed reserves of 130,000 million dollars, which amounted to approximately 70 per cent of the world total (excluding the socialist countries).

In the third world, the prevailing difficulties made themselves felt in different ways, depending on the particular situation of the countries considered. Some developing countries were fairly successful in facing up to the international situation because they received a larger share of the rise in commodity prices, were able to make use of a significant amount of external credit on commercial terms or were in a better position to adapt their internal policies to withstand the increases in the prices of imported products or to keep down the internal price increases for their export products. Other countries, however, including most of the developing nations and many of the relatively less developed countries, did not show this kind of trend because the evolution of the terms of trade was not favourable to them, because they did not receive the increasing official external aid they needed, because their economies were very open and sensitive to external influences, or because of a combination of some or all of these factors.

Accordingly, it is in this context of scanty progress in monetary reform, of apparent but tense calm in the operation of world trade and financial relations, and of substantial differences in the evolution of the developed and developing economies that the critical events of the end of 1973 took place.

(b) *The central problems of today*

As already noted, the oil crisis cannot be considered in isolation, since it was really the spark that set off the explosive situation which already existed as regards monetary and financial trends, prices, growth, the distribution of international trade and the evolution and concentration of the development of the world economy. However, as several of these questions are dealt with in other parts of this introduction, and in view of the tremendous impact of the increase in petroleum prices, it has seemed best to concentrate in this section on the analysis of the repercussions of this increase in the short term, not going beyond 1975, since any analysis of wider scope exceeds the possibilities of this study. What is important is to appraise the effects of this increase on balances of payments in the different countries and, as a complement to this, to consider the changes produced or likely to be produced by this new international payments situation in the areas of money/finance and reform.

Various estimates have already been made as regards the effect of higher petroleum prices on national balances of payments. One of these, prepared and used by several international institutions,[10] calculates that the increase in costs of oil imports during 1974 will be approximately 60,000 million dollars, 50,000 million dollars of this sum being accounted for by the industrialized countries and 10,000 million by the non-petroleum-producing developing countries. In contrast with this increase in the income of those developing countries which are members of the Organization of Petroleum Exporting Countries (OPEC) and other changes in world trade (variations in the prices of other primary products and manufactures, etc.), it is estimated in this forecast that the OECD nations will swing from a current account surplus of 10,000 million dollars in 1973 to a deficit of around 35,000 million dollars in 1974, while the developing countries which do not belong to OPEC will find their current account deficit increasing from 15,000 million dollars in 1973 to 25,000 million in 1974. Preliminary estimates for 1975 indicate that the situation will probably be similar and that the disequilibrium of 1974 might even be aggravated.

This radical change in the amounts involved in the monetary and financial sphere means that international monetary reform is losing its importance and urgency—at least for a while—as regards several of the aspects put forward by the developed countries, which have already been discussed earlier. In contrast, priority has gone to the formulation and setting in motion of mechanisms for facing up to the new situation which combines a simultaneous "fundamental disequilibrium" in the balances of payments of the industrialized

[10] In particular by the OECD and also by the World Bank.

world as a whole with an aggravation of the current account deficit of the non-petroleum-exporting developing countries.

Thus the problems of adjustment of the balances of payments and of the convertibility of reserves have lost their topicality, particularly for the developed countries which were most desirous of levelling out their current account surpluses and deficits in a fairly symmetrical form. In the face of an emergency in which almost all countries come to have current account deficits (with the probable exception of Canada and the United States,[11] which are likely to maintain a relative equilibrium), the basic option existing in the most immediate future[12] is the free floating of the reserve currencies[13] and the use of previously accumulated international reserves, especially by the European countries and Japan, so that the question of the pursuit of convertibility becomes largely superfluous. The experience of the last few months has shown the intensiveness and relative "cleanness"[14] of the floating exercises (particularly of the European and Japanese currencies with respect to the dollar) and also reveals that substantial movements in country holdings of international reserves have taken place. Thus, for example, between September 1973 and January 1974 the reserves of industrial Europe decreased from 80,000 million dollars to 72,000 million, i.e., by 10 per cent, and Japan's reserves decreased from 14,800 million to 11,600 million, i.e., around 20 per cent, whereas the reserves of Canada and the United States underwent no variation.

The questions of the global liquidity of the system and the consolidation of the excess of international reserves have also undergone a considerable turnaround. The new situation has rapidly brought the majority of developed countries round to the view that—contrary to the position maintained a short time back—international liquidity is inadequate and it is therefore unnecessary to bother about the consolidation of excessive international reserves. On the contrary, it is now a question of putting into practice formulas which will enable international liquidity to expand so as to avoid or diminish the sudden loss of a substantial part of their reserves. Such formulas would include a new issue of SDRs, which would, as already indicated, enjoy better protection of their real value and a higher rate of interest. In other words, the developed countries have suddenly come to share positions which previously were held only by the developing world.

At the same time, the problem of the real transfer of resources to the developing countries is acquiring another dimension, because requirements have increased in the case of the non-petroleum-exporting countries, while at the same time, the financial disequilibrium of the industrialized economies is also leading them to seek large additional liquid resources. It is for this reason that these economies are now beginning to give high priority to the prompt and effective materialization of these transfers, but only in the light of their own needs.

In other words, the developed countries whose balances of payments are suffering the effects of the present crisis are taking quick action, making full use of their manoeuvring ability, to render their international payments situation manageable, while at the same time they are taking positions and measures with a view to reorienting monetary reform and the monetary system itself[15] so that, in the medium term, they can secure the application of formulas which will allow their balances of payments to function in an acceptable manner.

In many of the developing countries outside OPEC the situation has become more complicated to handle than in the industrialized countries, although the amounts involved appear to be smaller. This stems from the intrinsic weakness of their economies (which prevents them, for example, from cutting down on imports), from their lack of international reserves, and from the obstacles to their obtaining larger external credits quickly, especially on concessionary terms. In practice, the most important viable alternatives for them—although these alternatives will not take immediate effect—have come to be the direct or indirect redistribution to them of funds from the developing countries of OPEC, plus assistance from other compensatory schemes which may be set up, mainly under the auspices of the industrialized nations.

The redistribution of the additional export earnings of the member countries of OPEC is an

[11] In the present economic situation there may be several industrialized countries which would prefer the United States to have a current account and balance of payments deficit so that it would have to pump dollars into the system.

[12] Reference will be made below to the possibilities of and modalities for the possible recycling of reserve surpluses.

[13] Subject to the limitation that competitive depreciation must be avoided, according to the Committee of 20.

[14] The term "clean floating" is used when there has been little intervention on the part of the monetary authorities.

[15] It has even implicitly been decided to postpone the scheduled date for the completion of the reform (July 1974). At present the only idea remaining unchanged is that of setting up a Governing Council which, as already indicated, would take the place of the Committee of 20 and give continuity and permanence to the work which has to be done.

important factor for the smooth operation of the international monetary and financial system. It is a complex and delicate task, however, because of the large amounts involved—up to 60,000 million dollars in 1974[16]—the prompt action required, and the various possibilities as regards terms and channelling of the resources concerned. Furthermore the putting into effect of machinery for the redistribution of funds could assist the transfer of resources to the developing countries and thus lead to a further expansion of trade and of the world economy.

Another compensatory scheme of a general nature could be the creation of additional international liquidity through the central bank of the system, i.e., the International Monetary Fund. The IMF is in the process of bringing into operation a temporary complementary service to assist those countries which may show a current account deficit owing to the oil problem. This service, which is being strongly supported by the developed countries, could inject additional liquidity during its first year of operation, redistributing funds to a value of some 12,300 million SDR units. It has been proposed, however, that approximately 11,000 million of these would be transferred to the developed countries, while only about 1,300 million would go to the developing countries.[17]

The developed countries have other options open to them for covering or reducing their current account deficits. One short-term measure already referred to is the use of previously accumulated international reserves. Another more medium-range measure is to increase their exports to the OPEC countries, particularly if these nations are able to accelerate their development in the present circumstances. A third way is through a fairly rapid and continuous increase in the prices of goods and services, including know-how, which the industrialized countries sell to the developing world.

The redistribution of the bigger international reserves of the OPEC countries may well take place spontaneously and result in the restoration of a substantial proportion of those reserves to the developed countries, although of course with sizeable differences according to the individual situations, for considerations of security and liquidity, of the real possibilities of disposal and use, and of the conservation of the real value and returns of these funds may be instrumental in directing a high proportion of them into the industrialized economies, particularly through direct investment and/or the placing of financial resources on the international capital markets.

Therefore, although the balance of payments problem facing the developed countries is greater in quantitative terms, there are a number of real factors, plus these countries' bargaining powers, which seem to suggest that because of the essential soundness of their economies they have greater intrinsic potential and easier ways of solving the problem than the peripheral countries. In short, it may be affirmed that the spontaneous nature of the redistribution, plus the operation of some *ad hoc* mechanisms, tends to favour the most powerful nations.

Owing to the nature of the economies of the non-oil-exporting developing countries, the solutions open to them depend to a great extent on the planned or agreed redistribution, either directly or through the international financial institutions, of part of the additional revenue received by the OPEC countries. Furthermore, in view of the state of many of those economies and the size and structure of their external debt, it seems clear that a significant portion of the funds made available to them would have to be granted on concessionary terms.

Regardless of this, the developing countries must continue to receive, on a regular basis and in keeping with the objectives set by the International Development Strategy and by UNCTAD, the financial assistance that the industrialized world provides through various traditional channels. Consequently, the creation of machinery to redistribute funds with the sole purpose of meeting the additional needs directly resulting from the present crisis must not have the effect of negatively affecting or reducing the funds received by developing countries from official or private sources or through direct investment.

These considerations make the possibilities for the redistribution of funds suggested by the Governments of Iran and Venezuela particularly attractive. The first provides for the distribution of funds through three channels—directly from Iran and other OPEC and developed countries to the developing countries, through the IMF, and through the World Bank—while it further proposes that the developed countries should take joint action with the OPEC countries to increase financial assistance to those at the periphery.

The proposal made recently by Venezuela at the last meeting of the Board of Governors of the

[16] It may be noted that this is equal to one third of the total international reserves existing at the end of 1973.

[17] Incidentally, for many years the Third World has been striving unsuccessfully to obtain an improvement in the compensatory financing machinery of the IMF and, in particular, the establishment of supplementary financing machinery in the World Bank, using much the same arguments as those now put forward in connexion with the oil issue. As we have just seen, the international community has reacted more rapidly now that the developed countries are also affected.

Inter-American Development Bank (IDB), in April 1974, is not only interesting on account of its simplicity and its financial and other implications, but also because of its considerable contribution to Latin American regional integration. It provides for the setting up of a Trust Fund to be administered by IDB, as trustee, and this proposal was approved by the Assembly. The Trust Fund will, it is hoped, operate on a broad and flexible basis in order to assist in the efficient promotion of the development of the region.[18]

It is to be hoped that the international community will show sufficient vision and flexibility to conceive and put into practice other machinery to foster the redistribution of funds and the provision of extra development aid, so as to help the developing countries which are not members of OPEC to face their problems. It will be essential for the industrialized countries and the developing member countries of OPEC to participate jointly in this task, and a considerable proportion of the resources transferred will have to be made available on concessionary terms.[19]

[18] In this connexion, Venezuela's Minister of Finance, Mr. Héctor Hurtado, stated that: "Since Venezuela will receive a considerable amount of extra funds, it is prepared to take the initiative in setting up this fund, but Venezuela considers this a collective responsibility, and hopes that the better-off countries of Latin America will contribute to the fund as well. The collective structure that Venezuela wishes the fund to have also presupposes that in the management of these resources no country should enjoy a privileged position nor have the right of veto. No country can set itself up as leader or supervisor in a collective enterprise which belongs to all. This means, however, that the objectives and terms of reference for the administration of the fund must be set out very clearly, so that it may have the widest possible scope and the greatest flexibility".

[19] In this connexion it is interesting to bear in mind the declaration made on 13 March 1974 by the chief executives of the five international financial institutions (IBRD, IMF, IDB, African Development Bank and Asian Development Bank), one paragraph of which says:

> "In this respect the participants noted that the developing countries as a whole urgently require additional external aid, both short-term assistance to avoid harmful adjustment measures, and long-term financing to sustain their development efforts. They also agreed that a considerable part of this assistance should be made available on concessionary terms. In this regard, the participants re-emphasized that the advanced countries have a continuing responsibility for providing aid resources. At the same time they pointed out that the oil-exporting countries now have a greater capability to share the burden of the additional international aid effort, both through their own channels and through co-operation with existing international institutions." (IDB, *News Release*, NB-5/74, 13 March 1974.)

Part One

LATIN AMERICA AND WORLD ECONOMIC TRENDS

Without touching again on the matters discussed in the introduction, an attempt will be made in this chapter to highlight different aspects of the international scene and the position of Latin America in this context. To this end, the general features of world economic trends in 1973 will be reviewed first, giving special attention to the performance of the principal countries, whose influence on the region requires no emphasis. Attention will then be given to the major changes that have taken place in world trade, and the place and characteristics of Latin America in this regard. The scope of this regional analysis will be widened to take account of the financial flows, while the balance-of-payments situation will be dealt with in conclusion. Finally, in order to provide a more detailed idea of some very important aspects of the current situation, the events which have taken place are examined against the background of the terms of trade and the situation of the major export products of Latin America.

I. THE WORLD ECONOMY IN 1973

In spite of energy problems in some countries and the persistence of other unsettling factors such as social tensions, the accelerated pace of inflation, and the continued flows of hot money, the world economy continued to expand in 1973. The speculative movements of money, however, brought pressure to bear on weak currencies and caused the deterioration of the balance-of-payments position of many countries.

During the past year agricultural production tended to improve, for there was a recovery in the harvests in important areas which had suffered from poor results in 1972. The increase in industrial production, which grew by 10 per cent, was also higher than in the previous year, when it was only 7 per cent. As a result of the impetus from the rise in international prices and the buoyant growth in all regions, world trade grew by 24 per cent (measured in Special Drawing Rights (SDRs)), thus doubling the increase of the previous year. This time the developing countries succeeded in increasing their share of the trade flows, thus reversing a long established trend.

Towards the end of the year, economic activity lost its impetus in some countries as a result of the growing intensity of the imbalances already mentioned. The upsets caused by restrictions in the supply of petroleum, which accentuated the energy shortage in the major industrialized countries, also played a part in this slowing-down. The successive increases in the price of oil considerably increased the pressures on domestic costs and the balance-of-payments problems of those countries which depend to a high degree on external supplies of this fuel.

1. THE PERFORMANCE OF THE CENTRAL ECONOMIES

A look at the performance of the central economies, whose behaviour is decisive for the world system, reveals that during 1973 there was an acceleration in industrial production but also a rise in the rate of inflation.

Thus, industrial production in the United States rose in 1973 by 9 per cent, compared with 7 per cent the previous year. In Japan, it expanded by 18.3 per cent—two and a half times as much as in 1972—and thus recovered past growth levels. In Western Europe the United Kingdom showed a strong industrial advance (8.6 per cent), and the Federal Republic of Germany recovered its rate of growth (7.6 per cent), as did Italy, Belgium, Switzerland and Sweden. France and the Netherlands maintained their industrial expansion.

The reactivation of the industrialized economies took place, however, against a background of sustained inflation, which machinery set up for the purpose proved incapable of checking, and this gave rise to social tensions in various countries. Between 1972 and 1973 the annual rate of increase in consumer prices in Japan rose from 4.8 to 17.1 per cent, while in the United States it rose from 3.3 to 8.8 per cent, thus showing higher rates of inflation than those in 1970. The countries of Western Europe, which in 1972 experienced inflationary pressures of between 5 and 9 per cent, showed rates of increase in 1973 ranging between 7 and 16 per cent. In the same year, consumer prices recorded an increase of 16 per cent in Finland, around 12 per cent in Denmark, Ireland and Switzerland, 11 per cent in Italy and the United Kingdom, approximately 8 per cent in Austria, the Federal Republic of Germany, the Netherlands and France, and a little over 7 per cent in Belgium and Norway.

2. The economic situation in some selected major countries

At the beginning of 1973, the United States economy again faced strong pressure on its balance of payments because of speculative financial dealings which weakened the position of the dollar and forced a second devaluation 14 months after the first.

The devaluation strengthened the trade balance, since exports rose by more than 40 per cent and imports by only 25 per cent, thereby cancelling the trade deficit which in the previous year had amounted to 6,900 million dollars. The deficit with Japan fell from 4,100 million dollars in 1972 to 1,200 million in 1973 but as far as the other countries having a major part in this deficit were concerned, the devaluation of the dollar did not seem to have a great effect, for the deficit with Canada increased to 2,400 million dollars and that with the Federal Republic of Germany to 1,400 million. On the other hand, the trade positions with the other industrialized market economy countries showed either a smaller deficit or an increased surplus for the United States, and in the case of Italy the deficit was replaced by a surplus. The trade surplus with the socialist countries increased considerably due to the big cereal exports, while as regards the developing countries, the deficits with Asia and Africa and the surpluses with Latin America and the Middle East were maintained.

As regards the trade account as a whole, 1973 closed with a small surplus and the source of pressure on the balance of payments which the trade deficit had represented was thus eliminated. Consequently, the only item which had a major influence on the United States balance-of-payments deficit in 1973, was that of capital outflows, which were considerable in the first quarter, but less so in the second. During the third and fourth quarters there was return of capital (direct foreign investment and short-term funds) which partially offset the outflows. If this trend is maintained, the position of the United States balance of payments and the dollar is likely to be strengthened.

In Japan, exports continued to slacken following the period of rapid growth which had lasted until 1971. However, the high rate of expansion of imports contributed to the considerable rise in industrial production, and the big supplies of raw materials and intermediate products from foreign sources swelled the inventories of these goods.

Foreign trade policy took different lines, depending on the trade balance with different countries. In order to reduce the imbalance in its trade with the United States, Japan had to reduce its massive trade surplus in textiles and steel. Furthermore, its competitive position was weakened by the devaluation of the dollar and the revaluation of the yen, and total sales to the United States (measured in dollars) increased in 1973 by scarcely 6 per cent, compared with 27 per cent in 1971, while the same factors favoured imports from that country, which in 1973 increased by 60 per cent, whereas in 1971 they had decreased compared with 1970. All in all, Japan's 1973 trade surplus with the United States fell by 90 per cent compared with the previous year.

It also became evident that Japan must improve its trade relations with the developing countries of Asia, several of which had been running big trade deficits with it. The policy initiated in 1972 of facilitating imports from that region had unusually marked results in 1973, to the point where Japan's trade surplus with Asia fell over the past two years from 2,150 million dollars to some 700 million because its exports increased by 40 per cent while its imports from that area grew by 80 per cent. In contrast, Japan's trade policy with the rest of the world was directed towards increasing its exports so as to reduce its deficit or achieve or increase a trade surplus. Trade with Latin America, which has been favourable to Japan since 1971, falls within the purview of traditional trade policy, i.e., that of increasing its exports more than its imports along similar lines to Japanese trade with the European Common Market, which is the country's third biggest client (after the United States and Asia). Three markets continued to predominate in Japan's trade deficits: the Middle East, Australia and the Soviet Union. Its deficits with these traditional suppliers of strategic materials for development (petroleum, metallic minerals and wool) used to be offset by its big trade surplus

with the United States, but since this fell considerably in 1973 the year closed with Japan's trade balance showing a deficit of more than 1,700 million dollars in spite of the surpluses with Western Europe, Latin America and Asia. In 1972 the trade surplus came to more than 5,100 million dollars, thus offsetting the outflows of capital and strengthening the country's international reserves, but in 1973, in addition to the trade deficit and the continuing outflow of capital (loans, direct investment and short-term placements), international reserves fell sharply (by some 6,760 million SDR units), thus weakening the yen. This serious deterioration and the persistence of the trade deficit forced Japan to have recourse to external financing, so that it might become a new pole of attraction for foreign investment.

The industrial boom in Western Europe in 1973 was reflected in an increase in its exports, but it also led to an even higher increase in the imports of all the countries except the Federal Republic of Germany. Intra-regional trade continued to grow at a proportionally higher rate than trade with other regions, although the devaluation of the dollar stimulated exports from the United States and Latin America while the higher petroleum prices increased purchases from the Middle East. The trade balance continued to show a big surplus in the Federal Republic of Germany, a smaller one in Sweden, France, Belgium and the Netherlands, and a deficit in the rest of the countries, especially the United Kingdom and Italy. Trade surpluses played a considerable role in strengthening international reserves in the Federal Republic of Germany, but they were of lesser importance in Sweden, Belgium and the Netherlands. In Denmark, Norway and the United Kingdom the reserves were strengthened by capital inflows, which also helped to reduce Italy's difficulties—although its foreign exchange position deteriorated—and favoured Switzerland, Ireland, Finland and Austria. In contrast, the heavy outflow of capital from France led to a substantial fall in its international reserves and weakened the franc. As a result, the number of countries which had a balance-of-payments deficit in 1973 increased to six, whereas in 1972 only one country's foreign position deteriorated. Although capital inflows prevented a deterioration in the external position of three other countries, there are signs that if the increasing pressure on the balance of payments continues the industrialized countries will need larger amounts of external financing, and this could affect aid to the developing regions.

II. THE ENERGY CRISIS

There can be no doubt that the so-called "energy crisis"—or more specifically the events leading to the rise in prices and restrictions on supplies of petroleum—was the outstanding feature of the past year. For this reason, brief mention should be made of the various dimensions of this problem, and the major events related thereto should be borne in mind.

Ideas on what the energy crisis really means in general terms vary considerably. Thus, in a study being prepared by ECLA[1] the following general concepts of the problem have been identified, all considered in a world context:

(*a*) Exhaustion of the following resources within such a relatively short time as to call for immediate attention by governments:

(i) all non-renewable energy resources;
(ii) economically exploitable non-renewable energy resources;
(iii) all liquid hydrocarbon resources; and
(iv) economically exploitable petroleum resources;

(*b*) Inadequacy of proven reserves of petroleum;

(*c*) Deterioration of the environment associated with a high degree of dependence on petroleum and coal as sources of supply for satisfying energy needs;

(*d*) Economic problems connected with prices and guaranteed supplies of petroleum on the world markets.

The evaluation of each of these concepts leads to conclusions which can briefly be put as follows in a simplified and provisional form:

The first two (*a* (i)), (*a* (ii)) have no solid bases, and the third (*a* (iii)) does not appear to warrant special attention now. Nor does the fourth (*a* (iv)), if economically exploitable petroleum reserves are taken to include the hydrocarbons recoverable from particularly rich tar sands and oil shales, as seems reasonable in the near future owing to the rapid advance of technology. Excluding such non-conventional resources, there is a possibility of a shortage of economically exploitable petro-

[1] *Latin America and the energy crisis*, research project included in the Work Programme for 1974–1975. (Project 01.08.02.)

leum reserves towards the end of the century or at the beginning of the next, although the hypotheses on which such a forecast is based are open to doubt.[2]

Neither does the fifth concept (*b*) have a sound basis. The ratio of the world's present levels of proven petroleum reserves to the rate of exploitation is not very different from those registered since the end of the Second World War.[3]

In short, none of the first five views on the energy crisis gives cause for alarm.

The deterioration in the environment associated with the supply and use of energy (concept *c*) is a serious matter, however, and causes valid concern in many countries, especially the most industrialized ones. Although the narrow views of some conservationists that there is imminent danger of the exhaustion of non-renewable sources of energy have been discounted, there is general acceptance of the wider view that stresses the deleterious effects on the environment caused by economic growth. There can be no doubt that the quantity, the manner of use, and the quality of the energy employed to continue to "drive the world" in the future can directly affect the environment, regardless of what definition is given for the "energy crisis". The last concept, which concerns the economic problems raised by the rapid increase in the prices of petroleum marketed internationally and the question of guaranteed supplies, seems to reflect much more accurately the real situation which such a crisis signifies. The words of the Secretary-General of OECD would appear to reflect a widely held view on this subject: "... there are two things with which all concerned will agree: first, the price of petroleum was very low; second, it has risen a great deal in a very short space of time".[4]

When the price of a basic product of such general and vital importance as petroleum quadruples over a period of two years[5] it is understandable that it should immediately become a central theme of world-wide discussion and a major concern of governments. The repercussions of the rise in the price of petroleum affect all countries in such fields as prices in general, production, employment, investment, consumption, and the balance of payments.

It represents a radical change in the distribution of income in the world and intensifies the already serious problem of international liquidity.

Some developing countries which are major importers of petroleum may also face uncertainty over their supplies if they cannot find special means of meeting their commitments under the new prices.

1. Some background aspects of world petroleum activity

Three important factors directly related to petroleum economics underlie the development of the events which culminated in the energy crisis: the excessive dependence of the world on this resource, the geographical concentration of its production, and the concentration of great powers of decision in the hands of a few.

This latter factor seems to be the decisive element, for the influence of the first two was accentuated by the major companies, and it was the joint action taken by the exporting countries, mainly those of the Persian Gulf, which made it possible in a short space of time to reverse the long-standing trend in prices and the relative shares of profits in petroleum activities.

The last few decades have seen a rapid increase in the share of petroleum in satisfying the world's commercial energy needs, since from about 15 per cent in 1930 it rose to 24 per cent in 1950, 30 per cent in 1960, and approximately 40 per cent in 1970.[6] This increasing dependence has been the result of the interaction of different forces, among which the most important are: the pronounced decline in its price compared with those of other sources of energy (mainly coal), the reductions made in its transport costs (pipelines and tankers), the increase in means of transport which are technologically limited to the use of petroleum products (cars, trucks and aircraft) and the physical advantages and greater efficiency offered by petroleum products as regards their transport, handling, and use in comparison with other fuels, particularly coal.

In Latin America, these same reasons have for many years been a deciding factor in the choice of petroleum over other commerical sources of energy. Added to these are the following factors: the relative scarcity of good coal deposits in the region and the high cost of transporting coal, the lack of capital to take greater advantage of the abundant hydroelectric resources, and the existence of relatively large petroleum reserves in the

[2] Even if this was not the case, new energy-supply technologies such as the liquefaction of coal and atomic breeder reactors provide a sound basis for expecting such a danger to be minimized before it materializes.

[3] The ratio between proven reserves and annual consumption has evolved as follows:

1938	1950	1960	1971
15	20	36	35

[4] Statement by Mr. Emile Van Lennep at the Energy Conference held in Washington, D.C. (11 February 1974).

[5] Or almost triples in 6 months from the middle of 1973 to the beginning of 1974.

[6] See *La industria del petróleo en América Latina: Notas sobre su evolución reciente y perspectivas* (United Nations Publication, Sales No. S.73.II.G.2), p. 8.

region. As a result of these and other factors, the share of petroleum in the supply of commercial energy to Latin America in 1970 was 63 per cent, making it the region most dependent on this resource.

The consumption of petroleum in the world has doubled every 10 years since the end of the Second World War. In 1970 the percentages of total world consumption for the major regions and areas were approximately as follows: United States and Canada 34 per cent, Western Europe 28 per cent, the socialist countries 15 per cent, Japan 8 per cent and Latin America 5 per cent.

2. The geographical concentration of petroleum production

The major trend in the supply of petroleum since the Second World War has been the very rapid increase in production, first in the Middle East and later on in North and West Africa. As a result, by the beginning of the 1960s production in the Eastern hemisphere had overtaken that of the Western hemisphere.[7] In 1959 the latter had accounted for 65 per cent of world production (45 per cent being provided by the United States), while the Eastern hemisphere produced 23 per cent (Middle East 21 per cent) and the centrally planned economies produced the remaining 12 per cent.

By 1970, however, the Eastern hemisphere accounted for 46 per cent of world production (the Middle East and Africa 43 per cent), the Western hemisphere 37 per cent (United States and Canada providing 26 per cent) and the socialist countries 17 per cent. Latin America's share has been declining in recent years: whereas in 1955 it provided almost 18 per cent, by 1970 this had fallen to approximately 11 per cent.

The present pronounced concentration of production and of proven oil reserves in the Middle East and Africa can be explained primarily by the size and exceptionally favourable conditions of their oilfields. In the Middle East in particular, the total production costs are much lower than those in other producing areas, and this accounts for the area's competitive strength in international markets.[8]

These lower production costs (rounded average production costs, in U.S. cents per barrel are: Middle East, 20 cents; Libya, 25 cents; Venezuela, 50 cents and United States, 190 cents) are due to lower exploration costs and above all to the high productivity of Middle East wells.[9] Moreover, the taxes and participation arrangements imposed by Governments on producer companies in the Middle East used to be lower than in other producing areas.

These and other circumstances have constituted powerful incentives for the major international oil-producing companies to direct a considerable part of their exploration and exploitation effort to the countries of the Persian Gulf and Africa, thus contributing decisively to the geographical concentration of production and proven reserves in a few countries of small population and slow development prospects. This could explain why the world enjoyed for many years an abundant supply of petroleum at low prices, so that it made free use and even misuse of it.[10] These reasons, plus the considerable monetary reserves accumulated by the producer countries, also explain why the latter met relatively little resistance when they decided to take joint action to bring about a radical reversal of existing trends.

The enormous size of the proven petroleum reserves and the low cost of expanding production in the Middle East and some African countries are such that it is expected that this region will continue to occupy a prominent place among world suppliers in the years ahead.

The study of regional imbalances between petroleum consumption and production indicates that:

(*a*) the greatest share of the world oil trade (80 per cent) is concentrated in the Middle East and Africa as producers, and Western Europe and Japan as consumers;

(*b*) the rapid expansion of the international petroleum trade (now accounting for 50 per cent of production) is mainly the result of increasing imports by Western Europe and Japan, where imports represent 97 and 100 per cent respectively of consumption;

(*c*) the United States, which was a net exporter up to the Second World War, is becoming more and more dependent on imports, which amounted to 21 per cent in 1971 and will probably be over 30 per cent by 1980.

3. The big companies and the concentration of decision-making in the supply infrastructure. International prices[11]

In the United States petroleum industry (which has been in existence for more than a century)

[7] *Ibid.*, p. 21.

[8] *Ibid.*, p. 51.

[9] It is estimated that average production per well is 15 barrels/day in the United States, 350 in Venezuela, 4,800 in the Middle East and 2,200 in Africa.

[10] This is evidenced by the low efficiency in the handling of energy in general (even in the most developed countries) and the flagrant waste of it in some particular cases.

[11] The numerical data include figures taken from provisional non-official studies prepared by officials of the International Bank for Reconstruction and Development (IBRD).

there are some 7,000 producers of crude, at least 40 of which are classified as major integrated companies. All operate within a very strict legal framework imposed by both the Federal and State Governments.

Outside the United States, however, the industry developed after the fashion of an oligarchy, particularly in the Middle East, where eight vertically integrated international companies have been handling the major part of the reserves, production, refining, transport and marketing.[12] They have thus been able to carve up a large share of the world market among themselves and reduce active competition between each other.

The power to exercise control over the sources of production and markets and the decision-making power enjoyed by these major companies still play an important role in the fixing of prices and the sharing of profits in world petroleum activities, even though their influence has been declining since 1960 owing to the action of "independent" private companies and State companies of more recent creation.[13]

The oil industry, at all its stages, is extremely capital-intensive, as is clear from the corresponding investment all over the world (excluding the socialist countries), which amounts to some 20,000 million dollars annually for a production of 2,000 million tons (10 dollars/ton). Of this investment, the first stage (exploration, development and production) takes up almost half, while costs in subsequent phases (weighted on a world basis) account for a similar amount.

The majority of the agreements between oil companies and Governments (except the United States) are generally based on a formula which provides for participation by Governments in the profits, plus the payment of royalties. Since the companies are "integrated" and transfers within the same company are booked as sales transactions, however, Governments consider it necessary to fix posted prices for the purpose of calculating their share. Up to 1960 the posted prices were close to the actual prices, which correspond to transactions outside the channels of the integrated companies, but afterwards the actual prices came to differ considerably from posted prices, and the Governments of the exporting countries organized OPEC[14] to change the existing trends.

In the 1960s the actual prices continued to fall, and in 1970 they were 30 per cent lower than the posted prices. Thus, while the companies were pressing for lower posted prices, the Governments wanted to raise them.[15]

OPEC stressed at that time that the average price paid by a consumer in Western Europe was $10.74 per barrel, which gives the following percentage breakdown: cost of production 2.7 per cent; cost of refining 3.3 per cent; freight 6.3 per cent; storage, handling and middlemen's profit 26 per cent; net profit of the oil companies, 6.3 per cent; taxes in the consumer countries 47.5 per cent; income to the producer countries 7.9 per cent. The income which the consumer countries received from taxes was thus six times higher than that received by the producer countries for their crude.[16]

4. Chronology of principal events in 1973

To gain a clear understanding of the events which took place in 1973 and at the beginning of 1974, certain dates should be recalled. Towards the middle of 1970, the buyers' market for petroleum which had been in existence for so long was shaken by the closing of the Trans-Arabian pipeline (TAPLINE), which transported crude to the Mediterranean, and the cutback of production in Libya. These events took place when stocks in Europe were low and coincided with a period of rapid increase in consumption.

In a series of agreements reached in 1971 and 1973[17] the OPEC countries negotiated new posted prices with the companies, new tax rates, greater participation in the concessions, and adjustments for changes in exchange parities and inflation.

The posted prices in the Persian Gulf, which had been increased by 27 per cent or so in the first half of 1971, were increased again by 8.5 per cent in January 1972 and again by 4.5 per cent in 1973. As a result of the devaluation of the dollar in February 1973, these posted prices were in-

[12] Standard Oil of New Jersey, Standard Oil of California, Socony Vacuum Oil, Gulf Oil Corporation, Texas Oil Company, Royal Dutch Shell, British Petroleum and the Cie. Française du Pétrole.

[13] United Nations, op. cit., p. 42.

[14] The founder countries were Saudi Arabia, Iran, Iraq, Kuwait, Qatar and Venezuela. Abu Dhabi, Algeria, Indonesia, Libya, Nigeria and Ecuador joined later.

[15] A typical FOB price in the Persian Gulf (1970) was $1.20 per barrel, of which approximately 15 cents represented the cost of production, 80 cents the share of the Government and 25 cents the profit made by the company (at that stage). Some of the factors probably responsible for the downturn in prices at that time were: (*a*) the increase in the number of independent companies which entered the international market and thus increased competition; (*b*) the presence of new investors in petroleum production who were seeking a quick return on their capital; (*c*) the restrictions on imports imposed by the United States, which increased competition among international producers to find markets for their surpluses; (*d*) the fact that proven reserves of economically exploitable crude petroleum were increasing faster than production.

[16] United Nations, op. cit., p. 54.

[17] Teheran and parallel agreements in 1971; Geneva agreement in 1972, modified in 1973.

creased by 6 per cent in April and a further 6 per cent in June of the same year. Thus, light Arabian crude had a posted price of 3.01 dollars/barrel on 1 October 1973. Discounts on posted prices fluctuated around 25 per cent until 1972 and from then began to fall, dropping to 10 per cent and even disappearing altogether in some cases by the beginning of October 1973.

On 16 October 1973 the Teheran agreement which had provided for annual increases up to and including 1975, was practically a dead letter. The six Persian Gulf countries belonging to OPEC[18] decided to raise their prices, with the result that the actual FOB price of Arabian light crude (34° API, considered a benchmark for fixing the prices of other crudes) was fixed at 3.65 dollars/barrel and the posted price at approximately 5.12 dollars.[19] From then on, posted prices (which had previously been negotiated between the Governments and the companies) were fixed unilaterally by the Governments, on the basis of the actual prices plus 40 per cent.

Simultaneously with the announcement of some rises, announcements were made of cutbacks in production and embargoes on shipments to certain countries for political reasons.

On 23 December, the same countries announced new prices–to be effective from 1 January 1974 for a period of 3 months–whereby the posted price for Arabian light crude was set at 11.65 dollars/barrel (an increase of 128 per cent on the price fixed in October). This price was agreed upon by the same six Persian Gulf countries with the aim of securing tax income and royalties of 7 dollars per barrel on this type of crude.

The other exporters aligned their prices on those fixed by the Persian Gulf countries, with appropriate adjustments for quality (including sulphur content) and differences in transport cost.[20]

Among the OPEC countries as a whole, taking into account other adjustment factors for different types of crude, it is estimated that government revenue will increase, on average, to 7.50 dollars/barrel as a result of the prices in force as from 1 January 1974, which will be maintained until 30 June 1974. Similarly, average actual prices (FOB) for crudes from these countries will probably fluctuate around 8.10 dollars/barrel and the resultant average CIF cost for importer countries is estimated at approximately 9 dollars per barrel.

Mention was already made in the Introduction of some of the probable effects which the changes in prices mentioned could have during 1974 on world trade and financial flows.

[18] Saudi Arabia, Iran, Iraq, Kuwait, Abu Dhabi and Qatar.

[19] The corresponding actual price of this crude was between 1.20 and 1.30 dollars per barrel at the beginning of 1970 and rose to almost 3 dollars by the middle of 1973.

[20] The posted prices for Venezuelan petroleum of specific gravity 25° (API) were as follows (in dollars/barrel):

1 January 1972	2.886	1 September 1973	4.049
1 January 1973	3.029	1 October 1973	4.189
13 March 1973	3.318	1 November 1973	6.509
1 August 1973	3.725	1 January 1974	10.670

III. WORLD TRADE

In 1973 world trade increased more rapidly under the stimulus of the boom in industrial production, cereal exports, and the high prices of both primary commodities and manufactures. The high demand for these goods increased the value of world trade (measured in SDR units)[21] by 24 per cent, compared with only 9 per cent in 1972. This is the highest increase registered so far (see table 1). The increase of 15 per cent in the physical volume[22] of exports was also exceptional, taking into account the fact that the 1972 increase of 9.8 per cent was already higher than that of previous years. The 7 per cent increase in the unit values of exports[23] over those recorded in 1972 is also considerable and reflects the acceleration of world demand and the inflationary pressures prevailing in the industrialized countries, as well as the relatively widespread rise in the prices of primary commodities (due to the inelasticity of supply of many of those) and the monetary adjustments which took place.

The exceptional conditions of growth in world trade in 1973 made possible, for the first time, an increase in the value of exports from developing regions which was proportionally higher than that of exports from developed regions. The developing regions increased the value of their exports by 28 per cent, while the developed regions did so by 23 per cent, which meant that the 1972 rate of growth was tripled in the first case and doubled in

[21] The use of this new unit of value makes it possible to compare world trade on an international basis, free from the effects of the devaluation of the dollar, although certain distortions in monetary adjustments cannot be totally avoided.

[22] These indexes do not include the values of exports from the socialist countries.

[23] Ditto.

Table 1. Growth of exports, by regions and selected countries
(Annual rates in values expressed in SDR units)

	1965-1970	1971	1972	1973
World	*10.9*	*11.6*	*9.0*	*23.7*
Developed regions	11.8	12.0	9.1	23.0
United States	9.4	2.1	3.7	28.9
Canada	14.7	9.4	5.4	12.5
Japan	18.0	24.3	9.6	16.2
EEC (nine countries)	11.7	14.6	10.3	23.3
Federal Republic of Germany	13.8	14.2	9.0	31.6
France	12.0	15.1	16.6	27.5
United Kingdom	7.1	15.6	0.2	12.9
EFTA (eight countries)	11.3	9.1	11.2	23.3
Other countries of Western Europe	14.5	15.6	17.2	19.6
Australia and New Zealand	8.3	10.2	15.9	39.4
Developing regions	8.6	10.9	8.5	28.3
Africa	10.6	3.8	8.5	21.5
Latin America	6.7	1.1	7.4	29.0
Other Western hemisphere countries	9.3	14.0	–1.3	8.1
Asia	7.9	8.6	9.6	30.6
Middle East	9.5	36.3	10.7	35.0
Centrally planned economies	9.6	10.5	9.4	21.5

SOURCES: Conversion into SDR units and growth rates calculated by ECLA on the basis of data taken from the United Nations *Monthly Bulletin of Statistics*, June 1968, June 1973 and February 1974. The 1973 values were estimated on the basis of part-year data.

the second. In general, all the developing areas increased their exports in the past year more than in the previous one, and the Middle East, Asia and Latin America showed rates of increase which were above the world rates, the first two areas doing so for the second consecutive time. The speed with which export sales from the Middle East and Asia have been expanding gave the first area the lead over Latin America in the value of exports in 1973, and put the second on an almost equal footing. It should be noted that up to 1965 the value of Latin American exports was over 60 per cent higher than that of the Middle East and 20 per cent higher than that of Asia. All the same, however, the increase in Latin American and African exports in these first few years of the 1970s has been higher than during the five-year period 1965-1970.

Among the developed countries, Australia and New Zealand recorded the highest rate of increase in exports in 1973 (40 per cent), followed by the Federal Republic of Germany (32 per cent), the United States (29 per cent) and France (28 per cent). These rates were higher than the regional and world rates of growth. The United States and the Federal Republic of Germany achieved an exceptional advance in their exports after experiencing a downturn, whereas the external sales of France, Australia and New Zealand have continued to increase steadily. Japan, which up to 1971 had recorded the highest export expansion rate compared with other countries, only recovered partially and at a rate which was lower than the world figure. The same can be said of Canada, which in the past three years has not been able to recover its past dynamism. The United Kingdom for its part, made a major effort to expand exports after the stagnation of the previous year, but its rate was once again lower than the world figure. In the four remaining countries of the EEC, Italy's export performance fell considerably, but that of Belgium, Denmark and the Netherlands showed steady increases. The seven EFTA countries continued to maintain an increase in their exports which was similar to the world figure, thus equalling the growth recorded by the EEC (see table 1).

The continuing reduction of the developing countries' share in world trade was halted by the high rate of expansion of exports recorded in 1973, when they improved their trading position. These countries, which together accounted for 19.3 per cent of world exports in 1965, accounted for only 17.1 per cent in 1972, but in 1973 they recovered a little, increasing their share to 17.7 per cent. As regards increased participation in world exports, the Middle East has been improving its position since 1971, and both Asia and Latin America did so in 1973. Only Africa's share of trade has continued to diminish slightly. The Middle East's share in exports increased from 3.3 per cent in 1970 to 4.5 per cent of world trade in

1973. In contrast, Latin America, which in 1970 accounted for 4.8 per cent of this trade, suffered a drop in 1972 to 4.2 per cent, subsequently increasing its share in 1973 to 4.4 per cent, that is to say, a lower percentage than that of the Middle East in the same year. Asia's share remained unchanged (4.1 per cent) in 1970-1972, but in 1973 it rose to 4.3 per cent, thus coming close to the Latin American percentage in that year. If the trend from 1965 is examined, Latin America's share of world trade is seen to have suffered the greatest decline of any region (see table 2).

The exports of the developed countries, which had been increasing at a faster rate than those of the developing countries, had a slightly smaller share in 1973 (71.6 per cent compared with 72 per cent in the previous year). In this group, United States exports steadily lost ground, falling from 14.6 per cent in 1965 to 11.9 per cent in 1972, but in 1973 there was a partial recovery to 12.4 per cent. United Kingdom exports followed a similar pattern, showing a downturn from 7.4 per cent in 1965 to 5.4 per cent in 1973. Canada's share also began to fall (from 5.2 per cent in 1970 to 4.4 per cent in 1973) and a similar pattern was also reflected in Japan, whose share fell from 6.9 per cent in 1971 to 6.5 per cent in 1973. Both these countries had up to that time maintained an exceptional rate of increase in their exports. In contrast, the Federal Republic of Germany and France, which in the previous year captured 11.9 and 6.5 per cent respectively of world trade, have continued their steady increase, with the former country's share approaching that of the United States and that of the latter country equalling Japan's share of exports. The impetus in export sales by the Federal Republic of Germany and France offset the decline in the growth of exports suffered by the United Kingdom and Italy in the past two years, thus helping to maintain the EEC's share of world trade at 37 per cent. Exports from EFTA countries and from the remainder of Western Europe showed a similar growth pattern to that of world trade and retained an almost unchanged share, while those of Australia and New Zealand increased with such rapidity over the last two years that they recovered the position they had held in world trade around 1965.

Table 2. World trade by regions
(Percentage distribution)

	1965	*1970*	*1971*	*1972*	*1973*
World	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Developed regions	69.0	71.7	71.9	72.0	71.6
United States	14.6	13.6	12.5	11.9	12.4
Canada	4.4	5.2	5.1	4.9	4.4
Japan	4.5	6.2	6.9	6.9	6.5
EEC (nine countries)	34.5	35.7	36.7	37.1	37.0
Federal Republic of Germany	9.6	10.9	11.2	11.2	11.9
France	5.4	5.7	5.9	6.3	6.5
United Kingdom	7.4	6.2	6.4	5.9	5.4
EFTA (eight countries)	6.5	6.6	6.5	6.6	6.6
Other countries of Western Europe	1.3	1.5	1.6	1.7	1.6
Australia and New Zealand	2.1	1.8	1.8	1.9	2.2
Developing regions	19.3	17.3	17.2	17.1	17.7
Africa	4.1	4.0	3.8	3.7	3.6
Latin America	5.8	4.8	4.3	4.2	4.4
Other Western hemisphere countries	0.9	0.8	0.9	0.8	0.7
Asia	4.7	4.1	4.1	4.1	4.3
Middle East	3.5	3.3	4.0	4.1	4.5
Centrally planned economies	11.7	11.0	10.9	10.9	10.7

SOURCES: ECLA calculations on the basis of data taken from the United Nations *Monthly Bulletin of Statistics*, June 1968, June 1973 and February 1974. The 1973 values were estimated on the basis of part-year data.

IV. LATIN AMERICAN TRADE[24]

1. Exports and imports of goods

Between 1972 and 1973 exports of goods from Latin America (excluding Cuba) increased, at current prices, from 18,192 to 25,925 million dollars, that is to say, by 42.5 per cent. During this same period imports of goods increased by 29.3 per cent from 18,240 to 23,588 million dollars. The trade balance, which showed a deficit of 48 million dollars in 1972, thus showed a surplus of 2,336 million in 1973. This figure is even higher than the annual average recorded in the five-year period 1965-1969 (see table 3).

A review of events in 1973 in the different Latin American countries confirms that there were considerable differences between the relative changes recorded in each one, particularly in respect of exports. Thus, in seven countries (Argentina, Brazil, Colombia, Chile, Ecuador, Paraguay and Venezuela) the relative increase in exports of goods was higher than 40 per cent, in ten others (Bolivia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, the Dominican Republic and Uruguay) the increase ranged between 20 and 40 per cent, and in the six remaining countries (Barbados, Guyana, Jamaica, Panama, Peru and Trinidad and Tobago) it was lower than 20 per cent. In contrast, as regards imports of goods the degree of dispersion around the average percentage for Latin America was smaller, and the only figures differing substantially from the average were the big increases of over 40 per cent recorded by Brazil, Mexico and Nicaragua and the contrastingly small increases or even decreases recorded in Argentina, Jamaica and Trinidad and Tobago.

[24] From this point on, the currency unit used in this section is the dollar and not the SDR unit as in sections I and III. The main reason for this is that the balance-of-payments data provided by the various Latin American countries are expressed in dollars.

Table 3. Latin America: exports and imports
(Millions

Country	*Exports of goods*					*Imports*	
	1965-1969 Average	*1970*	*1971*	*1972*	*1973*	*1965-1969 Average*	*1970*
Argentina	1,506.0	1,773.0	1,740.0	1,941.2	3,050.0	1,072.6	1,474.0
Brazil	1,836.6	2,739.0	2,882.0	3,941.1	6,198.2	1,506.6	2,507.0
Mexico	1,241.8	1,439.0	1,521.0	1,862.0	2,407.9	1,741.4	2,400.0
Colombia	592.8	788.0	755.0	935.9	1,346.9	559.2	802.0
Chile	902.8	1,124.0	984.0	855.2	1,369.1	721.0	928.0
Peru	789.2	1,034.0	889.0	945.7	1,119.3	719.6	699.0
Venezuela	2,538.6	2,756.0	3,372.0	3,797.8	5,520.0	1,452.6	1,793.0
Barbados	33.5	35.2	32.4	37.3	43.5	72.3	105.2
Bolivia	147.9	195.7	181.9	203.1	276.4	150.4	166.2
Costa Rica	150.1	231.0	224.6	278.9	347.0	182.4	286.8
Ecuador	195.0	232.8	241.4	323.2	582.8	188.2	262.3
El Salvador	200.2	231.5	238.9	312.9	380.0	197.1	194.7
Guatemala	224.8	298.3	290.5	337.4	440.0	222.6	266.6
Guyana	114.1	129.0	145.5	141.1	142.0	103.1	119.9
Haiti	35.6	39.0	47.1	42.8	52.1	41.5	47.7
Honduras	156.1	178.2	194.8	207.8	260.8	148.5	203.4
Jamaica	261.8	342.1	345.6	377.5	400.0	309.7	449.0
Nicaragua	151.6	177.8	186.5	248.9	326.0	156.3	177.7
Panama	111.0	130.3	137.8	146.3	158.4	234.7	331.0
Paraguay	54.0	65.3	66.5	86.0	128.0	68.1	76.6
Dominican Republic	153.5	213.5	243.0	347.6	440.0	173.9	266.8
Trinidad and Tobago	451.5	502.0	529.7	580.0	617.0	404.6	486.9
Uruguay	185.0	224.1	196.8	242.0	319.1	141.5	203.1
Total	*12,033.5*	*14,878.8*	*15,446.0*	*18,191.7*	*25,924.5*	*10,567.9*	*14,246.9*

SOURCES: 1965-1972: IMF, *Balance of Payments Yearbook*, vols. 22 to 25; 1973: ECLA estimates based on data supplied by the countries.

Although sections VI and VII of Part One of this Survey provide a more detailed analysis of the pattern of prices in Latin America and in international markets for primary commodities exported by the region, it may be noted as of now that the trends mentioned for 1973 in respect of the trade in goods were strongly influenced by the changes in unit values of exports and imports. Thus, under the heading of exports of goods the increase in the unit value was 33 per cent whereas the increase in the volume exported was 7 per cent, while the unit value of imports increased by 18 per cent, and the increase in volume was 9 per cent. The terms of trade thus increased by 13 per cent in 1973 and the purchasing power of exports rose by 20 per cent (see table 4).[25]

Moreover, in 1973 the trends of unit values by country are similar to those recorded for exports and imports of goods expressed in dollars at current prices. In other words, the relative movements of the unit values of exports fluctuate considerably from country to country and are close to the percentage changes in export values. Thus, for example, the highest increases in unit prices occur for the most part in the seven countries already mentioned which recorded the highest rates of increase in their exports, while the percentage increases in the unit values of imports in the other countries of the region were substantially similar to the average of 18 per cent indicated (see table 17).

If the trend in the volume of exports in 1973 is examined, it will be seen that important increases were recorded in Ecuador, Brazil, Colombia and Mexico. The underlying cause in the first case was the increase in petroleum exports, while in the other three the deliberate policy of export diversification which has been followed for some years past began to produce results. The performance of El Salvador, Guyana, Panama, Peru and Trinidad and Tobago was quite the opposite, however, with

[25] For more details, and in order to judge the significance of these trends in a wider context, see section VI below.

of goods and balance of trade, 1965-1973
of dollars)

of goods			*Balance of trade*					*Percentage variation 1973*	
1971	*1972*	*1973*	*1965-1969 Average*	*1970*	*1971*	*1972*	*1973*	*Exports*	*Impor*
1,625.0	1,656.8	1,801.0	433.4	299.0	115.0	284.4	1,249.0	57.1	8.7
3,246.0	4,193.0	6,010.0	330.0	232.0	−364.0	−251.9	188.2	57.3	43.3
2,340.0	2,861.9	4,031.0	−499.6	−961.0	−819.0	−999.9	−1,623.1	29.3	40.9
878.0	815.4	1,072.4	33.6	−14.0	−123.0	120.5	274.5	43.9	31.5
987.0	1,203.9	1,503.1	181.8	196.0	−3.0	−348.7	−134.0	60.1	24.9
764.0	840.3	1,029.0	69.6	335.0	125.0	105.4	90.3	18.4	22.5
1,994.0	2,342.9	2,898.9	1,086.0	963.0	1,378.0	1,454.9	2,621.1	45.3	23.7
111.7	128.3	154.0	−38.8	−70.0	−79.3	−91.0	−110.5	16.6	20.3
181.4	195.7	249.5	−2.5	29.5	0.5	7.4	26.9	36.1	27.5
316.3	337.5	398.0	−32.3	−55.8	−91.7	−58.6	−51.0	24.4	17.9
326.9	366.6	481.9	6.8	−29.5	−85.5	−43.4	100.9	80.3	31.5
227.3	248.2	321.5	3.1	36.8	11.6	64.7	58.5	21.4	29.5
292.0	295.6	397.0	2.2	31.7	−1.5	41.8	43.0	30.4	34.3
119.7	126.1	149.3	11.0	9.1	25.8	15.0	−7.3	0.6	18.4
55.9	60.8	79.0	−5.9	−8.7	−8.8	−18.0	−26.9	21.7	29.9
177.5	176.5	241.8	7.6	−25.2	17.3	31.3	19.0	25.5	37.0
473.1	528.6	563.7	−47.9	−106.9	−127.5	−151.1	−163.7	6.0	6.6
189.5	195.2	273.3	−4.7	0.1	−3.0	53.7	52.7	31.0	40.0
363.9	406.9	480.1	−123.7	−200.7	−226.1	−260.6	−321.7	8.3	18.0
83.0	82.9	115.9	−14.1	−11.3	−16.5	3.1	12.1	48.8	39.8
311.1	337.7	434.3	−20.4	−53.3	−68.1	9.9	5.7	26.6	28.6
589.0	660.1	654.6	46.9	15.1	−59.3	−80.1	−37.6	6.4	−0.8
203.0	178.7	249.1	43.5	21.0	−6.2	63.3	70.0	31.9	39.4
15,855.3	*18,239.6*	*23,588.4*	*1,465.6*	*631.9*	*−409.3*	*−47.9*	*2,336.1*	*42.5*	*29.3*

Table 4. Latin America[a]: terms of trade
(1963 = 100)

	Exports of goods		*Imports of goods*		*Terms of trade*	*Purchasing power of exports*
	Volume	*Unit value*	*Volume*	*Unit value*		
Average annual indexes						
1960-1964	94	102	103	100	102	96
1965-1967	112	104	116	107	97	109
1968-1970	126	109	146	109	101	128
1971-1973	136	148	187	130	112	153
1970	132	116	160	112	107	141
1971	130	121	173	117	103	134
1972	134	138	186	126	110	147
1973	143	184	203	148	124	177
Percentage movement						
1971	−2	4	8	4	−4	−5
1972	3	14	8	8	7	10
1973	7	33	9	18	13	20

SOURCE: ECLA, on the basis of official statistics.
[a] Excluding Cuba.

the decreases in the volume of their exports varying between 2 and 9 per cent (see table 5).

The most important features with respect to imports were the sharp increases (approximately 20 per cent) which took place in Brazil, Mexico, Nicaragua, Paraguay and Uruguay and the drops recorded in Argentina and Trinidad and Tobago. The position of the remaining countries lies between these two extremes. As is to be expected, such a variety of situations stems from substantially different causes which it is difficult to outline briefly but which are described in the studies on each country of the region in Part Two of this Survey.

Table 5. Latin America: variations in the volume of exports and imports of goods, 1973

	Exports of goods	*Imports of goods*
Argentina	5	−8
Brazil	13	18
Mexico	10	20
Colombia	13	12
Chile	1	4
Peru	−9	3
Venezuela	4	4
Barbados	1	4
Bolivia	2	9
Costa Rica	4	2
Ecuador	34	13
El Salvador	−2	10
Guatemala	8	11
Guyana	−6	1
Haiti	1	10
Honduras	6	16
Jamaica	4	−1
Nicaragua	6	17
Panama	−2	2
Paraguay	3	22
Dominican Republic	–	9
Trinidad and Tobago	−4	−12
Uruguay	2	17
Total Latin America (excluding Cuba)	*7*	*9*

SOURCE: ECLA, on the basis of official statistics.

2. DIRECTION OF TRADE

The information available on the direction of the region's merchandise trade flows, although relatively scarce, permits the identification of some of the major trends of recent years.

Trade with the United States continues to be the most important for Latin America. It generates a considerable annual deficit for the region, and the downward trend in the relative share of the United States in Latin America's total trade between 1965 and 1971 has been reversed in the past two years (see table 6).

Another important aspect has been the sustained increase of trade with Japan, which doubled its relative share between 1965 and 1973. This trade showed a surplus in favour of Latin America in the first year of that period, but it has been showing big deficits in more recent years, and over the last two years this deficit was equivalent to approximately half of Latin America's exports to Japan.

Since 1965 the share accounted for by the region's trade with the EEC countries has been steady at approximately one fifth of total transactions. In the first half of 1973 this trade showed

Table 6. Latin America: exports and imports of goods by major regions
(Percentage structure)

	1965	1970	1971	First six months	
				1972	1973
Total					
Exports	100	100	100	100	100
Imports	100	100	100	100	100
United States					
Exports	32	29	30	30	31
Imports	40	37	34	34	36
EEC					
Exports	20	21	20	21	21
Imports	18	18	19	20	19
EFTA					
Exports	10	9	8	8	9
Imports	9	10	10	10	10
Western Europe					
Exports	7	6	5	6	5
Imports	6	6	6	6	5
Japan					
Exports	4	6	6	6	7
Imports	4	7	8	8	10
Canada					
Exports	3	3	3	3	3
Imports	3	4	3	3	3
Latin America					
Exports	10	11	13	13	12
Imports	12	11	12	12	11
Other regions					
Exports	14	15	15	13	12
Imports	8	7	8	7	6

SOURCES: 1965: United Nations, *Monthly Bulletin of Statistics*, June 1968; 1970–1973: ECLA, on the basis of United Nations statistics.
Note: The basic data are taken from the customs records of 20 countries, including Cuba but not Barbados, Guyana, Jamaica, and Trinidad and Tobago.

a slight surplus in favour of Latin America, reversing the trends of 1971 and of 1972.

Trade with the EFTA countries and with Canada has not shown substantial fluctuations, and generally speaking there have been no major changes since 1965 in the shares of these flows in the total. There was a small relative decrease in Latin American exports to EFTA between 1965 and 1971, but this tended to be less marked in 1973.

Trade flows with the countries of Eastern Europe and with other countries in regions outside the groups mentioned in table 6 tended to lose relative importance between 1965 and 1973. In trade with the first set of countries there is more or less a balance between exports and imports of goods, whereas in the latter case there is a considerable surplus in favour of Latin America.

Noteworthy features of inter-Latin American trade are the increase in its relative importance between 1965 and 1971 and the slight reduction in its share in total trade in 1973.

3. Inter-Latin American trade

During 1973, trade between 18 countries in the region (measured in terms of the CIF value of imports of goods) increased by 32 per cent. This figure, although higher than the 14 per cent recorded in 1972, was lower than the total increase in the exports of these 18 countries, since this was 44 per cent in 1973. In this same year trade between the LAFTA countries (including the countries of the Andean Group) increased by 34 per cent, while that of the countries of the Central American Common Market grew by 19 per cent (see tables 7, 8 and 9).

In the Andean Group, the admission of Venezuela at the beginning of the year was a major

Table 7. Inter-Latin
(CIF values of imports of

Country of origin / *Importing country*	*Argentina*	*Bolivia*	*Brazil*	*Colombia*	*Chile*	*Ecuador*	*Mexico*	*Paraguay*	*Peru*
Argentina		28.4	175.0	13.8	55.7	5.7	19.1	19.8	17.8
Bolivia[a]	17.4		7.6	1.1	3.1	0.1	1.0	–	4.1
Brazil	217.6	11.8		4.8	22.9	3.5	43.9	6.3	15.2
Colombia	14.1	1.2	10.2		12.0	9.2	17.1	0.6	6.7
Chile	144.0	7.3	38.9	9.5		14.6	25.7	2.6	8.1
Ecuador	3.0	–	5.8	20.7	1.6		5.1	0.6	3.7
Mexico	22.4	0.4	30.5	2.6	7.6	0.6		1.2	12.6
Paraguay	11.8	–	11.4	–	0.4	0.1	0.7		–
Peru	19.4	10.5	12.3	38.8	8.4	7.8	14.7	0.3	
Uruguay	27.5	–	35.9	0.2	2.5	0.2	1.9	1.1	0.5
Venezuela[a]	13.0	–	23.9	14.6	4.6	0.2	39.3	–	3.7
Costa Rica	1.0	–	0.6	2.5	–	0.1	9.6	–	0.1
El Salvador	0.3	–	1.6	0.8	–	0.2	6.2	–	0.5
Guatemala	0.6	–	0.9	1.7	–	0.1	13.0	–	0.3
Honduras	0.2	–	0.3	1.8	–	–	4.0	–	0.2
Nicaragua	0.4	–	0.9	1.1	–	0.1	4.5	–	0.1
Panama	1.0	–	2.4	6.5	0.2	10.2	6.2	–	0.5
Dominican Republic	0.1	–	0.4	–	–	–	4.7	–	–
Total Latin America	*493.8*	*59.6*	*358.6*	*120.5*	*119.0*	*52.7*	*216.7*	*32.5*	*74.1*

SOURCE: Official foreign trade statistics. Cuba, Haiti and the CARIFTA countries were excluded owing to lack of data.
[a] Estimates based on incomplete data.

Table 8. Inter-Latin
(CIF values of imports in

Country of origin / *Importing country*	*Argentina*	*Bolivia*	*Brazil*	*Colombia*	*Chile*	*Ecuador*	*Mexico*	*Paraguay*	*Peru*
Argentina		43.5	183.8	13.0	66.2	13.2	21.2	19.8	9.3
Bolivia	15.8		12.3	1.5	4.0	0.1	1.0	–	5.0
Brazil	342.3	17.4		5.3	39.8	3.6	57.3	21.4	20.7
Colombia	17.3	1.8	12.5		11.4	18.0	21.0	0.7	11.7
Chile	172.8	10.0	20.6	8.2		20.0	33.9	3.5	8.7
Ecuador	8.0	–	18.2	28.8	2.0		8.4	0.6	5.7
Mexico	31.4	1.5	46.4	4.4	10.1	0.2		2.0	4.0
Paraguay	29.8	–	16.9	0.2	0.2	0.1	0.7		0.2
Peru	27.6	10.5	38.0	39.3	5.9	14.9	15.3	0.6	
Urugauy	41.0	1.6	46.3	0.2	1.0	0.2	1.7	2.1	0.9
Venezuela	22.6	–	58.1	20.0	6.0	0.2	42.4	–	10.2
Costa Rica	1.6	0.1	3.9	5.8	–	–	10.6	–	5.0
El Salvador	0.9	–	0.8	1.0	–	0.2	13.5	–	0.8
Guatemala	1.5	–	1.2	1.9	–	–	17.3	–	–
Honduras	0.4	–	0.7	2.0	–	–	5.8	–	1.2
Nicaragua	0.3	–	1.0	1.5	–	1.1	6.0	–	0.1
Panama	2.3	–	–	7.0	0.2	12.0	7.0	–	1.1
Dominican Republic	0.5	–	–	–	–	–	5.0	–	–
Total Latin America	*716.1*	*86.4*	*460.7*	*140.1*	*147.2*	*83.1*	*268.1*	*50.7*	*84.6*

SOURCE: Official foreign trade statistics. Cuba, Haiti and the CARIFTA countries were excluded owing to lack of data.
[a] Estimates based on incomplete data.

American trade, 1972
goods in millions of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Panama*	*Dominican Republic*	*Total Latin America*
5.6	32.2	–	–	–	–	–	3.9	–	377.0
0.3	–	–	–	–	–	0.2	1.4	–	36.3
12.6	53.9	–	–	–	0.1	0.1	24.0	–	416.7
2.7	6.0	–	–	–	–	–	5.9	–	85.7
7.5	9.1	–	0.4	–	–	–	1.6	–	269.3
0.1	15.1	0.1	0.1	0.4	–	–	–	–	56.3
3.1	38.8	2.0	0.7	1.6	0.2	0.2	14.6	–	139.1
1.3	0.1	–	–	–	–	–	0.3	–	26.1
0.7	14.7	0.1	–	–	–	0.2	2.0	–	129.9
	0.5	–	–	–	–	–	–	0.5	70.8
0.2		0.1	0.1	0.1	–	1.0	3.7	0.6	105.1
–	12.7		22.8	28.1	1.8	26.6	6.4	–	112.3
–	10.7	12.8		48.0	–	13.6	5.1	–	99.8
–	16.0	13.1	45.8		1.3	8.7	0.5	–	102.0
–	12.4	5.2	–	9.4		7.8	1.3	0.1	42.7
–	12.1	19.2	16.6	21.0	4.0		3.5	–	83.5
0.1	56.9	10.2	1.8	2.7	1.3	2.0		0.1	102.1
–	9.4	–	0.1	0.2	3.9	0.6	1.3		20.7
34.2	*300.6*	*62.8*	*88.4*	*111.5*	*12.6*	*61.0*	*75.5*	*1.3*	*2.275.4*

American trade, 1973[a]
millions of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Panama*	*Dominican Republic*	*Total Latin America*
5.0	31.6	–	–	–	–	–	5.3	–	411.9
0.5	–	–	–	–	–	–	1.5	–	41.7
15.4	74.7	–	–	–	1.0	1.5	25.0	–	625.4
3.3	11.4	2.0	2.0	0.2	0.6	–	9.8	–	123.7
0.6	15.0	–	0.4	–	–	–	2.0	–	295.7
0.3	16.0	0.1	0.1	0.4	–	–	–	–	88.6
5.8	76.4	1.0	0.8	3.0	0.2	9.2	12.7	–	209.4
1.0	0.1	–	–	–	–	–	0.4	–	50.0
1.7	20.2	3.9	–	0.1	–	0.3	1.5	–	79.8
	2.3	–	–	–	–	–	–	1.0	98.3
0.2		0.1	0.1	0.1	–	1.0	4.0	0.6	165.6
–	15.5		19.8	29.1	3.1	20.4	9.1	–	124.0
–	12.3	15.8		61.1	–	15.8	6.6	–	128.8
–	18.0	17.5	55.9		2.2	13.1	0.5	–	129.1
–	11.6	6.7	–	16.1		12.1	2.5	–	59.1
–	14.0	22.5	20.5	24.6	6.3		4.0	–	100.9
0.1	95.0	12.0	2.0	3.0	1.5	2.0		0.1	145.3
–	15.0	–	0.1	0.2	4.0	0.7	1.5		27.0
33.9	*429.1*	*81.6*	*101.7*	*137.9*	*18.9*	*76.1*	*86.4*	*1.7*	*3.004.3*

Table 9. Trade between member countries of LAFTA, CACM and the Andean group
(CIF values of imports of goods)

	1970		1971		1972[a]		1973[b]	
	Millions of dollars	*Percentage of inter-Latin American total*	*Millions of dollars*	*Percentage of inter-Latin American total*	*Millions of dollars*	*Percentage of inter-Latin American total*	*Millions of dollars*	*Percentage of inter-Latin American total*
LAFTA	1,347.8	72.8	1,458.3	72.9	1,646.1	72.3	2,198.2	73.2
CACM	299.0	16.1	276.7	13.8	305.8	13.4	362.6	12.1
Andean Group	(133.9)	(7.2)	(159.3)	(8.0)	(168.5)	(7.4)	(306.5)[c]	(10.2)
Inter-Latin American total[d]	*1,852.6*	*100.0*	*2,000.1*	*100.0*	*2,275.4*	*100.0*	*3,004.3*	*100.0*

SOURCE: ECLA, on the basis of official statistics.
[a] Provisional figures.
[b] Estimates.
[c] Including Venezuela.
[d] Trade between the countries of the Andean Group is also included in that of LAFTA. The intraregional total also includes, Haiti, Panama and the Dominican Republic, in addition to the countries which are members of the sub-regional groups considered; no data were available for Cuba, and the CARIFTA countries were not included.

factor in the increase of 82 per cent in sub-regional trade. Even without counting Venezuela this trade increased by 23 per cent.

The percentage share of each country in intra-regional trade showed little change in 1973 compared with the three previous years. The most important changes were the increases in the shares of Brazil, Ecuador and Venezuela and the decrease in Chile's share. Argentina's share (19 per cent) remained the highest, followed by Brazil (18 per cent), Venezuela (10 per cent) and Mexico and Chile (8 and 7 per cent respectively). Only the Dominican Republic has a share of less than 1 per cent, and twelve countries have shares ranging between 1 and 5 per cent.

In the past year, some countries considerably increased their favourable balances in intra-regional trade. These countries were Argentina (from 117 million dollars in 1972 to 304 million in 1973), Venezuela (from 196 to 264 million) and Bolivia (from 23 to 45 million dollars). In contrast, between 1972 and 1973 the deficits of several countries in their trade with the region worsened, this deterioration being most marked in Brazil, Ecuador, Panama, Peru and Uruguay. Of the eighteen countries considered, the ratio between the trade balances and the total value of intraregional trade, which had increased from 0.17 in 1971 to 0.20 in 1972, rose further to 0.23 in 1973, thus indicating that the trading imbalance between the countries is becoming more pronounced.

With respect to intra-zonal trade within the Caribbean Free Trade Association (CARIFTA), between 1972 and 1973 there was an increase of 12 per cent in intra-zonal imports among the four countries on which information is available (Barbados, Guyana, Jamaica and Trinidad and Tobago). For exports the increase was 20 per cent (see table 10).

Table 10. CARIFTA: intra-area trade
(Millions of dollars)

Country	*Imports of goods CIF*				*Exports of goods FOB*			
	1970	*1971*	*1972*[a]	*1973*[b]	*1970*	*1971*	*1972*[a]	*1973*[b]
Barbados	13.5	16.3	19.0	23.0	8.3	10.2	12.1	15.3
Guyana	18.9	20.2	25.0	27.9	13.9	15.9	18.3	19.4
Jamaica	9.5	13.3	33.5	37.9	13.4	15.7	22.1	27.5
Trinidad and Tobago	13.5	16.0	21.0	21.8	45.8	54.0	62.4	76.9
Subtotal	*55.4*	*65.8*	*98.5*	*110.6*	*81.4*	*95.8*	*114.9*	*138.1*
West Indies Associated States and Belize	22.4	29.1	...	...	4.2	...	...	...
Total	*77.8*	*94.9*	...	...	*85.6*	...	...	...

SOURCE: ECLA, on the basis of official statistics.
[a] Provisional figures.
[b] Estimates.

4. Recent developments in integration

(a) *The Latin American Free Trade Association (LAFTA)*

During 1973, the number of new concessions granted in the national schedules amounted to 35, to which should be added the 16 which were renegotiated, thus bringing to 51 the total number of concessions approved at the twelfth LAFTA regular session, which ended on 12 December 1972. The reductions in customs tariffs in the national schedules approved at the thirteenth regular session of the Conference of the Contracting Parties of LAFTA were rather low, amounting to no more than 34 concessions (21 new ones and 13 renegotiations).

This means that the tendency of the parties to withdraw from negotiating national schedules continued in 1973. This situation has been dragging on for a number of years and may be taken as the clearest indication of the complex difficulties which are plaguing the working of LAFTA. The very small number of concessions adopted at the last round of negotiations may be taken as an indication of the wait-and-see attitude prevailing among the majority of the contracting parties prior to the collective negotiations on article 61 of the Treaty of Montevideo and articles 3 and 4 of the Caracas Protocol which are expected to begin in 1974.

As regards special concessions in favour of the relatively less developed countries, 119 were approved at the last session, a similar number to that approved in 1972. Of the 119 concessions granted, 64 may be considered new. The countries benefiting from these were: Ecuador (7 concessions), Paraguay (19 concessions) and Uruguay (38 concessions). At the end of the recent conference, the list of limited concessions amounted to 7,363 concessions in all. The number of complementarity agreements entered into in 1973 was considerably less than in the previous year.

As in previous years, the conference was used as an opportunity to undertake official negotiations. The outcome of these was the renegotiation of two agreements—No. 16 on petrochemicals and No. 20 on pigments and colourants—as well as a new agreement on manufactured products such as refrigerators, air conditioners, and household electrical, mechanical and heating appliances. Attempts to negotiate the widening of the scope of various agreements failed, however.

In conclusion, it can be said that in 1973 the complementarity agreements did not—as they had done to a considerable extent in previous years—provide the dynamism necessary to maintain the rhythm of progress of LAFTA. Another important point to be noted is the fact that the only two new instruments are agreements expanding the scope of existing ones and providing for the exchange of limited concessions.

In 1973 there were 18 sectoral meetings, at which a total of 619 enterprises were represented. The main results of these, in so far as their contribution to the LAFTA liberalization programme is concerned, was the recommendation of 35 concessions for inclusion in the national schedules and the preparation of four draft complementarity agreements which include 242 suggestions for tax relief. To these should also be added 228 recommendations for widening the scope of five existing complementarity agreements, two recommendations for a draft agreement, and one for a proposed tax reduction in the schedule of advantages not open to third parties.

(b) *The Andean Group*

One of the most important events for the Andean Group was the admission of Venezuela in February 1973. The two documents setting out the commitments undertaken are known as the Lima Consensus. The first of these, the "Additional Instrument to the Cartagena Agreement for the accession of Venezuela" contains some modifications and additions to the said Agreement. The second document is decision 70 of the Commission of the Cartagena Agreement, which stipulates time limits, procedures and other requirements to be met by Venezuela in compliance with the 69 decisions approved prior to its entry.

The modifications to the Agreement are, in brief, the following:

(i) The number of cases in which countries can use the veto has been widened, and it can now be exercised with reference to the approval and enforcement of the common external tariff, the approval of rationalization programmes for existing industries, proposals made by the Board on common policies, and an indicative plan for the agricultural sector.

(ii) Venezuela has the right to exclude 250 items in the BNT-LAFTA tariff nomenclature from the trade liberalization programme, just as other countries do in respect of other products, and in addition the possibility of submitting a new list of 200 exceptions to items in the same nomenclature, applicable to products from Colombia, Chile or Peru, provided that the exceptions affecting each country do not cover more than 110 items. If products are excluded from this additional list in respect of more than one country, they shall be counted separately. Colombia, Chile and Peru, in turn, can prepare other lists of exceptions applicable only to Venezuela, in such numbers as the latter country may apply to each of them.

(iii) Provision is made for the adoption of more expeditious procedures designed to safeguard

national economies from some of the harmful effects which may result from the liberalization programme. The Board of the Agreement is responsible for proposing steps to ensure protection commensurate with the degree of possible change.

Decision 70 fixes the time-limits within which Venezuela must reduce duties on products already liberalized by the other countries and equalize its tariff treatment. It also indicates the procedure to be used by Venezuela to bring itself in line with the common external tariff which is to be fully implemented in 1975.

As regards the Sectoral Development Programme for the Metal Products and Machinery Industry covered in decisions 57 and 57a, it has been decided that within the six months following the date on which the Government of Venezuela deposits the instrument of accession to the Agreement with the secretariat of the Commission, the Board shall present to the Commission a complementary proposal to the decisions mentioned, relating to Venezuela's participation in the abovementioned Programme. Venezuela's participation must not affect the allocations already made. The Board shall be free to include measures for the sharing or cancellation of allocations in its proposal, after prior consultation with the country or countries affected. Until the proposal is approved, trade between Venezuela and the other countries shall not benefit from the reciprocal opening of the market for these products.

In September 1973 the Act of Approval of the instruments of Venezuela's accession to the Cartagena Agreement was signed in Caracas, and simultaneously some important decisions taken by the Andean Group were published, such as the Common Regime for the Treatment of Foreign Capital. This is a step towards the completion of the formalities required for the effective integration of Venezuela. The following stage will consist of the deposit with LAFTA by the respective Governments of the documents ratifying the "Additional Instrument to the Cartagena Agreement for the accession of Venezuela".

With respect to the metal products and machinery programme, important progress was made during the year, both in the study of specific projects and in respect of industrial investment and the establishment of enterprises. In order to assist in the implementation of Bolivia's allocation, the Andean Development Corporation set up a special fund solely for this purpose. Work is now under way on the revision of the metal products and machinery programme made necessary by the accession of Venezuela, and the possibilities of allocating some spheres of engineering not yet covered by the previous programme are being investigated. Priority is also being given in the studies to the advancement of the motor-vehicle programme.

Of the various studies being carried out by the Andean Group to provide suitable guidelines for their policies, mention should be made of the significant progress made so far in research on the Sub-regional Development Strategy, the common external tariff, and on suitable treatment for the agricultural sector. As regards the Sub-regional Development Strategy, work is now under way to update the first version of this study and to include the effects stemming from Venezuela's membership, since this country brings a sizable extra market to the Andean Group. From the standpoint of foreign trade, the Andean Group is now larger than any single Latin American country and is one of the main markets of the developing world.

(c) *The Central American Common Market*

The efforts to reorganize the Central American Common Market, which have been under way since 1970, have provided no more than partial and incomplete results and have failed to correct its major shortcomings. Faced with this worsening crisis in the functioning of the Common Market, in October 1972 SIECA submitted comprehensive proposals for its improvement and reorganization,[26] designed to correct the disadvantages of the small size of individual markets and dependence on some traditional export products.

The basic recommendations of this document[27] are: to strengthen the role of the public sector in the promotion of development and foster an association of interests between the public and private sectors, in order to achieve a common position on development; to adopt a policy conducive to ensuring that each country has a reasonable share in the costs and benefits of integration; to give renewed impetus to agricultural development, as a major source of employment, production, saving and purchasing power; to provide sustained momentum for industrial development, so as to rationalize existing production and reorient future production in order to increase the net benefits accruing to the regional economy; to adopt a common policy of social development and increase the share of the different strata of the population in the process of integrated development; and to set in motion a common external trade and export promotion policy, with a view to projecting Central America as an economic unit in the world context.

[26] See SIECA: *Desarrollo integrado de Centroamérica en la presente década: Bases y propuestas para el perfeccionamiento y la reestructuración del Mercado Común Centroamericano*, October 1972.

[27] SIECA, *Carta Informativa No. 133*, Guatemala City, November 1972.

These proposals were discussed in December 1972, at the first meeting on the improvement and reorganization of the Common Market. This meeting marked the beginning of a new stage in the integration process, since it established the bases and procedures for setting about improving and reorganizing the Common Market and dealing with the problems which could rise during the transitional stage prior to the next phase in regional integration.

In March 1973, as a result of the emergency situation created in Nicaragua by the aftermath of the earthquake which destroyed the city of Managua on 23 December 1972, the Ministers of Economic Affairs of the region met to deal with all aspects of the current functioning of the Common Market and to adopt measures regulating trade relations between Nicaragua and the other Central American countries. The institutional order was thus restored as agreed at the meeting in December 1972.

At the end of July 1973 the second meeting on the improvement and reorganization of the Common Market and the ninth meeting of Ministers of Economic Affairs were held in Managua, and the High-Level Committee made up of representatives appointed directly by Governments was established and began to function. This Committee, which is a study group set up at the first-named meeting, is responsible for framing guidelines for the reorganization of the Common Market. It hopes to be ready to submit preliminary conclusions to the Tripartite Meeting before 31 July 1974 and to prepare the final report on all aspects of the reorganization by the end of the year. At the second meeting referred to above, the Governments of Guatemala, El Salvador, Nicaragua and Costa Rica agreed to extend the validity of the Protocol of San José, which was due to expire in November 1973 until the new Central American Import Tariff came into force, as agreed at the negotiations on the reorganization of the Common Market. It was decided, however, that it could not be extended in any circumstances for more than 5 years from the date of the approval of the new Protocol.

At the ninth meeting of the Ministers of Economic Affairs the main item was the Plan of Action 1973-1975,[28] which SIECA had submitted at a special consultative meeting of Ministers of Economic Affairs held in Antigua in June. Approval was given, in general terms, to the recommendations for the implementation of the Plan, which include domestic and external measures to curb the inflationary trends which are seriously affecting the economies of the area.

At the meetings held in July, Honduras' agreement to participate in the discussions on the reorganization of the Common Market was considered an event of some importance. It should also be mentioned that in August 1973 discussions began in Washington between the Foreign Ministers of Honduras and El Salvador on the restoration of relations between the two countries. In September, the Foreign Ministers met again in Mexico City to negotiate a general treaty. The negotiations were not to extend beyond 15 December 1973, and the signing of the treaty by both countries was to take place not later than 31 January 1974. Among the items covered by the treaty, the most important is the establishment of peace, followed by others such as freedom of movement, diplomatic relations, border problems, the Common Market, and the reopening of the Honduran section of the Pan-American Highway.

(d) *Caribbean Free Trade Association (CARIFTA)*

In February 1973, at St. Johns (Antigua), the establishment of the Caribbean Community and the Caribbean Common Market were discussed. Draft intra-area agreements to avoid double taxation through arrangements for tax exemption were prepared at this meeting. The principal aim of these agreements is the promotion of flows of private capital from the relatively more developed countries (Barbados, Guyana, Jamaica and Trinidad and Tobago) to the countries of the East Caribbean Common Market, through joint enterprises. Solutions were also found for the problems of the harmonization of fiscal incentives for industry, and provision was made for a longer period of tax exemption for industries established in the relatively less developed countries than for those established in the more developed areas. The common external tariff and the protection policy for the countries of the area were also discussed. As regards the common external tariff, the bases used were mainly the corresponding tariff of the East Caribbean Common Market, the national tariff of Belize, and the draft common external tariff of CARIFTA prepared between 1970 and 1972.

In the first half of April 1973, during the eighth Conference of Heads of Governments of the British Caribbean Countries, the Georgetown Agreement was signed establishing the Caribbean Community, and it was agreed that the Community could be brought into being more rapidly through the integration process already initiated in the Caribbean Free Trade Association (CARIFTA). It was also decided at the Georgetown Conference to take the following measures to promote integration:

(i) The establishment of a Caribbean Investment Corporation from 1 June 1973, to provide

[28] See SIECA: *Plan de Acción a corto plazo 1973-1975. Medidas para fortalecer los esfuerzos de desarrollo de los países centroamericanos y atenuar las tendencias inflacionarias que afectan sus economías*, published in *Carta Informativa No. 140*, June 1973.

financial assistance to investment programmes in the less developed countries, on the basis of a list of industries previously drawn up;

(ii) The harmonization of tax incentives for industry, as agreed in February at St. Johns;

(iii) The implementation from June 1973 of the intra-area agreement on double taxation negotiated in February of that year;

(iv) The rationalization of agriculture, including special measures in favour of the relatively less developed countries;

(v) The introduction of area-level planning through the immediate initiation of studies for drawing up an Indicative Area Plan, with a view to making the optimum use of area resources, and

(vi) The establishment of area co-operation on price control and the appointment of area commissions on standards, quality and prices.

At the same Conference in Georgetown several measures were adopted on international relations (particularly with the expanded European Economic Community) and on the position to be taken at the GATT multilateral trade negotiations.

In keeping with the decision taken at the eighth conference in Georgetown on 4 July 1973, the Prime Ministers of Barbados, Guyana, Jamaica and Trinidad and Tobago signed the Treaty of Chaguaramas (Trinidad) which established the Caribbean Community and Common Market. The Governments of Belize, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent also undertook to sign and ratify the Treaty of Chaguaramas so that they could become contracting parties by 1 May 1974.

The Treaty places the Conference of Heads of Governments of the Caribbean (which has been held eight times since 1963) on an institutional basis and recognizes the Conference as the Government of the Community and the ministerial groups as "government committees". The main ministerial committee, made up of ministers of industry and trade, will function as the Common Market Council and will be responsible for the supervision and control of the running of the Common Market. Other committees will be responsible for area co-operation and integration in external affairs, finance, education, health, labour, agriculture and mining. Some institutions may be associated with the Community Government and with the ministerial committees (for example, the Caribbean Development Bank and the Caribbean Investment Corporation).

The agreement reached on 4 July was due largely to the existence of CARIFTA, but it is not limited to the establishment of a free trade area, since its objectives are wider in scope. A common external tariff, a common protection policy and a régime covering trade with third countries have been established; tax systems have been harmonized; agriculture has been rationalized, and agreement has been reached on a common rate of exchange, a common monetary policy, the coordination of economic policy, and joint action in industrial development programmes and in the promotion of tourism. Arrangements have also been made for special treatment for the relatively less developed countries through concessions concerning customs duties, fiscal incentives, the common external tariff, imports from the four more developed countries and assistance with exports.

The Treaty of Chaguaramas came into effect on 1 August 1973, on its ratification by the Governments of Barbados, Guyana, Jamaica and Trinidad and Tobago. The common external tariff also came into force on the same date.

V. THE BALANCE OF PAYMENTS IN LATIN AMERICA

1. Evolution of the current account

Between 1972 and 1973 the negative trade balance of the services sector in Latin America increased from 1,080 million dollars to 1,474 million (36.5 per cent), as a result of an 18.6 per cent increase in export and a 21.8 per cent increase in imports. This, together with the trend of the goods sector review in section IV, resulted in an increase of 37.5 per cent in exports of goods and services and 27.5 per cent in imports (see table 11).

Consequently, the over-all balance of goods and services in the region, which basically reflects the situation in the balance of goods, finally showed a surplus of 862 million dollars in 1973 after three consecutive years of deficit (1,128 million dollars in 1972). The countries with the largest surpluses were Venezuela and Argentina, followed by Colombia, Uruguay, Nicaragua, El Salvador and Ecuador. The sixteen remaining countries registered deficits, as most of them have for some years now (see table 12).

As in 1973 net payments of profits and interest on foreign capital amounted to 4,895 million dollars (30 per cent up on 1972 and double the average for 1965-1969), the region generated a deficit on current account of 3,885 million dollars, 900 million dollars less than in 1972. This reduction in absolute terms is rather less than the improvement of around 2,300 million dollars

Table 11. Latin America: exports and imports of goods and services
(Millions of dollars)

Country	Exports of goods and services		Percentage variation	Imports of goods and services		Percentage variation
	1972	1973		1972	1973	
Argentina	2,399.4	3,601.3	50.1	2,284.4	2,567.1	12.4
Brazil	4,374.3	6,767.6	54.7	5,348.3	7,574.6	41.6
Mexico	3,814.1	4,714.5	23.6	4,057.2	5,389.4	32.8
Colombia	1,174.8	1,627.9	38.6	1,206.3	1,541.6	27.8
Chile	965.2	1,489.1	54.3	1,463.0	1,807.8	23.6
Peru	1,153.0	1,339.5	16.2	1,150.8	1,381.1	20.0
Venezuela	4,020.4	5,795.1	44.1	3,007.4	3,725.2	23.9
Barbados	126.7	146.8	15.9	175.8	210.0	19.5
Bolivia	224.7	301.8	34.3	260.6	330.1	26.7
Costa Rica	344.5	424.1	23.1	419.8	497.9	18.6
Ecuador	354.0	615.3	73.8	474.1	612.6	29.2
El Salvador	347.8	421.9	21.3	323.7	410.2	26.7
Guatemala	395.7	510.1	28.9	394.9	520.0	31.7
Guyana	162.9	165.5	1.6	163.3	193.1	18.2
Haiti	63.1	81.2	28.7	85.8	110.1	28.3
Honduras	230.6	285.7	23.9	220.9	296.9	34.4
Jamaica	607.8	680.3	11.9	706.8	762.2	7.8
Nicaragua	287.4	373.5	30.0	260.0	356.5	37.1
Panama	454.7	503.8	10.8	520.4	614.3	18.0
Paraguay	105.7	150.7	42.6	110.2	152.5	38.4
Dominican Republic	410.8	519.8	26.5	442.2	564.5	27.7
Trinidad and Tobago	714.8	762.4	6.7	815.9	821.8	0.7
Uruguay	310.9	400.6	28.9	279.6	376.7	34.7
Latin America[a]	*23,043.3*	*31,678.5*	*37.5*	*24,171.4*	*30,816.2*	*27.5*

SOURCES: 1972: IMF, *Balance of Payments Yearbook*, vol. 25; 1973: ECLA estimates based on official data.

[a] Excluding Cuba.

which took place between 1972 and 1973 in the balance of goods and thus emphasizes the growing absorption of external resources which the balance of trade in services and the net payment of profits and interest on foreign capital mean for Latin America.

Only Argentina, Venezuela and El Salvador recorded surpluses in their current accounts in 1973. Brazil and Mexico together recorded a deficit of 3,270 million dollars. In terms of the volume of their trade, the deficits of Chile, Peru, Jamaica, Panama and Trinidad and Tobago were also substantial.

2. CAPITAL MOVEMENTS

In 1973 Latin America received a net inflow of non-compensatory capital of approximately 8,100 million dollars (6 per cent up on 1972) which financed the region's deficit on current account and boosted its foreign currency reserves by slightly over 4,200 million dollars (see table 12).

As regards movements of non-compensatory capital, with the sole exception of El Salvador, all the countries of the region recorded net inflows. Around 53 per cent of total income went to Brazil, and 22 per cent to Mexico. Other countries which recorded substantial inflows of non-compensatory capital of some consideration were Colombia, Peru and Venezuela, which together accounted for 10 per cent of the regional total. As regards the small countries of Latin America, the net inflows of non-compensatory capital of Ecuador, Panama, Jamaica, Trinidad and Tobago and Costa Rica—each of which received more than 100 million dollars—were notably large.

A review by country of the trend of foreign currency reserves in 1973 shows that they declined in nine cases (Bolivia, Chile, El Salvador, Guyana, Haiti, Jamaica, Panama, Dominican Republic and Trinidad and Tobago) and that the drop was particularly large in Chile, Jamaica and Guyana. Among the thirteen countries which improved their currency reserves situation were Brazil, Argentina and Venezuela, which together achieved an increase of around 4,000 million dollars. Because of their relative size, the increases in the currency reserves of Colombia and Ecuador also stand out. In Mexico, the substantial inflow of non-compensatory capital led only to a moderate increase in reserves, owing to the size of its deficit on current account.

Table 12. Latin America: balance of payment
(Millions o

Country	Balance of goods and services					Net payments of profits and interests					Balance
	Average 1965-1969	*1970*	*1971*	*1972*	*1973*	*Average 1965-1969*	*1970*	*1971*	*1972*	*1973*	*Average 1965-1969*	*1970*
Large countries												
Argentina	234.5	67.0	−130.0	115.0	1,034.2	−178.8	−223.0	−256.0	−333.3	−372.8	54.1	−157
Brazil	62.6	−229.0	−903.0	−974.0	−807.0	−296.4	−428.0	−517.0	−618.8	−843.2	−203.2	−644
Mexico	−81.6	−396.0	−127.0	−243.1	−674.9	−476.4	−691.0	−722.0	−793.7	−1,025.4	−553.0	−1,038
Subtotal	*215.5*	*−558.0*	*−1,160.0*	*−1,102.1*	*−447.7*	*−951.6*	*−1,342.0*	*−1,495.0*	*−1,745.8*	*−2,241.4*	*−702.1*	*−1,839*
Medium-sized countries												
Colombia	−55.8	−149.0	−276.0	−31.5	86.3	−105.4	−180.0	−176.0	−186.7	−213.5	−159.2	−330
Chile	101.4	65.0	−99.0	−497.8	−318.7	−188.6	−179.0	−137.0	−141.0	−89.0	−82.2	−114
Peru	−23.4	253.0	36.0	2.2	−41.6	−140.0	−133.0	−104.0	−123.8	−174.5	−158.0	146
Venezuela	771.0	625.0	984.0	1,013.0	2,069.9	−729.2	−669.0	−874.0	−1,042.3	−1,509.2	−35.8	−130
Subtotal	*793.2*	*794.0*	*645.0*	*485.9*	*1,795.9*	*−1,163.2*	*−1,161.0*	*−1,291.0*	*−1,493.8*	*−1,986.2*	*−435.2*	*−428*
Small countries												
Barbados	−23.5	−52.3	−56.9	−49.1	−63.2	−1.1	−3.2	−3.6	−4.1	−5.0	−21.4	−51
Bolivia	−29.8	−0.2	−29.2	−35.9	−28.3	−14.7	−23.3	−15.3	−21.8	−23.0	−43.5	−22
Costa Rica	−43.8	−66.4	−106.9	−75.3	−73.8	−16.1	−13.6	−14.6	−22.9	−29.7	−55.5	−76
Ecuador	−36.3	−105.0	−179.9	−120.1	2.7	−26.1	−33.5	−34.9	−45.6	−94.0	−58.4	−133
El Salvador	−25.7	−1.4	−27.8	24.1	11.7	−8.1	−8.8	−10.2	−11.0	−13.4	−25.8	2
Guatemala	−23.0	13.5	−28.9	0.8	−9.9	−20.8	−31.2	−36.4	−42.5	−51.9	−35.6	0
Guyana	−2.6	−4.7	11.5	0.4	−27.6	−18.6	−15.9	−18.1	−19.3	−19.8	−22.4	−21
Haiti	−14.2	−16.6	−14.3	−22.7	−28.9	−3.7	−3.6	−3.9	−4.6	−5.5	−7.8	−5
Honduras	−8.9	−47.8	−3.9	9.7	−11.2	−18.3	−22.6	−23.3	−22.8	−27.7	−25.7	−67
Jamaica	−9.8	−76.5	−86.3	−99.0	−81.9	−77.3	−98.2	−102.8	−125.7	−138.3	−69.4	−148
Nicaragua	−29.7	−16.2	−17.7	27.4	17.0	−16.8	−29.1	−31.6	−35.5	−41.3	−46.2	−42
Panama	−8.0	39.3	45.0	65.7	110.5	−22.9	−26.5	−31.4	−32.0	−40.9	−37.0	−69
Paraguay	−23.1	−11.8	−20.0	−4.5	−1.8	−4.9	−9.8	−10.0	−11.6	−13.9	−26.1	−19
Dominican Republic	−52.6	−89.9	−114.7	−31.4	−44.7	−19.4	−26.0	−28.8	−46.8	−59.9	−63.6	−107
Trinidad and Tobago	33.6	15.6	−73.9	−101.1	−59.4	68.8	−75.5	−61.1	−67.5	−74.0	−34.2	−88
Uruguay	39.6	−29.6	−50.2	31.3	23.9	−21.4	−24.8	−21.6	−23.6	−28.3	18.1	−55
Subtotal	*257.8*	*−559.8*	*−844.1*	*−511.9*	*−485.9*	*−359.0*	*−445.6*	*−447.6*	*−537.3*	*−666.6*	*−554.5*	*−905*
Total	*750.9*	*−323.8*	*−1,359.1*	*−1,218.1*	*862.3*	*−2,473.8*	*−2,948.6*	*−3,233.6*	*−3,776.9*	*4,894.2*	*−1,691.8*	*−3,172*

SOURCES 1965 to 1972: IMF, *Balance of Payments Yearbook*, vols. 22 to 25; 1973: ECLA estimates based on data supplied by the countries.

VI. EVOLUTION OF TERMS OF TRADE

This section endeavours to evaluate in more detail the effect of the recent developments already referred to on the terms of trade and purchasing power of Latin American exports.[29] Section VII will then review the evolution of several of the main basic commodities exported by Latin America on the international markets.

As has already been noted, the unit value of exports increased by 33 per cent in 1973 compared with 14 per cent in 1972. At the same tim the unit value of imports increased by 18 per ce in 1973—i.e., more than half the increase of expo prices—and 8 per cent in 1972. As a result, t terms of trade improved in 1973 by 13 per ce and the purchasing power of exports by 20 p cent, indicating a considerable advance over t previous year when the relative percentages were and 10 per cent (see table 4).

1. A RETROSPECTIVE VIEW OF THE TERMS O TRADE IN THE REGION

Before continuing, note should be taken of t considerable improvement in the terms of tra and purchasing power of exports over previo years, as can be seen from certain past exter trade series.[30]

[29] The terms of trade express the implicit transfer of revenue to or from other countries as a result of the trend (increase or decrease) of the prices (or unit values) of goods exported and imported by the region. The purchasing power of exports represents the degree of variation in the volume of exports combined with the variation in terms of trade, i.e., the volume or quantity of goods which can be purchased with the income from external trade. For further details, see ECLA, *Relación de precios del intercambio de América Latina* (E/CN.12/L.99), July 1973.

[30] *Ibid.*

by country according to main transactions
dollars)

current account			*Movement of non-compensatory capital (including errors and omissions)*					*Balance of payments position before compensation*				
1971	*1972*	*1973*	*Average 1965-1969*	*1970*	*1971*	*1972*	*1973*	*Average 1965-1969*	*1970*	*1971*	*1972*	*1973*
−387.0	−219.4	660.2	72.9	437.0	−152.0	83.7	35.8	127.0	280.0	−539.0	−135.7	696.0
−1,409.0	−1,591.7	−1,649.0	460.0	1,278.0	2,023.0	4,105.1	4,272.8	256.8	634.0	614.0	2,513.4	2,623.8
−804.0	−977.1	−1,621.9	561.8	1,113.0	986.0	1,107.3	1,743.9	8.8	75.0	182.0	130.2	122.0
−2,600.0	*−2,788.2*	*−2,610.7*	*1,094.7*	*2,828.0*	*2,857.0*	*5,296.1*	*6,052.5*	*392.6*	*489.0*	*−257.0*	*2,507.9*	*3,441.8*
−449.0	−217.1	−123.6	197.6	372.0	443.0	360.4	307.0	38.4	42.0	−6.0	143.3	183.4
−236.0	−638.8	−407.7	165.8	203.0	−11.0	320.1	154.4	83.6	89.0	−247.0	−318.7	−253.3
−64.0	−110.7	−210.8	154.4	151.0	30.0	161.1	276.2	−3.6	297.0	−34.0	50.4	65.4
31.0	−118.3	456.9	67.2	220.0	414.0	315.9	217.1	31.4	90.0	445.0	197.6	674.0
−718.0	*−1,084.9*	*−285.2*	*585.0*	*946.0*	*876.0*	*1,157.5*	*954.7*	*149.8*	*518.0*	*158.0*	*72.6*	*669.5*
−56.0	−48.1	−62.2	23.5	54.8	60.6	51.2	63.4	2.1	3.7	4.6	3.1	1.2
−42.4	−53.4	−46.1	45.8	25.4	39.9	67.3	38.4	2.3	3.4	−2.5	13.9	−7.7
−118.0	−93.9	−99.3	62.5	67.9	131.9	90.8	103.8	7.0	−8.7	13.9	−3.1	4.5
−209.5	−159.4	−83.7	58.5	137.0	179.2	262.1	175.5	0.1	3.9	−30.3	102.7	91.8
−21.9	22.0	8.6	21.5	10.2	17.7	−3.4	−19.2	−4.3	12.4	−4.2	18.6	−10.6
−39.6	−11.6	−27.4	35.9	19.7	55.1	51.4	89.5	0.3	19.9	15.5	39.8	62.1
−6.8	−18.8	−46.4	22.3	21.2	10.4	29.7	14.6	−0.1	0.1	3.6	10.9	−31.8
−5.1	−6.1	−10.2	8.0	8.8	13.1	14.7	10.0	0.2	3.6	8.0	8.6	−0.2
−24.1	−9.8	−35.4	28.7	58.8	26.2	23.6	38.1	3.0	−8.7	2.1	13.8	2.7
−162.9	−193.7	−185.2	80.2	169.7	188.8	174.3	119.2	10.8	21.2	25.9	−19.4	−66.0
−45.3	−4.5	−19.5	46.3	53.2	50.3	27.9	34.9	0.1	10.8	5.0	23.4	15.4
−79.9	−105.1	−161.0	37.5	76.3	82.7	109.1	160.8	0.5	6.9	2.8	4.0	−0.2
−26.2	−14.1	−13.3	27.2	28.1	29.0	24.1	32.3	1.1	8.4	2.8	10.0	19.0
−127.2	−49.2	−72.0	64.6	103.7	142.0	69.4	54.8	1.0	−3.5	14.8	20.2	−17.2
−132.9	−166.4	−131.0	39.2	77.5	154.7	155.2	115.0	5.0	−11.3	21.8	−11.2	−16.0
−72.4	7.5	−4.5	−10.1	23.3	38.8	17.8	59.9	8.0	−32.0	−33.6	25.3	55.4
−1,170.2	*−904.6*	*−988.6*	*−591.6*	*935.6*	*1,220.4*	*1,165.2*	*1,091.0*	*37.1*	*30.1*	*50.2*	*260.6*	*102.4*
−4,488.2	*−4,777.7*	*−3,884.5*	*−2,271.3*	*4,709.6*	*4,953.4*	*7,618.8*	*8,098.2*	*579.5*	*1,537.1*	*465.2*	*2,841.1*	*4.213.7*

Table 13 illustrates the trend of these aspects in terms of trade, for which it uses average annual indexes covering longer periods so as not to exaggerate the impact of short-term economic changes, such as declines in agricultural crops, interruption of mining activities, etc. The figures given point to two major facts which bear out some of ECLA's basic theories.

The average index of the terms of trade for the period of sustained exterior growth that lasted from 1971 to 1973, for example, is 112, similar to that of the years 1945-1949 and below that of the two five-year periods of the 1950s (132 in the first period and 119 in the second). Even the index for 1973, which is 124, is lower than the average for 1950-1954. It is not possible to forecast the probable trend in 1974 since, although at the end of 1973 and in the first months of this year the rise in the price of some basic commodities became more pronounced, signs of slackening off appeared in March 1974 that could well continue,[31] in addition to which the prices of industrial products are almost certain to keep increasing.

The second conclusion is of a more general nature and brings out the unquestionable dependence of the terms of trade on the events which originate or occur in the central economies.

Looking back over the last 40 years shows how the various world situations have affected the terms of trade and purchasing power of Latin American exports. First of all, there were the years

[31] In February and mid-May 1974, the United States prices of some Latin American export products were as follows, expressed in dollars.

	February	*Mid-May*
Wheat (per bushel)	6.70	3.42
Maize (per bushel)	3.35	2.60
Cattle on the hoof (per pound)	0.62	0.38
Soya (per bushel)	6.80	5.40

The price of copper on the London market also dropped, from 1.40 dollars per pound in February to 1.10 in May.

Table 13. Latin America:[a] past trend of terms of trade
(Base year: 1963 = 100)

	Exports		Imports		Terms of trade	Purchasing power of exports
	Volume	Unit value	Volume	Unit value		
1. *Average annual indexes*						
1930	52	67	54	66	102	53
1931-1934	51	37	34	44	84	42
1935-1939	58	33	47	35	92	53
1940-1944	49	45	39	45	99	48
1945-1949	60	84	70	74	112	67
1950-1954	60	123	86	94	132	79
1955-1959	75	115	100	97	119	89
1960-1964	94	102	103	100	102	96
1965-1967	112	104	116	107	97	109
1968-1970	126	109	146	109	101	128
1971-1973	136	148	187	130	112	153
1970	132	116	160	112	107	141
1971	130	121	173	117	103	134
1972	134	138	186	126	110	147
1973	143	184	203	148	124	177
2. *Annual percentage variation*						
1931-1934	−2	−45	−37	−33	−18	−21
1935-1939	14	−11	38	−20	10	26
1940-1944	−16	36	−37	28	8	−10
1945-1949	22	87	79	64	13	40
1950-1954	0	46	23	27	18	18
1955-1959	25	−7	16	3	−10	13
1960-1964	25	−11	3	3	−14	8
1965-1967	19	2	13	7	−5	13
1968-1970	13	5	26	2	4	17
1971-1973	8	35	28	20	11	19
1971	−2	4	8	4	−4	−5
1972	3	14	8	8	7	10
1973	7	33	9	18	13	20

SOURCE: ECLA, on the basis of official statistics.

[a]Excluding Cuba in all years and Barbados, Guyana, Jamaica and Trinidad and Tobago in the period 1930-1959.

of world crisis at the beginning of the 1930s, when the prices of primary products dropped far more than those of manufactures. During the Second World War the contrary was the case as far as prices were concerned, although not as regards volumes of trade. This was followed by the considerable and more generalized boom of the post-war period of reconstruction (1945-1949), which continued gathering momentum throughout the phase of international tension and the Korean War (1950-1954).

In the second half of the 1950s and during most of the 1960s, there was a considerable increase in the demand of the industrialized countries and, simultaneously, in the volume of Latin America's exports; but at the same time export prices dropped while the prices of the manufactures imported by Latin America gradually rose. This meant a deterioration in the terms of trade, although the purchasing power of exports continued to rise thanks to the increase in the volume of sales.[32]

The end of the previous decade and, even more so, the beginning of the 1970s show a very different picture—a substantial increase in export prices and the improvement in the terms of trade noted above.

[32]It may be noted that Latin America's share in world trade dropped from 11 to 6 per cent between 1948 and 1965. This was largely due to a deterioration in its competitive position vis-à-vis other regions exporting primary products. For this, see ECLA, *Economic Survey of Latin America, 1971* (United Nations publication, Sales No. 73.II.G.1), Part One.

2. The increase in the price of commodities and the unit value of exports

The evolution of the unit value of the Latin American exports depends mainly on changes in the prices of raw materials and other basic products, which account for around 90 per cent of the region's exports (89 per cent in 1970). It should, however, be recognized that, in several Latin American countries, the prices of manufactured goods are somewhat more important, and increasingly so (see table 19). Be this as it may, taking Latin America as a whole, movements of the price index of the main primary products generally coincided with those of the index of the unit value of all exports.

It may be observed from the behaviour of the prices and unit value of exports that the average increase of 40 per cent in the prices of Latin American products in 1973 was reflected in an increase of 33 per cent in the unit value of exports. The corresponding variations for the previous year had been 17 per cent in the case of prices and 14 per cent in that of the unit value (see table 14). The differences are mainly due to the fact that the price index measures the annual average prices recorded in the various world markets, which does not immediately adequately reflect the final prices obtained by the exporting countries. Furthermore, when the international prices reach their highest levels, the volume of actual transactions is frequently fairly small. The contrast is greater during periods of substantial changes in world prices, as was the case in 1973.

The products whose prices most increased during the year were agricultural raw materials, which went up by 79 per cent, compared with 16 per cent in 1972 and a decline in earlier periods. The increases were particularly pronounced in fishmeal (120 per cent), Mexican cotton (72 per cent) and wool from Argentina (71 per cent). The various agricultural products of the temperate zones also rose considerably in price (54 per cent in 1973 and 5 per cent in 1972), especially cereals (wheat increased by 98 per cent, and maize by 89 per cent). Tropical products maintained the rapid upward trend of the previous year (28 per cent in 1973), especially cocoa (96 per cent), Brazilian coffee (31 per cent) and sugar sold on the free market (30 per cent).

Metals, whose prices had more or less levelled off in 1972, also shared in the general boom, notable examples being zinc (whose prices rose by 124 per cent) and copper (66 per cent).

On average, the reference prices for Venezuelan petroleum in 1973 only partly reflect the large-scale increase which took place in October of that year, when the international price went up by more than two and a half times.

In the case of several primary products, however, the price rises were only minimal, thus continuing a trend which began in 1972. The most striking examples are sugar exported to the United States, bananas, iron ores, aluminium and, to a lesser extent, tin.

However, price increases in primary products do not only favour the Latin American economies and developing countries in general. In fact, the share of developing countries as a whole in world exports of foodstuffs, beverages and raw materials barely makes up one third of the total. Only in the fuels sector (more specifically petroleum) do the developing countries supply nearly two thirds of the world total (see table 15). Obviously there are some products which are exported exclusively by developing countries (for example, tropical agricultural products) but, as the above figures show, the dominant position in trade in primary products (including processed agricultural products) is in the hands of the developed countries.

3. Some theories on price movements of basic commodities

The factors affecting the price variations of individual commodities or groups of related products vary in nature and in importance, to such an extent that in several cases there has only been a slight increase or no increase at all.

There can be little doubt that the main reason for the general rise in prices of most primary products is the sustained growth of the industrialized countries, together with political tension and armed conflict.

The economic expansion of the central countries has gone hand in hand with the return of inflation and the world financial crisis. This has given rise to fluctuations and realignments of the main reserve currencies and speculative buying of what are known as "refuge goods" (i.e., non-perishable raw materials), and has strengthened the demand for non-ferrous metals and other products such as cotton, wool and ground cocoa. Presumably, much of the appreciable reduction in stocks of some basic commodities can be accounted for by an increase of the volume of such products in the hands of intermediaries and consumers in industrialized economies. The considerable expansion of Japan's imports in 1973 would seem to be a case in point. The second devaluation of the dollar in February 1973 and the corresponding revaluation of the European and Japanese currencies had the effect of improving the unit value of Latin America's exports and its terms of trade.

From the standpoint of supply, there are other factors, some transitory and some more deeply rooted. For example, several countries and regions

Table 14. Latin America: unit value of exports and prices of some major commodities on the world market

(Percentage variation, on the basis of annual indexes)

Group and product	Weighting (average 1970-1971)	Percentage variation			
		Three-year averages[a]		Annual values[b]	
		1965-1967 / 1960-1964	1968-1970 / 1965-1967	1972	1973
A. *Unit value of exports*	...	*2*	*5*	*14*	*33*
B. *Prices of major export products* . .	100.00	*1*	*6*	*17*	*40*
Petroleum and petroleum products	29.08	−10	0	20	36
Non-petroleum products . . .	70.92	6	9	15	41
C. *Prices of selected products*					
I. *Food and beverages* . . .	41.09	*1*	*9*	*21*	*34*
(i) Tropical zone	32.20	*−1*	*11*	*26*	*28*
Sugar: Free market .	7.29	−57	55	62	30
United States .	3.99	3	12	6	13
Bananas	3.45	−1	1	4	9
Cocoa	1.11	−8	64	21	96
Coffee: Manizales . .	8.36	10	8	15	28
Santos No. 4 .	8.00	6	4	14	31
(ii) *Temperate zone* . . .	8.89	*12*	*1*	*5*	*54*
Beef	4.55	18	5	11	29
Maize	3.54	12	−4	−6	89
Wheat	0.80	2	−4	13	98
II. *Agricultural raw materials* . .	10.16	*−2*	*−2*	*16*	*79*
Cotton: São Paulo . . .	2.00	−1	3	4	54
Mexican . . .	1.59	−4	0	6	72
Pima No. 1 . . .	0.50	2	10	4	...
Wool: Buenos Aires . . .	0.68	27	9	66	71
Montevideo . . .	0.50	−7	−19	37	...
Fishmeal	2.74	25	18	17	120
Soya	1.40	−21	−25	10	56
III. *Metals*	19.67	*33*	*17*	*2*	*42*
Copper	9.53	57	28	−1	66
Iron ores	4.70	−9	1	5	7
Aluminium	2.71	...	...	−7	1
Zinc	1.19	22	−3	22	124
Tin	0.93	38	−6	7	28
Lead	0.61	37	2	19	42

SOURCE: Price index of main commodities exported by Latin America calculated by the Statistical Division of ECLA.

[a] Base year: 1963 = 100.

[b] Base year: 1970 = 100.

of the world producing agricultural commodities (cereals, soya, sugar, cocoa, coffee, etc.) have had very bad harvests. Poor production of other goods, such as copper and fish-meal, has also left its mark.

An important aspect that has already been mentioned in the introduction is the increasing bargaining power of countries producing raw materials and food. At the beginning of 1972 the members of the Organization of Petroleum Exporting Countries (OPEC) set up machinery for adjusting prices in line with variations in the dollar exchange rate in relation to the currencies of the developed countries.[33] At the same time, the efforts of the producer countries members of the International Coffee Organization to obtain a small rise in the price indicators of the International Coffee Agreement—as a partial compensation for the devaluation of the dollar—met with

[33] This agreement was revised in mid-1973 and again in the last quarter of the year.

Table 15. World exports of primary products by areas of origin

Sections of the Standard International Trade Classification (SITC)	*Year*	*Value (millions of dollars)*	*Percentages for*		
			Developed countries	*Developing countries*	*Socialist countries*
Food, beverages and tobacco (sections 0 and 1) . .	1961-1965	27,250	56.1	34.3	8.0
	1966-1970	35,576	57.9	31.9	10.2
Crude materials (section 2) and animal and vegetable oils and fats (section 4) .	1961-1965	22,468	54.6	34.0	9.3
	1966-1970	28,070	56.9	31.2	11.9
Mineral fuels and lubricants (section 3)	1961-1965	15,738	25.4	61.5	13.0
	1966-1970	23,238	24.5	64.3	11.2
Non-ferrous metals (section 6, division 68) .	1961-1965	5,242	61.9	29.7	7.1
	1966-1970	9,672	62.7	30.4	6.9

SOURCES: Prepared on the basis of figures published in United Nations, *Monthly Bulletin of Statistics*, April and July 1972. See also ECLA, *Latin America and the International Development Strategy: First Regional Appraisal* (E/CN.12/947 and Add. 1), Part Two, p. 68.

the firm opposition of the main coffee-importing countries and contributed to its breakdown. As a result, the exporting countries had no alternative but to adopt the policy of defending coffee prices through the appropriate control of exports. Two groups of countries exporting products as dissimilar as petroleum and coffee thus began to exercise what was subsequently—and rather exaggeratedly—to be called "producer power". It may be that not all the commodities are susceptible to supply controls by the exporting developing countries, but joint action, by means of co-ordinated policies and permanent consultation, would definitely seem liable to increase the latter's influence on the world market.

From the standpoint of the structural and long-term aspects of the problem, one must bear in mind first of all the fairly generalized, though sometimes exaggerated, view that expanding the production of some basic commodities is becoming increasingly difficult and presumably more expensive. The inclusion of poorer quality land, of lower quality mineral deposits, of production processes which demand increasing quantities of capital and advanced technology, are some of the arguments that are used to back up the theory. In addition to others, there is the question of the environment crisis in the industrialized countries, the need to offset or eliminate the effects of pollution and the fear that non-renewable natural and energy resources will eventually be exhausted.

These factors do not, however, all point in the same direction. Although in the short and even medium term they may improve the position and prices of many primary products, especially those which are exhaustible, they provide a most powerful incentive to find substitutes for them or increase their supply. As regards petroleum for example, a whole new horizon opens up with the possibility of expansion afforded by the new prices, the vast profits of the producer companies and the steps taken by the industrialized countries to increase their level of self-sufficiency or the reliability of supplies.

It is beyond the scope of this study to forecast future trends with any accuracy. Although, generally speaking, the position of exporters of basic commodities is obviously stronger, this does not apply to all primary goods or to all countries to the same extent and in the same way, as can be seen from the effect of the present situation on certain Latin American countries.

4. World inflation and its effect on the unit value of Latin American imports

We have already seen that the increases in price of primary products often overshadow the fact that the prices of manufactures and services purchased by the developing countries are also rising considerably. The persistent inflation of central economies and the speed with which it is reflected in the price of exports means that the terms of trade of basic commodities do not react in the same way as in the past.

For example, during 1973 the unit value of Latin America's imports increased by 18 per cent, rather more than in previous years. Although details are not available on the prices of the various import items, the general trend of the unit

value seems clearly to reflect the structure of Latin America's imports and the price increases recorded in the central economies.

According to data for 1970, approximately 74 per cent of the region's imports were manufactures, the remaining 26 per cent being composed of primary products (10 per cent for food, 8 per cent for raw materials and 8 per cent for fuels). Given this kind of import structure and considering that manufactures mainly come from the industrialized countries, the higher rates of inflation recorded in the developed countries in 1973 must have played a part in the larger increase in the unit value of Latin American imports.

In fact, a look at the trend of wholesale prices of manufactures in several of the larger industrialized countries, shows that, in every case, the increase recorded in 1973 was substantially higher than in 1972.[34] The comparative figures were 10.5 and 3.3 per cent in the United States, 13.7 and 7.3 per cent in Canada, 12.4 and 4.6 per cent in France, 19.6 and 2.9 per cent in Italy and 13.4 and 0.8 per cent in Japan (see table 16).

[34] The same occurred with consumer prices, as seen above.

In fact, the speed with which prices of manufactures produced by the central economies increased in 1973 gives an indication of their sensitivity to external and internal pressures.

5. The different situations in the regional context

The trend of prices and the terms of trade emphasize the difference in the situations of the various countries and groups of countries of the region, this being largely attributable to the nature and composition of their primary exports. The composition of external purchases also varies from country to country and has been affected in varying degree by rising world inflation and the energy crisis.

In order to examine this aspect of the problem, the countries of the region have been divided into three groups according to their major exports: temperate-zone agricultural products, tropical products, and metals and petroleum.[35] The Cen-

[35] Like any regional classification, this also has its limitations. In Ecuador, for example, which traditionally exported tropical products, petroleum sales are today more important; and Peru is a major exporter not only of metals but also of fish-meal and tropical products.

Table 16. Trend of inflation in some industrialized countries and of the prices of Latin American imports
(Base year: 1963 = 100)

	1970	1971	1972	1973		
				January	October	January to October
1. *Wholesale prices of manufactures*						
United States[a]	117.6	121.1	125.1	129.1	141.7	138.2[b]
Canada[a]	117.4	121.6	130.5	138.7	157.9	148.4
Federal Republic of Germany[a]	108.2	114.0	118.3	122.1	127.9	125.3[c]
France[d]	124.4	127.1	132.9	140.4	157.7	149.4
Italy[e]	123.4	125.6	129.2	136.7	169.0	154.5
United Kingdom[a]	128.3	139.8	147.2	152.6	164.2	156.4
Japan[d]	109.6	108.4	109.3	114.9	131.8	123.9[c]
2. *Unit value of Latin American imports*	112	117	126	...	...	148[b]
3. *Annual rate of increase*						
(i) Prices of manufactures						
United States[a]	3.4	3.0	3.3	...	...	10.5[b]
Canada[a]	1.2	3.6	7.3	...	...	13.7
Federal Republic of Germany[a]	5.6	5.4	3.8	...	...	5.9[c]
France[d]	7.4	2.2	4.6	...	...	12.4
Italy[e]	11.1	1.2	2.9	...	...	19.6
United Kingdom[a]	7.1	9.0	5.3	...	...	6.3
Japan[d]	4.2	−1.1	0.8	...	...	13.4[c]
(ii) Unit value of Latin American imports	3.7	4.4	7.7	...	...	17.4[b]

SOURCE: United Nations, *Monthly Bulletin of Statistics*, February 1974, pp. 150–160 and table 1.
[a] Finished products.
[b] January to December.
[c] January to November.
[d] Industrial products.
[e] Producer goods.

tral American countries, the Caribbean countries and Mexico are studied separately.

(a) *Countries exporting temperate-zone agricultural products*

The sharp increase in prices of temperate-zone agricultural products in 1973 (especially wheat, maize, wool and, to a lesser extent, beef) favourably influenced the external indicators of the main exporters of these commodities–Argentina, Paraguay and Uruguay–(see table 17 and, in table 18, the share of these items in the total exports of each country).

The improvement in the terms of trade of these three countries in 1973 (about 25 per cent) was almost double the average for Latin America (13 per cent). At the same time, the increase in the unit value of exports fluctuated around 45 per cent. The variations in the purchasing power of exports were similar to those in the terms of trade.

The probable evolution of the terms of trade of these three countries, however, is subject on the one hand to the way in which related and transitory factors affect the unit values of the exports of each country and, on the other, to the probable evolution of the unit values of imports according to their composition. Thus to take just fuels, for example, it is natural that Argentina should suffer relatively less than Uruguay from the increase in petroleum prices, since less than 5 per cent of Argentina's total imports are fuels, compared with an estimated 17 per cent in Uruguay (see table 19).

(b) *Countries exporting tropical products*

This group of countries consists of Brazil, Colombia and Ecuador. The favourable evolution of Ecuador's external indicators is particularly striking, thanks to the sharp rises that took place simultaneously in cocoa and coffee prices and the large increase in the production, exports and world price of petroleum, thus raising the unit value of Ecuador's exports by 34 per cent, the terms of trade by 15 per cent and the purchasing power of exports by 55 per cent.

The increase in the unit value of Brazil's exports was 37 per cent, mainly reflecting the trend of soya and coffee prices. The terms of trade improved by 14 per cent and the purchasing power of exports by 30 per cent.

In Colombia, where coffee accounts for around 60 per cent of total exports, the unit value of exports for 1973 increased to the same extent as the price of its "Manizales" coffee, i.e., 28 per cent. Because of the rise in the cost of exports, however, the terms of trade improved by only 8 per cent and the purchasing power of exports by 21 per cent (see table 18).

As regards the future trend of the indicators analysed, the best relative position will be that of Ecuador if its petroleum exports expand as expected. As to Brazil and Colombia, the situation may continue to develop favourably in both countries, thanks both to the policy they have adopted of regulating coffee exports, and to the ability they have recently demonstrated to diversify their exports. The serious repercussions which the increase in the price of petroleum is having on Brazilian imports should nevertheless be borne in mind.

(c) *Countries exporting metals and petroleum*

Of the main countries exporting metals, the terms of trade of Bolivia and Chile follow a similar pattern while those of Peru tend to differ somewhat on account of the greater diversification of its trade.

In 1973 the unit value of exports increased by 34 per cent in Bolivia and 59 per cent in Chile. The same year, the increase in the terms of trade was 14 per cent and 32 per cent and in the purchasing power of exports 15 per cent and 29 per cent respectively. Both in Bolivia and in Chile, however, the terms of trade deteriorated compared with 1970 (by 9 per cent in Bolivia and 5 per cent in Chile).

Peru's terms of trade and the purchasing power of its exports were influenced both by metal exports and by exports of fish-meal and some tropical products. The increase in the cost of the country's imports and the virtual cessation of its exports of fish-meal in 1973 partly offset the increase in prices of other export products. The terms of trade thus only improved by 8 per cent while the purchasing power of exports declined by 3 per cent. Compared with 1970, these indicators show a decline of 10 per cent and 20 per cent respectively.

The trend of the external variables of these three countries points to the likelihood of a relatively "normal" situation, with certain differences between each country. Bolivia has deposits of petroleum for export and also exports some metals which serve as "refuge goods". Copper, in Chile, plays a similar role, which means that the purchasing power of its exports may improve enough to cover more or less successfully its large imports of food and fuel. In Peru, exports of certain metals and the recovery of fish-meal exports should suffice to cover the need for more imports and their higher cost.

The situation of Venezuela, in terms of average 1973 values, only partly reflects the effect of the increase in petroleum prices which took place in the last quarter of the year. Terms of trade improved by 17 per cent and the purchasing power of exports by 22 per cent (64 and 51 per cent

Table 17. Latin America: indexes of the terms of trade and purchasing power of exports by country
(Base year: 1963 = 100)

Country	Unit value								Terms of trade				Purchasing power of exports			
	Exports				Imports											
	1970	1971	1972	1973	1970	1971	1972	1973	1970	1971	1972	1973	1970	1971	1972	1973
Argentina	108	123	142	212	125	127	135	161	86	97	105	132	105	101	105	138
Bolivia	172	144	149	199	110	112	119	140	156	129	125	142	247	226	237	273
Brazil	120	116	145	199	110	115	123	147	109	101	118	135	178	181	231	301
Colombia	125	113	122	156	108	112	119	140	116	101	103	111	152	137	160	194
Costa Rica	110	104	110	132	104	107	115	133	106	97	96	99	234	222	252	272
Chile	186	148	145	230	108	112	117	140	172	132	124	164	214	159	138	188
Ecuador	119	114	119	160	109	113	120	140	109	101	99	114	136	143	181	280
El Salvador	122	120	131	160	98	99	105	124	124	121	125	129	152	150	170	173
Guatemala	128	124	137	165	103	107	116	140	124	116	118	118	183	172	187	202
Haiti	124	116	119	141	109	112	118	139	114	104	101	101	90	102	89	90
Honduras	110	113	117	139	103	107	114	135	107	106	103	103	201	209	204	217
Mexico	121	120	132	155	111	115	122	144	109	104	108	108	130	130	149	175
Nicaragua	111	110	122	150	99	107	111	133	112	103	110	113	170	166	207	226
Panama	117	124	131	145	103	106	110	127	114	117	119	114	175	184	183	172
Paraguay	115	121	135	194	125	130	137	158	92	93	99	123	128	125	157	200
Peru	162	151	149	194	109	110	120	145	149	137	124	134	179	151	147	143
Dominican Republic	115	120	135	173	105	109	114	135	110	110	118	128	118	131	174	188
Uruguay	108	109	141	205	105	111	117	140	103	98	121	146	135	112	111	138
Venezuela	93	121	144	201	126	133	140	166	74	91	103	121	89	103	110	134
Subtotal[a]	*118*	*122*	*140*	*188*	*112*	*116*	*125*	*149*	*105*	*105*	*112*	*126*	*138*	*135*	*150*	*181*
Barbados	85	93	113	130	117	119	124	143	73	78	91	91	84	76	85	86
Guyana	93	101	114	123	114	119	124	142	82	85	92	87	112	119	116	102
Jamaica	123	121	126	129	115	119	124	131	107	101	102	98	182	172	151	151
Trinidad and Tobago	87	109	105	116	113	126	133	146	77	87	79	80	115	119	113	108
Latin America[b]	*116*	*121*	*138*	*184*	*112*	*117*	*126*	*148*	*107*	*103*	*110*	*124*	*141*	*134*	*147*	*177*

SOURCE: ECLA, on the basis of official statistics.
[a] Latin America, excluding Cuba and the English-speaking Caribbean countries.
[b] Excluding Cuba.

Table 18. Latin America: main export products, terms of trade and purchasing power of exports by country
(Percentage variation)

Country	Product	Percentages of total exports[a]		Unit value of total exports		Terms of trade		Purchasing power of exports	
		1963	1970/1971	1973	1970/1973	1973	1970/1973	1973	1970/1973
Argentina	*4 products*	44	51	49	96	26	53	31	31
	Maize	9	17						
	Beef	15	25[b]						
	Wheat	9	5						
	Wool	11	4						
Bolivia	*4 products*[c]	87	73	34	16	14	–9	15	11
	Tin	80	55						
	Zinc	2	8						
	Copper	...	6						
	Lead	5	4						
Brazil	*6 products*	73	53	37	66	14	24	30	69
	Coffee	53	30						
	Iron ore	5	8						
	Cotton	8	5						
	Sugar	5	5						
	Beef	...	3						
	Cocoa	2	2						
Colombia	*4 products*[c]	73	70	28	25	8	–4	21	28
	Coffee	68	61						
	Cotton	2	5						
	Bananas	3	2						
	Sugar	...	2						
Costa Rica	*4 products*	85	67	20	20	3	–7	8	16
	Coffee	48	29						
	Bananas	27	29						
	Beef	5	8						
	Cocoa	5	1						
Chile	*2 products*	79	78	59	24	32	–5	29	–11
	Copper	68	72						
	Iron ore	11	6						
Ecuador	*3 products*[c]	82	77	34	31	15	5	55	106
	Bananas	57	48						
	Coffee	12	19						
	Cocoa	13	10						
El Salvador	*3 products*	73	60	22	36	3	4	2	14
	Coffee	49	45						
	Cotton	24	11						
	Sugar	...	4						
Guatemala	*5 products*	73	59	20	29	–	–5	8	10
	Coffee	51	34						
	Cotton	16	9						
	Bananas	6	7						
	Beef	...	6						
	Sugar	...	3						
Haiti	*2 products*	39	45	18	14	–	–11	1	–
	Coffee	39	37						
	Sugar	...	8						
Honduras	*3 products*	60	61	19	26	–	–4	6	8
	Bananas	40	47						
	Coffee	17	14						
	Cotton	3	–						

Table 18 (*continued*)

Country	Product	Percentages of total exports[a]		Unit value of total exports		Terms of trade		Purchasing power of exports	
		1963	1970/1971	1973	1970/1973	1973	1970/1973	1973	1970/1973
Mexico	*4 products*	25	25	17	28	–	–1	10	35
	Cotton	14	8						
	Sugar	6	6						
	Coffee	5	6						
	Zinc	...	5						
Nicaragua	*4 products*	60	59	23	35	3	1	9	33
	Cotton	38	21						
	Coffee	16	17						
	Beef	...	15						
	Sugar	6	6						
Panama	*2 products*	23	61	11	24	–4	–	–6	–2
	Bananas	23	56						
	Sugar	...	5						
Paraguay	*3 products*	16	39	44	69	24	34	27	56
	Beef	...	33[b]						
	Cotton	8	4						
	Coffee	8	2						
Peru	*8 products*	82	83	30	20	8	–10	–3	–20
	Fish meal	19	29						
	Copper	16	23						
	Iron ore	7	7						
	Sugar	12	7						
	Cotton	17	5						
	Zinc	3	5						
	Coffee	5	4						
	Lead	3	3						
Dominican Republic	*3 products*	68	69	28	50	8	16	8	59
	Sugar	52	51						
	Coffee	10	11						
	Cocoa	6	7						
Uruguay	*2 products*	48	48	45	90	21	42	24	2
	Beef	13	27						
	Wool	35	21						
Venezuela[c]	*1 product*			40	116	17	64	22	51
	Iron ore	4	6						
Barbados	*1 product*			15	53	–	25	1	2
	Sugar	100	66						
Guyana	*3 products*	72	75	8	32	–6	6	–12	–9
	Bauxite	16	32						
	Sugar	43	28						
	Alumina	13	15						
Jamaica	*4 products*	82	84	2	5	–2	–8	–	–17
	Alumina	23	40						
	Bauxite	20	27						
	Sugar	32	12						
	Bananas	7	5						
Trinidad and Tobago	*2 products*[c]	9	6	10	33	1	4	–4	–6
	Sugar	8	5						
	Cocoa	1	1						

SOURCE: ECLA, on the basis of official statistics.

[a] This corresponds to the values used in weighting the price index of the main export product of Latin America, on the basis of 1963 and 1970–1971 and to their share in the total exports of each country.

[b] Including related and semi-processed products.

[c] Excluding petroleum products.

Table 19. Latin America: sectoral composition of the external trade of some countries of the region, 1970
(Percentages of total exports and imports according to sections of the SITC)

Country	Exports					Imports				
									Goods	
	Food (0 + 1)	*Materials* (2 + 4)[a]	*Fuels* (3)	*Primary goods* (0 – 4)[a]	*Manufactures*[b]	*Food* (0 + 1)	*Materials* (2 + 4)[a]	*Fuels* (3)	*Primary* (0 – 4)[a]	*Manufactures*[b]
Total Latin America										
Millions of dollars	*6,764*	*4,032*	*3,634*	*14,430*	*1,569*	*1,675*	*1,260*	*1,279*	*4,214*	*11,815*
Total percentage	*42.3*	*25.2*	*22.7*	*90.2*	*9.8*	*10.4*	*7.9*	*8.0*	*26.3*	*73.7*
Argentina	68.7	16.9	0.4	86.0	14.0	5.7	16.3	4.7	26.8	73.2
Brazil	72.4	24.3	0.5	97.2	2.8	10.1	8.5	12.4	31.0	68.9
Chile	4.1	91.1	–	95.1	4.9	18.2	10.4	7.3	35.8	64.2
Colombia	74.2	7.1	10.6	91.9	8.1	5.8	9.4	1.0	16.2	83.8
Costa Rica	78.7	0.9	0.4	80.1	19.9	9.6	4.5	3.9	17.9	82.1
El Salvador	58.8	12.0	0.5	71.2	28.8	12.3	5.9	2.4	20.6	79.4
Guatemala	58.0	13.9	–	72.0	28.0	9.5	4.9	2.2	16.5	83.5
Honduras	71.6	16.6	3.7	91.9	8.1	10.3	2.5	6.7	19.5	80.5
Mexico	39.3	24.8	3.2	67.3	32.7	6.0	10.2	3.2	19.3	80.7
Nicaragua	52.4	31.1	–	83.5	16.5	8.7	3.8	6.1	18.7	81.3
Panama	76.4	2.2	20.2	98.8	1.2	8.7	1.9	18.8	29.4	70.7
Venezuela	1.5	5.8	90.9	98.1	1.9	8.9	6.3	1.4	16.5	83.5
Barbados	59.2	–	10.5	69.7	30.3	23.0	4.3	5.5	32.8	67.2
Guyana	41.7	54.4	–	96.1	3.9	16.5	2.0	8.8	27.3	72.7
Jamaica	22.6	56.3	2.4	81.4	18.6	17.2	5.0	6.3	28.5	71.5
Trinidad and Tobago	8.5	0.7	77.2	86.4	13.6	10.3	2.0	52.9	65.2	34.8

SOURCE: United Nations, *Yearbook of International Statistics*, 1972.
[a] Including division 68, non-ferrous metals.
[b] Including other non-classified goods, but not division 68.

respectively compared with 1970). The figures are more eloquent if projected into the future: according to IDB estimates, Venezuela's revenue from exports of petroleum should increase in 1974 by around 9,000 million dollars, i.e., three times as much as the total imports of the country in 1973. This places Venezuela in an excellent position to help overcome the negative effects of the world energy crisis in Latin America, not only in terms of the supply of this vital commodity but also as regards the redistribution of financial resources in favour of the Latin American nations most adversely affected by the present situation.

(d) *Mexico, the countries of Central America and the Caribbean countries*

In the thirteen countries in this group (Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Dominican Republic, Barbados, Guyana, Jamaica and Trinidad and Tobago), the terms of trade in 1973 were considerably more unfavourable than in Latin America on average. They deteriorated in three of these countries (Panama, Guyana and Jamaica), remained unchanged in another five (Mexico, Guatemala, Haiti, Honduras and Barbados) and improved in the remaining five countries (Costa Rica, El Salvador, Nicaragua, Dominican Republic and Trinidad and Tobago) by between 1 and 3 per cent, except in the Dominican Republic where they improved by 8 per cent (see table 18). The purchasing power of exports followed a similar pattern.

This trend derives from an insufficient increase in the unit value of exports to offset the increase in the unit value of imports. It is interesting to note some of the factors behind what happened to the unit values of exports which could have a bearing on future developments.

First, it is obvious that, generally speaking, only a small share of the exports of the countries in this group consists of agricultural and temperate-zone products or of metals which have come to serve as "refuge goods", i.e., products whose world prices have recently been rising more or less rapidly. In many of them, on the contrary, a large share of their exports is made up of bananas, sugar for the

Table 20. Latin America: external trade within the Western hemisphere and with other regions, 1970
(Percentage of total exports and imports)

Country	Exports		Imports	
	Western hemisphere	*Other regions*	*Western hemisphere*	*Other regions*
Argentina	30	70	51	49
Bolivia	23	77	55	45
Brazil	38	62	47	53
Chile	26	74	58	42
Colombia	48	52	60	40
Costa Rica	67	33	66	34
Dominican Republic	86	14	66	34
Ecuador	47	53	55	45
El Salvador	55	45	66	34
Guatemala	66	34	65	35
Haiti	63	37	58	42
Honduras	74	26	76	24
Mexico	70	30	69	31
Nicaragua	62	38	73	27
Panama	75	25	65	35
Paraguay	46	54	45	55
Peru	40	60	54	46
Uruguay	21	79	48	52
Venezuela	83	17	57	43
Subtotal[a]	*53*	*47*	*58*	*42*
Barbados	48	52	50	50
Guyana	49	51	34	66
Jamaica	68	32	63	37
Trinidad and Tobago	72	28	50	50
Latin America[b]	*54*	*46*	*57*	*43*

SOURCE: International Monetary Fund, *Direction of Trade Annual*, 1968–1972.
[a] Latin America, excluding the English-speaking Caribbean countries and Cuba.
[b] Excluding Cuba.

United States and certain metals such as aluminium, which are precisely the products whose prices have shown a downward trend in recent years.

Secondly, and linked with the above, the large share of the Western hemisphere[36] in the exports of the countries in this group—especially those of Central America—has had a major bearing in so far as they trade mainly with the dollar area and therefore did not benefit from adjustments in the dollar prices of their products owing to its devaluation. In fact, the proportion of exports sold within the Western hemisphere fluctuates around 70 per cent in the case of the Central American countries, compared with around 30 per cent in that of several South American countries (see table 20).

[36] That is, the United States, Canada and other Latin American countries.

It seems unlikely that the situation of this group of countries will improve to any significant extent in the near future, judging from the indicators studied. However, the situation could take a turn for the better in Trinidad and Tobago, thanks to its position as a petroleum exporting country. The relatively diversified exports of Mexico and the major importance of cocoa, coffee and cotton in the exports of other countries may also lead to a less adverse trend in their terms of trade.

In any case, most of the smaller countries in this group with a low per capita income have suffered, and will probably continue to suffer, from recent trends in world economy and trade. These, therefore, are the countries that most need an increase in international co-operation, especially if the higher price of petroleum implies a substantial increase in the resources which they have to spend on importing this commodity.

VII. SOME INTERNATIONAL COMMODITY MARKET TRENDS

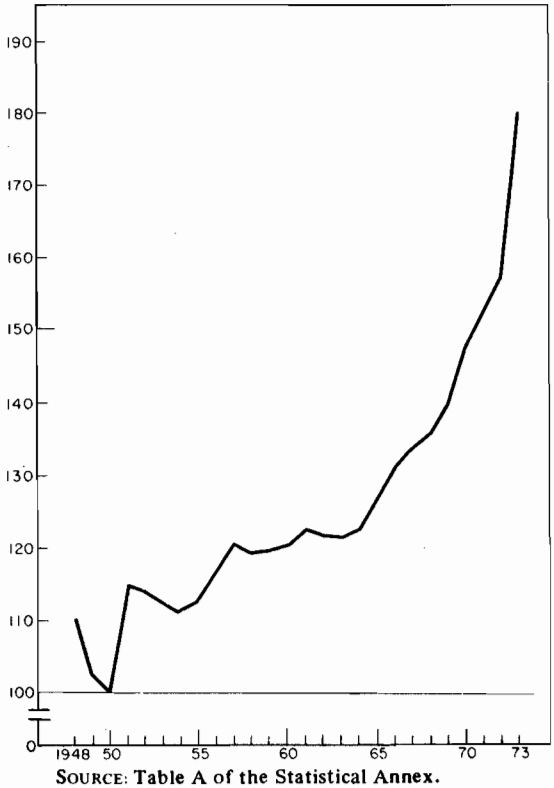
The following is a review of the course which several of the major commodities exported by Latin America—sugar, bananas, cocoa, coffee and wheat among foodstuffs; cotton and wool among agricultural raw materials; non-ferrous metals and petroleum among mineral products—have followed in the international markets. The study will begin with a long-term view of the period 1948-1973, followed by an analysis of more recent market trends, particularly in 1973.

1. Evolution of commodity prices over the last twenty-five years

The international prices of the commodities reviewed here have not increased—and in many cases have even declined—in monetary terms (expressed in dollars or other reserve currencies) over the last 20 years, i.e., as from the beginning of the 1950s. In most cases, in fact, the price increases of recent years, especially in 1973, point to an acceleration of a growing and more or less continuous trend which started at the beginning of the 1960s (see figures I to XI, and the tables of the statistical annex).

If commodity prices are expressed in dollars in terms of constant purchasing power, moreover, the recent price increases can be seen to be merely restoring—and, in some cases, perhaps not entirely—the dollar purchasing power that has been lost over the last 20 or 25 years. To illustrate this point, the annual average prices of the aforementioned Latin

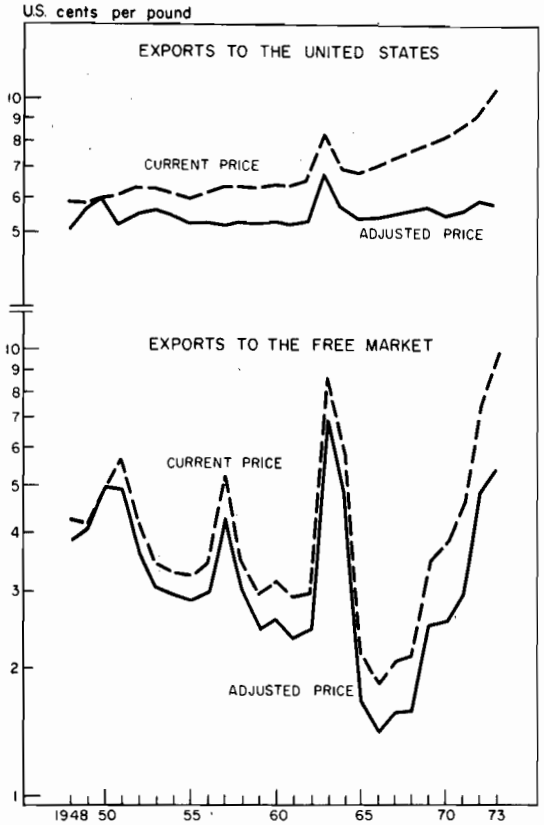
Figure I. United States: indexes of the unit values of exports of goods
(Base year 1950 = 100)
Natural scale



SOURCE: Table A of the Statistical Annex.

Figure II. Sugar: average prices of raw sugar for export to free market and United States

Semi-logarithmic scale



SOURCE: Table B of the Statistical Annex.

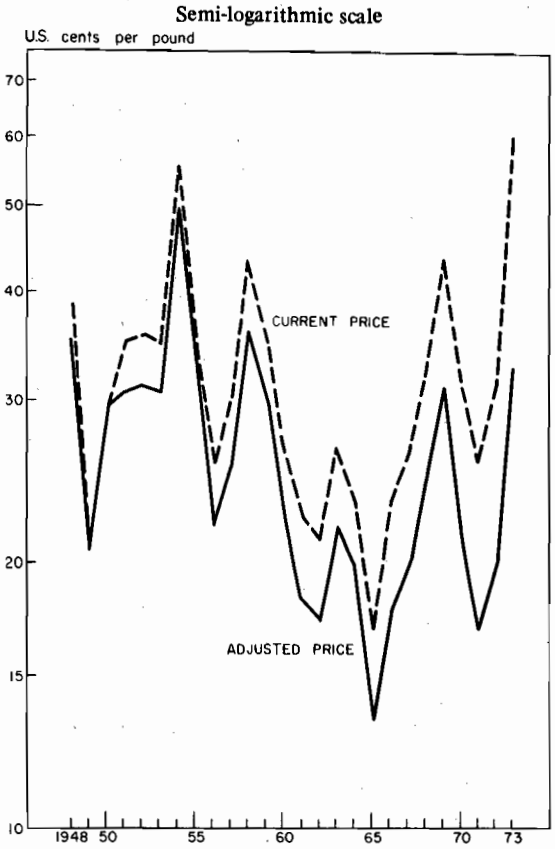
Figure III. Bananas: importer-to-distributor prices in the United States

Semi-logarithmic scale

SOURCE: Table C of the Statistical Annex.

Figure IV. Cocoa beans: average prices of Bahia cocoa in New York

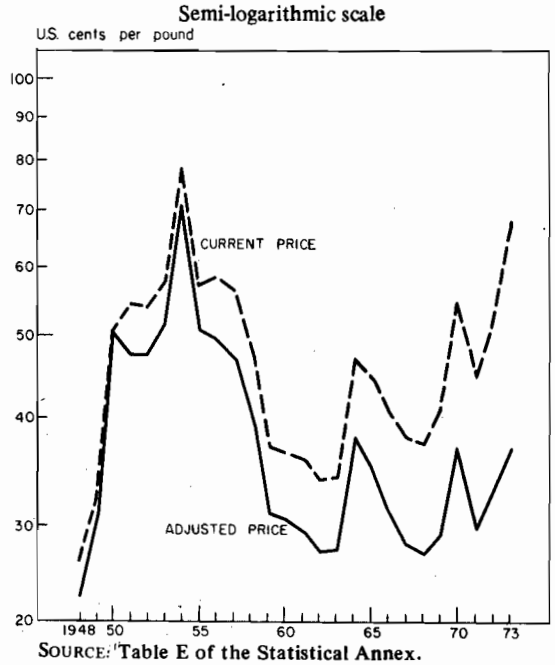
Semi-logarithmic scale



SOURCE: Table D of the Statistical Annex.

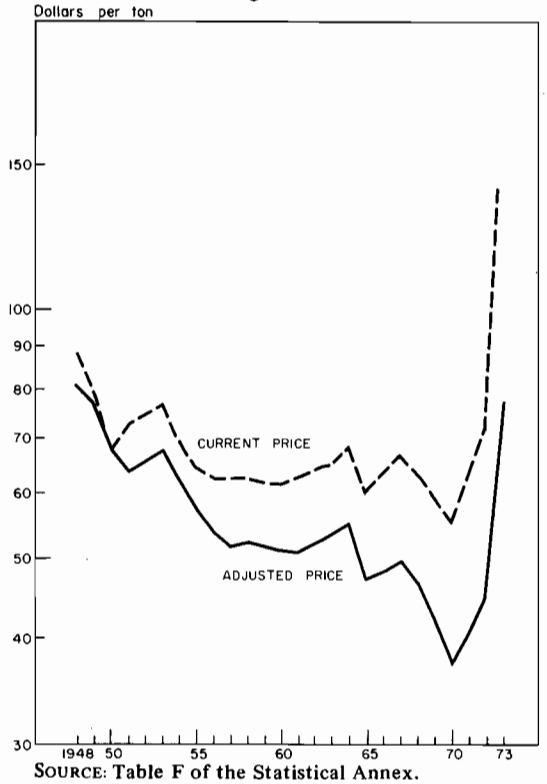
Figure V. Coffee beans: average prices of Santos No. 4 coffee in New York, for immediate delivery

Semi-logarithmic scale



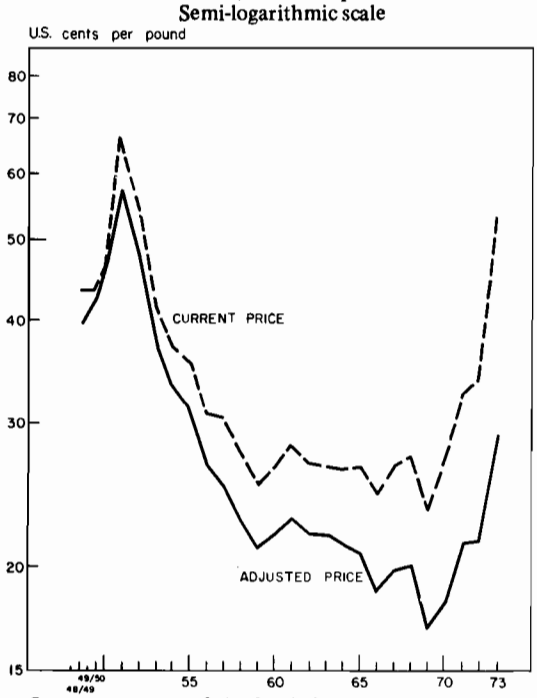
SOURCE: Table E of the Statistical Annex.

Figure VI. Wheat: average prices of United States No. 2 hard red winter wheat for export, FOB ports
Semi-logarithmic scale



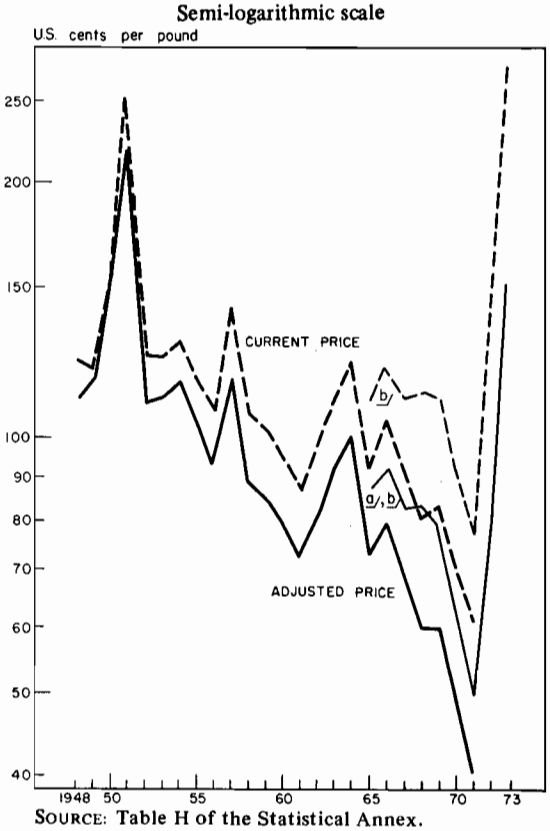
SOURCE: Table F of the Statistical Annex.

Figure VII. Cotton: average prices of São Paulo type 5 cotton, CIF Liverpool
Semi-logarithmic scale



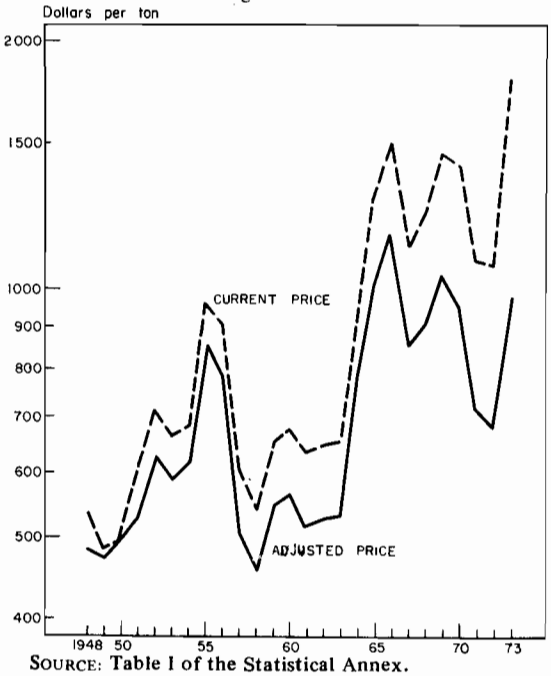
SOURCE: Table G of the Statistical Annex.

Figure VIII. Wool: average prices of Uruguayan wool, 58s-60s, clean basis, in warehouse, Boston
Semi-logarithmic scale



SOURCE: Table H of the Statistical Annex.

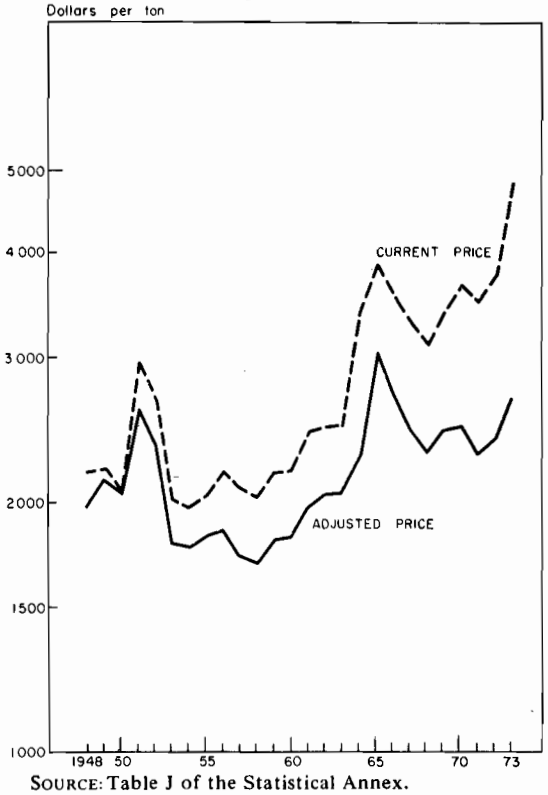
Figure IX. Electrolitic copper: average prices on the London metal exchange, for immediate delivery
Semi-logarithmic scale



SOURCE: Table I of the Statistical Annex.

Figure X. Tin: average prices on the London metal exchange, for immediate delivery

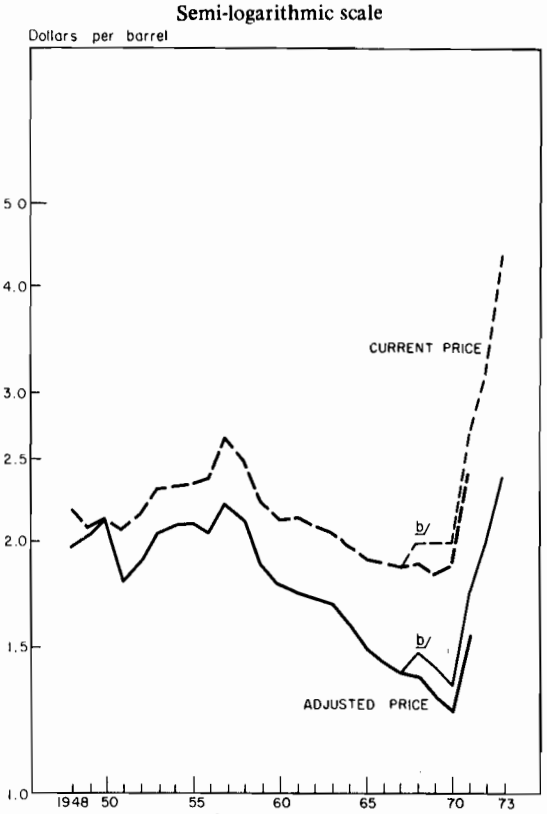
Semi-logarithmic scale



SOURCE: Table J of the Statistical Annex.

Figure XI. Venezuela: average actual prices for exports of crude petroleum and petroleum products

Semi-logarithmic scale



SOURCE: Table K of the Statistical Annex.

American export commodities have been compiled for the period 1948-1973 and then deflated by the index of unit values of United States exports. In terms of purchasing power, the 1973 prices turn out in some instances to be lower than those of several years before. This is especially true in the case of bananas, cocoa, coffee, cotton and wool.

2. More recent trends

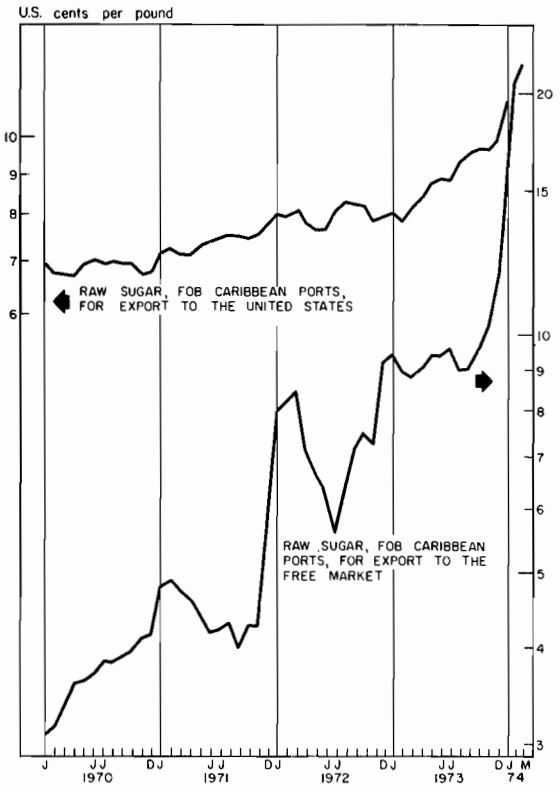
(a) *Sugar*

International prices of raw sugar, for export both to the United States and to the free market, have shown a firm upward trend since the beginning of 1972, primarily because of supply shortages caused by a drop in production in some of the exporting countries. The situation changed little during 1973, when prices maintained—with slight fluctuations—the highest levels for the last nine years (see figures II and XII).

The 24 countries of the Latin American region all produce sugar, and the majority of them have surpluses for export. The main countries which have to import sugar to supplement their production in order to meet the needs of domestic consumption are Chile and Uruguay. The countries of the region were strongly stimulated to increase their production in the 1960s when the United States market became open to them after that country banned imports from Cuba, its traditional supplier. In recent years, however, following the redistribution of the total import quota of the United States, incentives to increase production have been limited mainly to the increase in domestic demand and the production required to meet the occasional deficits of other exporters. This was the situation in 1972 and 1973. Attention should, however, be drawn to the outstanding increase in Brazil's production which in the years 1971/1972 and 1972/1973 surpassed that of Cuba, although the latter country is still the world's leading exporter. It should be noted, however, that Cuba's production of 8.5 million tons in 1969/1970 was exceptional, for its annual average is between 5 and 6 million tons. Table 21 below shows the evolution of Latin American production.

To judge from the production figures, the world supply position improved in 1973 in rela-

Figure XII. Raw sugar prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

tion to 1972, since the production in the 1972/1973 crop year was 5.9 million tons above the previous year's level. Of this increase, only 2.2 million tons are accounted for by Latin American exporting countries, mainly Brazil, Cuba, Argentina and Mexico, and even so the increase obtained by Cuba represents a recovery from the exceptionally small sugar crop in 1971/1972. At all events, demand from importing countries remains active, and although preliminary estimates of the 1973/1974 output indicate a further increase, prices at the beginning of 1974 remained firm.

It is common knowledge that the international sugar market has certain features that distinguish it substantially from other commodity markets. In fact, there have for many years been special arrangements in the world sugar trade regulating the imports of certain countries from a specific group of exporting countries. One such arrangement is the United States system of sugar import quotas, through which this country supplements its domestic production by assigning import quotas to individual countries, mainly in the Latin American region. Another arrangement is the Commonwealth Sugar Agreement by virtue of which the United Kingdom grants preferential access to imports from individual signatory countries of this Agreement within an established quota, at a negotiated price which is revised annually. In the Latin American area the English-speaking Caribbean countries are signatories of this Agreement, which expires at the end of 1974. These countries also have an import quota in the United States market. Exports not covered by the United States system of import quotas or by quotas under the Commonwealth Sugar Agreement go to the "free market", which is thus a residual market.[37] In view of the importance to exporting countries of access to the protected markets, table 22 below shows the exports of Latin American countries, broken down by type of market.

This table shows that between 1970 and 1972 there was a substantial increase in exports to the free market area by the group of 14 Latin American countries listed first. Brazil is the main country to have benefited from this increase, followed to a lesser degree by Argentina, Colombia, El Salvador, Guatemala, Peru, the Dominican Republic and Venezuela. The increase in Brazil's exports (1.4 million tons more in 1972 than in 1971) is largely attributable to purchases by the Soviet Union (325,000 tons) and China (411,000) to which Brazil had not exported sugar in previous years. The Soviet Union's sugar purchases from Brazil and other Latin American countries were a result of the sharp reduction in Cuba's exports to that country from 3.1 million tons in 1970 to 1.6 million in 1971 and 1.1 million in 1972.

The information on exports in 1973 is still very incomplete, but the partial data for some countries indicate a decline in the total volume of exports. The critical supply position, which was due to the reduction in stocks in the hands of exporting countries, still persisted at the end of December 1973, when the price of sugar in London for export to the free market area once again increased. Admittedly, part of this increase also reflected the rise in transport costs; for example, at the beginning of 1973 the freight rate per ton of sugar was £6, while by the end of that year it had risen to £18. This situation does not, of course, apply exclusively to sugar, since the rise in petroleum prices and the restrictions in its supply were

[37] The special arrangements also cover exports under the Convention of association between the European Economic Community and the Associated African States and Madagascar, Cuba's exports to the socialist countries, including the Soviet Union, and the position regarding the exports of the latter country which, according to articles 35-39 of the 1968 International Sugar Agreement, has the status of an importing member.

Table 21. Raw sugar: production of Latin American countries and world total
(Thousands of tons)

Country	*1969/1970*	*1970/1971*	*1971/1972*	*1972/1973*	*1973/1974*
Argentina	970	908	991	1,295	1,660
Bolivia	113	82	118	123	185
Brazil	4,593	5,118	5,388	6,268	7,230
Chile	191	206	173	167	107
Colombia	702	688	790	821	880
Costa Rica	151	155	179	178	193
Dominican Republic	984	1,097	1,138	1,179	1,270
Ecuador	209	227	260	250	260
El Salvador	117	158	185	188	222
Guatemala	185	204	235	270	293
Haiti	60	65	68	67	70
Honduras	53	61	62	59	73
Mexico	2,402	2,476	2,520	2,770	2,878
Nicaragua	141	170	166	142	185
Panama	76	86	87	88	118
Paraguay	48	56	55	53	60
Peru	789	903	921	915	920
Uruguay	44	44	58	75	72
Venezuela	424	492	517	511	556
Subtotal	*12,252*	*13,196*	*13,911*	*15,419*	*17,232*
Cuba	8,533	5,924	4,388	5,250	5,500
Total 20 countries	*20,785*	*19,120*	*18,299*	*20,669*	*22,732*
Barbados	158	137	113	118	132
Guyana	316	375	319	295	300
Jamaica	374	396	384	341	380
Trinidad and Tobago	220	217	232	187	193
Total 24 countries	*21,853*	*20,245*	*19,347*	*21,610*	*23,737*
World total	*71,895*	*70,524*	*70,350*	*76,281*	*82,298*

SOURCE: United States Department of Agriculture, *Foreign Agriculture Circular, Sugar,* December 1973.

undoubtedly reflected in a general increase in transport costs.

Exports from the English-speaking Caribbean countries go mainly to the United Kingdom under the preferential arrangements referred to above. The volume of exports of the four English-speaking Caribbean countries declined in 1972, and the same trend is reflected in the figures for the first nine months of 1973. Because of the contractual character of the existing arrangements with the United Kingdom, the exporting Caribbean countries had to send that country the bulk of their exports even though the current price was considerably below that obtained by other exporting countries not bound by contractual arrangements concerning quotas and negotiated prices. In 1972, prices in the free market area were higher than the "negotiated price" under the Commonwealth Agreement, but in many other years the reverse had been the case. It must be borne in mind that for producers in the Caribbean countries it was essential to maintain their position in the United Kingdom market, since the Commonwealth Sugar Agreement expires at the end of 1974, and the norms regulating the United Kingdom's imports within the enlarged EEC were to be adopted during 1973.

The sugar market boom in 1972 and 1973 should not, however, conceal the significant failure of the conference convened to negotiate a new international agreement to regulate sugar transactions in the free market area. It may be recalled that during the 1960s, when there were no international regulations governing this market, export prices dropped to extraordinarily low levels. The market did not achieve relative stability until after the negotiation of a new international agreement, which was in force from 1969 to 1973. This is the third international commodity agreement (the others being the wheat and coffee agreements) regarding which the exporting and importing countries were unable to reach a reasonable compromise for its renewal with the appropriate amendments, and they subsist merely as administrative organizations for the exchange of information and publication of statistics. On the other

hand, some of the main exporting countries have already taken steps to maintain consultations that will enable them to adopt a price defence policy, along much the same lines as the coffee producers did after the efforts to renew the coffee agreement had failed.

(b) *Bananas*

The recent boom in the market of a fair number of commodities did not spread to the banana market. In the United States, the world's biggest importer and the main market for Latin American exporters, the average price in 1973 was barely 2.7 per cent above the 1972 prices; both prices, however, continued to be lower than in 1970. In the Federal Republic of Germany, the second largest market for Latin American exporters, average prices in marks have been dropping since 1970 and in 1973 reached the lowest level of this period (see figure XIII). In these two markets, prices also registered very wide fluctuations, partly because of the nature of the marketing system of such a rapidly perishable product as bananas and partly because of the seasonal competition of other fresh fruit.

Table 22. Sugar: exports of countries in Latin American region and world total
(*Thousands of tons*)

Country	*Destination*	*1970*	*1971*	*1972*	*Period*	
					1972	*1973*[a]
Argentina	United States	71.3	63.6	77.8		
	Other	49.5	57.5	89.3		
	Total	*120.8*	*121.1*	*167.1*	...	...
Brazil	United States	607.0	597.7	621.2	415.0	172.0
	Other	522.8	632.7	2,016.3	1,131.0	1,354.0
	Total	*1,129.8*	*1,230.4*	*2,637.5*	*1,546.0*	*1,526.0* (7)
Colombia	United States	61.6	53.6	71.2		
	Other	68.1	107.5	131.7		
	Total	*129.7*	*161.1*	*202.9*	...	...
Costa Rica	United States	67.4	83.1	76.3		
	Other	–	–	–		
	Total	*67.4*	*83.1*	*76.3*	...	...
Dominican Republic	United States	660.2	665.0	692.6	351.0	364.0
	Other	132.6	346.2	448.7	335.0	285.0
	Total	*792.8*	*1,011.2*	*1,141.3*	*686.0*	*649.0* (6)
Ecuador	United States	81.4	78.7	85.6		
	Other	–	9.1	10.6		
	Total	*81.4*	*87.8*	*96.2*	...	...
El Salvador	United States	41.7	35.1	44.9		
	Other	6.5	36.0	89.5		
	Total	*48.2*	*71.1*	*134.4*	...	...
Guatemala	United States	56.8	66.8	70.1		
	Other	–	11.0	32.8		
	Total	*56.8*	*77.8*	*102.9*	...	...
Haiti	United States	19.6	20.9	20.4		
	Other	–	4.0	–		
	Total	*19.6*	*24.9*	*20.4*	...	...
Mexico	United States	611.9	551.1	598.4		
	Other	–	–	–		
	Total	*611.9*	*551.1*	*598.4*	*581.2*	*512.9* (10)
Nicaragua	United States	69.4	64.3	72.8		
	Other	–	14.0	35.7		
	Total	*69.4*	*78.3*	*108.5*	...	...
Panama	United States	34.0	42.9	37.8		
	Other	–	–	–		
	Total	*34.0*	*42.9*	*37.8*	...	...

Table 22 (*continued*)

Country	Destination	1970	1971	1972	Period 1972	Period 1973[a]
Peru	United States	403.2	428.6	393.9		
	Other	–	–	87.0		
	Total	*403.2*	*428.6*	*480.9*	...	...
Venezuela	United States	32.0	25.9	65.3		
	Other	4.6	7.0	95.0		
	Total	*36.6*	*32.9*	*160.3*	...	...
Subtotal 14 countries	United States	2,817.5	2,777.3	2,928.3		
	Other	784.1	1,225.0	3,036.6		
	Total	*3,601.6*	*4,002.3*	*5,964.9*	...	...
Barbados	United Kingdom	138.6	120.7	97.3	97.3	103.8
	United States	2.9	1.7	1.9	1.9	1.5
	Other	6.6	5.1	2.9	2.9	4.3
	Total	*148.1*	*127.5*	*102.1*	*102.1*	*109.6* (9)
Cuba	United States	–	–	–		
	Other	6,906.3	5,510.9	4,139.6		
	Total	*6,906.3*	*5,510.9*	*4,139.6*	...	...
Guyana	United Kingdom	171.1	257.8	228.1	145.5	125.0
	United States	112.6	97.2	91.5	75.1	4.7
	Other	24.4	6.6	–	–	–
	Total	*308.1*	*361.6*	*319.6*	*220.6*	*129.1* (9)
Jamaica	United Kingdom	237.1	239.5	243.2	232.2	270.9
	United States	65.6	70.7	42.9	33.3	–
	Other	–	–	–	–	–
	Total	*302.7*	*310.2*	*286.1*	*265.5*	*270.9* (9)
Trinidad and Tobago	United Kingdom	149.2	139.9	156.6	155.9	133.1
	United States	19.7	26.9	26.0	26.0	8.7
	Other	2.1	1.9	0.2	–	–
	Total	*171.1*	*168.7*	*182.8*	*182.1*	*141.7* (9)
Subtotal for Barbados, Guyana, Jamaica and Trinidad and Tobago	United Kingdom	696.0	757.9	725.2	544.0	584.1
	United States	200.8	196.5	162.3	77.9	10.2
	Other	33.1	13.6	3.1	2.9	2.6
	Total	*930.0*	*968.0*	*890.6*	*624.9*	*596.8* (9)
Over-all total for 19 exporting countries		*11,437.9*	*10,481.2*	*10,995.1*	...	...
Total world exports		*22,959.5*	*20,805.6*	*21,786.6*	...	...

SOURCES: International Sugar Organization, *Sugar Yearbook 1971*, and *Statistical Bulletin*, June and December 1973.

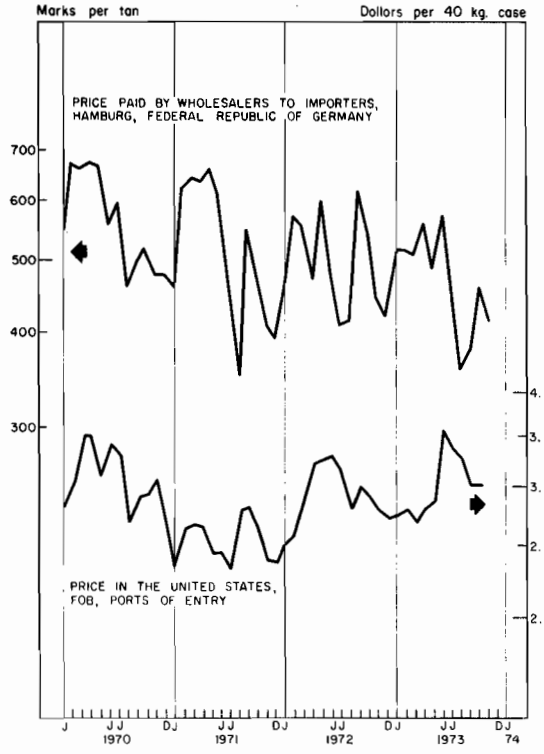
[a]Exports for the number of months indicated in parentheses.

Twenty or twenty-five years ago, banana prices in the United States fluctuated around average levels that were almost the same as those of recent years. As the purchasing power of the dollar dropped in this period, it is obvious that banana prices have declined in real terms almost without interruption. The average price in real terms, i.e., deflated by the index of unit values of United States exports, was 4.17 U.S. cents in 1973, the lowest since 1948. Very few commodities have had to face a similar situation (see figure III).

Slightly over two-thirds of world output and exports of bananas are concentrated in countries of the Latin American region. Table 23 gives the volume of these exports in recent years.

In terms of volume, world exports of bananas have been increasing. In 1962 they amounted to 3.8 million tons, and in 1972 they were close on 6.5 million. No figures are available for 1973, but prices suggest that there have been no problems of supply; on the contrary, the most serious problem which apparently faces banana exporters in the near future is the considerable disequilibrium that could arise between available stocks for export and imports, according to an appraisal of present expansion projects in several countries carried out on

Figure XIII. Banana prices
Semi-logarithmic scale



SOURCE: FAO, *Monthly Bulletin of Agricultural Economics and Statistics.*

the occasion of the fifth meeting of the Inter-Governmental Group on Bananas. In the view of a report presented at this meeting, adequate measures for co-ordinating production programmes should be taken so as to adjust them to foreseeable demands; at the same time greater efforts are required to increase trade liberalization in the banana market, both as regards tariff and non-tariff barriers and the high taxes existing in some developed countries.[38]

The systems employed in the banana import trade range from that of the United States, which is completely free of all restrictions, to the discriminatory and restrictive systems of the European Economic Community and the United Kingdom and the relatively high duties of Japan, which fluctuate seasonally between 40 and 60 per cent *ad valorem*. In order to give an idea of the size of the different markets, table 24 gives import figures for recent years.

Practically all the United States banana imports, which grow steadily (the United States has one of the highest per capita consumptions in the world), come from Latin American countries. The United Kingdom, before it entered the European Economic Community, granted preferential access to the countries of the British Commonwealth and applied a quantitative restriction (an annual quota of 4,000 tons) to the exporting countries of the dollar area and a tariff duty equal to approximately 15 per cent *ad valorem*. The quantitative restriction almost shut the Latin American exporters out of the market. Recently, a hold-up in supplies from its traditional suppliers led the United Kingdom to increase the quota granted to dollar-area countries to 15,000 tons. In any case, as a member of the EEC, the United Kingdom has to bring its tariff policy into line with that of the

[38] See FAO, *Report of the Fifth Meeting of the Inter-Governmental Group on Bananas to the Committee on Commodity Problems* (Rome, 1973).

Table 23. Bananas: exports by Latin American countries and world total
(*Thousands of tons*)

Country	*1969*	*1970*	*1971*	*1972*
Brazil	162.8	204.0	190.5	120.0
Colombia	309.1	257.0	235.0	195.0
Costa Rica	694.6	852.6	865.0	950.0
Ecuador	1,189.6	1,364.1	1,350.4	1,377.4
Guatemala	175.8	180.0	180.5	258.0
Honduras	850.0	815.0	1,000.0	820.0
Jamaica	150.0	134.0	127.9	129.0
Nicaragua	22.0	5.0	–	42.0
Panama	589.0	575.0	590.0	590.0
Dominican Republic	5.0	5.0	1.3	15.9
Latin America	*4,147.9*	*4,391.7*	*4,540.6*	*4,497.3*
Africa	365.1	383.6	400.7	463.7
World total[a]	*5,962.4*	*5,975.5*	*6,408.3*	*6,466.5*

SOURCES: FAO, *Monthly Bulletin of Agricultural Economics and Statistics* (July-August 1971) and *Report on the Fifth Meeting of the Inter-Governmental Group on Bananas to the Committee on Commodity Problems* (Rome, 1973).

[a] Including areas and countries not listed.

Table 24. Bananas: imports by selected countries and world total
(Thousands of tons)

Country	*1969*	*1970*	*1971*	*1972*
Federal Republic of Germany	549.1	517.3	631.9	664.8
Belgium-Luxemburg	74.1	73.4	84.0	95.2
France	449.1	435.2	456.5	506.5
Italy	323.8	312.4	323.0	350.8
Netherlands	88.5	80.9	101.3	118.0
EEC (6 countries)	*1,484.6*	*1,419.2*	*1,596.7*	*1,785.3*
Denmark	38.8	36.2	39.2	41.1
Ireland	19.2	20.2	24.3	25.0
United Kingdom	329.1	307.0	315.5	310.9
EEC (9 countries)	*1,871.7*	*1,782.6*	*1,975.7*	*2,112.3*
Other Western European countries	723.6	709.0	784.4	766.2
Canada	192.9	199.4	207.3	207.3
United States	1,631.6	1,615.0	1,698.6	1,705.0
Japan	738.6	843.9	988.5	1,062.9
Soviet Union and Eastern Europe	108.0	104.0	108.4	167.8
World total	*5,697.5*	*5,722.1*	*6,243.1*	*6,426.5*

SOURCES: FAO, *Monthly Bulletin of Agricultural Economics and Statistics* (July-August 1971), and *Report of the Fifth Meeting of the Inter-Governmental Group on Bananas to the Committee on Commodity Problems* (Rome, 1973).

Table 25. European Economic Community:[a] total imports of bananas by country of origin
(Thousands of tons)

Country of origin	*1968*	*1969*	*1970*	*1971*	*1972*
EEC and associated countries	559	536	456	454	533
Latin America:	872	880	848	1,014	1,080
Colombia	164	121	82	47	33
Costa Rica	10	67	142	223	306
Ecuador	354	289	230	267	242
Guatemala	47	52	83	114	55
Honduras	259	229	163	150	155
Panama	38	122	148	213	289
Other areas	67	66	90	61	125
Over-all total[b]	*1,498*	*1,482*	*1,394*	*1,529*	*1,738*
	(Percentage by area)				
EEC and associated countries	37.3	36.2	32.7	29.7	30.7
Latin America	58.2	59.4	60.8	66.3	62.1
Other areas	4.5	4.4	6.5	4.0	7.2
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

SOURCE: Commonwealth Secretariat, *Fruit Intelligence*, London, July 1973.
[a] Including Belgium, France, Italy, the Netherlands and the Federal Republic of Germany.
[b] There are slight discrepancies with the totals indicated in the previous table.

EEC during the period of transition, which may mean that the situation will not change substantially in the medium term for the Latin American exporters, especially if after the period of transition some preferential treatment for former United Kingdom suppliers is maintained. In the common external tariff of the EEC, the tariff on bananas is 20 per cent; this has not been modified in any way since it was established (unlike the tariff reductions which were achieved for coffee and cocoa, for example), but the impact of the duty—especially in the Federal Republic of Germany—has been attenuated to a large extent by the concession of a free-tariff quota from which the Latin American exporting countries, the traditional suppliers of the German market, have benefited. In general terms, the position of Latin American exporters before the expansion of the EEC market has not deteriorated, despite the preferential advantages granted to the associated countries (see table 25).

The market which has expanded most rapidly in recent years is that of Japan, despite its high

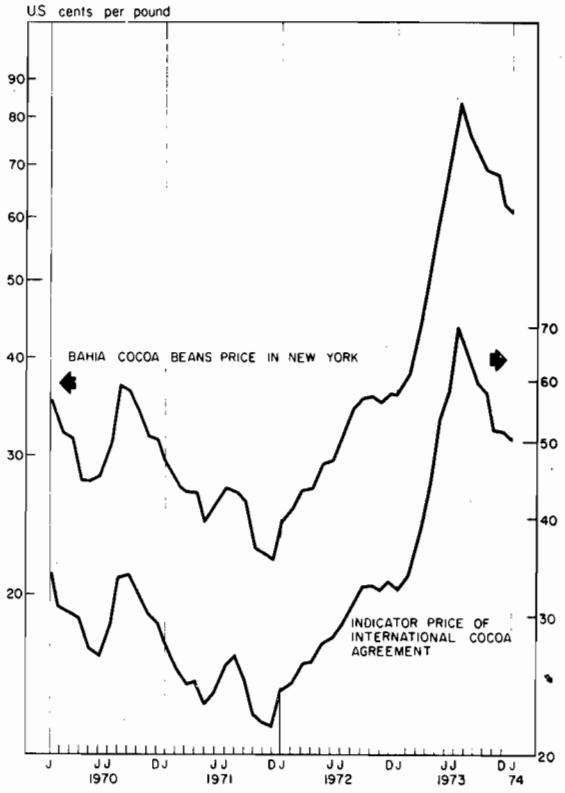
import duties. The Latin American countries, particularly Ecuador, have shared in the expansion of the Japanese market. The total volume of imports of bananas by the Soviet Union and the countries of Eastern Europe is fairly modest, even considering the increase which took place in 1972 compared with the three previous years.

The prospect of a considerable imbalance between world supply and demand for bananas, according to comments made during the Fifth Meeting of the Inter-Governmental Group on Bananas, and the serious deterioration of banana prices in real terms suggest that all the producer and exporter countries should make serious efforts to reach agreements as to the implementation of co-ordinated production and marketing policies which will avoid or attenuate the effects of the imbalance, and help to correct the adverse trend of banana prices in real terms during the last 20 years.

(c) *Cocoa beans*

In July 1973 the monthly average price in New York for Bahia cocoa for immediate delivery rose to the unprecedented level of 85 U.S. cents per pound, as the culmination of a brief period of continuous price increases beginning in February of that year. Prices declined steadily during the next few months, but even so the average for 1973 remained one of the highest figures in the past 10 years. The 1973 average for the indicator price used in the International Cocoa Agreement[39] was 76 per cent higher than the average for 1972 and 67 per cent higher than that recorded for 1970 (see figure XIV).

Figure XIV. Cocoa prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

As on previous occasions, the wide price fluctuations are mainly due to significant variations in world output, and particularly that of the major producers in West Africa. Prolonged drought reduced the yields of the 1972/1973 crop in the principal African producing countries, and this coincided with a world-wide increase in cocoa grinding as a result of low prices in 1971 and the major part of 1972. No doubt these were not the only factors determining price trends, since the devaluation of the dollar, speculation, and the boom in other commodity markets must also have helped to push up prices, but the effect of these latter factors cannot be estimated with any reasonable degree of accuracy. In any case, the reduction seems small in comparison with the impact it had on world market prices. The figures for the Latin American countries and the world total are given in table 26.

Production estimates for 1973/1974 are still very provisional, but they all point to a partial recovery from the previous year's decline, although the sharp reduction in stocks during 1973 could help to make the process of downward price adjustment slower than it might otherwise have been. In this respect, it should be taken into account that the existence of the International Cocoa Agreement (which includes the operation of a buffer stock) introduces a new factor into the international marketing of this commodity, although the average price levels prevailing during the major part of 1973 are far below the maximum price envisaged in the Agreement.

Over the past three years, the volume of world exports of cocoa beans has shown successive increases, which are mainly attributable to the African exporting countries. Latin American exports as a whole, which generally account for 18 to 20 per cent of total world exports, showed relatively little change, but the annual variations in exports of individual countries are sometimes very wide. This situation may change next year, in view of the strong expansion expected in Brazil's production (see table 27).

[39] The indicator price is based on the quotations of the three-month futures markets in London and New York.

Table 26. Cocoa beans: production of Latin American countries and world total
(Thousands of tons)[a]

Country	1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1973/ 1974[b]
Brazil	200	182	167	161	249
Colombia	19	21	22	23	25
Costa Rica	5	4	7	5	7
Dominican Republic	42	25	40	28	34
Ecuador	55	61	67	43	57
Haiti	4	2	2	3	3
Jamaica	2	2	2	2	2
Mexico	25	25	36	30	23
Trinidad and Tobago	6	4	4	4	4
Venezuela	19	18	19	16	18
Latin America	379	345	366	315	422
Africa	1,015	1,101	1,163	1,021	983
World total[c]	*1,441*	*1,501*	*1,587*	*1,386*	*1,469*
Percentage variation	16.1	4.2	5.7	−12.7	6.0

SOURCE: Gill & Duffus, *Cocoa Market Report No. 254*, London, 17 December 1973.
[a]The original figures in long tons were converted to metric tons.
[b]Provisional estimates.
[c]Another source, the FAO publication *Cocoa Statistics*, No. 4, October 1973, indicates a 6.9 per cent decline in world production in 1972/1973 compared with the previous crop year, but this lower estimate was probably made some months before that given in the source of this table.

Table 27. Cocoa beans: exports of Latin American countries and world total
(Thousands of tons)

Country	1970	1971	1972	Period[a]	
				1972	1973
Brazil	120	119	102	15	9 (3)
Costa Rica	3	4	6	2	1 (6)
Dominican Republic	34	28	30	...	...
Ecuador	36	51	46	29	19 (6)
Jamaica	1	1	2	...	...
Mexico	5	4	15	...	...
Trinidad and Tobago	6	4	5	...	...
Venezuela	12	11	10	...	...
Latin America	219	223	218	...	...
Africa	866	915	970	...	...
World total	*1,121*	*1,183*	*1,238*	...	...
Percentage variation	12.3	5.5	4.6	...	...

SOURCE: FAO, *Cocoa Statistics*, No. 4, October 1973.
[a]Exports for the number of months indicated in parentheses.

The rather exceptional world market conditions for cocoa during 1973 offer a sharp contrast to those prevailing during the major part of the last two decades, when long periods of drastic price declines prompted the main exporters to discuss the bases for international action designed to provide a certain measure of stability for the international cocoa market. In October 1972, after nearly 16 years of persistent effort, the major exporting and importing countries successfully negotiated an International Cocoa Agreement, the main points of which are as follows:

The quotations of the future markets in London and New York shall serve as the basis for determining a daily price and an indicator price, the indicator price being the average of the daily prices over a period of 15 consecutive market days;

The aim is to keep prices of cocoa beans

between a minimum price of 23 U.S. cents per pound and a maximum price of 32 U.S. cents per pound. The International Cocoa Council may revise these prices, provided a range of 9 U.S. cents is maintained between them;

A system of basic export quotas is established, calculated for the first quota year on the basis of the highest annual production figure for each country beginning with and including the 1964/1965 crop year. The mechanisms for adjusting the basic quotas are geared to the price scale, for which purpose the range of 9 U.S. cents between the minimum price and the maximum price is divided into areas requiring an automatic increase or decrease in the basic quotas, their suspension or the buffer stock's intervention either automatically or at the Manager's discretion. The Latin American countries eligible for the quota system were to be Brazil (12.7 per cent), the Dominican Republic (3 per cent) and Mexico (1.7 per cent). However, the last two countries finally decided not to participate in the Agreement. The rest of the quotas are for countries in other regions;

There will be no basic quota for the exporting countries producing less than 10,000 tons a year. These countries are listed in annex B to the Agreement and include Bolivia, Cuba, Guatemala, Haiti, Honduras, Nicaragua and Peru, in addition to countries in other regions;

The provisions concerning export quotas and contributions for financing the buffer stock shall not apply to countries exporting fine or flavour cocoa. These countries, which are listed in annex C to the Agreement, include Ecuador, Jamaica, Panama, Trinidad and Tobago and Venezuela, in addition to countries in other regions;

A buffer stock with a maximum capacity of 250,000 tons is established to supplement the export quota mechanism and contribute towards real market stability. The buffer stock will be financed with a contribution of one U.S. cent per pound of cocoa exported. It is estimated that some 25 million dollars can be obtained in this way in the first year of operation of the buffer stock. If necessary, however, the Council may decide to obtain funds from another source. In this respect, the International Monetary Fund stated in April 1973 that the existing IMF regulations are applicable to the International Cocoa Agreement in that the governments which so desire are eligible for credit to finance their contribution to the buffer stock.

The International Cocoa Council met for the first time early in August 1973, once the required number of exporting and importing countries had expressed their decision to ratify the Agreement. In the light of existing conditions and prospects for the near future, it is not considered necessary to apply export regulations, so that no decisions were taken with regard to basic quotas. It was decided not to collect contributions for financing the buffer stock until October 1973.

(d) *Coffee*

Since the 1964/1965 crop year, Brazil's exportable coffee production has not only averaged less than in the previous 10 years, but there have been more frequent and more extensive losses caused by frost in the main producing areas. In view of the importance of Brazil's output in the world total and its influence on general market conditions and world coffee prices, it seems useful to give the relevant figures in order to show the substantial change that has taken place in this commodity market (see table 28).

The 10 years ending with the 1963/1964 crop year were a period of accumulating coffee surpluses and steadily declining world coffee prices, a situation that finally led to the negotiation of the International Coffee Agreement, which entered into force precisely in the 1963/1964 trading year. In the next few years the maintenance of export quotas geared to specific indicator prices introduced a certain measure of stability into the market, without eliminating the tendency of prices to seek their long-term level of equilibrium. This was possible, too, because the availability of surpluses accumulated in the previous decade helped to attenuate the sharp fluctuations in world coffee supplies in certain years.

Sharp annual variations in the exportable production of coffee occur, of course, in practically all the producing countries. Table 29 presents figures for the Latin American producers in the past five years, highlighting the different incidence of fluctuations in Brazil's production (or Colom-

Table 28. Brazil: exportable coffee production
(Millions of 60-kilogramme bags)

Crop year		*Crop year*	
1954/55	14.2	1964/65	3.0
1955/56	21.3	1965/66	30.2
1956/57	11.7	1966/67	12.0
1957/58	20.8	1967/68	14.7
1958/59	26.0	1968/69	8.0
1959/60	37.0	1969/70	10.3
1960/61	22.0	1970/71	1.5
1961/62	28.0	1971/72	14.8
1962/63	20.0	1972/73	16.5
1963/64	21.2	1973/74	6.8
Average	*22.2*	*Average*	*11.7*

SOURCES: United States Department of Agriculture, *Foreign Agriculture Circular FCOF 1-74*, January 1974, and publications from previous years.

Table 29. Coffee beans: exportable production of Latin American countries and world total
(Thousands of 60-kilogramme bags)

Country	1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1973/ 1974[a]
Bolivia	55	65	65	65	65
Costa Rica	1,250	1,095	1,190	1,165	1,285
Dominican Republic	450	505	490	490	515
Ecuador	450	1,080	875	860	650
El Salvador	2,350	2,015	2,440	1,935	1,830
Guatemala	1,510	1,590	1,845	1,990	1,930
Haiti	260	350	370	345	395
Honduras	445	460		645	565
Mexico	1,575	1,680	1,835	2,100	1,800
Nicaragua	495	570	615	480	555
Panama	18	9		20	27
Paraguay	25	13	43	38	40
Peru	720	760	800	800	770
Venezuela	285	265	300	430	450
Subtotal	*9,888*	*10,457*	*11,466*	*9,428*	*10,877*
Brazil	10,250	1,500	14,850	16,500	6,000
Colombia	7,080	6,390	5,750	7,100	7,950
Total Latin America	*27,218*	*18,347*	*32,066*	*33,028*	*24,827*
Africa	18,387	18,531	13,600	19,784	17,804
World total[b]	*48,078*	*40,110*	*53,051*	*57,903*	*45,748*

SOURCE: United States Department of Agriculture, *Foreign Agriculture Circular FCOF 1-74*, January 1974.

[a] Estimates from the source indicated.

[b] Including other producers, principally Asian.

bia's in some cases), compared with the other producers.

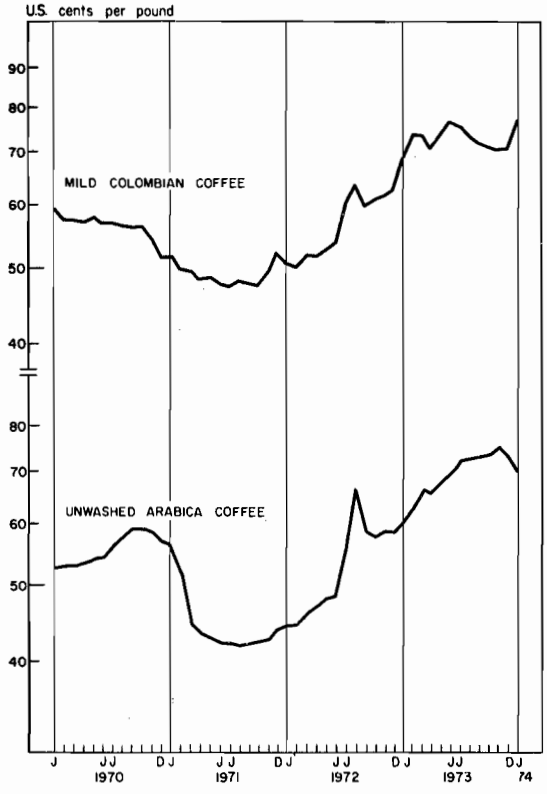
The two aspects referred to above, i.e., the smaller volume of Brazil's output in the period 1964/1965-1973/1974 (50 per cent less on average than in the period 1954/1955-1963/1964) and the opportunity this offered of selling its accumulated surpluses, have largely determined the new conditions under which the international coffee market is developing and account for the rising trend in export prices since mid-1972. Undoubtedly, these are not the only causes: it will be remembered, for example, that since early 1964 the producer countries had been proposing a rise of a few points in the indicator price scale used to adjust the export quotas (under the terms of the International Coffee Agreement), as a necessary measure to offset the official devaluation of the dollar in December 1971, but this suggestion was rejected by some of the major importing countries. The position adopted by the importing countries prompted a group of exporting countries to take concerted action to defend prices through the properly regulated use of their respective export quotas. The further devaluation of the dollar in February 1973 and the smaller supplies available for export in the 1973/1974 trading year subsequently strengthened the already firm position with regard to world prices, which remained throughout 1973 at their highest levels since 1960. However, the average 1973 price of mild Colombian coffee increased by only 28 per cent and that of unwashed arabicas (Brazilian) by 32 per cent over the respective 1972 averages (see figure XV). Moreover, since the annual average quotations for both these types of coffee in 1972 were approximately the same as in 1970, the percentage increase achieved in 1973 may be regarded as negligible, inasmuch as the dollar suffered two official devaluations in the period 1970-1973 which together represent a drop of 19 per cent and a much greater depreciation in terms of purchasing power than the percentage devaluation. Even at best, therefore, the exporting countries' only achievement in 1973 was the recovery of part of their losses caused by the devaluation of the dollar in December 1971 and the sharp drop in coffee quotations in the course of that year.

In terms of volume, both Latin American exports and the world total reached their highest figures in recent years in 1972: 3 per cent above the previous peak recorded in 1969 (see table 30).

Although a smaller volume of exports is to be expected in 1973, particularly in Brazil, there is no doubt that the improvement in prices that year will offset wholly or partially—according to the country— the decrease in volume.

The end of the 1972/1973 trading year on 30

Figure XV. Coffee prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

Table 30. Coffee: exports of Latin American countries and world total
(Thousands of 60-kilogramme bags)

Country	*1970*	*1971*	*1972*
Bolivia	62	64	68
Costa Rica	1,142	1,034	1,254
Dominican Republic	487	421	525
Ecuador	879	777	896
El Salvador	1,865	1,641	1,911
Guatemala	1,599	1,685	1,854
Haiti	259	394	404
Honduras	423	417	545
Mexico	1,413	1,621	1,724
Nicaragua	503	530	580
Panama	29	30	40
Paraguay	27	25	69
Peru	734	709	915
Venezuela	273	329	318
Subtotal	*9,695*	*9,677*	*11,103*
Brazil	17,085	18,399	19,214
Colombia	6,509	6,569	6,528
Total Latin America	*33,289*	*34,645*	*36,845*
Africa	16,883	16,215	17,794
World total[a]	*52,666*	*53,280*	*57,606*

SOURCE: Pan American Coffee Bureau, *Coffee Statistics*, Nos. 35 and 36, New York.

Note: The export figures for Bolivia, Panama and Paraguay are higher than the figures for exportable production, which may be partly attributable to under-estimation of exportable production (or over-estimation of domestic consumption) and partly to border trade, taking advantage of the fact that exporters of less than 100,000 bags annually are not subject to export quotas.

[a] Including countries not listed here.

September coincided with the expiry of the International Coffee Agreement, which for ten years had regulated this commodity market with varying degrees of success. During that period the coffee exporting and importing countries achieved a minimum basis of agreement for the implementation of a policy of co-operation which not only helped to make the market reasonably stable, but was extended to other fields such as the work being done in connexion with the Diversification Fund. As in the case of other commodities, the administrative organization has been maintained to continue assembling and publishing statistical information and to serve as a basis for future intergovernmental consultations.[40] This new phase of the world coffee market was initiated at a time when supply limitations had pushed up export prices to their highest levels since 1960. Nevertheless, the present more balanced relationship between exportable production and world demand makes this relative price stability very vulnerable, and it is therefore all the more imperative for producer countries to continue the close co-operation they have hitherto maintained. A good example of this is the export policy they adopted in the last few months in which the Agreement was legally in force, when no support was forthcoming from the importing countries for the establishment of export quotas. Another example, which may have unforeseeable projections, is the decision of four major exporting countries—later joined by others—to set up a multinational coffee marketing enterprise which could operate as a coffee buffer stock and thus achieve some of the objectives of the defunct International Coffee Agreement.

[40] The first meetings of the coffee-producing countries to review the position of the world coffee market and the prospects of the renegotiation of the Agreement were held in mid-February 1974.

(e) *Wheat*

The international prices of wheat, which began a pronounced upward trend as from early in the 1972/1973 trading year, have continued to increase during the first months of the 1973/1974 season, reaching the highest levels for the last 20 years. The continued price increases in July-December 1973 (the first half of the 1973/1974

trading year), when the markets for many other commodities were showing signs of weakening or had experienced price falls, were an indication of the particularly critical situation of the international wheat market in the last year and of the conditions under which it has been developing since the clauses on prices and supplies were deleted when the International Wheat Agreement was renewed in 1971. It may be recalled that international trade in wheat was governed between 1949 and 1971 by successive international agreements which stipulated minimum and maximum prices and provided for guaranteed purchases and sales between importing and exporting countries. These regulations were deleted when the Agreement was renewed in the year in question but turned into an organization for the mere exchange of information and compilation of statistics.

The upward trend in prices was caused mainly by the serious drop in the wheat production of the Soviet Union in 1972/1973. The harvest was 13 per cent lower than that of the previous year, with the result that this country, which in recent years had been exporting somewhat more than 5 million tons annually, became an importer of large quantities of wheat and other cereals. The drop in total world wheat production was barely 3 per cent, due mainly to the fall in the production of the Soviet Union, a 4 per cent decrease in the production of the United States, and a 28 per cent drop in the case of Australia (see table 31).

According to non-official sources, purchases of cereals by the Soviet Union during the 1972/1973 season came to 19 million tons, of which wheat accounted for 12 million tons, it is estimated in market circles that the total purchases of that country in the 1973/1974 season were in the region of 7.5 million tons, i.e., a good deal lower than the previous year but still of considerable importance in the world market. Reports according to which a major part of the exportable balances of the United States and other exporting countries have already been pledged within the first three months of the current commercial year, confirm that the demand for wheat is as dynamic as it was in the past season, notwithstanding the fact that the preliminary estimates of harvests for 1973/1974 indicate a complete recovery from the shortfalls experienced in 1972/1973. What is clear is that in February 1974, i.e., more than half way through the 1973/1974 trading year, international prices have risen above the levels reached in several months of 1972/1973.

Wheat is a product exported by a small group of developed countries, among which Canada and the United States alone accounted for 58 per cent of the total tonnage exported in each of the years 1970/1971 and 1971/1972. The position of Argentina, the only Latin American country to export wheat, has been deteriorating continuously in recent years because of poor harvests, but there was a substantial recovery in 1972/1973 (see table 31). The trend in world exports by major countries is shown in table 32.

Table 31. Wheat: production of selected countries and world total[a]
(Thousands of tons)

Country	*1969/1970*	*1970/1971*	*1971/1972*	*1972/1973*	*1973/1974[b]*
Brazil	1,100	1,732	2,027	680	1,900
Chile	1,300	1,307	1,368	1,195	780
Colombia	75	50	78	91	50
Mexico	2,169	2,159	1,682	1,644	1,900
Peru	145	125	136	141	200
Uruguay	403	388	320	180	150
Subtotal	*5,192*	*5,761*	*5,611*	*3,931*	*4,980*
Argentina	7,020	4,920	5,680	8,100	5,440
Total Latin America	*12,212*	*10,681*	*11,291*	*12,031*	*10,420*
Australia	10,547	7,890	8,644	6,232	11,750
Canada	18,623	9,022	14,412	14,514	17,010
United States	39,263	36,783	44,029	42,042	47,014
Soviet Union	79,917	99,664	98,760	85,950	95,000
People's Republic of China	22,300	24,500	24,000	23,500	27,000
World total	*308,187*	*311,879*	*343,711*	*332,767*	*348,620*
Percentage variation	−5.5	1.2	10.2	−3.2	4.8

SOURCES: 1969/1970 to 1972/1973: International Wheat Council, ***World Wheat Statistics 1973;*** 1973/1974: United States Department of Agriculture, ***Foreign Agriculture Circular FG-13-73,*** November 1973.

[a] July-June trading year.

[b] Estimates.

In both absolute and relative terms the increase in world exports of wheat and wheat flour reached the highest figure ever in 1972/1973. This increase reflects, as already stated, the extraordinary volume of wheat imported by the Soviet Union, which was provided in the main by the United States, whose exports in 1972/1973 rose spectacularly by 89 per cent over those of the previous year. In relative terms, Argentina's exports increased by an even larger amount (148 per cent), and although this is explained by its extraordinarily low export figures for 1971/1972, the rise in the volume of exports and the improvement in prices helped to generate a substantial increase in the country's foreign currency earnings.

The events in the monetary field apparently had little influence on developments in the international wheat market, unlike what happened in the case of other products such as metals. On the other hand, there seems to be no doubt that the massive purchases of cereals by the Soviet Union and to a lesser extent by the People's Republic of China were made possible by the United States policy of rapprochement with these countries, which facilitated the negotiation of trade agreements. Furthermore, the fact that a large part of the supplies available for export by the United States in the 1973/1974 trading year is already pledged may be due partly to the fact that the Soviet Union wishes to import substantial quantities of wheat to meet its export commitments and partly to hedging by commodity dealers as a means of protecting themselves against the possibility of the introduction of export control regulations such as were brought in temporarily during the 1972/1973 trading year in the case of soya and other products. In any event, the level of stocks of wheat in the major exporting countries at the end of the trade year 1972/1973 is lower than it has been for the last 20 years, and indeed this level could be considered critical, particularly in the case of the United States, in view of the current production and export forecasts for 1973/1974 (see table 33).

Table 32. Wheat and wheat flour: world exports[a]
(Thousands of tons)

Country	*1968/69*	*1969/70*	*1970/71*	*1971/72*	*1972/73[b]*
Argentina	2,785	2,108	1,704	1,328	3,300
Australia	5,369	7,250	9,492	8,736	5,400
Canada	8,700	8,999	11,561	13,716	15,700
EEC[c]	5,020	7,167	3,105	4,656	...
Spain	881	499	116	168	...
United States	14,693	16,480	19,821	16,907	32,000
Sweden	365	274	228	135	...
Soviet Union	5,397	5,887	7,072	5,478	2,500
Others	1,785	1,593	607	1,319	...
World total	*44,995*	*50,257*	*53,706*	*52,443*	*69,000*
Percentage variation	−11.5	11.7	6.9	−2.4	31.6

SOURCE: International Wheat Council, *World Wheat Statistics 1973.*
[a] July–June trading year.
[b] Estimates published in United States Department of Agriculture, *Wheat Situation,* November 1973.
[c] Excluding intra-Community trade.

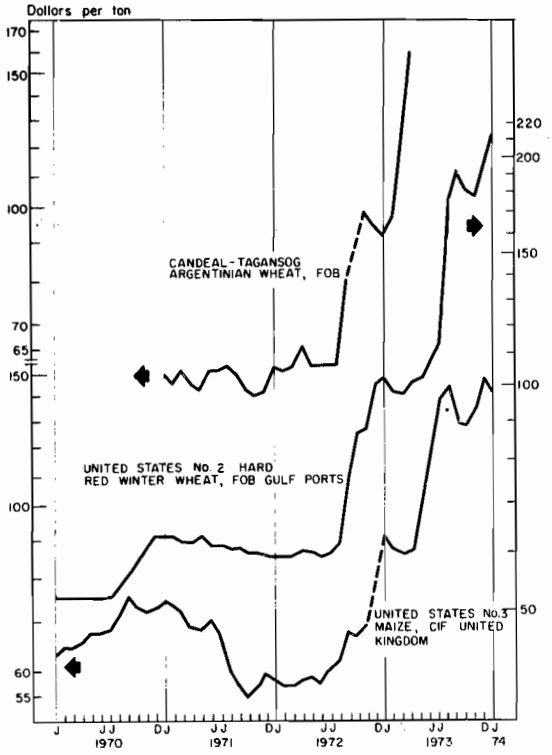
Table 33. Wheat: stocks in the major exporting countries[a]
(Millions of tons)

Country	*Argentina*	*Australia*	*Canada*	*United States*	*Total 4 countries*
1970	3.2	12.3	29.1	24.1	68.7
1971	2.9	8.4	22.1	19.9	53.3
1972	2.9	5.1	18.1	23.5	49.6
1973[b]	2.8	3.0	12.0	11.6	29.4
1974[c]	2.6	4.6	9.3	7.9	24.4

SOURCE: United States Department of Agriculture, *Foreign Agriculture Circular FG-11-73,* 24 August 1973.
[a] As at 30 June of each year.
[b] Estimates.
[c] Projections.

At the end of 1973 (i.e., at the end of the first half of the trade year 1973/1974) the export prices of wheat were still at the high levels shown in figure XVI. This suggests that the demand for wheat is still very dynamic and tends to confirm present forecasts to the effect that world exports in 1973/1974 will only suffer a slight reduction from the maximum figure reached in 1972/1973. Although the Soviet Union may well reduce its purchases considerably, it is likely to continue to be a substantial importer. The People's Republic of China is also likely to continue increasing its imports. Details of main world imports of wheat and wheat flour, by major areas, are given in table 34.

Figure XVI. Prices of wheat and maize
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

The greatest increase in imports is expected to be recorded by the group of developing countries in south-east Asia (Bangladesh, Sri Lanka, India, Indonesia and Pakistan) and by certain African countries. In Latin America, imports increased significantly in 1972/1973 because of the substantial fall in Brazil's production. Although imports for 1973/1974 could show a moderate fall, they are likely to continue to exceed 6 million tons annually.

(f) *Cotton*

By the end of 1973, the increase in international cotton prices had reached levels comparable with those prevailing at the beginning of the Korean war, which had not been repeated since then. The upward trend began in the latter half of 1972 and reached its peak around the middle of 1973, having been touched off initially by the resumption of production of the textile industry in a large number of countries and later accentuated by the shortage of supplies available for export. The sharpness of the rises can be judged by the fact that the prices for most types of cotton doubled between January and September of 1973 (see figure XVII). Although, far from there being any significant decline in world production, this has increased moderately in recent years, some exporting countries have experienced drops in their production which have affected to a greater or lesser extent the surpluses available for export. The total production of the countries of the Latin American region dropped by approximately 20 per cent in 1970/1971 compared with the previous year, the countries which experienced the most

Table 34. Wheat and wheat flour: world exports
(Millions of tons)

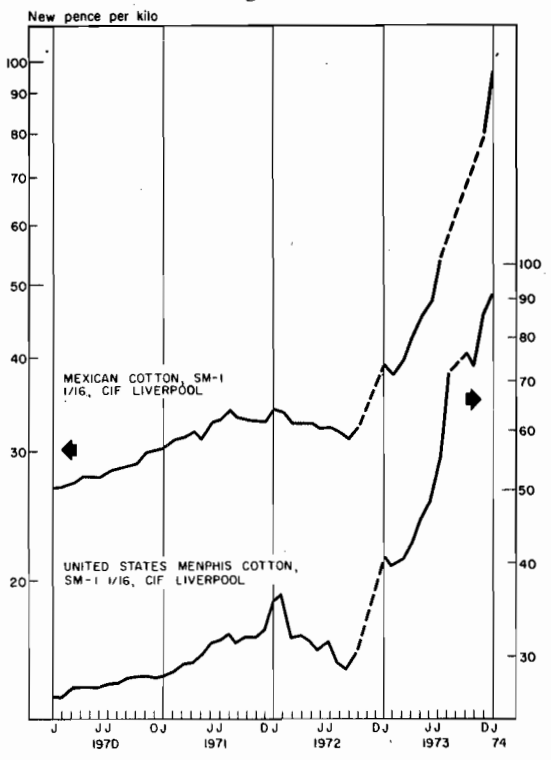
Country	*1970/71*	*1971/72*	*1972/73*[a]	*1973/74*[b]
Japan	4.8	5.0	5.5	5.5
Western Europe[c]	13.8	12.2	13.0	13.5
Eastern Europe	6.5	4.8	4.7	4.0
Soviet Union	0.3	3.4	14.9	5.5
People's Republic of China	3.5	3.0	5.4	6.5
Developing countries	20.5	20.6	22.3	27.7
World total	*56.3*	*55.5*	*73.5*	*70.3*

SOURCE: United States Department of Agriculture, *Foreign Agriculture Circular FG-12-73*, 26 October 1973.
[a] Provisional figures.
[b] Forecasts.
[c] Including reciprocal trade of the nine EEC members.

serious drops in production being Brazil and Mexico (the two major exporters of the region), together with Argentina (see table 35).

Following the deterioration in Latin American production in 1970/1971, previous levels of production were restored in the two subsequent years, except in Argentina whose production has been subject to wide fluctuations. The restoration of these levels of production in Brazil and Mexico did not mean that they recovered their previous export capacity, since domestic consumption had reached a higher level in the meantime. Indeed, in Brazil it was even necessary to introduce temporary export restrictions in order to give priority to domestic supply.

Figure XVII. Cotton prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

Although it would appear from the figures for recent years that the Central American countries—El Salvador, Guatemala and Nicaragua—have increased their production considerably, the fact is that these countries have merely been recovering levels of production already reached during the past decade. Bolivia is the only country where the cultivation of cotton, rising from an insignificant level 10 years ago, has accumulated small exportable surpluses in the past three years (see table 36).

The increase in prices which began in the 1973/1974 season can partly be explained by the export figures for the United States and the level of its stocks, for, as may be seen from the previous table, world exports in 1972/1973 showed an increase of 424,000 tons (10.5 per cent) over the figure for the previous year and the United States provided 418,000 tons of this increase. Concurrently, the level of cotton stocks in the United States, which on 1 August 1966 stood at 3.65 million tons, fell to 1.25 million tons by 1 August 1970 and to 0.7 million tons by 1 August 1972.

It may also be useful to describe the special features of the recent situation from the point of

Table 35. Raw cotton: production of Latin American countries and world total
(*Thousands of tons*)

Country	*1969/70*	*1970/71*	*1971/72*	*1972/73*	*1973/74*
Argentina	145	85	87	127	...
Bolivia	4	10	15	26	28
Brazil	672	499	672	640	...
Colombia	128	117	128	136	150
Ecuador	5	4	5	5	5
El Salvador	46	55	68	70	76
Guatemala	56	57	81	93	98
Mexico	379	312	372	386	340
Nicaragua	67	78	104	105	119
Paraguay	13	7	13	22	24
Peru	85	77	87	65	...
Venezuela	14	16	21	18	18
Latin America	*1,614*	*1,317*	*1,654*	*1,693*	...
Africa	1,385	1,256	1,304	1,233	1,263
United States	2,181	2,219	2,280	2,983	2,845
World total	*11,366*	*11,367*	*12,415*	*12,927*	*13,060*

SOURCE: International Cotton Advisory Committee, *Cotton: World Statistics*, January 1974.

Table 36. Raw cotton: exports from Latin American countries and world total
(Thousands of tons)

Country	*1969/1970*	*1970/1971*	*1971/1972*	*1972/1973*[a]
Argentina	12.1	45.5	0.2	–
Bolivia	1.1	4.3	6.5	15.2
Brazil	420.6	220.1	306.8	290.3
Colombia	48.6	44.5	52.3	49.9
El Salvador	43.8	48.6	54.6	58.1
Guatemala	46.0	53.8	71.1	83.5
Mexico	264.7	163.9	196.2	186.2
Nicaragua	61.6	82.8	94.5	91.1
Paraguay	11.5	6.1	3.7	17.3
Peru	76.5	58.8	58.3	43.4
Latin America	*986.5*	*728.4*	*843.4*	*835.0*
Africa	9,876.0	959.2	886.8	926.5
United States	626.5	848.6	737.1	1,154.8
World total	*38,320.0*	*3,827.8*	*4,031.8*	*4,455.7*

SOURCE: International Cotton Advisory Committee, *Cotton: World Statistics*, January 1974.
[a] Provisional figures.

view of the importers. The greatest demand came from two countries, the People's Republic of China and Japan, which between them accounted for more than 309,000 tons of the 468,000 tons increase in world imports in 1972/1973. The remainder was accounted for mainly by bigger imports by Western Europe (see table 37).

During the final months of 1973 (that is, at the beginning of the second quarter of the 1973/1974 trading year), international cotton prices were at the highest levels recorded in the last 20 years. If such a situation had occurred some years back, it would have provoked the most serious concern, because of the need to maintain a favourable cotton/synthetic fibre ratio so that there would be no incentives to encourage greater substitution of natural fibre by synthetics, but the higher price of raw materials for the petrochemical industry has introduced a new factor which makes it necessary to review the whole problem of competition between natural and synthetic products, not only in the light of the new prices being established but also from the point of view of the alternative use of resources which are more or less scarce.

(g) *Wool*

Following a long period of depressed prices, which was at its worst between the 1966/1967 and 1971/1972 trading years, international prices for the various types of wool began to rise, and in the most recent trading year they reached the highest levels of the past 20 years (see figure XVIII).

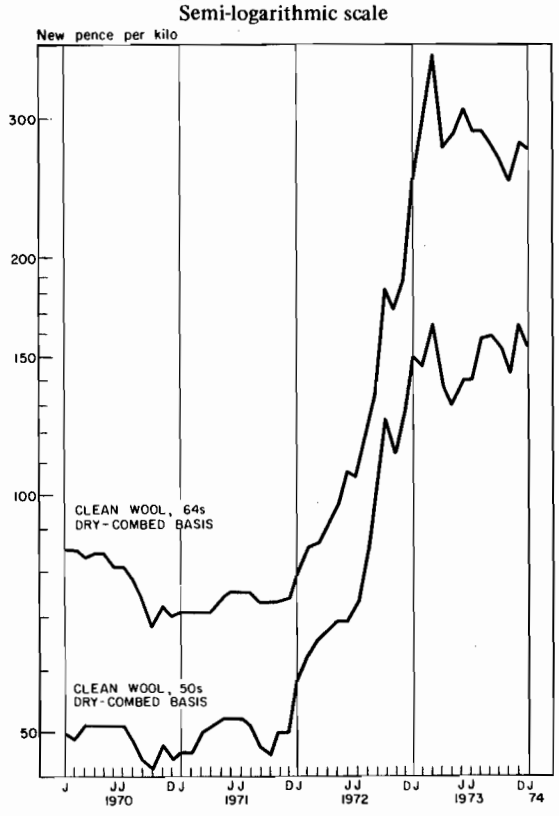
World production of wool has shown a continuous decline since 1968/1969, including the 1972/1973 season, and the estimate for 1973/1974 is the lowest for the last 10 years. The persistent fall in prices and the severe drought in some of the producing countries led to reduced

Table 37. Raw cotton: imports by principal countries and areas, 1969/1970 to 1972/1973
(Thousands of tons)

Country	*1969/1970*	*1970/1971*	*1971/1972*	*1972/1973*[a]
Western Europe	1,332.1	1,285.7	1,292.7	1,421.5
Soviet Union	260.2	238.5	173.5	173.5
Eastern Europe[b]	574.8	586.9	562.0	585.6
People's Republic of China	75.9	97.6	151.8	390.3
Japan	750.6	798.8	774.0	845.4
Rest of Asia	715.3	820.9	752.8	778.2
World total[c]	*3,919.5*	*4,063.7*	*3,972.6*	*4,440.3*

SOURCE: International Cotton Advisory Committee, *Cotton: World Statistics*, January 1974.
[a] Provisional figures.
[b] Includes Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania.
[c] Also includes other areas not mentioned.

Figure XVIII. Wool prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

flocks and smaller fleece yields. In such conditions, a reactivation of world consumption like that experienced in the calendar year 1972 rapidly consumed the available stocks held by the principal exporting countries and it is probable that the total consumption in 1973 (although expected to be lower than in 1972) will not be able to be satisfied by production (see table 38).

Although wool is produced by many countries, there are five main exporters (Argentina, Australia, New Zealand, South Africa and Uruguay). Variations in production and stocks in these countries are therefore decisive factors in international market trends, together with consumption and demand trends in general. Table 39 gives the recent production figures for wool.

In the Latin American region, Argentina's production has been fluctuating since 1962/1963 around the figures indicated in table 39. Uruguay's production has shown a slight declining trend for the greater part of the last decade, and the years 1971/1972 and 1972/1973 recorded the lowest production since 1960/1961. In the remaining countries of the region, which are small producers

Table 38. Wool: world production and consumption, clean basis
(Millions of pounds)

	Production[a]	*Consumption*[b]
1964	3,263	3,203
1965	3,291	3,281
1966	3,423	3,405
1967	3,470	3,249
1968	3,571	3,453
1969	3,543	3,535
1970	3,508	3,462
1971	3,430	3,410
1972	3,250	3,524
1973	3,228	3,325[c]

SOURCE: United States Department of Agriculture, *Wool Situation*, November 1973.
[a] Trading year.
[b] Calendar year.
[c] Estimate.

of wool, only Chile showed a marked drop in production in recent years. From the point of view of the international market, the sharp fall in Australian production in the years 1972/1973 and 1973/1974, the persistent decline in South Africa (falling since 1966/1967) and the moderate drop in New Zealand in the last two seasons are all worthy of note.

The United States, the whole of Western Europe (with the exception of Ireland), the Soviet Union and the countries of Eastern Europe are all net importers of wool.

Recent trends in the volume of wool exported are shown in table 40. The highest figure for the past decade was in 1969/1970, when the average price for wool was near its lowest level. The drop in prices became even more pronounced in 1970/1971, and this was certainly one of the causes of the decline in exports recorded in that year. A further drop in total exports, this time less marked, was recorded in 1971/1972. Finally, in the 1972/1973 season, production fell even more steeply just as world demand was rapidly recovering, with the result that much of the exporting countries' stocks were absorbed and conditions favourable to the increase in prices already mentioned were created.

On the basis of preliminary information, Argentina's exports in the 1972/1973 season increased by 44 ~~per~~ cent over 1971/1972, thus recovering a level comparable with that of the years 1966/1967 to 1968/1969, which had been followed by a sharp decline as shown in table 40. On the other hand, the exports of Australia, South Africa and to a lesser extent, New Zealand fell in 1972/1973 compared with the immediately preceding year.

Although information on wool imports for

Table 39. Wool: production of selected countries and world total
(Actual weight in millions of pounds)

Country	1969/1970	1970/1971	1971/1972	1972/1973	1973/1974
Argentina	445	441	417	428	448
Brazil	83	89	76	82	85
Chile	57	49	40	36	31
Mexico	10	9	8	8	9
Peru	22	21	20	20	20
Uruguay	176	172	119	132	148
Latin America	*793*	*781*	*680*	*706*	*741*
Australia	2,035	1,953	1,929	1,667	1,625
New Zealand	723	736	710	681	661
South Africa	320	271	251	238	223
United States	194	187	181	174	157
United Kingdom	106	101	104	104	106
Soviet Union and Eastern Europe	1,235	1,299	1,323	1,303	1,329
Others	725	735	755	747	745
World total	*6,131*	*6,063*	*5,933*	*5,620*	*5,587*

SOURCE: United States Department of Agriculture, *Wool Situation* (November 1973), and *World Agricultural Production and Trade* (September 1973).

Table 40. Wool: exports of selected countries and world total
(Actual weight in millions of pounds)

Country	1969/1970	1970/1971	1971/1972	1972/1973
Argentina	212	195	163	180
Brazil	43	33	30	–
Chile	24	19	9	–
Peru	6	5	–	–
Uruguay	88	104	61	53
Latin America	*373*	*356*	*263*	...
Australia	1,662	1,507	1,612	1,548
New Zealand	668	649	696	643
South Africa	247	169	222	179
Others	438	424	238	...
World total	*3,388*	*3,105*	*3,053*	...

SOURCE: United States Department of Agriculture, *Wool Situation* (May 1974), and *Foreign Agriculture Circular FW-1-73* (April 1973).

1972/1973 is not yet available, it would seem that the increased activity in the market was due largely to the increase in Japan's purchases. Japan is now the world's largest importer of wool, a position held not so many years ago by the United Kingdom, which is at present the second largest importer (see table 41).

United States imports are declining, in spite of the reduction of its domestic production in recent years, owing apparently to the substantial changes that are taking place in the use of the various natural and artificial fibres in that country.

(h) *Non-ferrous metals*

Copper: In the last two months of 1973 the prices of copper on the London metal exchange

Table 41. Wool: imports from selected countries and world total
(Actual weight in millions of pounds)

Country	1969/1970	1970/1971	1971/1972
EEC (nine countries)	1,682	1,563	1,425
Rest of Western Europe	109	125	108
Soviet Union	167	182	190
Eastern Europe	194	188	203
Japan	696	707	679
United States	250	202	161
Others	253	265	254
World total	*3,351*	*3,232*	*3,020*

SOURCE: United States Department of Agriculture, *Foreign Agriculture Circular FW-1-73*, April 1973.

reached $1.03 and $1.04 per pound. In January of the same year the price was 50.8 cents per pound, so that between the beginning and the end of 1973 the prices for this metal increased by a little over 100 per cent. This situation has few precedents, though allowance must be made for the fact that during the years 1971 and 1972 the international copper market was continually depressed and prices were lower than those reached during 1969 and 1970 (see figure XIX).

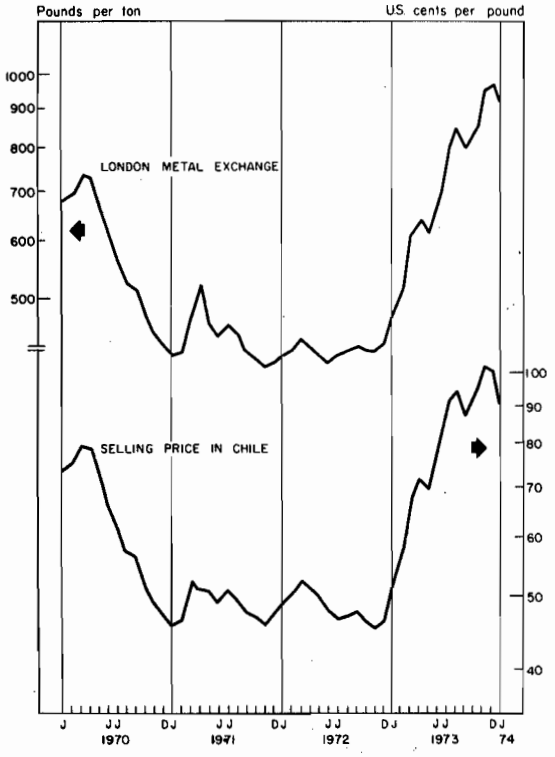
This development was due to a combination of factors, the most important of which were:

(i) interruptions in supplies from some of the major producing countries (in particular Chile and Zambia), because of strikes in one case and, in the other, the border dispute between Zambia and Rhodesia which caused ships to be diverted to other ports. However, not only Chile and Zambia, but other countries too, were obliged to have recourse on several occasions to the *force majeure* clause to cover shortfalls in contracted deliveries;

(ii) the reactivation of industrial activity in the majority of the developed countries, which meant that world consumption of refined copper increased substantially during 1972 and 1973;

Figure XIX. Copper prices

Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

(iii) the rapid drop in stocks of copper in the hands of producers and users, as well as on the London metal exchange, during 1973. Thus, whereas stocks on the London metal exchange in January of that year were 168,000 tons, by September they had fallen to 41,000 tons;

(iv) monetary instability, which caused financial resources to be diverted to the markets for certain products, such as copper, which offered better short-term prospects.

Some of the highlights of the international copper market during the past year were the 7 and 10 per cent increases in consumption in 1972 and 1973, respectively, and the deficit of 240,000 tons between the production and consumption of refined copper in 1973—which explains the sharp reduction in stocks during that year (see table 42).

In the Latin American region the major producers of copper are Chile and Peru, followed by Mexico and Bolivia, the latter producing relatively marginal quantities. Production figures are given in table 43.

The total volume of production of the four Latin American countries included in table 43 increased in recent years at a slower rate than world production. As a result of this, their share in the world production of copper is steadily declining—a trend which has been noticeable for many years. Thus in 1972 these countries accounted for only 15 per cent of world production, compared with 18 per cent in 1964.

This situation could be completely changed in the next few years should prospecting projects for big copper deposits in Colombia and Panama prove successful.

The importance of copper in the exports of Latin American countries varies from an insignificant percentage in Mexico to a relatively high one in Chile. The volume and value of these exports in recent years are shown in table 44.

Table 42. Refined copper: world production and consumption[a]

(*Thousands of tons*)

	Production	*Consumption*
1968	6,654	6,442
1969	7,171	7,062
1970	7,543	7,178
1971	7,339	7,238
1972	7,869	7,772
1973[b]	8,300	8,540

SOURCE: 1968-1972: *Yearbook of the American Bureau of Metal Statistics*, New York, June 1973.

[a] Including primary and secondary copper.

[b] Estimates.

Table 43. Copper: mining production of selected countries and world total
(Thousands of tons)[a]

Country	1969	1970	1971	1972	1973[b]
Bolivia	8.0	8.9	7.8	8.4	–
Chile	688.1	691.6	708.3	716.8	736.0
Mexico	66.1	61.0	63.1	78.7	...
Peru	198.8	220.3	207.4	217.9	225.0
Subtotal	*961.0*	*981.8*	*986.6*	*1,021.8*	...
South Africa	126.2	149.2	157.5	161.9	...
Zaire	362.2	385.5	405.8	428.2	490.0
Zambia	719.3	688.0	651.0	717.7	709.0
Australia	122.8	156.9	172.4	181.4	...
United States	1,392.6	1,560.1	1,380.9	1,490.3	1,560.0
Canada	520.0	610.3	654.5	726.3	780.0
Soviet Union	870.9	898.1	916.3	952.6	...
World total	*5,860.6*	*6,301.3*	*6,278.9*	*6,793.0*	...

SOURCE: 1969–1972: *Yearbook of the American Bureau of Metal Statistics*, New York, June 1973.

[a] Original figures in short tons have been converted to metric tons.

[b] Estimates.

Table 44. Non-manufactured copper: exports from Latin American countries

	1969	1970	1971	1972
A. *Volume (thousands of tons)*				
Bolivia	7.9	8.8	7.8	8.4
Chile	656.5	668.8	684.0	630.8
Mexico	11.1	6.0	10.0	25.7
Peru	200.5	215.6	193.5	218.5
B. *Value (millions of dollars)*				
Bolivia	10.9	12.5	8.3	8.8
Chile	793.5	976.5	685.5	629.5
Mexico	9.3	8.1	11.2	27.8
Peru	259.4	269.2	170.1	188.5
C. *Percentage of value of total exports of each country*				
Bolivia	5.0	5.0	3.6	...
Chile	73.8	78.2	71.2	73.6
Mexico	0.6	0.6	0.7	1.5
Peru	30.0	25.8	19.1	20.0

SOURCE: Official foreign trade statistics.

Information on 1973 exports is far from complete. Although a levelling off in the volume exported is expected, the higher price levels in 1973 should bring higher earnings than in the previous two years.

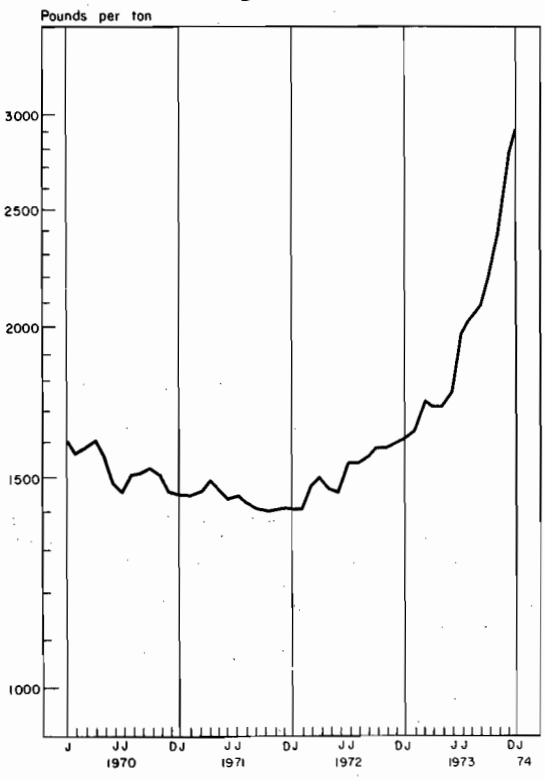
During the greater part of 1973 the international copper market was awaiting the decision to be taken by the United States Congress concerning authorization to sell copper from that country's strategic reserves. The decision was not taken until the middle of December 1973, when Congress passed a law authorizing the sale of various metals, including 251,600 tons of copper, according to a sales programme whose details had still not been made public at the beginning of 1974. According to some information sources, about 80,000 tons of the quantity authorized for sale will be used for minting coins, so that the net quantity available for sale in trade circles may be reduced to some 170,000 tons.

Tin: Early in 1973 the situation in the international tin market was rather weak, reflecting a

certain degree of oversupply and the uncertainty caused by the programme for selling metal from the United States strategic reserves. It still did not at the time show a drop in prices, which had partially recovered in the second half of 1972 from the losses suffered during 1971, thanks to the intervention of the buffer stock in the market. However, the level of the buffer stock had already passed the ceiling for the application of export restrictions and a new period of export controls was introduced from early January 1973. These controls were due to end on 31 March, but they were extended up to 30 December.

The introduction of export controls was a decisive factor in the defence and improvement of tin prices during 1973 (see figure XX). The sale of surplus tin from the United States strategic reserves, which proceeded relatively slowly in the early months of that year, threatened to become an unsettling factor in the market when the Government requested the authorization of Congress to reduce the strategic reserve from 232,000 to 40,500 tons, thus making 191,500 tons available for sale–a quantity equal to world consumption for one year. As on previous occasions, the International Tin Council took the initiative and organized consultations with the United States Government on the terms and conditions for the sale of the tin surpluses, so as to attenuate the possible unfavourable effects on prices and on market stability.

Figure XX. Tin prices on the London Metal Exchange
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

The outstanding producer and exporter of tin in Latin America is Bolivia, although Argentina, Brazil and Mexico also produce small quantities. The world total and Bolivia's production in recent years are given in table 45.

At the end of 1973 Bolivia obtained foreign credit to finance the expansion of its existing tin smelting plant. The expansion project aims to increase the plant's annual capacity from the present figure of 7,500 tons to 22,000 tons, and will probably be completed in 1976.

Table 46 shows the evolution of Bolivia's tin exports in recent years.

Lead and zinc: Prices for lead and zinc on the London Metal Exchange rose steadily during 1973, particularly in the case of zinc, prices for which reached unprecedented levels in the closing months of the year (see figures XXI and XXII). These prices do not reflect the situation of the entire world market, since for lead and zinc, as for copper, producers' prices in the United States and in other parts of the world rose less than on the London Metal Exchange, but the prices prevailing on the Exchange are a good indication of the relation existing between demand and available supply.

World production of refined metal did not show any significant drops: indeed, monthly refining averages for both metals in the first half of 1973 easily surpassed the monthly averages for 1971 and 1972. However, consumption–or at least demand for imports for stockpiling–increased more rapidly during 1973 than in the two previous years, and this touched off the sharp price increases, together with distortions in producers' prices in some regions, notwithstanding the fact that during the year

Table 45. Tin: production of concentrates
(Thousands of tons of fine content)

	Bolivia	*World total*[a]	*Percentage share of Bolivia in total*
1969	30,045	179,527	16.7
1970	30,582	188,671	16.2
1971	30,775	189,789	16.2
1972	33,376	200,660	16.6

SOURCE: Central Bank of Bolivia, *Statistical Bulletin*, September 1973.

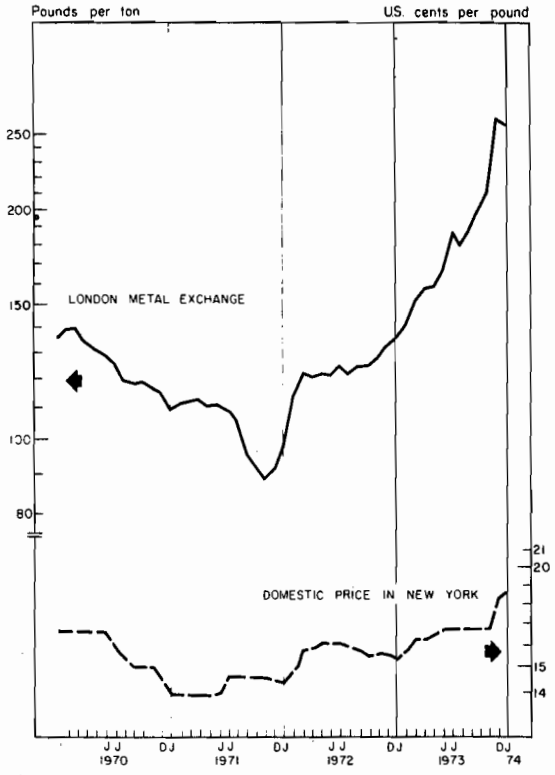
[a]Excluding countries with centrally-planned economies.

Table 46. Bolivia: volume and value of tin exports

	Ore concentrates (tons)	*Value (thousands of dollars)*	*Metallic tin (tons)*	*Value (thousands of dollars)*	*Total value (thousands of dollars)*
1969	29,962	102,450	–	–	102,450
1970	27,836	101,907	–	–	101,907
1971	23,463	82,004	6,814	23,874	105,878
1972	24,315	90,426	6,257	23,110	113,536
1972					
January-June	11,388	42,940	2,932	10,875	53,815
1973					
January-June	12,219	50,768	3,372	13,931	64,699

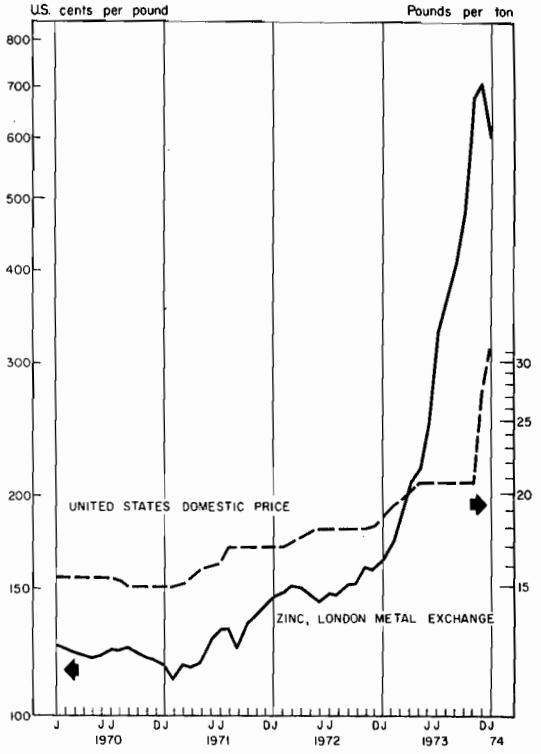
SOURCE: Central Bank of Bolivia, *Statistical Bulletin*, September 1973.

Figure XXI. Lead prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

Figure XXII. Zinc prices
Semi-logarithmic scale



SOURCE: UNCTAD, *Monthly Commodity Price Bulletin.*

significant quantities of lead and zinc were sold from the United States strategic reserves.[41]

Several Latin American countries produce lead and zinc, but only two of them—Mexico and Peru—produce significant quantities. Table 47 shows their share in recent years in the world total.

From the point of view of the foreign market, the position of the Latin American countries is very weak, since they export the major part of their production of lead and zinc in the form of concentrates (see table 48).

[41] No complete details are available on the volume of these sales for the whole of 1973, but information for the period August-October indicates that the following quantities were sold by the government department responsible for these operations in the United States:

	Lead (*tons*)	Zinc (*tons*)
August 1973	30,343	21,546
September	13,104	8,399
October	52,653	27,323

SOURCE: *Metals Week*, New York, 8 October and 5 November 1973.

Table 47. Lead and zinc: mining production
(Thousands of tons of fine content)

	1969	1970	1971	1972	1973[a]
A. *Lead*					
Argentina	35.0	37.0	36.0	40.0	37.0
Bolivia	25.0	26.0	23.2	20.4	22.0
Brazil	22.2	18.8	22.8	25.0	24.0
Mexico	166.4	171.6	173.7	177.8	164.0
Peru	155.0	164.0	147.4	160.0	179.0
Subtotal	*403.6*	*417.4*	*403.1*	*423.2*	*426.0*
World total[b]	*2,426.0*	*2,566.8*	*2,547.6*	*2,606.5*	*2,570.0*
Percentage share of Latin America	16.6	16.3	15.8	16.2	16.6
B. *Zinc*					
Argentina	32.0	39.0	38.0	36.2	35.0
Bolivia	34.2	47.0	46.0	40.0	37.0
Mexico	251.6	263.0	261.2	269.4	268.0
Peru	315.0	329.0	311.4	320.0	380.0
Subtotal	*632.8*	*678.0*	*656.6*	*665.6*	*720.0*
World total	*4,221.5*	*4,359.9*	*4,286.1*	*4,396.4*	*4,400.0*
Percentage share of Latin America	15.0	15.5	15.3	15.1	16.3

SOURCE: International Lead and Zinc Study Group, *Monthly Bulletin*, December 1973.
[a] Preliminary estimates based on figures for nine months.
[b] Excluding countries with centrally-planned economies.

Table 48. Lead and zinc: exports of Latin American countries
(Thousands of tons of fine content)

		1969	1970	1971	1972
A. *Lead*					
Bolivia	Ore	25.0	26.0	23.2	20.4
Mexico	Metal	87.2	94.0	77.6	84.8
Peru	Ore	81.5	95.6	145.7	165.7
Peru	Metal	74.7	63.5	60.5	77.2
B. *Zinc*					
Bolivia	Ore	34.2	47.0	46.0	30.0
Mexico	Ore	159.7	173.3	138.1	156.2
Mexico	Metal	38.8	35.8	42.0	44.1
Peru	Ore	253.1	267.0	344.5	399.0
Peru	Metal	57.7	65.0	49.7	54.0

SOURCE: International Lead and Zinc Study Group, *Monthly Bulletin*, December 1973.

At the end of 1973 it was announced that the new programme of sales from the United States strategic reserves would include 357,300 tons of zinc. Commodity dealers considered this quantity unlikely to have any significant effect on the market, primarily because of the great existing demand and, secondly, because the sales programme was to be implemented gradually, as was done in 1973.[42]

(i) *Petroleum*[43]

In the last months of 1973 the main oil producing and exporting countries announced a series of increases in the reference prices of crude petroleum, which in some cases meant doubling or tripling the previous prices. "Reference prices" are of course those published by the oil companies and used in some countries as a basis for calculating royalties and taxes. There is no "market

[42] See *Metals Week*, 10 December 1973.

[43] See section II above.

price" proper for oil (in the same sense as there is a market price or quotation for coffee, wheat, etc.), so that the "actual price" concept is generally used as the equivalent of market prices of other commodities, although it is really an "export unit value" based on the financial statements of the oil companies and checked by the governments concerned.[44] In any case, "reference prices", which up to a short time ago were the subject of negotiation between the oil companies and the governments of the countries in which they operate, are now fixed unilaterally by the governments, which at the same time determine the "actual" price of the oil and the State's participation in its development.

The increases in the reference prices of petroleum caused enormous anxiety in a great many countries, not only on account of their size but also of other measures adopted simultaneously by some of the major exporting countries, for when some of the latest increases were announced, it was also reported that there would be cutbacks in production and reductions in shipments to certain countries in line with government policy decisions aimed at achieving specific political objectives. Thus at a certain moment the problem of the higher cost of oil imports was aggravated by supply restrictions and the possibility that if such restrictions were maintained for any length of time they would affect the level of economic activity. However, the situation has not deteriorated further in this respect; on the contrary, it seems that the essentially political aspects of the "oil crisis" are in the process of being solved, so that the problem is confined to the new price levels, the new structure of relations between governments and oil companies, and the longer-term problems linked to the various sources of energy.

In petroleum, as in other raw materials, the recent price increases cause one to forget what has happened in the preceding 10 or 12 years. If consideration is given to the "actual price" series for Venezuelan crude oil exports in the last few years, it will be noted that the average price in dollars per barrel declined steadily between 1958 and 1970 (see table 49).

It is true that between 1966 and 1970 the decrease in the average price was small, which mainly reflects the efforts of the Venezuelan Government to prevent a further expansion of production (as was occurring in some countries of the Middle East) and to discourage the granting of price discounts by oil companies. However, the

[44] See a brief discussion on the characteristics of markets and prices of petroleum and petroleum products in *La industria del petróleo en América Latina: Notas sobre su evolución reciente y perspectivas* (United Nations publication, Sales No. S.73.II.G.2), chapter III.

Table 49. Venezuela: actual average price of crude petroleum exports

Years	*Dollars per barrel*	*Years*	*Dollars per barrel*
1957	2.59	1965	1.89
1958	2.48	1966	1.86
1959	2.19	1967	1.84
1960	2.08	1968	1.83
1961	2.10	1969	1.79
1962	2.06	1970	1.78
1963	2.02	1971	2.25
1964	1.95		

SOURCE: Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos 1971* (September 1972), p. 195.

Table 50. Venezuela: reference prices, for tax purposes,[a] of 25° and 35° crude oil
(Dollars per barrel)

Date of entry into force	*Specific gravity 25°*	*Percentage variation*	*Specific gravity 35°*	*Percentage variation*
1 January 1972	2.8856	–	3.2110	–
1 January 1973	3.0294	5.0	3.3621	4.7
13 March 1973	3.3175	9.5	3.7683	12.1
1 August 1973	3.7246	12.3	4.2307	12.3
1 September 1973	4.0491	8.7	4.5993	8.7
1 October 1973	4.1858	3.4	4.7546	3.4
1 November 1973	6.5094	55.5	7 1105	49.5
1 January 1974	10.6702	63.9	11.2156	57.7

SOURCE: *The Petroleum Economist*, London, monthly bulletins covering 1971, 1972 and 1973, and February 1974.

[a] These reference prices exclude the freight premium and the low-sulphur premium.

Table 51. Crude petroleum: production of Latin American countries and other selected areas
(Thousands of tons)

Country	1970	1971	1972	1973[a]
Argentina	19,969	21,494	22,105	21,300
Bolivia	1,124	1,714	2,028	2,150
Brazil	8,009	8,376	8,259	8,500
Ecuador	191	174	3,835	9,500
Colombia	11,071	11,127	10,143	9,400
Chile	1,620	1,652	1,615	1,500
Mexico	21,877	21,920	22,709	23,208
Peru	3,450	3,048	3,182	3,200
Trinidad and Tobago	7,225	6,690	7,248	8,000
Subtotal	*74,536*	*76,195*	*81,124*	*86,758*
Venezuela	193,209	184,921	168,232	175,866
Latin America	267,745	261,116	249,356	262,624
United States	533,677	530,385	528,454	513,153
Western Europe	16,208	15,308	15,742	15,544
Middle East	713,835	829,125	913,782	1,061,079
Africa	274,578	259,645	263,279	279,199
Soviet Union and Eastern Europe	393,102	393,454	416,197	443,710
World total	*2,336,153*	*2,467,606*	*2,595,060*	*2,832,746*
Percentage variation	9.4	5.6	5.1	9.1

SOURCES: *The Petroleum Economist*, London, monthly bulletins for January 1973, January 1974 and February 1974.
[a] Provisional figures.

Table 52. Latin America: total value of imports (CIF) and exports (FOB) of crude petroleum, petroleum products and natural gas
(Millions of dollars)

Country	1970		1971		1972	
	Imports	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*
Argentina	75.0	7.8	98.6	8.0	64.2	5.2
Bolivia	1.0	13.2	1.4	23.9	1.6	41.6
Brazil	280.0	16.7	475.4	28.6	570.1	57.4
Colombia	–	74.2	–	74.6	–	59.1
Costa Rica	11.7	0.9	15.1	1.8	–	–
Chile	49.9	–	77.6	–	68.4	–
Ecuador	16.8	0.8	20.6	1.5	21.0	61.0
El Salvador	4.7	1.1	13.0	1.0	–	–
Honduras	14.7	6.2	17.5	2.9	–	–
Guatemala	15.9	–	14.3	–	–	–
Jamaica	32.6	8.1	34.0	8.5	52.1	9.2
Mexico	69.6	36.6	115.2	30.8	149.7	23.0
Panama[a]	62.1	21.5	66.2	25.1	59.3	24.0
Paraguay	6.1	–	6.3	–	5.9	–
Peru	26.9	7.6	53.5	5.4	51.1	7.6
Trinidad and Tobago	288.0	371.3	361.4	437.2	343.9	407.0
Venezuela	–	2,398.0	–	2,980.0	–	2,923.7

SOURCE: ECLA, on the basis of official foreign trade statistics.
[a] Imports FOB.

downward trend in the average price of exported crude oil persisted and was only reversed in 1971 after Venezuela had adjusted its reference prices in line with the increases decided upon by the oil producing countries in the Persian Gulf and North Africa under agreements which the governments of Iran and Libya negotiated with the oil companies.

During 1972 and the first half of 1973 the rise in the reference prices of Venezuelan crude oil was fairly small; in fact the adjustment in March 1973 was merely designed to offset the new devaluation of the dollar in February of that year. In the second half of 1973, however, the reference prices were raised more frequently, until the increases which came into force in November. Table 50 shows the trend of the reference prices of two different types of Venezuelan crude petroleum from 1972 to 1974.

The total increase in reference prices between 1 January and 1 November 1973 is 114.9 per cent for each of the types of crude oil indicated in the table, but owing to the gradual scale of the increases and the fact that nearly half the percentage increase is recorded as from 1 November, the effect on Venezuela's total income in 1973 is not as great as might be expected from the total percentage increase.

Crude oil production in Latin America as a whole has failed to keep pace with world output, so its percentage share in the total has declined. This trend has been determined mainly by the production policy followed by Venezuela, which for many years has been regulating its total production volume in order to avoid contributing to a deterioration in prices, and in order to help conserve its non-renewable natural resources. The total volume of Venezuela's output increased moderately in 1973 compared with the preceding year, and this increase, together with the new and growing production of Ecuador, raised Latin America's total production above the 1972 figure to levels comparable with those reached in 1970 and 1971 (see table 51).

Out of the whole list of Latin American oil-producing countries, only a few have significant exportable balances. To illustrate the situation faced by most of the Latin American countries with regard to petroleum and petroleum products, table 52 presents the corresponding import and export value for the last few years.

STATISTICAL ANNEX ON EXPORT PRICES OF CERTAIN LATIN AMERICAN COMMODITIES

Table A. United States: indexes of wholesale prices and unit values of exports
(Base year: 1950 = 100)

	Indexes of wholesale prices			*Index of unit values of exports of goods*
	General index	*Agricultural products and foodstuffs*	*Industrial products*	
1948	101.2	108.1	98.6	110.4
1949	96.2	95.4	96.5	102.7
1950	100.0	100.0	100.0	100.0
1951	111.3	113.8	110.4	114.7
1952	108.3	109.4	107.8	114.1
1953	106.8	102.2	108.7	112.9
1954	107.1	101.9	109.0	111.5
1955	107.3	97.1	111.4	112.7
1956	110.9	96.4	116.4	116.8
1957	114.1	99.8	119.6	120.7
1958	115.6	104.4	120.0	119.3
1959	115.9	99.6	122.2	119.6
1960	116.0	99.8	122.2	120.5
1961	115.5	99.8	121.5	122.8
1962	115.9	100.9	121.5	122.0
1963	115.5	99.9	121.4	121.7
1964	115.8	99.3	122.1	122.9
1965	118.1	103.4	123.6	126.9
1966	122.0	110.2	126.3	130.8
1967	122.2	106.4	128.2	133.3
1968	125.3	109.1	131.4	135.2
1969	130.2	115.0	135.9	139.6
1970	135.0	119.0	141.0	147.6
1971	139.2	121.2	146.2	152.5
1972	145.6	130.4	151.2	156.8
1973	165.6	169.4	162.8	180.0[a]

SOURCES: United States Department of Commerce, *Business Statistics 1971, Survey of Current Business* (November 1973) and *Economic Indicators* (January 1974).

Note: Original base year 1967.

[a]Estimated annual average based on figures for the first nine months of the year.

Table B. Sugar: average prices of raw sugar for export to free market and United States
(U.S. cents per pound)

	Exports to free market		*Exports to United States*[a]	
	Current price	*Adjusted price*[b]	*Current price*	*Adjusted price*[b]
1948	4.24	3.84	5.84	5.02
1949	4.16	4.05	5.81	5.66
1950	4.98	4.98	5.93	5.93
1951	5.67	4.94	6.06	5.28
1952	4.17	3.65	6.26	5.49
1953	3.41	3.02	6.29	5.57
1954	3.26	2.92	6.09	5.46
1955	3.24	2.87	5.95	5.28
1956	3.48	2.98	6.09	5.21
1957	5.16	4.27	6.24	5.17
1958	3.50	2.93	6.27	5.25
1959	2.97	2.48	6.24	5.22
1960	3.14	2.60	6.30	5.23
1961	2.91	2.37	6.30	5.13
1962	2.98	2.44	6.45	5.29
1963	8.50	6.98	8.18	6.72
1964	5.89	4.79	6.90	5.61
1965	2.12	1.67	6.75	5.32
1966	1.86	1.42	6.99	5.34
1967	2.08	1.56	7.28	5.46
1968	2.12	1.57	7.52	5.56
1969	3.49	2.50	7.83	5.61
1970	3.76	2.55	8.07	5.47
1971	4.52	2.96	8.52	5.59
1972	7.43	4.74	9.09	5.80
1973	9.61	5.34	10.29	5.72

SOURCES: United States Department of Agriculture, *Sugar Statistics and Related Data* (February 1970) and *Sugar Reports* (January 1974).

[a] Prices of exports to the United States include import tax in that country.

[b] Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table C. Bananas: importer-to-distributor prices in the United States, 1948–1973
(U.S. cents per pound)

	Current price	*Adjusted price*[a]
1948	6.3	5.71
1949	7.0	6.82
1950	7.3	7.30
1951	7.3	6.36
1952	7.4	6.49
1953	7.4	6.55
1954	7.6	6.82
1955	7.5	6.65
1956	7.6	6.51
1957	8.0	6.63
1958	7.4	6.20
1959	6.6	5.52
1960	6.5	5.39
1961	6.3	5.13
1962	6.0	4.92
1963	7.6	6.24
1964	7.7	6.27
1965	7.2	5.67
1966	7.0	5.35
1967	7.2	5.40
1968	6.9	5.10
1969	7.2	5.16
1970	7.5	5.08
1971	6.4	4.20
1972	7.3	4.66
1973	7.5	4.17

SOURCE: IBRD, *Commodity Trade and Price Trends*, 1973.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table D. Cocoa beans: average prices of bahia cocoa in New York
(U.S. cents per pound)

	Current price	*Adjusted price*[a]
1948	39.0	35.3
1949	21.2	20.6
1950	29.2	29.2
1951	35.1	30.6
1952	35.8	31.4
1953	34.9	30.9
1954	55.7	49.9
1955	36.2	32.1
1956	25.5	21.8
1957	30.5	25.3
1958	43.3	36.3
1959	35.4	29.6
1960	26.8	22.2
1961	22.4	18.2
1962	21.3	17.4
1963	26.5	21.8
1964	23.2	18.9
1965	16.9	13.3
1966	23.0	17.6
1967	26.4	19.8
1968	32.9	24.3
1969	43.5	31.2
1970	32.3	21.9
1971	25.8	16.9
1972	31.1	19.8
1973	61.1	33.0

SOURCE: Gill & Duffus Group, *Cocoa Statistics*, London. December 1973.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table E. Coffee beans: average prices of Santos No. 4 coffee in New York, for immediate delivery
(U.S. cents per pound)

	Current price	Adjusted price[a]
1948	27.1	24.5
1949	31.8	31.0
1950	50.5	50.5
1951	54.2	47.2
1952	54.0	47.3
1953	57.9	51.3
1954	78.7	70.6
1955	57.1	50.7
1956	58.1	49.7
1957	56.9	47.1
1958	48.4	40.6
1959	37.0	30.9
1960	36.6	30.4
1961	36.0	29.3
1962	34.0	27.9
1963	34.1	28.0
1964	46.7	38.0
1965	44.7	35.2
1966	40.8	31.2
1967	37.8	28.3
1968	37.4	27.7
1969	40.8	29.2
1970	54.6	37.0
1971	44.8	29.4
1972	51.0	32.5
1973	66.5	36.9

SOURCE: United Nations, *Monthly Bulletin of Statistics.*
[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table F. Wheat: average export price of United States No. 2 hard red winter wheat
(Dollars per ton, FOB Gulf ports)

	Current price	Adjusted price[a]
1948	88.9[b]	80.5
1949	79.0[b]	76.9
1950	67.5	67.5
1951	72.5	63.2
1952	74.3	65.1
1953	76.6	67.8
1954	69.6	62.4
1955	64.3	57.0
1956	62.3	53.3
1957	62.1	51.4
1958	62.1	52.0
1959	61.4	51.3
1960	61.4	50.9
1961	62.1	50.6
1962	63.3	51.9
1963	64.6	53.1
1964	67.4	54.8
1965	59.5	46.8
1966	62.8	48.0
1967	65.8	49.4
1968	62.8	46.4
1969	58.4	41.8
1970	54.7	37.0
1971	61.7	40.4
1972	69.8	44.5
1973	137.8	76.5

SOURCES: International Wheat Council, *World Wheat Statistics* (1973 and previous years); UNCTAD, *Monthly Commodity Price Bulletin* (January–February 1974).
[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).
[b]Average price of United States No. 2 hard red winter wheat, in Kansas City.

Table G. Cotton: average prices of Sao Paulo type 5 cotton

(U.S. cents per pound, CIE Liverpool)

	Current price	*Adjusted price*[a]
1948/49	43.4[b]	39.3
1949/50	43.4[b]	42.3
1950	46.3	46.3
1951	66.1	57.6
1952	54.8	48.0
1953	41.4	36.7
1954	36.9	33.1
1955	35.4	31.4
1956	30.9	26.5
1957	30.2	25.0
1958	27.3	22.9
1959	25.1	21.0
1960	26.3	21.8
1961	28.0	22.8
1962	26.7	21.9
1963	26.5	21.8
1964	26.1	21.2
1965	26.2	20.6
1966	24.4	18.6
1967	26.4	19.8
1968	27.1	20.0
1969	23.4	16.8
1970	26.6	18.0
1971	32.3	21.2
1972	33.6	21.4
1973	51.9	28.8

SOURCES: International Cotton Advisory Committee, *Cotton: World Statistics*, quarterly bulletin (January 1974 and previous issues).

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

[b]Annual averages for the July–June trading year.

Table H. Wool: average prices of Uruguayan wool, 58s–60s, clean basis
(U.S. cents per pound, in warehouse, Boston)

	Current price		*Adjusted price*[a]	
1948	123.4		111.8	
1949	120.8		117.6	
1950	155.4		155.4	
1951	253.0		220.6	
1952	125.2		109.7	
1953	125.0		110.7	
1954	130.0		116.6	
1955	116.0		102.9	
1956	107.8		92.3	
1957	141.4		117.1	
1958	106.0		88.8	
1959	101.2		84.6	
1960	94.8		78.7	
1961	87.8		71.5	
1962	97.3		79.7	
1963	110.4		90.7	
1964	122.7		99.8	
1965	91.8	(110.6)	72.3	(87.2)
1966	103.6	(120.9)	79.2	(92.4)
1967	91.5	(110.3)	68.6	(82.7)
1968	80.0	(113.0)	59.2	(83.6)
1969	82.6	(111.6)	59.2	(79.9)
1970	70.4	(92.0)	47.7	(62.3)
1971	60.9	(77.1)	39.9	(50.6)
1972	...	(128.2)	...	(81.8)
1973	...	(276.2)[b]	...	(153.4)

SOURCE: United States Department of Agriculture, *Wool Statistics and Related Data, Statistical Bulletin No. 455 and Supplement for 1971.*

Note: As no quotations are available for Uruguayan wool beyond 1971, those for Australian 64s wool tops from 1965 to 1973 are listed (in brackets) for comparative purposes.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

[b]Average quotations for 10 months.

Table I. Electrolytic copper: average prices on the London Metal Exchange, for immediate delivery
(Dollars per ton)

	Current price	*Adjusted price*[a]
1948	532.0	481.9
1949	483.0	470.3
1950	492.7	492.7
1951	607.3	529.5
1952	714.7	626.4
1953	663.8	587.9
1954	685.1	614.4
1955	968.4	859.3
1956	906.4	776.0
1957	604.9	501.1
1958	543.9	455.9
1959	655.2	547.8
1960	677.8	562.5
1961	632.6	515.1
1962	644.8	528.5
1963	645.6	530.5
1964	967.5	787.2
1965	1,289.9	1,016.5
1966	1,529.5	1,169.3
1967	1,138.3	853.9
1968	1,240.8	917.7
1969	1,466.3	1,050.3
1970	1,412.7	957.1
1971	1,086.2	712.3
1972	1,070.6	682.8
1973	1,780.7	989.3

SOURCES: IBRD, *Commodity Price Trends* (1971 edition); UNCTAD, *Monthly Commodity Price Bulletin*, January-February 1974.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table J. Tin: average prices on the London Metal Exchange, for immediate delivery
(Dollars per ton)

	Current price	*Adjusted price*[a]
1948	2,174.0	1,969.2
1949	2,194.0	2,136.3
1950	2,055.2	2,055.2
1951	2,975.7	2,594.3
1952	2,657.9	2,329.4
1953	2,013.8	1,783.7
1954	1,981.1	1,776.8
1955	2,039.9	1,810.0
1956	2,170.7	1,858.4
1957	2,080.2	1,723.4
1958	2,025.6	1,697.9
1959	2,163.9	1,809.3
1960	2,195.3	1,821.8
1961	2,447.0	1,992.7
1962	2,470.9	2,025.3
1963	2,507.4	2,060.3
1964	3,408.6	2,773.5
1965	3,893.1	3,067.8
1966	3,573.7	2,732.2
1967	3,330.0	2,498.1
1968	3,126.7	2,312.6
1969	3,427.5	2,455.2
1970	3,673.8	2,489.0
1971	3,509.0	2,301.0
1972	3,765.0	2,401.1
1973	4,813.0	2,673.9

SOURCES: IBRD, *Commodity Price Trends* (1971 edition); UNCTAD, *Monthly Commodity Price Bulletin*, January-February 1974.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Table K. Venezuela: average actual prices for exports of crude petroleum and petroleum products
(Dollars per barrel)

	Current price		*Adjusted price*[a]	
1948	2.16		1.96	
1949	2.07		2.02	
1950	2.11		2.11	
1951	2.05		1.79	
1952	2.14		1.88	
1953	2.30		2.04	
1954	2.31		2.07	
1955	2.34		2.08	
1956	2.36		2.02	
1957	2.65		2.20	
1958	2.50		2.10	
1959	2.23		1.86	
1960	2.12		1.76	
1961	2.13		1.73	
1962	2.08		1.70	
1963	2.04		1.68	
1964	1.96		1.59	
1965	1.89		1.49	
1966	1.87		1.43	
1967	1.85		1.39	
1968	1.87	(1.97)	1.38	(1.46)
1969	1.81	(1.97)	1.30	(1.41)
1970	1.85	(1.97)	1.25	(1.33)
1971	2.35	(2.61)	1.54	(1.71)
1972	...	(3.12)	...	(1.99)
1973	...	(4.26)	...	(2.37)

SOURCE: 1950–1971: Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos* (1968 and 1971 issues).

Note: As no average actual prices are available beyond 1971, unit values of exports of crude petroleum and petroleum products, calculated on the basis of the quantities and values published by the International Monetary Fund in its balance of payments statistics, are listed (in brackets) from 1968 to 1973 for comparative purposes.

[a]Dollars at current prices, deflated by the index of unit values of United States exports (1950 = 100).

Part Two

LATIN AMERICA: CURRENT ECONOMIC SITUATION AND PROBLEMS

I. NEW CHALLENGES AND TASKS FOR THE ECONOMIC POLICY

The significant variations in the level and system of prices affecting the external trade of the Latin American countries form a very special framework for the economic policy processes. The size of the price increases for a variety of products, and the magnitude of the volumes involved in some cases, have brought about considerable modifications in economic trends.

Changes of this type generally go beyond the possibilities of marginal adjustment of economic policy instruments and demand the formulation of policies with a new perspective. Furthermore, the fact that some countries have achieved a consistent and sometimes exceptional increase in their foreign exchange reserves—an almost unknown phenomenon in Latin America—opens up opportunities and raises unknown factors which also demand a new formulation of the economic policy processes.

The considerations set out below presuppose that the trends observed in recent months in the main external trade variables will continue. This is not, then, a projection, but a hypothesis whose fulfilment depends on a number of factors regarding which only fragmentary data are available.

Recent events in the world markets show the great difficulties in the way of making estimates of future prices. Frequently, projections based on strictly economic analyses offering some possibility of establishing forecasts are refuted by other events—such as those stemming from international political decisions—which can only be predicted on a sporadic basis. The present circumstances make it particularly difficult to formulate serious estimates of price movements on the basis of the available data.

To begin with, the external situation affects the countries in a very uneven manner. Comparison with other periods in which significant changes also took place in the external sector in Latin America confirms that this time the effects on the Latin American economies have been very different. Some appear to have benefited considerably, but in others the situations of external strangulation have been seriously aggravated, while the majority show varying degrees of positive and negative repercussions, the sum total of which it is still difficult to evaluate.

This pronounced discrimination between countries is connected with the course and prices of exports, but it is not reflected in imports, since all the countries have suffered in a more or less uniform manner from the considerable increase in the prices of products acquired abroad.

The interplay of these situations results in different capacities of defence against adverse effects—particularly imported inflation—and shows up the unequal situations of the different countries in the face of the new circumstances.

In earlier chapters of this study, the direct repercussions of the price movements of their international trade on the balances of payments of the Latin American countries were dealt with from various different angles.

Another kind of effect, sometimes less direct but certainly important, is that produced locally by the new situation. Since this type of effect became more marked towards the end of 1973, it was not reflected in its true magnitude in the appraisals made at the end of each year. It is easy to see, however, that its future consequences may be of great importance.

Obviously, the reflections which follow are not aimed at specific situations, but are rather directed at characterizing certain issues which may arise to varying degrees in the Latin American countries.

1. Restrictions on economic policy in countries affected by the external economic situation[1]

The countries which are adversely affected by the increase in petroleum prices, do not have a sufficiently diversified export base, and lack inflows of capital to rectify the characteristic deficits in their balance of payments constitute extremely delicate cases. These countries are faced with new or aggravated problems which could not only affect their rate of growth but could also become factors of stagnation and disequilibrium that would be very difficult to eliminate.

The increase in expenditure which would result if present petroleum import trends should continue, together with the increase in the unit value of the rest of their imports, augur even more serious potential deficits for the immediate future. Obviously, the possibilities of restricting and selecting expenditure in foreign currency are very limited because of the need to maintain the supply of essential goods, a decline in the supply of which could cause major domestic tensions.

In order to minimize the negative effects of this critical economic situation, it will be necessary to plan a very specific strategy, which could be based on the one hand, on an internal effort which would mainly devolve on the least backward groups, and on the other hand on international co-operation to ensure an inflow of finance of a nature compatible with emergency situations.

The distribution of the effort to release the more modest sectors from major sacrifices demands the formulation of a new economic policy. At the domestic level, mention may be made of the possibility of cutting down on non-essential consumption, especially of goods that come from abroad and absorb substantial amounts of foreign exchange. Some estimates of the volume of imports of superfluous final products and the raw materials and capital goods for their domestic production amount to proportions which in certain cases far exceed the balance of payments deficits. Any estimate to evaluate the social cost of maintaining consumption of non-essential goods at its present level would increase appreciably in times of crises of this nature.

Taxation, price policies and exchange rates would appear to be the instruments with the greatest impact and effectiveness in regulating consumer behaviour and leading consumers to a state of austerity which could ease the bottleneck in the external sector. If these do not achieve their aim, however, other forms of more direct intervention should not be neglected.

[1] Some Central American countries and Uruguay are typical representatives of this group of countries.

An austerity policy, even though it may only affect specific items, will give rise to pressures by the groups affected which could put obstacles in the way of government policies. If intransigent positions, which in the long run could place the government programmes in jeopardy, are to be avoided, it would seem indispensable to make a previous evaluation of the consequences of the measures and the capacity for reaction of the sectors whose behaviour it is hoped to modify.

One of the risks involved in imposing restrictions on deep-rooted patterns of behaviour is the creation of scarcity and speculation. Quite often, hoarding of items very far removed from those which were the object of the restrictions takes place. In such cases, rather than taking a series of measures not linked by a clear policy, it would seem important to lay down a clearly defined general economic policy free from arbitrary interpretations capable of producing an exceedingly damaging atmosphere of insecurity. Measures to guarantee normal supplies of basic consumer items are of fundamental importance, for even when it is of a purely circumstantial nature, scarcity is a serious hindrance to the smooth running of both the social and the economic aspects of national life, because of the pressures it creates on price systems and levels, with their aftermath of social reactions.

The domestic effort, considerable though it may be, will not alone be enough to finance the balance of payments deficits or sufficiently increase output of goods.

It will undoubtedly be necessary to obtain external finance in larger amounts than usual. The concessionary nature of the new loans as regards repayment terms, interest rates and freedom of use will show how real international solidarity is. The international credit agencies and the governments of the industrialized centres will receive loan requests claiming preferential treatment, especially in the sense of reductions in the amount of counterpart funds demanded. The traditional criteria for granting loans are not suitable for dealing with the problems of developing countries affected by the international trade crisis. If certain countries are not to be subjected to intolerable privations, it will be necessary to evaluate their requirements for extraordinary financing in a new spirit.

The general concern that there should be redistribution of financial resources to help the countries most affected by the rise in petroleum prices to solve their acute balance of payments problems becomes even more acute when thought is given to the urgent need for making definite arrangements for such redistribution and to the fact that traditional forms of project financing

involve repayment terms which are not compatible with critical situations.

Furthermore, although the rapid availability of such finance would help considerably to ease the situation, the need for standby credits to cope with external trade deficits calls for eminently preferential treatment on the part of credit agencies.

The magnitude of the problems facing these countries, both in the short term and in a longer perspective, calls for the combination of co-operation efforts of various types. Although the specialized agencies of the international system have a decisive role to play in this, the attitudes of the governments of the central countries and of their major exporting enterprises are also vital for overcoming this crisis.

The proposals put forward by Venezuela regarding the establishment of finance funds and the conclusion of bilateral agreements on the supply of petroleum are an encouraging start for Latin American solidarity. Other initiatives among international finance agencies point in the same direction.

From the point of view of production, the countries affected are faced with a dilemma and have only narrow margins within which to take decisions, since the criteria for the selection of projects will be more restricted as regards the imported components and it will be necessary to achieve high rates of production in order to cover the growing external debt.

The traditional indicators of capacity of indebtedness are not invariably applicable in periods of crisis. The relationship between the servicing of the debt and the size of exports should be considered in terms of the potential of the strategic projects which it is advisable to undertake during this critical period.

It is superfluous to insist on the need, now more imperative than ever, to make the best possible use of scarce resources. A very serious appraisal of the possible consequences must be made in order to ensure this, and very decisive action must be undertaken to formulate and implement policies where orthodox practices would perhaps not give the effectiveness demanded by such complex and delicate problems. Moderate changes in interest rates, legal reserves, tax rates, etc., which would have been adequate for facing up to past problems, may perhaps lack the vigour and scope needed to give a more rapid and effective response.

The small scale of economic activity in the majority of these countries suggests the possibility that State measures might be taken at the enterprise rather than the sectoral level, through more specific instruments which really complement the global policy. The number of major enterprises suitable for keeping under detailed supervision would not exceed the capacity of a relatively small technical team, and the 40 or 50 most important enterprises in any country would cover a considerable part of total economic activity.

Apart from the natural advantages of this procedure as regards specifying and directing the implementation of policies, the possibility should not be ignored of acquiring by this means a better knowledge of the economic system. Each unit of production faces its own special problems, and the quest for greater efficiency in the utilization of scarce resources may find solid backing in micro-economic diagnoses which complement and enrich the data required for decision-making.

It is obvious that the group of countries under review is facing a very critical situation. They have in their favour, however, the fact that their exports account for fairly marginal shares of the world markets, which may be defended by making determined efforts in international negotiations in order to secure guaranteed markets for their products. The special nature of some export items may help in this direction.

2. Economic policy in the countries which have benefited from the new external situation[2]

Generally speaking, the countries favoured by the external economic situation have found that the advantages are accompanied by certain problems which augur delicate situations in the future that are easy to foresee even from partial data. Thus, it is not only the critical periods which merit careful analysis, for a boom situation also demands a very profound appraisal. Countries which achieve some prosperity in the external sector have before them a multiple objective: to make full use of the favourable external economic situation, to minimize its undesirable effects, and to channel towards the systems of production and distribution the advantages and opportunities which the situation brings with it.

Consideration of these objectives calls for a distinction between the effects in the financial sphere on the one hand and the consequences for the physical variables of economic activity on the other.

(a) *The effects of the attraction of surpluses*

One of the most notable of the typically monetary phenomena is the way in which the attraction of external surplus influences the level

[2] Venezuela and Ecuador may be considered as representative of this group of countries.

and system of domestic prices. An increased inflow of foreign exchange may mean an unaccustomed expansion in the means of payment under this heading and may produce a disequilibrium in the monetary balance of the country, with consequent accentuation of the demand for goods and services and the various pressures which this generates.

Obviously, the magnitude and scope of these disequilibria depend on the manner in which exporters deliver the foreign exchange to the monetary authorities. The first distinction to be drawn concerns the public or private nature of the exporting body; the second concerns the question of whether or not the foreign exchange thus attracted has a counterpart in national currency. Depending on the specific cases, the effect on prices may be very different. The attraction of external surpluses is not a new phenomenon, since it is normal for economic systems to absorb moderate increases in foreign exchange inflows generated by exports or capital earnings, but it may have consequences which are more difficult to manage, in view of the volume of the increased foreign exchange resources which, according to estimates, it will be necessary to attract in the immediate future.

In terms of expansion, the accumulation of reserves may create situations ranging, in their extreme forms, from complete sterilization, where the foreign currency attracted would have no counterpart in national currency, to complete expansion, where the purchase of foreign currency would involve the unrestricted supply of national currency. The need to maintain certain limits on increases in the liquidity of the economy will probably lead to the setting up of some forms of temporary sterilization, by setting deadlines and percentages for the payment of purchases of foreign exchange in national currency.

There are also other potential dangers deriving from the easy availability of foreign currency which call for a word of warning. In view of the social and political factors influencing government decisions, it is probable that certain trends may emerge towards inelasticity in the exchange rate, which will mean the implicit subsidizing of uses of foreign currency incompatible with or alien to the objectives of government programmes. Keeping the exchange rate steady when the prices of imports increase and inflationary pressures exist at the domestic level constitutes an extremely delicate problem. The relative cheapening of the reserve currencies compared with the national currency may provoke speculative tendencies and flights of foreign exchange which will shift the profits of the external economic situation abroad. The dilemma does not lie in deciding whether to devalue or not: the problem goes much deeper and demands a comprehensive answer consisting of the formulation of an economic policy in terms of the new external and domestic conditions.

Decisions on the exchange rate involve sequences of phenomena which merit very detailed appraisal in the light of the actual facts of each case. To illustrate this, two opposite systems may be considered: a policy responding to external and internal pressures on prices through successive devaluations and resigned to suffering the vicissitudes of exogenous factors, and a policy seeking to isolate economic activity from external inflationary pressures through a stable exchange rate, despite all the inconveniences this may involve. It is superfluous to point out that both these policies have a multitude of direct and indirect consequences. Regardless of whether one of these extremes is chosen or an intermediate policy is selected in order to gain the beneficial effects while countering the defects of these two extreme solutions, it will be necessary to adopt a set of additional decisions to mobilize a variety of instruments and give form to an integral economic policy. Experiences of isolated measures in exchange policies, even in circumstances of relative external normality, recall the exceedingly difficult situations which some governments had to face.

In the conception of policies on which more and more demands are successively made, either with good and praiseworthy intentions or as a result of the accumulation of external restrictions which are beyond the government's control, efforts must necessarily be made to extend their coverage, seek new instruments and insist on more coherent use of those available.

Domestic taxes and customs duties have extraordinary potential and can play an outstanding role in the present economic situation. There is a danger, however, that easy availability of foreign exchange may lead to some lightening of the tax burden, which could result in an undesirable expansion of the liquidity of the monetary system. On the other hand, the profit margins which the new international situation is producing in certain activities suggest the need for some very substantial changes in tax matters.

(b) *The use of the increased resources*

The second stage in the analysis of the possible repercussions of the external situation on the countries benefiting from it concerns the utilization of the surpluses accumulated. The classical choice between consumption and investment arises here once again, but with features different from those of the past. It is essential to make these two major options compatible with different possibilities regarding the structure of consumption and that of production. The appraisal of big aggregates

is not sufficient for the analysis of specific policies aimed to satisfy a varied set of requirements and conceived for the pursuit of simultaneous objectives.

In view of the non-renewable nature of the export resources involved, there is a tendency to promote investments designed to guarantee the future sustained growth of the production of other goods, which as well as satisfying domestic needs, would permit the steady strengthening of the external sector. The logic of this tendency demands more detailed evaluations, however.

Above all, consideration must be given to the capacity of countries not accustomed to handling big surpluses to set up highly productive industries. There is certainly a serious time problem for the transformation of surpluses into sources of production, but the traditional scarcity of finance has caused this factor to be exaggerated to the point of neglecting other equally important deficiencies. The considerable accumulations of surpluses recorded in the countries of this group permit the solution of the problem of the absorption of resources for the production of goods, but they do not themselves solve it, for the actual creation of a unit of production requires the interplay of a number of factors, some of which are more limiting than the problem of finance itself.

When the external sector of a country shows major changes in a short space of time, this leads to certain contrasts and maladjustments with other sectors, as well as deficiencies in various other aspects, which make the expansion of the process of production more difficult. The abrupt change in the growth rate of the external sector accentuates certain bottlenecks which slow down the spread of the surpluses originating in the external sector. The capacity of reaction of the sectors of production, both public and private, are put to the test not only as regards the generation of projects which would allow the efficient assimilation of additional resources, but also as regards their entrepreneurial administration, which is where the deficiencies may be most marked. Thus, it often happens that funds approved by credit agencies cannot be spent for lack of projects or inadequate evaluations, and cases are by no means rare where very valuable resources cannot be developed for lack of basic infrastructure. The lead times of projects, as well as their technological linkages and the extraordinary efforts involved in their implementation, constitute a bottleneck which the availability of financial resources only makes more obvious.

The possibility of orienting a part of the resources available towards the formation or expansion of enterprises as joint projects with other countries should not be ignored, especially if there are temporary domestic limitations at the local level on the capacity to absorb them. The access to bigger markets and possibility of setting up units of production of larger dimensions thus obtained may enable the projects to bear fruit in a much shorter space of time, and with perhaps more widely disseminated effects, than efforts limited to the national context.

This type of consideration brings out the need to evaluate the different possible forms of ownership of the unit of production. While it is true that the new phenomena confronting the governments are finding in the public sector a means of solution which does not always require consensuses and agreements and therefore makes timely action possible, the limitations on the scope of this sector cannot be overlooked. Forms of mixed ownership with local or foreign private sectors, or associations with the State in the establishment of enterprises are therefore possibilities worthy of consideration. It goes without saying that the heart of the matter lies in the negotiations on contributions, participation, evaluation of technologies, remuneration agreements, future possibilities of conversion into public enterprises, and other points. Each case naturally merits careful study in which both the objectives of all types pursued by the governments and the nature of each possible unit of production will carry considerable weight.

The above affects the field of basic economic policy decisions, for the need for consistency between these non-conventional decisions and the handling of traditional instruments of economic policy will become increasingly marked. When it is envisaged to use the surpluses for expanding the production process, either by creating new enterprises or expanding existing activities, a new pattern clearly emerges in the economic policy processes. Although the traditional financial limitations will be moderated to a large extent, new problems will emerge which will place serious restrictions on decision-making if there is a real desire to respect the criteria of efficiency in the use of resources. The spontaneous action of market forces may lead to trends in production which only benefit the groups with high purchasing power in the countries, with all the effects that such a development would have on income distribution.

As a natural consequence of the above, mention may be made of the fact that the local markets of some countries are very small for economically strategic industrial activities. Furthermore if the reasonable prophecies on the continuation of inflationary pressures at the international level prove to be true, another adverse phenomenon will have

to be faced, for these pressures could have a decisive effect on domestic prices. In view of regional experience on the concentration of income in periods of inflation, it would be prudent to observe in detail the changes in the purchasing power of the different social groups and the way in which this phenomenon influences the reduction of some markets. The link between a policy for the allocation for investment resources and the evaluation of the respective markets is obvious. Of course, the choice between investment and consumption as alternative but not mutually exclusive uses for the surpluses generated by the external sector is conditioned by many different factors. Although a combination of both is probably the logical solution, a separate analysis of each, by way of illustration, enables attention to be concentrated on each of their main effects.

One of the most immediate potential dangers created by the sharp increase in the availability of foreign exchange observed in some countries is the almost automatic increase in imports and—even more serious—the non-essential nature of a substantial proportion of these. Thus, the large increases in exports in 1973 were accompanied by considerable increases in imports, not entirely to be explained by price increases. Easy availability of foreign exchange, in the absence of an economic policy which takes the new situations into account, may be reflected in significant increases in the consumption of imported luxury articles and the transfer abroad of trading profits, which only occasionally benefit the developing countries.

The policy of imposing high tariffs on imports of luxury products could have the disadvantage of encouraging their local production, in view of the price that they would reach on the market and the disparities in income distribution. This would encourage the channelling of resources towards the production of goods which in the first instance were not considered desirable, and it would absorb scarce resources which could be given over to the production of essential goods. In such cases, discriminatory taxes on domestic consumption could avoid these distortions.

In evaluating the option providing for consumption in the form of imports of foodstuffs, it is of fundamental importance to consider the repercussions on the market for domestic agricultural production and the industrial scales of production. The satisfaction of the basic consumption needs of large sectors of the population cannot be put off, especially when the availability of foreign exchange would enable serious situations to be relieved. The problem which should be considered, however, is the transitory nature of such an increase in total supply.

Just as some limitations on the capacity for productive expenditure were noted in the case of investment, restrictions likewise exist as regards consumption, although they are naturally of a different nature.

The importation of consumer goods does not appear to be subject to major limitations when it satisfies the essential or non-essential needs of the sectors with the highest purchasing power; the use of surpluses in this way is only subject to the question of tastes and preferences, which the market machinery makes it its business to solve. But when imports consist of essential mass-consumption goods the problem of the purchasing power of the low income sectors becomes a limiting factor. Subsidy policies which attempt to put this manner of using surpluses into effect can hardly be of a permanent nature or have a wide radius of dissemination. Thus, paradoxically, problems of inequality in income distribution make it easier to use resources to satisfy non-essential needs than essential ones.

These matters obviously involve complex problems, the solution of which not only requires the correct interpretation of the prevailing economic situation but also a clear forward view of the development process. Only within the framework of a detailed set of objectives and targets and a clear awareness of the way in which economic activity operates is it possible to try out solutions which will mean an efficient use of the resources coming from the external sector.

In studying the choice between consumption and investment, whatever the particular matter reviewed, the basic problem resides in the distinct possibility that the surpluses accruing to the beneficiary countries may be transferred abroad or mainly attracted by the highest income groups in those countries. Obviously, overt transfers offer no great difficulties in the evaluation of policies, but the so-called implicit transfers, i.e., through prices and technology, call for careful study, and cases of transfer of surpluses abroad and excessive forms of appropriation by local groups are common knowledge.

When the changes in the volumes of foreign trade show rates of more than 30 per cent annually, it is obvious that the situations will have changed radically in only a few years. It is very possible that the relative positions of the various economic groups, especially those connected with external trade, will acquire greater prominence. The flows to and from the exterior may form an economic power structure and a political force very different from that of the present time. A diagnosis of the dynamics by means of which the internal forces are changed thus appears to be indispensable.

This summary and superficial review of the possible problems which the countries benefiting from the price movements of their main exports may have to face leads to a general reflection on economic policy. The observation made earlier in this section that even periods of relative prosperity require very serious evaluation and involve serious risks of failing to take advantage of scarce opportunities will be taken to heart in the analyses effected in the decision-making centres of the countries, judging by the positions which are beginning to be adopted in them.

The present situation is still rather new for the countries of the periphery, for their development processes have normally been characterized by severe restrictions in the external sector, and the knowledge built up by the public sectors is particularly oriented towards the commonest situation, namely, lack of finance. Thus, the skills for conceiving and implementing economic policies were acquired under conditions which were generally inadequate, in that the frequently critical situation on the savings side has created a certain tendency and even a deep-rooted routine, not only in the State apparatus but also in the private sector.

Nor are the methodologies for making economic analyses for use in the generation and appraisal of policies in the peripheral countries exempt from biases of this type since in the final analysis they too have attempted to respond to the situations which they have repeatedly had to face, and the brief periods in which the external restrictions have been lifted have not been long enough to develop aptitudes for facing the opposite situations.

3. Economic policy problems in the countries with the biggest room for manoeuvre[3]

The two extreme situations analysed in the foregoing pages demand major qualitative changes in the conception of economic policies: in the first case, because of the very pressing situations stemming from the inadequate performance of the external sector, and in the second case because of the need to make proper use of their big surpluses and spread them throughout the social and economic system. There is yet another category of countries, however; those which have not benefited particularly from the external economic situation, but which have the necessary defensive capacity to deaden its adverse effects.

The external situation has not placed these countries in the extreme positions described above because they either possess diversified exports, they enjoy large inflows of external capital, or they possess their own supplies of inputs which, like petroleum, have undergone astonishing price increases.

In this group of countries, the demands made on economic policy would appear to be similar to those of the past. Although they face problems which previously were not so important, plus, to some extent, others which are completely new, their conventional economic policies still leave them a wide radius for manœuvre and remain quite effective. The continued use of orthodox instruments, with moderate changes in their values, would, generally speaking, appear to be capable of providing satisfactory answers to the problems which these countries are likely to meet. This does not mean that conservative practices are to be advocated as regards the utilization of the instruments available: it is merely an endeavour to differentiate this situation from that observed in the other two groups of countries.

Since a larger number of simultaneous objectives are included as aims of these countries' economic policy and it is therefore not just a matter of easing a temporary economic phenomenon, it is probable that the need to modify the form and content of their economic policies may become unavoidable. In an analysis of the current situation, however, this group of countries is clearly in a different position and their economic policies must respond to requirements which are also different.

For the countries of this group the external economic situation has not brought any radical transition to a completely new situation of prosperity, nor do the bottlenecks in their external sectors constitute insurmountable barriers. Although they have experienced variations compared with the recent past, the magnitude of these, the capacity of the countries to absorb benefits, and their economic defence mechanisms give them more liberty, from the point of view of the external sector, in handling their social and economic affairs.

The achievement of closer coherence between the different spheres of economic policy would appear to be one of the basic objectives. The movements in the external sector may bring out the need to clarify the reciprocal influences of the different instruments. In the functioning of economic activity there are maladjustments, temporary loss of synchronization, and degrees of incompatibility which, in normal times, the countries can overcome or even accept without serious damage. In the face of a significant modification in external movements, however, these discrepancies may increase and economic activity may become much more sensitive to their presence.

[3] Brazil and Mexico could be considered as representative examples of this group.

Timeliness and flexibility of government action in the field of economic policy are basic requisites. Since the available observation machinery may be inadequate and inefficient, the external sector may undergo changes which are by no means easy to foresee. The machinery for the advance collection of data on these phenomena must therefore be much more developed, and quick action must be taken when changes occur. In order to be able to react in time, the necessary modifications in the use of instruments must be determined and the public sector must be given sufficient capacity to put the new policy into practice.

The flexibility of the economic policy, i.e., its easy and soundly-based adjustment to fortuitous events, has usually run into an obstacle which militates against it, for in market economies the private sectors require a certain minimum period of validity of policies if their activities are to be carried on properly. This is especially so in the areas of taxation, credit, repatriation of profits, etc., and at times they have succeeded in securing government undertakings which delay the public sector's reaction to economic situations calling for much more rapidity. In order to evaluate alternative forms of negotiation with these sectors, if it is really desired that the public sector should run social and economic activity, it is necessary to have a clear knowledge of the situation, and this is another of the tasks inherent in economic policy which warrants priority attention.

The price movements in the last few months of 1973 faced these economies with problems which had not existed or had not been important in other periods. Export circles, inspired by attractive prospects of profit, devoted themselves increasingly to satisfying external demand, to the detriment of the domestic markets. The exportable margins increased more on account of the price situation than in keeping with government intentions. It was necessary for some degree of domestic scarcity to manifest itself in order to modify the conduct of the export circles and bring about the intervention of the public sector.

Obviously, the adoption of decisions on domestic prices—especially when there are major discrepancies with external prices—is one of the most delicate points in economic policy and therefore one which requires most attention. Its decisive influence in other spheres makes it necessary for a detailed review to be made of the other instruments, and this generally results in adjustments and even substantial modifications to important areas of economic policy.

II. GENERAL ASPECTS OF THE ECONOMIC EVOLUTION OF LATIN AMERICA IN 1973[4]

1. The growth rate of the product and domestic demand

So far in the present decade, the value of exports of goods and services from Latin America has increased from 18,900 to 31,700 million dollars and the value of its imports from 19,200 to 30,800 million.[5] Against this background of rapid expansion in domestic demand and an abundant supply of capital goods and imported inputs, the gross domestic product increased by 6.9 per cent annually between 1970 and 1973 compared with the target of 6 per cent proposed by the International Development Strategy. The difference was even more marked in 1973, when the total product increased by 7.4 per cent (see table 53 and figure XXIII).

The sharpening of the increase in the growth rate of the per capita product was also considerable, rising from an annual rate of 2.9 per cent during the five-year period 1965-1970 to 3.9 per cent in 1972 and 4.4 per cent in 1973.

The global acceleration of the growth rate of the product conceals a wide variety of national situations and differing economic weights of the countries of the region. Suffice it to point out, for example, that the products of Argentina, Brazil and Mexico amount to approximately 70 per cent of the regional product, while that of Brazil alone accounts for almost 30 per cent. For this reason, the influence of the notable growth of the Brazilian economy—11 per cent annually since 1970—

[4] Because of the lack of sufficient information or information comparable with that provided by the other countries, this review does not include the Cuban economy. Moreover, it was not possible to include the Caribbean countries and territories in the calculations of the total gross product and the figures by sector of activity in Latin America, since information expressed in constant prices was not available (except for Jamaica up to 1971), nor was there an adequate deflator index for making a possible estimate. Information on the gross product of these countries at current prices is given in section III below.

[5] The main causes and implications of this expansion have been examined in Part One of this Economic Survey.

Table 53. Latin America: growth of the gross domestic product and gross domestic income
(Annual growth rates)

Country	Gross domestic product at factor cost				Gross domestic income			
	1965-1970	*1971*	*1972*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Argentina	4.1	3.7	3.8	4.8	4.0	4.2	4.1	6.3
Bolivia	6.3	3.8	6.0	5.4	6.4	1.0	5.6	7.4
Brazil	7.5	11.3	10.4	11.4	7.5	10.8	11.4	12.4
Colombia	5.8	5.5	6.8	7.3	5.8	4.5	6.8	7.8
Costa Rica	6.9	4.0	5.0	3.9	7.2	1.6	4.1	4.7
Chile	3.8	8.3	2.1	−4.1	4.9	4.4	1.2	−1.7
Ecuador	5.6	8.3	9.8	12.7	6.0	6.9	9.4	14.5
El Salvador	4.4	4.6	4.1	4.0	4.7	4.1	5.1	5.6
Guatemala	5.7	5.6	6.5	7.9	6.2	4.5	6.6	7.7
Haiti	1.8	5.7	3.7	5.8	1.9	5.2	3.6	6.1
Honduras	4.7	5.7	3.9	3.3	4.8	5.4	3.0	3.2
Mexico	6.9	3.4	7.5	7.5	7.1	3.3	7.6	7.2
Nicaragua	4.2	5.8	4.0	2.7	4.9	3.4	6.1	3.3
Panama	7.4	8.1	6.5	5.9	7.6	9.4	7.1	3.8
Paraguay	4.1	4.5	5.3	5.8	4.4	4.9	5.8	7.9
Peru	3.6	6.0	5.8	5.3	4.7	3.6	5.1	5.4
Dominican Republic	7.8	9.9	12.5	8.9	8.4	9.9	14.7	9.8
Uruguay	2.3	−1.0	−1.3	1.0	2.7	−1.4	−0.9	3.5
Venezuela	4.1	4.3	5.5	8.6	3.9	11.4	9.3	13.2
Total 19 countries	*5.8*	*6.2*	*6.9*	*7.4*	*5.8*	*6.1*	*7.5*	*8.5*
Total, excluding Brazil	*5.2*	*4.4*	*5.7*	*6.0*	*5.4*	*4.5*	*6.0*	*6.9*

SOURCE: ECLA, on the basis of official statistics. [a]Preliminary figures.

has been of particular importance in the evolution of the Latin American product. If Brazil is excluded from the regional totals, the annual rate of growth of the product for the present decade would fall from 6.9 to 5.3 per cent, and that for 1973 from 7.4 to 6 per cent.

In 1973, only five countries apart from Brazil achieved higher rates of growth than the regional average (7.4 per cent). These were Ecuador, which has been rapidly increasing its production since 1970; Mexico; the Dominican Republic, which has shown a high but irregular rate of growth; Guatemala and Venezuela. Colombia could be added to this list of countries, for its production has shown an increasing rate of growth since the beginning of the decade, reaching 7.3 per cent in 1973.

At the other extreme, there are many countries which have not shared the dynamic growth shown by Latin America as a whole in recent years. Thus, in El Salvador, Honduras, Nicaragua, Panama and Peru the rate of growth has fallen compared with 1971, and in Chile it was actually negative in 1973. Furthermore, the product of Uruguay and the Caribbean countries has shown either small rates of growth or virtual stagnation during the 1970s.

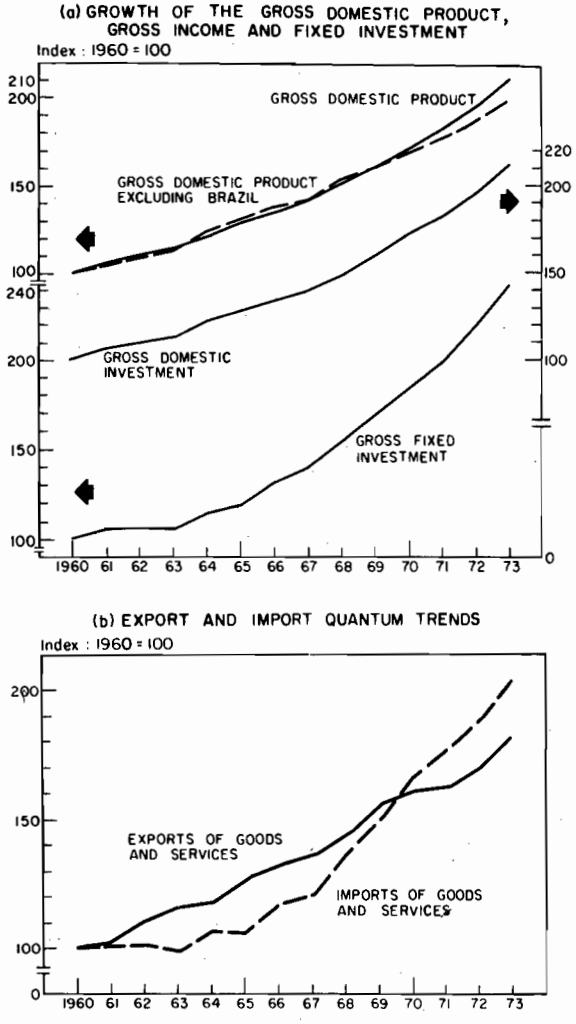
The exceptional situation produced by the rise in the prices of primary commodities in international markets resulted in an improvement of 13 per cent in the terms of trade for the region. This result once again veils a great disparity between national positions (in three countries the terms of trade improved by more than 20 per cent and in two they deteriorated)[6], which was reflected in the greater or smaller increases in gross income achieved by these countries as a direct result of the additional income generated by the higher external prices.

For Latin America as a whole, gross domestic income increased by a greater percentage than the product only in the last two years: 7.5 per cent in 1972 and 8.5 per cent in 1973, with growth rates reaching 14.5 per cent in Ecuador, 13.2 per cent in Venezuela, and 12.4 per cent in Brazil (see table 53 and figure XXIII).

The increased income resulting from exports made possible a greater availability of imported goods and services, which at 1960 constant prices increased by 8.6 per cent during the year. This increase has become more pronounced since 1971,

[6] See table 17.

Figure XXIII. Latin America
Natural scale



but it is worth noting that between 1965 and 1970 the rate of increase was 9.2 per cent per year.

The higher volume of imports was complemented with an increase of 7.4 per cent in domestic production (the import ratio is rather more than 10 per cent), so that supplies of domestic goods and services increased by 7.6 per cent, a rate similar to that of the previous year and sufficiently high to permit, in turn, an expansion of 10.5 per cent in gross domestic investment and 6.9 per cent in total consumption (see table 54).

Since 1970 the growth rate of investment has been rising continuously at a higher annual rate of growth than that of the gross product. Thus, from an increase of 6.9 per cent per year between 1965 and 1970 it rose to 10.5 per cent in 1973. Fixed gross investment increased at an even higher rate during the period 1965-1970 (9.1 per cent annually) and grew by 10.3 per cent in 1973, with the result that the investment coefficient increased from 16 per cent in 1965 to around 20 per cent in the last two years.

As regards the evolution of consumer expenditure, this has been increasing gradually since the end of the 1960s, the rate of growth in 1972 and 1973 being slightly less than 7 per cent per year. Throughout this period there has been some complementarity between the irregular performance of general government consumption, which in 1972 and 1973 showed increases of 5.8 and 8.9 per cent, and the more uniform growth of private consumption at an annual rate of around 6.6 per cent, which is approximately equal to a growth rate of 3.6 per cent in per capita consumption. As in the other variables examined, however, the regional rate veils many variations between the countries.

2. Main sectors of production

The acceleration of the growth rate of the gross product in 1973 continued to be the result of traditionally dynamic activities such as manufacturing, construction, and basic services (transport and communications, electricity, gas and water). However, in addition to the rapid expansion of these activities there was a notable recovery in mining, whose annual growth rates of 1 and 2 per cent in the previous two years increased to 8.2 per cent in 1973 (see table 55).

Agricultural production continued its slow and irregular course. In 1973 it showed a growth rate of 3.6 per cent—more than double that of the previous year—but the figure would have been much lower if it had not been for the major recovery of agriculture in Argentina, where production increased by approximately 10 per cent as a result of the excellent cereal and oilseed harvests. During the year there was also a recovery in crop farming in Paraguay (10 per cent, which was greater than the increase in stock farming), a relatively high growth of agricultural production in Guatemala, and partial recoveries in Uruguay (big harvests of maize and sorghum) and Venezuela (thanks mainly to the 15 per cent increase in fisheries production and a record rice harvest). In Brazil, the rate of growth of this sector, though relatively satisfactory, has fallen in recent years: in the main, the production of wheat and sorghum has increased, but that of coffee has fallen and there has been a shortage of some staple foods. In Colombia the rate of growth continues to be relatively satisfactory.

In other countries of the region, however, the increases in agricultural production were either equal to or lower than the rate of population growth. This was most noticeable in Central America (except Guatemala); in Mexico, where

Table 54. Latin America[a]: total supply and demand

	Millions of dollars at 1960 prices				Structure (percentages)			Annual growth rate (percentages)			
	1970	1971	1972	1973[a]	1965	1970	1973[a]	1965-1970	1971	1972	1973[b]
Total supply	*162,574.8*	*172,644.8*	*184,747.2*	*198,802.0*	*109.0*	*110.5*	*110.6*	*6.1*	*6.2*	*7.0*	*7.6*
Gross domestic product	147,126.3	156,278.5	167,194.4	179,731.3	100.0	100.0	100.0	5.8	6.2	6.9	7.4
Imports[c]	15,448.5	16,366.3	17,552.8	19,070.7	9.0	10.5	10.6	9.2	5.9	7.2	8.6
Total demand	*162,574.8*	*172,644.8*	*184,747.2*	*198,802.0*	*109.0*	*110.5*	*110.6*	*6.1*	*6.2*	*7.0*	*7.6*
Exports[c]	15,198.4	15,326.5	15,945.9	17,163.6	10.8	10.3	9.6	4.8	0.8	4.0	7.6
Gross domestic investment	28,756.6	31,067.4	33,969.4	37,534.9	18.6	19.5	20.9	6.9	8.0	9.3	10.5
Total consumption	*118,619.8*	*126,250.9*	*134,831.9*	*144,103.5*	*79.6*	*80.7*	*80.2*	*6.1*	*6.4*	*6.8*	*6.9*
General government	13,898.0	14,912.9	15,783.1	17,190.4	9.2	9.5	9.6	6.4	7.3	5.8	8.9
Private	104,721.8	111,338.0	119,048.8	126,913.1	70.4	71.2	70.6	6.1	6.3	6.9	6.6

SOURCE: ECLA, on the basis of official statistics.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] See foot-note 4 of Part Two of the Economic Survey.
[b] Preliminary figures.
[c] Goods and services, excluding factor payments.

Table 55. Latin America: evolution of
(Annual growth

Country	Agriculture				Mining				Manufacturing		
	1965-1970	*1971*	*1972*	*1973*	*1965-1970*	*1971*	*1972*	*1973*	*1965-1970*	*1971*	*1972*
Argentina	1.1	−4.7	−4.5	9.8	9.0	7.3	1.9	−3.9	5.0	7.1	7.2
Bolivia	0.2	4.0	2.0	2.1	11.0	4.2	9.1	3.0	6.4	2.8	6.7
Brazil	3.0	11.4	4.5	3.5	10.6	11.2	...	...	10.3	11.3	14.1
Colombia	4.8	2.5	5.5	4.8	1.5	−4.6	−6.0	−4.2	6.4	7.9	10.0
Costa Rica	5.0	4.5	2.7	3.5	[c]	[c]	[c]	[c]	9.5	6.0[c]	5.5[c]
Chile	3.0	5.1	−3.5	−14.6	4.9	1.7	−2.4	1.5	3.6	12.9	3.5
Ecuador	2.8	1.6	0.7	0.7	4.3	2.2	165.4	192.0	6.0	8.7	9.0
El Salvador	3.9	3.8	−0.9	1.6	3.8	−2.9	14.3	–	5.7	7.0	5.2
Guatemala	4.7	7.1	7.4	7.0	1.3	–	−12.5	13.3	8.2	7.2	5.2
Haiti	1.3	6.4	2.1	2.1	5.0	17.8	−4.0	1.4	4.4	6.0	7.1
Honduras	2.3	6.7	1.8	−0.4	6.8	3.5	6.3	6.0	6.8	8.2	7.4
Mexico	2.7	1.9	0.6	1.8	7.2	2.1	4.9	4.1	8.8	3.2	9.0
Nicaragua	2.1	10.0	4.2	2.3	−5.9	−1.7	−1.7	1.0	8.1	4.8	5.7
Panama	4.0	3.7	3.0	3.8	6.2	11.0	3.8	3.7	9.6	8.2	6.3
Paraguay	1.7	4.0	5.2	7.2	−5.8	...	1.8	28.2	5.6	3.3	6.3
Peru	2.4	0.4	−4.1	1.5	2.2	−2.8	4.2	3.0	5.8	8.8	7.0
Dominican Republic	4.8	5.5	5.6	4.1	8.3	2.2	234.4	44.0	13.6	17.0	12.9
Uruguay	2.8	−1.2	−3.4	3.1	[c]	[c]	[c]	[c]	2.4	−1.8[c]	−0.3[c]
Venezuela	5.4	0.6	2.6	4.0	1.0	−1.6	−6.1	8.7	5.6	6.6	8.8
Total 19 countries	*2.9*	*4.0*	*1.6*	*3.6*	*4.3*	*1.2*	*2.2*	*8.2*	*7.3*	*7.5*	*9.4*
Total, excluding Brazil	*2.8*	*1.0*	*0.3*	*3.7*	*4.1*	*0.7*	*1.5*	*8.0*	*6.4*	*6.1*	*7.6*

SOURCE: ECLA, on the basis of official statistics.
[a] Includes electricity, gas and water, and transport and communications.
[b] Includes commerce and finance, ownership of dwellings, public administration and defence and other services.

there was a considerable drop in the production of mainly export crops; in Peru, where the slump in fisheries production continued (−47 per cent in 1972 and approximately −14 per cent in 1973); and in Chile, where for the second consecutive year, there was a considerable drop in agricultural production.

Progress in the Latin American manufacturing sector in recent years has been due partly to the rapid development of Brazilian industry, whose rate of growth has continued to increase (15.8 per cent in 1973). If Brazil is excluded, the rate of growth of this sector for the rest of the region falls from 9.2 to 6.7 per cent, the latter rate being lower than that of 1972. However, in those countries where manufacturing is relatively important there has been a generally high and sustained increase in the growth rate of industrial production. Since the beginning of the present decade the product of the manufacturing sector has increased by 13.7 per cent in Brazil, 9.2 per cent in Columbia, and between 7 and 8 per cent in Argentina, Peru and Venezuela; in Mexico the annual rate of growth was 8.6 per cent in 1972 and 1973. The exceptions to this rule are Chile, where there was only a slight increase in 1972 and there was actually a decline of 5.1 per cent in 1973, an Uruguay, where there has been a continuing de cline in the growth rate throughout the 1970s.

The notable progress made in the mining secto in 1973 was assisted by the considerable recover of this sector in Venezuela, where, following five-year period of stagnation between 1965 an 1970 and significant deterioration in 1971 an 1972, production increased by 8.7 per cent i 1973. This increase was due to a partial recover in the extraction of crude petroleum, which ir creased by 4.5 per cent after having dropped by per cent in the previous year, and to an increase o 25 per cent in the production of iron ore. More over, Ecuador's production of crude petroleur almost tripled in 1973, which explains the vigo ous expansion of value added in this sector, whil the Dominican Republic also recorded an excep tional expansion rate (44 per cent) due to th recent bringing into operation of its iron an nickel deposits.

In contrast, mining production dropped b approximately 4 per cent in Argentina and Colon bia and there were only small increases in Bolivi Chile and Peru. In Argentina there was a shar drop in the production of coal because of th

main sectors of economic activity
rates)

	Construction				*Basic services*[a]				*Other services*[b]			
1973	*1965-1970*	*1971*	*1972*	*1973*	*1965-1970*	*1971*	*1972*	*1973*	*1965-1970*	*1971*	*1972*	*1973*
6.8	11.7	0.2	4.4	−11.2	4.6	4.1	3.4	5.3	4.1	3.8	3.5	3.2
6.5	1.8	4.1	8.1	7.2	6.4	3.9	5.5	5.8	8.5	4.1	6.0	6.5
15.8	10.7	8.4	12.9	15.4	9.8	9.1	8.9	13.6	7.1	11.8	10.9	11.4
9.8	12.3	7.1	1.8	11.1	6.8	6.9	8.2	7.6	5.8	7.2	7.6	7.9
7.0[c]	4.8	8.0	7.0	...	8.2	6.2	7.5	[d]	7.0	4.2	5.3	3.2[d]
−5.1	0.7	9.5	−9.7	−20.0	3.8	4.8	2.5	−4.3	4.1	7.7	4.2	−0.7
13.6	11.1	27.7	10.7	8.8	8.0	11.8	16.7	11.2	6.9	10.6	8.3	7.1
4.5	1.2	10.7	16.5	3.7	7.8	3.2	7.2	6.1	4.3	4.4	5.3	5.7
6.0	3.0	0.4	19.3	15.0	6.4	7.0	14.8	12.1	5.8	4.2	4.8	6.9
7.2	1.4	10.3	11.8	13.3	4.4	3.8	6.2	6.5	1.4	3.7	4.5	9.2
6.3	10.4	4.6	5.7	5.7	5.6	4.9	3.3	3.9	5.7	4.3	4.7	4.2
8.2	9.8	−2.6	16.0	15.5	9.7	7.3	10.6	9.7	6.4	4.1	7.6	7.8
2.2	5.0	3.5	11.9	25.9	5.4	4.7	3.6	6.0	3.8	4.3	3.3	−0.3
4.7	9.1	18.6	12.0	10.2	12.2	15.9	9.3	11.6	7.1	6.6	6.5	4.8
4.0	8.3	10.4	6.0	5.6	5.8	8.2	12.2	6.0	5.4	4.3	4.2	5.3
7.4	0.7	18.1	15.0	12.0	3.6	8.2	8.6	[d]	3.4	6.8	8.0	5.2[d]
7.5	17.0	25.0	22.3	17.0	10.2	9.6	8.1	10.2	6.0	7.8	8.7	7.0
−0.4[c]	–	5.8	5.5	−2.0	1.1	3.5	−3.8	−1.8	2.0	−2.2	−1.4	0.9
8.3	3.7	24.6	26.9	26.2	8.9	8.6	8.6	9.2	4.7	4.6	4.5	7.6
9.2	*8.7*	*4.3*	*10.0*	*7.7*	*7.3*	*7.1*	*7.4*	*8.7*	*5.6*	*6.4*	*7.3*	*7.4*
6.7	*8.5*	*3.9*	*9.8*	*6.9*	*6.3*	*6.1*	*6.6*	*6.3*	*5.1*	*4.7*	*6.0*	*5.9*

[c] Mining is included under manufacturing.
[d] Basic services are included under other services.

collapse of some of the coal faces, and there was also a small decrease in petroleum extraction, while the production of crude petroleum continued to decline in Colombia.

In general, construction increased rapidly in almost all Latin American countries, keeping pace with the dynamic growth in manufacturing in 1972 and 1973, with the exceptionally high export earnings, and with the increase in public expenditure and commercial and financial activity.

In 10 of the 18 countries under consideration, the product of the construction sector increased by more than 10 per cent. In Venezuela and Nicaragua, for example, it increased by 26 per cent, and in Brazil, Guatemala, Mexico and the Dominican Republic by between 15 and 17 per cent. In contrast, it fell by 11 per cent in Argentina, by 20 per cent in Chile, and by 2 per cent in Uruguay, thus reducing the rate for the region from 10 per cent in 1972 to 7.7 per cent in 1973.

Under the heading of basic services (8.7 per cent increase), transport and communications increased by 8.5 per cent and electricity by 9.2 per cent.

The total production of electricity in Latin America was in the region of 194,300 million kWh (approximately 640 kWh per head). Brazil, which produces approximately one third of the electrical power generated in the region, increased its output by 14 per cent, while the other two big producers of electricity, Argentina and Mexico, increased theirs by 6 and 7 per cent respectively.

The other services together showed an increase of 7.4 per cent, similar to that of 1972, the main items among them being commercial and financial activities, with an increase of 7.5 per cent, and value added by general government, which increased by 8.6 per cent.

3. Inflationary pressures

Any review of the outstanding features of Latin American economic trends in 1973 must draw attention to the fact that a pronounced increase in inflationary pressures became widespread in the region in that year. A short time before, this problem had been limited to only a few Latin American countries, but in 1972 major increases in domestic prices were noticed in several countries, even in those which had traditionally shown relative stability; this process quickly became more

Table 56. Latin America: movement in consumer price indexes
(Annual growth rates)[a]

	1965-1970	1971	1972	1973
A. *Active inflation*				
1. Argentina	19.3	34.7	58.5	60.4
2. Bolivia	6.0	3.7	6.5	29.7[b]
3. Chile	26.0	20.1	77.8	352.8
4. Uruguay	60.0	23.6	76.4	97.0
B. *Moderate inflation*				
5. Barbados	5.1	7.5	11.8	16.9
6. Brazil	28.2	20.2	16.4	12.6
7. Colombia	10.0	9.1	14.3	23.1
8. Ecuador	4.7	8.3	7.9	13.0
9. Jamaica	5.3	6.6	5.9	19.2
10. Peru	9.8	6.8	7.2	9.5
C. *Relative stability, but with sharpening of the pace of inflation in the past two years*				
11. Costa Rica	2.4	3.0	4.7	14.3[c]
12. El Salvador	1.1	0.4	1.5	5.8[b]
13. Guatemala	1.5	−0.5	0.5	13.9
14. Guyana	2.6	2.1	4.6	9.9
15. Haiti	1.6	9.6	3.2	22.8
16. Honduras	1.7	2.3	5.2	3.2
17. Mexico	3.5	5.7	5.1	11.3
18. Panama	1.6	1.5	5.4	7.5
19. Paraguay	1.3	4.9	9.2	13.4
20. Dominican Republic	0.7	3.7	8.6	15.1
21. Trinidad and Tobago	3.8	3.5	9.3	14.8
22. Venezuela	1.5	3.3	3.1	4.4

SOURCES: Of basic statistics: International Monetary Fund, *International Financial Statistics*, vol. XXVII, No. 34; National Institute of Statistics and Censuses, Argentina (Consumer prices sheet); Getulio Vargas Foundation, *Conjuntura Econômica*, vol. 28, No. 2; Central Bank of Paraguay, *Boletín mensual*, January 1974; National Institute of Statistics, Chile (Consumer prices sheet) and Statistical Bureau, Guyana.

[a] Differences between annual averages.

[b] Movements over a period of nine months.

[c] Variations in the wholesale price index over a period of ten months.

pronounced in 1973 and spread to almost all the countries of the region. The underlying causes were the increases in international prices and the inflation in the industrial countries, which were transmitted to Latin America through imports.

As may be seen from table 56, the rate of inflation was high in four countries. In six others the increases, although significant, were more gradual, ranging between 10 and 23 per cent. In the remaining countries considered—many of which had had relatively stable domestic prices throughout the 1960s—there was an increase in the respective rates of inflation in 1973, with prices rising by around 15 per cent in five countries and by over 20 per cent in one case (Haiti).

Among the countries with active inflation in the past year, Argentina showed a rate of price increases slightly higher than that of 1972, while in Uruguay the high rate of the previous year increased further. Without doubt, however, the rate of increase in domestic prices in Chile (353 per cent) was the highest in the region and one of the highest in the world, being 4.5 times higher than that of 1972, which had itself been the highest in Latin America. There was also a marked rise in prices in Bolivia (30 per cent), particularly in comparison with the trends observed in the 1960s.

In the countries with moderate inflation, the general trend of rising prices, which had been fairly marked in 1972, sharpened in the past year, particularly in Jamaica, Ecuador and Colombia. In Peru there was a slight rise above the rate recorded in 1972, but Brazil was the only country of this group where the rate of increase in domestic prices actually fell.

III. ECONOMIC TRENDS BY COUNTRY

ARGENTINA

1. Recent economic trends

As in other Latin American countries, the most striking feature of the economy in 1973 was the performance of the external sector. The value of exports of goods exceeded 3,000 million dollars, which is the highest figure ever recorded and is 57 per cent higher than that of 1972. Since the value of imports rose by little more than 9 per cent, there was a surplus on current account of 660 million dollars and an increase in net international reserves of 700 million. This was an important factor not only in the balance of payments, but also in the 10 per cent increase in agricultural production and in anti-inflationary policy, since instead of devaluation it proved possible to make a selective revaluation of the peso in order to offset the higher cost of imported inputs.

Economic developments fell into two distinct periods, corresponding to those of the different Governments. During the first five months of 1973 manufacturing output—particularly of metal products, machinery and equipment—increased considerably, and there was also a recovery in agricultural activity and an increase in exports. At the same time, there was a marked increase in domestic prices, which provoked a considerable accumulation of stocks, a contraction in private investment (except in the agricultural sector), and a redistribution of income in favour of agricultural entrepreneurs and other non-wage-earning groups. The effect of this was reflected in consumption, since there was an increase in sales of motor vehicles and household goods, whereas expenditure on foodstuffs, beverages, and footwear and clothing fell.

The second period, which began towards the end of May, was marked by some success in curbing inflation, and a moderate and gradual increase in wages. The effect of this was a marked increase in consumption, the structure of which also changed as a result of the increased purchasing power of the middle and low income groups. At the same time, there was a recovery in fixed investment and a considerable reduction in stocks, while the boom in exports continued.

The policy applied in the external sector, in production, in respect of inflation, and in financial and monetary matters indicates that the major objectives pursued are to strengthen State activity, to widen the scope of international action, to redistribute income in favour of wage-earners, and to make headway with concerted methods of taking decisions.

2. General results of economic activity in 1973

The outstanding features of economic activity in 1973 were an increase of 57 per cent in the value of exports of goods due to a moderate increase in volume and a marked increase in world prices, an increase of 4.8 per cent in the product, an increase in consumption and a fall in investment, and a decrease in the volume of imports. This occurred within the context of the reorganization of the economy in keeping with the policies of the new Government.

The global results show that the increase in the product includes sizeable increases in the agricultural, industrial, and electricity, gas and water sectors. Services increased only moderately and there were declines in mining and particularly in construction. The increase in the world prices of the products exported by Argentina—an improvement which benefited most of the countries of the region, as indicated in the introduction to this study—resulted in very favourable terms of trade which gave an increase in gross income of 6.3 per cent. The other component of total supply—imports—decreased in volume by 7.7 per cent (see table 57 and figure XXIV).

On the demand side, the expansion was due to increases in consumption and exports. The former increased by 5.3 per cent, but the level varied during the year, and in the last quarter, as a result of wage increases, it was growing at the rate of 9.9 per cent. Gross domestic investment fell by 2.4 per cent as a result of the unequal performance of its components, for in the first five months investment channelled towards construction and equipment fell by 1.8 per cent, while gross total investment increased by 4.6 per cent as a result of an increase in stocks, whereas the position was reversed in the last quarter, when gross fixed investment increased at a rate of 1.1 per cent per year but total investment fell by 14.5 per cent.

3. The external sector

It has already been mentioned that the distinctive feature of economic activity during 1973 was the exceptional increase in export prices. Together with an increase of 5.7 per cent in volume, this increased the value of exports of goods to the unprecedented figure of 3,050 million dollars—57 per cent higher than in 1972. This is a remarkable performance even if account is taken of world inflation, for the increase in gross income was 6.3

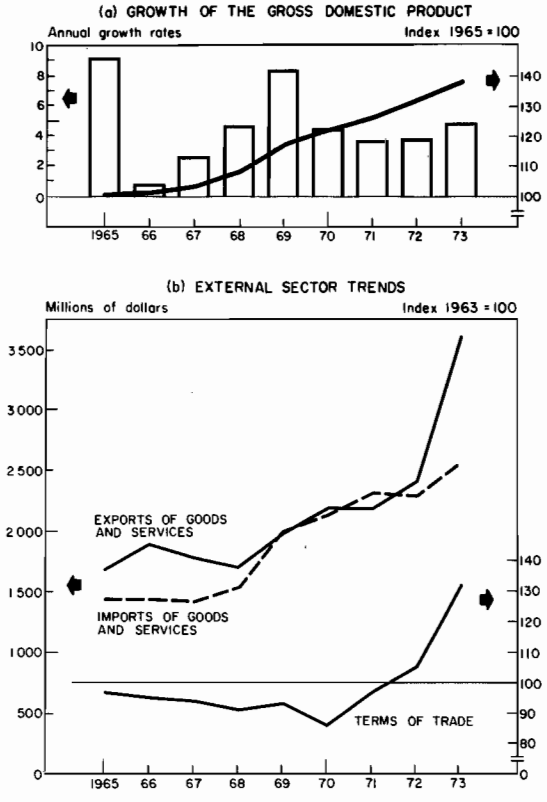
Table 57. Argentina: total supply and demand

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*16,718*	*17,407*	*17,926*	*18,591*	*109.3*	*109.7*	*108.1*	*4.2*	*4.1*	*3.0*	*3.7*
Gross domestic product	15,246	15,812	16,416	17,197	100.0	100.0	100.0	4.1	3.7	3.8	4.8
Imports[b]	1,472	1,595	1,510	1,394	9.3	9.7	8.1	4.8	8.4	−5.3	−7.7
Total demand	*16,718*	*17,407*	*17,926*	*18,591*	*109.3*	*109.7*	*108.1*	*4.2*	*4.1*	*3.0*	*3.7*
Exports[b]	1,788	1,578	1,422	1,503	10.8	11.7	8.7	5.9	−11.7	−9.9	5.7
Gross domestic investment	3,344	3,640	3,844	3,752	19.5	21.9	21.8	6.6	8.9	5.6	−2.4
Gross fixed investment	3,285	3,514	3,706	3,599	17.4	21.5	20.9	0.7	7.0	5.5	−2.9
Construction	1,391	1,429	1,454	1,306	6.8	9.1	7.6	10.2	2.7	1.7	−10.2
Public	540	607	690	536	2.3	3.5	3.1	13.6	12.4	13.7	−22.4
Private	851	822	764	770	4.6	5.6	4.5	8.4	−3.4	−7.0	0.8
Machinery and equipment	1,894	2,085	2,252	2,293	10.5	12.4	13.3	7.6	10.1	8.0	1.8
Total consumption	11,586	12,189	12,660	13,336	79.1	76.0	77.5	3.3	5.2	3.9	5.3
General government	1,012	998	980	1,015	7.3	6.6	5.9	2.1	−1.4	−1.8	3.6
Private	10,574	11,191	11,680	12,321	71.8	69.4	71.6	3.4	5.8	4.4	5.5

SOURCES: 1965-1972: figures supplied by the Central Bank of Argentina; 1973: ECLA estimates based on figures from the same source.

[a] Preliminary figures.
[b] Goods and services, excluding factor payments.

Figure XXIV. Argentina
Natural scale



per cent compared with a rate of increase of 4.8 per cent in product prices.

(a) *Exports*

External sales of meat, meat products and cattle on the hoof came to 962 million dollars, that is to say, a little less than one third of the value of total exports. Beef exports were the highest ever–662.4 million dollars at current prices. This was due to the extraordinary increase in prices, for the total volume exported decreased. It should be pointed out that although the European Common Market suspended its tariffs on imports of meat in September because of the "prevailing shortage", it is expected that restrictions will be restored in the future.

The value of exports of wool and hides was 207.4 million dollars–twice the figure for the previous year.

With respect to cereals, a little over 10 million tons were exported (77.5 per cent more than in 1972), with shipments of wheat, maize and sorghum accounting for 2.9, 4.3 and 2.2 million tons respectively. The increased volume, together with the increases in prices, resulted in an increase of 160 per cent in the value exported to 905.5 million dollars. Moreover, a surplus of maize and sorghum amounting to 1.2 million tons was not marketed.

Foreign sales of vegetable oils came to 98 million dollars, those of sugar to 78 million (150 per cent more than in 1972), and those of fish products to 20 million dollars.

Non-traditional exports accounted for 725.3 million dollars (24 per cent more than in the previous year), with sizeable increases in the hides and skins industry (16 per cent), textiles (94 per cent), metal products (47 per cent), machinery (21 per cent) and transport equipment (99 per cent). Ten per cent of the motor vehicles and 13 per cent of the tractors produced were exported.

(b) *Imports*

At current values, imports of goods and services came to 2,567 million dollars, which represented an increase of 12.4 per cent compared with 1972 but a reduction of 7.7 per cent at constant prices. The main factors in this were the increase in the prices of intermediate materials and fuel on the one hand, and on the other, the use of accumulated stocks because of the stabilization of domestic prices and the increase in the cost of imported inputs.

Imports of capital goods cost 415 million dollars (9.4 per cent less than in 1972), those of fuel 229 million (227 per cent more), and those of intermediate materials 1,400 million (8.3 per cent more than in 1972). The value of imports of chemical products and metals remained the same, which means that there was a reduction in volume, since prices increased. There were increases in imports of plastic products and rubber (15.4 per cent), wood (25.5 per cent) and raw materials for paper-making (11.8 per cent). Imports of agricultural primary commodities increased as a result of purchases of wheat to meet previous export commitments. Petroleum purchases almost doubled. Purchases of spare parts for machinery and transport equipment fell by 13 per cent, and the value of imports of consumer goods decreased by 45.8 per cent compared with the previous year because of the restrictions on non-essential goods.

(c) *Balance of payments*

In the balance of payments (see table 58) the outstanding feature was the surplus of 616 million dollars on current transactions, which resulted mainly from the increase in the value of exports due to the increased international prices. The trade balance showed a surplus of 1,249 million dollars, but the services account had a deficit of 215 million dollars. The net inflow of capital exceeded 200 million dollars, most of which was made up of

short-term inflows in the private sector and compensatory capital brought in by the Central Bank and the Government. The final result was an increase of more than 900 million dollars in foreign exchange reserves and SDRs (giving total reserves at the end of 1973 of 1,450 million dollars), and of 700 million dollars in net international reserves. Long-term indebtedness was 635 million dollars in May, but with the debt payments made between then and December the total was reduced to a little over 500 million dollars by the latter date.

4. Major sectors of activity

The gross domestic product grew in real terms by 4.8 per cent, compared with the 3.8 per cent achieved in 1972. This result was mainly attributable to agricultural expansion (9.8 per cent) and industrial growth (6.8 per cent), for there was a decline in mining (−3.9 per cent) and construction (−11.2 per cent) (see table 59).

There were increases in almost all sectors of agricultural activity. In crop farming, the only declines were shown by fruit (there was a drop of

Table 58. Argentina: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]	
Current account					
Exports of goods and services	2,198.0	2,197.0	2,399.4	3,601.3	
Goods FOB	1,773.0	1,740.0	1,941.2	3,050.0	
Services	425.0	457.0	458.2	551.3	
Transport	215.0	220.0	221.5	265.4	
Travel	74.0	92.0	79.3	114.6	
Imports of goods and services	2,131.0	2,327.0	2,284.4	2,567.1	
Goods FOB	1,474.0	1,625.0	1,656.8	1,801.0	
Services	657.0	702.0	627.6	766.1	
Transport	352.0	393.0	375.7	452.4	
Travel	130.0	113.0	78.2	108.6	
Net external investment income	−223.0	−256.0	−333.3	−372.8	
Profits	−70.0	−46.0	−60.8	−91.7	
Interest	−153.0	−210.0	−272.5	−281.1	
Net private transfer payments	−1.0	−1.0	−1.1	−1.2	
Balance on current account	−157.0	−387.0	−219.4	660.2	
Capital account					
Net external financing (*a* + *b* + *c* + *d* + *e*)	157.0	387.0	219.4	−660.2	
(*a*) Net external non-compensatory capital	463.0	−203.0	−39.2		
Direct investment	11.0	11.0	9.8		
Long- and medium-term loans	487.0	557.0	375.6		
Amortization payments	−259.0	−360.0	−344.2		
Short-term liabilities	226.0	−409.0	−77.1		35.8
Official transfer payments	−2.0	−2.0	−3.3		
(*b*) Domestic non-compensatory capital or assets	−91.0	−21.0	64.1		
(*c*) Errors and omissions	6.0	25.8	7.8		
(*d*) Allocation of SDRs	59.0	47.0	51.0	–	
(*e*) Net compensatory financing (increase −)	−280.0	539.0	135.7	−696.0	
Balance-of-payments loans trade arrears, IMF loans and other liabilities of the monetary authorities	–	141.0	352.9	207.5	
Amortization payments	−120.0	−1.0	−5.4	–	
Movements of foreign exchange reserves (increase −)	−84.0	272.0	−260.6	−844.4	
Movements of gold reserves (increase −)	−17.0	70.0	65.1	–	
SDRs (increase −)	−59.0	57.0	−16.3	−59.1	

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

almost 65 per cent in pears and apples) and flowers. As regards cereals, the production of wheat increased by 39 per cent, that of maize by 65.5 per cent and that of sorghum by 27.5 per cent. There were also increases in the production of oilseeds (29.7 per cent)—especially groundnuts and sunflower seeds—and in industrial crops (10.3 per cent), the main increases being in sugar-cane and cotton. Vegetables and garden produce increased by 10 per cent, with substantial increases in the production of potatoes.

Livestock production increased by 2.9 per cent, with increases of 3.9 per cent in cattle, 22.9 per cent in pigs and 2.6 per cent in sheep, but decreases of 0.1 per cent in milk and 5 per cent in other dairy products. The number of cattle slaughtered came to 9,800,000 (2 per cent less than in 1972), the apparent increase in production being due to an increase in stocks. The drop in the number of head slaughtered (in the Liniers Market the decline was almost 25 per cent) was the result of the fixing of maximum prices which made producers retain their stock or find other marketing outlets. In the remaining sectors, forestry and logging increased by 5 per cent and fisheries by 15 per cent.

The mining and quarrying product fell by 3.9 per cent as a result of the unfavourable performance of all its components. Geological problems and the collapse of the roofs at two of the three coal faces caused a reduction of 25.6 per cent in the production of coal. Only 24.4 million cubic metres of petroleum were extracted (3.2 per cent less than in 1972) because of the normal drop in the output of some wells and the delay in bringing other wells on stream. On the other hand, the production of natural gas increased, and almost 7 million cubic metres were pumped into the pipelines at the wellhead (16 per cent more than in 1972). The mining of metallic minerals decreased by 5.7 per cent, mainly as a result of disputes in the zinc and lead producing areas.

Another sector in which production fell was construction (−11.2 per cent), where there was a sharp decline in public construction (−22.4 per cent) and only a slight increase of 1.1 per cent in private construction.

The industrial product grew by 6.8 per cent, with major increases in the output of metal products, machinery and equipment (14.1 per cent), followed by the textile industry, clothing, and the leather industry (6.6 per cent). Other sectors showed slight increases or drops in production. The external market was an important factor in the production of motor vehicles and tractors, exports of which came to 10 and 13 per cent of production, respectively.

In the closing months of 1973 industrial activity was affected by difficulties in the supply of some imported inputs and by the income and prices policy introduced by the Government. The former seems to have affected the production of chemicals, rubber, plastics and basic metal products—which increased only slightly—and the output of wood products, paper and printing, and petroleum products, which decreased a little (see table 60). The consequences of the second problem were seen in the last quarter, when stocks were liquidated and the demand for basic consumer goods increased (foodstuffs by 7 per cent and textiles by 9 per cent).

The services sector grew by 3.6 per cent, a rate similar to that of previous years. The highest increase (8 per cent) was recorded in electricity, gas and water, as a result of the increased outputs by SEGBA and Agua y Energía Eléctrica. The distribution of natural gas increased by 10.8 per cent, thanks mainly to the increase in production in the province of Neuquén.

Commerce grew by 3 per cent, while transport and warehousing expanded by 4.1 per cent and communications by 7.1 per cent (due largely to the installation of new telephone exchanges in the metropolitan area). Lastly, financial, insurance and real estate services grew by 4.2 per cent, and community, social and personal services by 3.1 per cent.

5. Prices, wages, employment and supply

(a) *Prices*

Between December 1972 and December 1973, the general level of retail prices rose by 43.8 per cent, the individual increases being 36.1 per cent for foodstuffs, 44.9 per cent for footwear and clothing, 51.8 per cent for general expenditure, 39.9 per cent for household goods, and 166.9 per cent for housing.

Examination of the figures by period, however, reveals that between December 1972 and May 1973 retail prices increased by 32.1 per cent and wholesale prices by 31.3 per cent, while the increases during the remainder of the year were 8.9 and 1.1 per cent, respectively. Moreover, the increase during the second half of the year can be ascribed mainly to the increase of 8.1 per cent in the month of December, when there were seasonal problems which affected the production of foodstuffs, and this increase was partially offset by the decrease of 5.7 per cent in January 1974. Wholesale prices remained practically unchanged from June 1973 onward (see table 61).

The cost of construction increased by 61.3 per cent between the months of December 1972 and December 1973, the increase as at May 1973 being 39.2 per cent. As regards the individual headings, the increase in materials occurred between April

Table 59. Argentina: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	1,939	1,847	1,763	1,937	16.0	13.8	12.3	1.1	-4.7	-4.5	9.8
Mining	245	263	268	258	1.4	1.7	1.6	9.0	7.3	1.9	-3.9
Manufacturing	4,944	5,295	5,675	6,059	33.9	35.3	38.3	5.0	7.1	7.2	6.8
Construction	616	617	644	571	3.1	4.4	3.6	11.7	0.2	4.4	-11.2
Subtotal goods	*7,744*	*8,022*	*8,350*	*8,825*	*54.4*	*55.2*	*55.8*	*4.5*	*3.6*	*4.1*	*5.7*
Electricity, gas and water	319	350	382	412	1.8	2.3	2.6	8.6	9.7	9.1	8.0
Transport and communications	1,054	1,079	1,096	1,144	7.7	7.5	7.2	3.6	2.4	1.6	4.4
Subtotal basic services	*1,373*	*1,429*	*1,478*	*1,556*	*9.5*	*9.8*	*9.8*	*4.6*	*4.1*	*3.4*	*5.3*
Wholesale and retail commerce, restaurants and hotels	2,524	2,641	2,743	2,824	18.1	18.0	17.9	4.1	4.6	3.9	3.0
Financial establishments, insurance and real estate	488	507	531	554	3.6	3.5	3.5	3.3	3.9	4.7	4.2
Community, personal and social services	1,888	1,936	1,986	2,048	14.4	13.5	13.0	2.7	2.5	2.6	3.1
Subtotal other services	*4,900*	*5,084*	*5,260*	*5,426*	*36.1*	*35.0*	*34.3*	*3.5*	*3.8*	*3.5*	*3.2*
Total	*14,017*	*14,535*	*15,088*	*15,807*	*100.0*	*100.0*	*100.0*	*4.1*	*3.7*	*3.8*	*4.8*

SOURCES: 1965-1972: figures supplied by the Central Bank of Argentina; 1973: ECLA estimates based on figures from the same source.

[a] Preliminary figures.

Table 60. Argentina: gross domestic product generated by manufacturing activities
(Annual growth rates)[a]

	Quarters (1973)				Years		
	I	*II*	*III*	*IV*	*1971*	*1972*	*1973*
Total manufacturing.	*7.5*	*7.0*	*5.4*	*7.3*	*7.1*	*7.2*	*6.8*
Food, beverages and tobacco . . .	2.6	2.0	1.6	6.9	3.7	4.8	3.3
Textiles, clothing and leather industry	10.7	5.1	2.5	8.9	8.0	4.7	6.6
Wood and wood products, including furniture	2.9	1.8	−6.9	−4.7	−4.0	−2.6	−1.9
Paper and paper products, printing and publishing	−2.6	−5.2	2.1	1.6	4.8	−0.7	−1.1
Chemicals, products of petroleum and coal, rubber products and plastics .	1.2	2.4	0.8	5.5	10.3	3.7	2.5
Non-metallic mineral products, except products of petroleum and coal .	2.8	0.9	−2.0	−3.4	7.7	4.7	−0.6
Basic metal industries	4.6	3.5	−2.3	−3.4	9.2	5.5	0.4
Metal products, machinery and equipment	15.6	15.3	13.8	12.3	10.8	15.1	14.1
Other manufacturing industries . .	1.5	1.8	−1.1	1.4	−23.0	−6.1	0.9

SOURCE: Central Bank of Argentina.
[a]Compared with the corresponding period of the previous year.

and May and prices remained stable from then on, while labour costs increased in June, when there was a wage increase, and then continued stable until the end of the year.

(b) *Wages*

The wage increases recorded in 1973 were the result of two different measures. First there was the collective agreement reached on wages in January, which gave an unmarried unskilled worker, for example, a 37 per cent increase. There were subsequently further smaller increases as a result of adjustments obtained by certain trade unions.

The second source of increases was the *Acta de Compromiso Nacional* (30 May 1973) entered into by the new Government and the representatives of both employers and employees. It came into effect in June and involved (i) an increase of 200 pesos per wage-earner per month; (ii) an increase of 40 per cent in family allowances; (iii) the fixing of a minimum salary of 1,000 pesos per month; and (iv) an increase of 28 per cent in pensions not exceeding 1,000 pesos. It was further agreed that if there was any drop in the purchasing power of wages, measures would be taken to maintain the present level of purchasing power.

The basic salary plus family allowances of the unskilled industrial worker, which had fallen by 2.7 per cent between January and May, thus finally increased by 12.2 per cent over the whole year, while if the period May 1973 to January 1974 is taken, the increase in real wages was 22.4 per cent (see table 62).

Since the increases were entirely absorbed by the non-wage-earning sector, there has thus been a considerable transfer of income in favour of wage-earners. It is estimated in the Three-Year Plan that the share of the latter, which was 40.7 per cent in the early months of 1973, subsequently rose significantly to an estimated annual average of 42.5 per cent.

(c) *Employment*

Surveys carried out by the National Institute of Statistics and Censuses (INDEC) show that in the federal capital and Greater Buenos Aires the rate of unemployment fell from 6.1 per cent in April to 4.5 per cent in October 1973 (see table 63 for the remaining figures).

(d) *Availability of goods*

On the supply side, availability was affected by scarcity and high prices on the world market, while on the demand side it was affected by an increase in exports—both legal and illegal—and by the increase in domestic purchasing power.

Because of international scarcity, a list of "critical inputs" was drawn up and arrangements were made to facilitate their importation. The Government also tried to ensure supplies of them through negotiations with countries or with manufacturers.

Table 61. Argentina: consumer prices

	Percentage variation compared with December of the previous year												
	1973												*1974*
	Jan.	*Feb.*	*March*	*April*	*May*	*June*	*July*	*August*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*
General level	*4.6*	*12.5*	*22.2*	*27.7*	*32.1*	*28.2*	*28.2*	*29.2*	*29.9*	*31.9*	*33.0*	*43.8*	*–5.7*
Food	–1.4	10.0	22.2	24.7	27.5	16.8	14.6	15.4	18.3	20.1	19.6	36.1	–10.6
Clothing and footwear	3.0	5.7	10.0	24.0	33.2	40.1	44.6	45.6	34.7	39.1	43.8	44.9	3.5
General expenditure	2.0	3.1	10.6	25.3	32.4	41.6	44.7	46.8	49.4	50.1	50.8	51.8	0.4
Household	3.6	5.0	6.6	–3.6	1.8	10.7	17.3	20.3	22.9	25.2	40.3	39.9	0.5
Housing	155.1	155.1	159.2	159.2	159.2	166.9	166.9	166.9	166.9	166.9	166.9	166.9	0.8

SOURCE: Ministry of Economic Affairs, Current Situation Unit, on the basis of data supplied by the National Institute of Statistics and Censuses (INDEC).

Table 62. Argentina: wages of unskilled industrial workers

	Percentage variation compared with December of the previous year												
	1973												*1974*
	Jan.	*Feb.*	*March*	*April*	*May*	*June*	*July*	*August*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*
Basic wage													
Nominal	36.7	36.7	37.3	37.3	38.2	64.8	66.7	66.7	66.7	68.5	68.5	68.5	–
Real	30.7	21.4	12.4	7.6	4.6	28.6	30.0	29.0	28.3	27.8	26.8	17.2	6.1
Basic wage + family allowance													
Nominal	27.3	27.3	27.9	27.9	28.5	58.5	59.9	59.9	59.9	61.3	61.3	61.3	–
Real	21.8	13.2	4.6	0.2	–2.7	23.6	24.7	23.7	23.1	22.3	21.3	12.2	6.1

SOURCE: Ministry of Economic Affairs, Current Situation Unit, on the basis of data supplied by the National Institute of Statistics and Censuses (INDEC) and the Ministry of Labour.

Table 63. Argentina: unemployment rates, by districts
(Percentages of the economically active population)

Survey period	Districts											
	Greater Buenos Aires											
	Total	*Federal Capital*	*Divisions of Greater Buenos Aires*	*City of Córdoba*	*City of Rosario*	*San Miguel de Tucumán*[a]	*Greater Mendoza*[a]	*City of Formosa*[a]	*City of Posadas*[a]	*Comodoro Rivadavia*	*La Plata Berisso Ensenada*	*Rio Gallegos*
April 1970	4.8	3.6	5.7	4.2	5.5	10.9	3.8	8.7	8.4	–	–	–
July 1970	4.7	4.0	5.1	–	–	–	–	6.7	10.0	–	–	–
October 1970	5.0	4.6	5.3	4.7	4.9	10.4	3.3	8.7	6.8	–	–	–
April 1971	5.7	5.0	6.2	5.2	5.2	11.7	4.1	7.2	11.6	–	–	–
July 1971[b]	6.3	5.5	6.9	–	–	–	–	–	8.8	–	–	–
October 1971[b]	[c]	[c]	[c]	4.4	3.5	12.2	3.6	6.1	5.9	–	–	–
April 1972[b]	7.4	6.7	7.8	7.2	6.2	14.2	4.8	4.6	5.0	–	–	–
October 1972[bd]	5.8	3.8	7.0	5.2	5.8	11.7	4.2	3.8	4.7	–	–	–
April 1973[b]	6.1	4.8	7.0	5.3	5.3	12.5	4.1	4.0	5.3	8.5	6.2	10.0
August 1973[b]	5.5	4.9	5.9	–	–	–	–	–	–	–	–	–
October 1973[b]	4.5	3.7	5.0	6.1	5.5	11.3	3.2	5.2	4.2	7.7	–	11.0

SOURCE: National Institute of Statistics and Censuses.
[a] Districts with definite seasonal activities.
[b] Provincial rates.
[c] Survey not carried out.
[d] Sample updated on the basis of provisional results provided by the National Population Census of 1970.

The increased exports by Argentina, for their part, included products which had become competitive because of the stability of domestic prices and the rise in international prices. However, it should be noted that in addition to the legal exports, there was some smuggling, mainly of foodstuffs to neighbouring countries. On the domestic side, the redistribution of income generated a higher consumption of foodstuffs, textiles and household articles, which in some cases led to delays in their supply. The scarcity was therefore due to increased demand rather than a reduction in supply. An example of this was meat, the supply of which was irregular in some places and at certain times, but the consumption of which, according to official data, rose from 63 kilos per person in May 1973 to 85 at the beginning of 1974.

6. Finance

(a) *Movements of Treasury funds*

During the financial year 1973 there was a major increase in the tax burden[7] after two successive years of decreases. Revenue from this source increased by two-thirds, the biggest rises being in the domestic sector, where increases were registered in revenue from profits tax (52 per cent), sales tax (12 per cent), excise taxes (40 per cent), stamp duty (101 per cent) and fuel tax (111 per cent).

Of the taxes shared on a federal basis, the central government now receives 46.5 per cent under the new system which came into force on 1 January 1973 and which increased the proportion allocated to the provinces. Comparison of actual and budgeted income reveals a deficit of 11.5 per cent, attributable, *inter alia*, to the extension to early 1974 of the deadline for paying taxes on net property and on land suitable for agricultural use.

As regards the net use of domestic and foreign credit, the increase during the year came to 8.8 per cent, but whereas indebtedness increased considerably in the first half of the year, in the second half the figures were negative (see table 64).

Outgoings in 1973 were more than double those of 1972, mainly as a result of the wage policy and the larger contribution made to the provinces, to public enterprises and to the social security scheme. The budgetary imbalance thus increased to 19,145 million pesos--i.e., 43 per cent of total expenditure–being financed mainly through transactions with the Central Bank. In the closing months of the year, there was a considerable upsurge in dealings in treasury bills.

(b) *National public investment*

In spite of the increased income from taxes and tariffs, public investment was 7.2 per cent lower in constant values in 1973 than in 1972. From 1967 to 1972, when it accounted for 36 per cent of gross domestic investment, it experienced an uninterrupted period of growth, but in 1973 it fell to 32 per cent. Of this total, 60 per cent went to public enterprises.

The principal means of financing these enterprises was the contracting of long-term loans (37 per cent), followed by treasury contributions (24 per cent), allocated tax revenue (14 per cent), the release of minimum bank cash reserves (13 per cent) and current savings (12 per cent).

(c) *Money and credit*

The total means of payment increased by 98.3 per cent at current values, rising from 34,600 to 68,600 million pesos. The deficit of the national treasury–also at current values–was 19,100 million pesos, i.e., four times the figure of 4,700 million recorded in 1972. Finally, bank credit to the private sector increased by 63 per cent (likewise at current values), while international monetary reserves grew by 900 million dollars.

This situation reflects a much more expansionist policy than the one followed in 1972, when the means of payment increased by 42.6 per cent, the fiscal deficit was 80 per cent higher (at current prices) than in the previous year, bank credit to the private sector increased by 50 per cent, and the international reserves increased by 167 million dollars.

The considerable increase in liquidity in 1973 did not, however, provoke a corresponding increase in domestic consumer prices, for the increase of 43.8 per cent was much lower than the 64.1 per cent recorded in 1972. The main cause of this seems to be the increase in bank cash reserves, but other factors also played a part, such as the price control policy; the moderate increase in wages, which the employers were pressed to absorb; the fact that there were no devaluations, while a selective revaluation was effected to offset the higher prices of imported imputs; the liquidation of stocks; and the prospects of stability.

7. Economic policy

(a) *Main lines*

The economic policy implemented as from May 1973 (the month in which the government

[7] According to figures given in the Three-Year Plan for Reconstruction and National Liberation, the total tax burden (understood as the ratio of total tax revenue including social welfare contributions to the gross domestic product) was 16.07 for 1973, of which 10.51 was accounted for by the central government, 1.73 by the provinces and the municipality of Buenos Aires, and 3.83 by the national social welfare system. In contrast, it is estimated that the total tax burden was 15.61 in 1971 and 14.48 in 1972.

Table 64. Argentina: movement of treasury funds
(Millions of pesos)

	1972	1973	Percentage increase
Budget income	15,933	24,176	51.7
Current income	13,508	19,389	43.5
Capital income	2,425	4,787	97.4
Other income	159	793	398.7
Total income	*16,092*	*24,969*	*55.2*
Budget expenditure	20,163	42,410	110.3
Current expenditure	14,074	31,467	123.6
Capital expenditure	6,089	10,943	79.7
Other expenditure	684	1,704	149.1
Total expenditure	*20,847*	*44,114*	*111.6*
Deficit	*4,754*	*19,145*	*302.7*
Financing	*4,754*	*19,145*	*302.7*
Internal	4,754	19,145	302.7
Central Bank of Argentina	2,345	14,892	535.1
Short-term operations	118	1,327	1,024.6
Debt cancellation documents and treasury certificates	147	177	20.4
Consolidated fund	1,149	2,788	142.6
Cash variations	−5	−38	–
External	–	–	–

SOURCE: Ministry of Economic Affairs.

changed) was based on agreements reached previously between the majority of the political parties and employers' and employees' organizations. The general scheme of action was outlined in the programme agreed at the meeting between social organizations and political parties (*Coincidencias programáticas del plenario de organizaciones sociales y partidos políticos*) (December 1972), in which the basic objectives and instruments of economic and social policy were established.

Subsequently the Government, the General Confederation of Labour and the General Economic Confederation signed an agreement entitled the *Acta del Compromiso Nacional*. The general text of the points of agreement in respect of the programme contains details of a number of policies, with concrete proposals.[8]

Some of the measures decided upon could easily be implemented through simple administrative procedures, but others called for new legislation, and a number of laws were therefore passed between July and December 1973.[9] The basic

[8] The principal measures outlined in the agreement are: prohibition of changes in the prices of goods and services; review of price increases made during the year; setting up of a Commission on Prices, Income, and Standard of Living; fixing of a ceiling for expenditure by enterprises on publicity and advertisements; reduction of conveyancing fees and sales commissions; adjustment of the tariffs and prices of public goods and services; an increase of 200 pesos in wages; an increase in family allowances, the basic wage and pensions; adoption of an investment policy to ensure full employment; promotion of a social housing programme; adoption of new rules governing housing loans; reorganization of the tax system; reallocation of budgetary expenditures within the framework of a policy of austerity in the public sector; penal sanctions for tax offences; reduction of interest rates by up to 4 points and reduction in the costs of credit management; opening of new lines of credit directed particularly to small-scale and medium-scale enterprises; adoption of a policy of stable exchange rates; ban on imports of luxury articles; formulation of a programme for supplying major urban centres, including the setting up of large central markets and the improvement of their organization and structure.

[9] These laws included the following: Nationalization of Bank Deposits (Law 20,520); Regionalization of the National Bank and the National Development Bank (Law 20,521); Nationalization of Banks (Law 20,522); Organization of Para-Banking Institutions (Law 20,522); Forest Conservation (Law 20,531); Widening of the Powers of the National Meat Board (Law 20,535); Standard Potential Income from Land (Law 20,538); Revision of the Charter of the Central Bank of the Republic of Argentina (Law 20,539); Foreign Capital Investment (Law 20,557); National Enterprises Corporation (Law 20,558); the Identification of Persons in Foreign Enterprises (Law 20,575); Modification of the Law on Financial Institutions (Law 20,574); Agricultural Promotion (Law 20,543); Moratorium on Rural Evictions (Law 20,518); Marketing of Grain (Law 20,573); Industrial Promotion (Law 20,560); Protection of Jobs and National Production (Law 20,545); Corporation for the Promotion and Development of Small- and Medium-Scale Enterprises (Law 20,568); and Promotion of Mining (Law 20,551).

guidelines laid down at the meeting of the political and social organizations took final form in the Three-Year Plan for Reconstruction and National Liberation announced by the President of the Republic on 21 December 1973.

This Three-Year Plan systematizes and quantifies the objectives laid down and provides a general framework for the sectoral policies already being implemented. Subsequently, the Government set about reaching agreement on the sectoral plans with the respective branches of the General Confederation of Labour and the General Economic Confederation and doing the same for the provincial plans with the respective local administrations. The aim is to establish a planning process covering sectoral, regional and specific project aspects, through successive agreements with the various sectors concerned within the context of the Three-Year Plan.

(b) *Foreign trade*

There were significant changes in the economic policy followed in the external sector. Above all, the programme of the new Government was designed to strengthen State participation in the planning and implementation of international trade and finance policy and to widen the range of foreign trade, especially through bilateral agreements. Moreover, the new Government was faced with an international situation where there was a substantial increase in export prices, but a parallel scarcity and rise in the prices of some imported goods.

The most important aspect of the new policy was that the State was given wider powers to intervene in foreign trade. In order to enable it to control exports, laws were passed on meat and grain, which account for a substantial part of external sales. In both cases the Executive was given wide powers to control the export trade and even take it over completely.[10]

[10] The Meat Law (No. 20,535) lays down that "sales abroad of livestock, poultry and fishery products, rabbits, and other animal products and by-products shall be handled by the State, either on a competitive base or exclusively", and the Executive is empowered to decide in which cases marketing abroad is to be exclusively handled by the State, "the nature of and arrangements for the operations to be carried out under this system, and the Argentine-owned public or private bodies which are to carry them out". The Grain Law (No. 20,573) stipulates that "the marketing of the national output of grain and other agricultural products and the products and by-products of primary processing of such commodities shall be handled by the State, whenever the Executive so decides, exclusively through the National Grain Board". It also lays down that the Executive shall decide which activities shall be carried out by the Board itself and which shall be effected through producers' co-operatives or Argentine-owned enterprises. The last mentioned, it states, shall only engage in selling operations as far as foreign trade in grains is concerned.

With regard to the expansion of foreign trade, bilateral agreements were signed with socialist countries and a trade agreement was concluded with Libya. The most important of the former was the agreement reached with Cuba, which involves exports to the value of 1,200 million dollars over six years, 95 per cent of which will consist of motor vehicles and railway equipment. The agreement reached with Libya covers the purchase of 3 million tons of petroleum from that country, while Argentine firms will negotiate the construction of factories there.

Another major concern is to increase exports, and measures taken in this respect include the *Acta de Compromiso del Nuevo Ordenamiento Automotriz* and the establishment of the Corporation for the Promotion of Small- and Medium-Scale Enterprises. In the *Acta de Compromiso* and the Decree No. 680/73 which instruments it, the automotive enterprises undertake "to export assembled or unassembled motor vehicles, parts and authorized components in increasing amounts over the next five years so as to reach by 1978 export totals equal to the sales of each interprise in the base year" (1973). A direct ratio is also established between exports and production for the domestic market, since it is stipulated that the latter can be increased annually by 8 per cent with respect to the recorded sales figures for each enterprise in 1973, provided that the requirements of the export programme are met, failing which the sales figures authorized "shall be adjusted in inverse proportion to the shortfall in exports".

Under this agreement the motor vehicle manufacturers are obliged to export, since access to the domestic market depends on participation in the external one, which is to some extent controlled by these transnational enterprises.

The objectives of the Corporation for the Promotion and Development of Small- and Medium-Scale Enterprises (Law 20,568) include research on foreign markets and the organization of small- and medium-scale producers so that they can export, by providing them with design, quality control and distribution network development services.

(c) *Foreign investment*

With a view to regulating investments of foreign capital, Law 20,557 was passed in November and lays down regulations on the terms of entry of capital, its repatriation, the transfer of profits, reinvestment, and other types of activity. All foreign investors must first seek State authorization, and investments must be attested in a contract. Wherever national participation is less than 51 per cent, the contract must be approved by the National Congress. The act prohibits new

entries of capital which involve any limitation of export possibilities or contracts over which Argentine courts have no jurisdiction in the event of disputes. It further prohibits the investment of foreign capital in activities relating to national security and defence, public services, insurance, commercial banks and financial activities, mass communication media, domestic marketing services, agricultural, stock-raising and forestry enterprises–unless they introduce new technology offering special advantages–and fisheries, unless this gives access to international markets that are at present closed.

The ban also extends to capital brought in in order to acquire shares or equity in Argentine-owned enterprises. Foreign investors are permitted to remit their profits abroad in amounts not exceeding an annual rate of 12.5 per cent, or four points higher than the interest paid in first-line banks for the currency in which the repatriable capital is registered on fixed-term deposit for a minimum of 180 days. Profits in excess of these amounts must remain permanently in the country and their transfer abroad is not permitted. With respect to capital which was brought in prior to the passing of the law, a special tax is levied on transfers of profits, but those investors who decide to have their investments registered under the new regulations are exempted from this tax.

In addition, a special section has been set up in the Registry of Foreign Investments (Law 20,575), with which all persons carrying on activities directly or indirectly connected with the interests of foreign legal or physical persons must register.

Finally, another feature of the foreign capital policy worthy of mention is the expropriation of 7 banks which had been acquired by foreign interests in recent years.

(d) *Production policy*

The new Government also decided to redefine the roles of the State and of private enterprise, both domestic and foreign, in the economy as a whole. The first line of action concerned the economic role of the State. First of all, efforts were made to improve the organization and efficiency of the provincial and national administrations and public enterprises. On 1 August 1973 the "Acta de Compromiso del Estado" was signed, whereby the State and the provinces undertook to adopt austerity measures, to change the tax laws, to fight tax evasion, to reduce the budget deficit, and to more than double the national Government's contribution to the provinces.

As regards public enterprises, the Corporación de Empresas Nacionales (National Enterprises Corporation) was set up under Law 20,558 to exercise "higher level control" over all those enterprises where the State is either the absolute owner, holds the majority of the shares, or has control by virtue of existing laws. This involves orienting the activities of these enterprises, supervising the way they are run, centralizing their external financial management, and proposing to the Executive the nomination of the respective directors. The Corporation will determine prices and tariffs, the level of investment, the role of these enterprises in attracting domestic savings, their participation in external debt policy and the quota of foreign exchange, the contribution to be made to them by the National Treasury, and the proportion of income to be spent on research.

The purpose of this instrument is to make good the lack of a co-ordinated organic policy for State enterprises and remedy the dispersion of their domestic and foreign purchasing power, provide common guidelines for the fixing of prices and tariffs, and ensure efficient management. In addition to the basic aim of increasing economic efficiency, the State will be able to intervene directly through the Corporation in economic policy, and thus influence activity in the private sector.

Moreover, this Corporation will have the important role of counterbalancing the economic power of the major international and national private enterprises at the very moment when the radius of action of the principal economic agents is being redefined.

Steps are also being taken to rationalize medium-term commitments of State enterprises covering supply from the private sector, which will be one of the future tasks of the National Enterprises Corporation. Meanwhile, the State and the Argentine Railways have entered into an agreement with the representatives of the Argentine enterprises supplying railway equipment in order to ensure that as much of this type of equipment as possible is supplied by national industry. The institutions or trade associations representing the business concerned will receive from the Argentine Railways a list of the equipment required over the next three years, with the dates on which the periodical deliveries must be made. This will enable the manufacturers to prepare their quotations in tenders and then work without interruption.

In addition to the efforts to rationalize State action–above all that of the public enterprises–and the allocation of new economic functions, attention has also been given to the productive effort of the private sector. Thus, the Corporation for the Development of Small- and Medium-scale Enterprises[11] was established (Law 20,568) in

[11] This was already mentioned earlier in paragraph (*b*) of this section, in connexion with foreign trade.

order to organize small-scale and medium-scale enterprises, by grouping them and thus contributing to the improvement of their technical efficiency. This will facilitate the horizontal or vertical integration of the enterprises and, in general, will put at their disposal many of the services available to large-scale enterprises such as equipment, financing, technology, co-ordination of procurement and foreign market research.

Simultaneously, action has been taken to stimulate and guide the production of the various sectors and, to this effect, undertakings have been signed and laws passed. In the agricultural sector, the *Acta de compromiso del Estado y los productores para una politica concertada de expansión agropecuaria y forestal* (Agreement between the State and Producers on a Concerted Policy of Agricultural and Forestry Expansion) was signed in September 1973. It was laid down in this agreement that "rural producers and workers will take part in and share with the Government the task of formulating and subsequently implementing the short-, medium- and long-term programme of action". To this effect, a Standing Committee made up of representatives of these groups was set up within the Ministry of Economic Affairs. The basic lines of agricultural and forestry policy were also agreed upon. The producers undertook to use the land fully and rationally, and the Government guaranteed "the peaceful exercise of the right to private property in the social order".

Other provisions in the agreement guarantee reasonable and stable income for rural producers and workers, as well as the disposal by the Government of all of the production "under the best marketing conditions possible". It also states that the tax policy followed will serve as an incentive to production, and that a tax on the potential income from land will be introduced. Rules are also laid down to ensure the better use of credit, the gradual introduction of comprehensive agricultural insurance, and technological and social development programmes.

The following laws were passed in this area of the economy: the Agricultural Promotion Law (Law 20,543), the Forest Conservation Law (Law 20,531) and the law providing for taxation on the basis of the Standard Potential Income from Land (Law 20,538). The first of these laws provides that tenants and sharecroppers can acquire the land they till, provided that its area makes it an economic unit and that it is not larger than two such units; to this effect, they will receive preferential loans and tax relief.

The second of the above laws states that the conservation, regeneration, improvement and extension of the forest is in the public interest and allocates to the afforestation and reafforestation services 50 per cent of the receipts from customs and other duties collected on exports and imports of forest products. It also establishes the National Forestry Institute and the National Forest Commission.

The law providing for taxation on the basis of the standard potential income from land is to come into force on 1 January 1975 or before, depending on the date the cadastral survey indispensable for its application is completed. The law lays down the procedure for establishing standard income without any danger of excess.

In the industrial sector a system was introduced (Law 20,560) for promoting national enterprises considered to be either essential or of high priority because of the nature of their activities or their location. The State will be able to provide direct assistance through industrial promotion certificates, preferential credits, credit guarantees, tax incentives, supply facilities, subsidies and technological assistance, while the beneficiary enterprises must enter into a contract enforceable under the law. Preferential treatment will be given to those industrial enterprises which are considered to be of special importance in their sector and which contribute to regional progress and to effective geographical decentralization of the industry. In this latter connexion, the law prohibits the establishment of new industrial enterprises in the Federal Capital and excludes from its benefits all enterprises located less than 60 kilometres from the capital.

As regards mining promotion, the recent law (No 20,551) on mining extends benefits to all national enterprises except those producing hydrocarbons and cement. The beneficiary industries will receive treatment similar to that given to the industrial sectors enjoying the biggest incentives. A system of tax relief is established, and the Executive is given authority to fix support prices for certain minerals. Further, State and private enterprises are obliged to purchase domestically-produced minerals. The State is empowered to provide assistance to Argentine-owned enterprises through the issue of mining promotion certificates. Finally, the law provides for the establishment of a Mining Promotion Fund which will be financed by specific taxes and a contribution from general income.

(e) *Anti-inflation policy*

Faced with a 32 per cent increase in consumer prices between December 1972 and May 1973, the new Government applied an anti-inflation policy whose basic lines had already been laid down in the *Acta de Compromiso Nacional* entered into by the General Confederation of Labour and the General Economic Confederation in May 1973.

Measures were taken to stop the rise in prices and to lower some of them, and to this end a price freeze was decreed on 1 June 1973. Among the most significant measures taken was the fixing of the maximum price of beef at 4.50 pesos per kilogramme (the previous price had been 5.30 pesos). Thus the price of a key item in the family budget was brought down, and the rises which had taken place in previous months were checked. Simultaneously, maximum prices were fixed for almost 80 per cent of all the goods in the standard retail shopping basket and the prices of 400 basic inputs were ordered to be reduced. In addition, the retail price of some foodstuffs such as potatoes and wheat products was subsidized in order to isolate the prices paid by the consumer from those paid to the agricultural producer. Furthermore, in the public sector an increase in tariffs was authorized which will remain in effect until 1 June 1975. Maximum prices were also fixed for construction materials, but in some cases this actually meant a reduction in prices. Some profit margins were also reduced, and controls were established over contracts containing automatic readjustment clauses.

In respect of products used by families or the public at large, measures were taken to ensure that publicity costs did not enter into the price of such products, that selling prices must be clearly marked, and that the launching of new products on the market was suspended for 90 days so that they did not escape the prize freeze. Moreover, in all hire-purchase sales the actual rate of interest to be paid must be indicated.

The measures outlined above refer to domestic policy, but while prices and wages were being brought into equilibrium and a moderate redistribution of income in favour of wage-earners was being sought, at the international level there was a significant increase in the price of imported goods and fuels. In order to prevent higher costs from forcing prices up and thus upsetting the equilibrium achieved with wages, it was decided that these rises should be offset by an adjustment to the exchange rate. A new rate of exchange for the import dollar was therefore set at 5 pesos (compared with the other two rates of 8.70 and 9.96 pesos), so as to compensate for the rise in the cost of imports. A surcharge is levied when necessary on each dollar so that the compensation does not exceed the actual increase in cost. This system came into force on 15 September 1973 and enterprises had to absorb the previous price rises and freight increases themselves. In this way it was possible to maintain the equilibrium achieved, and the higher costs of imports were in theory offset by the higher prices received for exports. The measure, of course, allowed for adjustments to be made to the exchange rate to bring it into line with new international prices, if these should settle down, so that there would be no significant distortions in the medium-term.

(f) *Money and credit policy*

The primary objective of the financial policy was to increase State control over the monetary and banking system. Under Law 20,520 all deposits in banks or financial institutions were transferred to the Central Bank and these funds could neither be drawn nor used without its approval. Law 20,523, for its part, prohibited financial institutions—other than commercial banks—from holding equity in other financial organizations and decreed the withdrawal of the authorization given to such institutions having links with commercial banks. In addition, it was decided to establish regional directorates in the Banco de la Nación Argentina and in the Banco Nacional de Desarrollo to handle the funds which the central directorates of these institutions periodically allocate to each region.

(g) *Fiscal policy*

Some existing taxes were modified and new ones introduced. The sales tax was replaced by a structured tax based on the value-added method (Law 20,631); a new capital and property tax was introduced in place of the tax on gift transfers of property and the net property tax (Law 20,629); and a new gains tax was introduced in place of the profits tax on the sale of securities and the capital gains tax (Law 20,628). Finally, Law 20,632 was passed, introducing a tax on gift transfers of property, as was Law 20,545, designed to protect national labour and production, which empowered the Executive to change the import and export tariff nomenclatures so as to strengthen Argentine-owned enterprises.

BARBADOS

1. Recent economic trends

Judging from partial information available on certain activities, the gross domestic product of Barbados grew by about 15 per cent at current prices in 1973. This would represent a slight decrease in real terms and would indicate that there was a small change in the very gradual upward trend that the economy has shown this decade.

The increase in the gross domestic product at

Table 65. Barbados: gross domestic product at factor cost, by sector of economic activity

	Millions of Barbados dollars[a]				*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[b]	*1967-1970*	*1971*	*1972*	*1973*[b]
Sugar	27.1	24.0	27.6	28.2	−7.6	−11.4	15.0	2.2
Other agricultural commodities	13.2	14.0	16.6	...	1.3	6.1	18.6	...
Manufacturing	31.4	37.0	43.6	...	22.9	17.8	17.8	...
Construction	27.5	28.2	29.0	...	22.6	2.5	2.8	...
Distribution	71.2	78.2	84.0	103.1	27.2	9.8	7.4	22.7
Government	42.7	47.3	54.9	70.0	21.8	10.8	16.1	27.5
Transport and public utilities	20.9	24.0	27.6	...	14.4	14.8	15.0	...
Ownership of dwellings	11.1	12.2	13.4	...	17.4	9.9	9.8	...
Services	44.8	56.6	60.0	...	43.2	26.3	6.0	...
Total	*289.9*	*321.5*	*357.0*	*410.7*	*17.7*	*10.9*	*11.0*	*15.0*

SOURCE: Economic Planning Unit, Barbados, *Economic Survey* (several issues).

[a]The Barbados dollar, which floats in conjunction with the pound sterling, is worth approximately 50 United States cents.

[b]ECLA estimates.

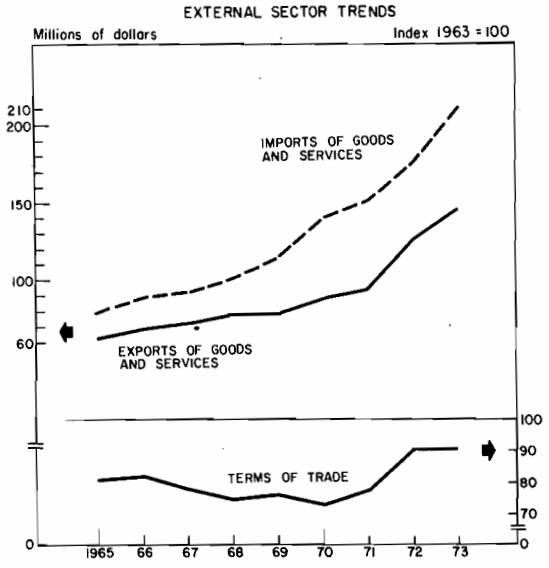
current prices (see table 65) is offset by the constant rise in prices.

One of the factors that most affected the economy in 1973 was the rapid increase in the value of exports and imports, which was estimated at 17 and 20 per cent respectively and was largely attributable to high international prices (see figure XXV). Public expenditure also rose sharply, reflecting higher wages and salaries, and thus pushed up the general government contribution to the gross product. The expansion in public expenditure kept pace with the increase in domestic prices.

The retail price index went up by 16.9 per cent in 1973, which was rather more than in previous years (7.5 per cent in 1971 and 11.8 per cent in 1972), although prices did in fact begin to show a definite upward trend as long ago as 1970. The high price of imported goods had a significant impact on domestic prices, owing to the important role played by such goods in consumption and in industrial inputs. It is estimated that from 60 to 75 per cent of the food items listed in the price index are imported and that a similar pattern exists in other groups. An open economy such as that of Barbados has therefore naturally suffered from the world-wide inflation of the last two years, despite government control of domestic prices.

Moreover, Barbados only reaped part of the benefit of the higher world prices for sugar, because the price it receives for this commodity, which is the country's main export product, is tied to an agreement. This helps to explain why the country's traditionally large deficit, which was 91 million dollars in 1972, is estimated to have risen to about 110 million dollars in 1973, with a consequent balance-of-payments deficit and a reduction in foreign currency reserves, since the increase in earnings from tourism and other activities is not believed to have been sufficient to make up for the trade deficit.

Figure XXV. Barbados
Natural scale



As regards production, there was some increase in the output of sugar-cane and other crops, but it was far lower than expected, mainly because of the drought from which the agricultural sector suffered. There was also a slight increase in manufacturing production and construction, though less than in 1972. The construction sector, in particular, suffered from the difficulty in obtaining imported materials.

2. Major sectors of activity

The production of sugar in 1973, which had been expected to reach 145,000 tons, amounted to only 111,000 tons owing partly to a prolonged drought and to the indiscriminate burning of cane; even so, sugar production equalled that of the previous year (although the level of production at the end of the 1960s was 145,000 tons per year).

There was also an increase in crops for domestic consumption and stock farming; poultry production did particularly well. In 1973 measures continued to be applied to develop and diversify agriculture, and, assuming normal weather conditions in 1974, a substantial increase in production is expected.

At current prices, the estimated increase in the value added by general government in 1973 was 27 per cent, which is fairly high even considering the rise in prices. The public sector continued to be the most dynamic sector of the Barbadian economy, and its relative share in the total product is now close to 17 per cent. There was a substantial increase in wages and salaries in the public sector during 1973, payable retroactively from 1972, and this was the reason for the above-mentioned expansion in current expenditure. In addition, capital expenditure doubled–an indication of the importance of the public sector in the country's economic development.

Up to 1972/1973 the central government accounts showed a surplus on current account, but the situation changed in the last financial year when a small deficit was recorded. As a result, the public debt is not excessively large and two-thirds of it is internal.

In 1973 approximately 222,000 persons entered the country (excluding cruise ship passengers), which is about 6 per cent more than during 1972. Two-thirds of the tourists were from the United States and Canada.

It is estimated that tourist expenditure in 1973 was 73 million dollars, or 16 per cent more than the year before. However, the accommodation available for tourists (7,800 beds in 1972) increased by only 2 per cent.

As regards other sectors, manufacturing and commercial activity continued to expand more quickly than the other service sectors in 1973; preliminary indicators show that there was an increase in the output of several manufactured products (see table 66).

3. External transactions

On the basis of available data for the first seven months of 1973, exports of goods are estimated to have increased by approximately 17 per cent, while imports increased by about 20 per cent owing to the need to pay high prices for a wide range of imported products for general and industrial consumption, including fuel. Imports of goods in 1973 (154 million dollars) cost twice as much as five years ago.

Exports of goods amounted to about 44 million dollars in value. Apart from the substantial rise in prices, their increase was largely due to improved sales of sugar and sugar products (which represent 42 per cent of the total value exported) and of a number of manufactured products, especially clothing (see table 67).

The variations in exports and imports were responsible for an end-of-year trade deficit of 110 million dollars (20 million more than in 1972). Net earnings from tourism were estimated at 65 million dollars, which is only 15 per cent more

Table 66. Barbados: output of selected industrial commodities

	Units	*Average 1969-1970*	*1971*	*1972*	*1973*[a]
Sugar	Thousands of tons	145	135	111	111
Lard	Thousands of pounds	1,670	2,204	2,390	2,303
Margarine	Thousands of pounds	3,352	3,799	4,026	3,791
Animal feed	Thousands of pounds	36,075	46,413	56,256	60,156
Rum	Thousands of proof gallons	1,306	1,526	1,954	2,052
Beer	Thousands of gallons	928	1,111	1,422	1,505
Malt	Thousands of gallons	501	533	678	550
Cigarettes	Thousands of pounds	299	343	353	350
Soap	Thousands of pounds	2,522	2,411	2,062	1,406[b]
Electricity generated	Millions of kWh	140	164	195	212
Natural gas production	Millions of cubic feet	113	110	86	108

SOURCES: *Quarterly Digest of Statistics* (December 1973) and data furnished by the Statistical Service, Barbados.

[a] Provisional figures.

[b] January to November.

Table 67. Barbados: selected exports
(Thousands of Barbados dollars)[a]

	Average 1969–1970	*1971*	*1972*	*1973*[b]
Sugar	28,208	25,841	27,061	31,709
Molasses	3,721	3,558	3,338	3,440
Rum	3,104	4,087	4,637	2,484
Electrical parts	5,917	4,042	3,621	2,484
Clothing	3,196	4,193	5,448	4,226
Margarine	1,167	1,406	1,621	876

SOURCES: *Overseas Trade*, and data supplied by the Statistical Service, Barbados.
[a]The Barbados dollar, which floats in conjunction with the pound sterling, is worth approximately 50 United States cents.
[b]January to July.

Table 68. Barbados: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	89.0	94.3	126.7	146.8
Goods FOB	35.2	32.4	37.3	43.5
Services	53.8	61.9	89.4	103.3
Transport	7.4	8.1	10.1	11.5
Travel	31.8	38.8	62.5	72.5
Imports of goods and services	141.3	151.2	175.8	210.0
Goods FOB	105.2	111.7	128.3	154.0
Services	36.1	39.5	47.5	56.0
Transport	17.4	19.5	23.9	27.7
Travel	3.5	4.0	5.4	7.2
Net external investment income	−3.2	−3.6	−4.1	−5.0
Profits	−4.3	−4.3	−4.6	−5.4
Interest	1.1	0.7	0.5	0.4
Net private transfer payments	4.4	4.5	5.1	6.0
Balance on current account	−51.1	−56.0	−48.1	−62.2
Capital account				
Net external financing ($a + b + c + d + e$)	51.1	56.0	48.1	62.2
(a) Net external non-compensatory capital	24.6	31.7	38.3	
Direct investment	8.7	12.6	15.1	
Long- and medium-term loans	5.6	6.5	5.9	
Amortization payments	–	–	–	
Short-term liabilities	9.5	12.0	16.3	63.4
Official transfer payments	0.8	0.6	1.0	
(b) Domestic non-compensatory capital or assets	−10.0	4.8	−6.6	
(c) Errors and omissions	40.2	22.7	18.0	
(d) Allocation of SDRs	–	1.4	1.5	–
(e) Net compensatory financing (increase −)	−3.7	−4.6	−3.1	−1.2
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	–	–	–
Amortization payments	–	−1.0	–	–
Movements of foreign exchange reserves (increase −)	−1.7	−2.2	−1.6	−1.2
Movements of gold reserves (increase −)	−2.0	–	–	–
SDRs (increase −)	–	−1.4	−1.5	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

than in 1972. If allowance is also made for net expenditure on transport, insurance, etc., and for the remittance of profits and interest abroad, the balance-of-payments deficit on current account amounts to 62 million dollars—14 million more than the year before. The net inflow of non-compensatory capital in 1973 was, however, estimated to be slightly larger than the deficit on current account, so that there was a slight improvement in foreign currency reserves (see table 68).

With regard to trade with other CARIFTA countries, available data for the first seven months of the year indicate an increase of approximately 10 per cent in both imports and exports. Barbados has traditionally had a deficit in its trade with CARIFTA, and the 1972 deficit of 6.5 million dollars is estimated to have risen to nearly 7.5 million in 1973, while the deficit in Barbados' trade with Trinidad and Tobago was probably still higher, since it came to about 8 million dollars in 1972.

BELIZE

1. Recent economic trends

The latest official estimates of Belize's gross domestic product is for 1971. There are, however, various indicators of the performance of the economy since then which point to a moderate growth in 1972 and a more rapid growth in 1973.

Agricultural production has continued to expand with the introduction of new crops. This in turn has contributed to the diversification of manufacturing production, although the increasing production of clothing for export continues to be an important feature of this sector. Construction, particularly in connexion with economic and social infrastructure projects, maintains a high rate of growth, and tourism pursues a satisfactory rising trend.

In the external sector, there was a fairly small deficit on the merchandise account in 1973. Capital inflows in the form of external loans and transfer payments will contribute to an over-all net balance of payments position reflecting an even smaller deficit than the 4 million Belize dollars[12] shown in 1972.

2. Major sectors of activity

Despite unfavourable weather conditions, pests and plant diseases during 1972 and 1973, the agricultural sector appeared to strengthen its position as the second largest contributor to the gross domestic product. The progress towards crop diversification is continuing and output of most of the major crops has increased since 1971.

Agriculture is still mainly export-oriented, the chief exports being sugar-cane, citrus fruit and timber. Output of sugar-cane rose by about 22 per cent between 1971 and 1973, reflecting increases in the sugar quota allotted to Belize by the United States. Citrus fruit production during the period 1970-1973, with oranges averaging 73 per cent of the total, experienced its best year in 1973. Timber output, which increased by 66 per cent in 1972, is estimated to have improved further during 1973 as new loggers and saw millers entered the industry. Heavy rains adversely affected fishing, but in terms of value this was offset by higher export prices for lobster and other fish.

As regards the commodities destined mainly for the domestic market, output of rice paddy, maize, red kidney beans and honey increased substantially above the 1971 and 1972 levels. Maize production increased by 40 per cent following its decline in 1972. Rice paddy output increased by 150 per cent compared with 1972, while output of red kidney beans, though 12 per cent higher than in 1972, was still substantially below the 1970 figure (see table 69).

Rehabilitation of the banana industry began during 1973. Plans are eventually to bring 4,000 acres under cultivation and to produce about 80,000 tons annually for sale to the United Kingdom. It is expected that, as from 1974, banana exports will once again make a considerable contribution to the national economy.

Expansion in livestock was sustained during 1973 as poultry production rapidly approached a level of national self-sufficiency, and pork production remained high. There were also some exports of beef, live fowls and eggs during the year. Duty-free concessions were granted for imports of equipment and other goods associated with this industry in order to stimulate further increases in output.

Available information indicates that both the volume and variety of manufacturing output increased in 1972 and 1973. The major contribution to the increased output came from the agriculture-based manufacturing component.

[12] The Belize dollar is approximately equal to 0.588 United States dollars. Up to December 1971, the rate of exchange was 1.67 to the United States dollar and since then it has fluctuated along with the pound sterling.

Table 69. Belize: output of selected commodities

	Unit	1970	1971	1972[a]	1973[a]
Sugar-cane	Tons	668,000	632,629	667,000	772,000
Bananas[b]	Bunches	100,000	...	...	...
Corn	Thousands of pounds	35,000	35,000	32,209	45,000
Rice (paddy)	Thousands of pounds	7,700	9,100	12,000	31,192
Timber	Thousands of cubic feet	741	1,136	1,883	...
Red kidney beans[c]	Thousands of pounds	4,050	2,000	2,500	2,800[d]
Honey	Thousands of pounds	107	206	185	288
Oranges[c]	Thousands of pounds	50,261	83,319	80,471	87,402
Grapefruits[c]	Thousands of pounds	20,540	30,067	37,894	35,143
Sugar	Tons	66,785	64,851	69,967	70,170
Molasses[c]	Tons	26,397	22,960	24,521	26,130
Rum	Liquid gallons	17,057	20,019	22,198	...
Cigarettes	Thousands	76,650	81,765	89,877	77,374
Clothing (outerwear)[b]	Thousands of Belize dollars	1,596	...	...	...

SOURCES: Central Planning Unit, Belize, *Economic Survey*, 1970 and 1971, and data supplied to ECLA.

[a] Provisional figures.

[b] Export data; the figures for Clothing are in terms of value.

[c] Crop year ending in year shown.

[d] Estimate from Budget Speech.

Among the expanding activities are the traditional sugar, molasses, rice, fruit and fruit juice canning, and furniture-making industries. New industries include meat packing, brewery products, extraction and processing of oleoresin, and manufacture of clothing and fertilizers. These have diversified the structure of manufacturing and added considerably to total output. Plans are under way for the establishment of a flour mill, a vegetable and food processing plant, a plant which will eventually manufacture soy bean oil and cake from domestic inputs, and a plant for the manufacture of small hardware and construction materials.

It is estimated that Belize is approaching a level of self-sufficiency in the production of rice, cigarettes and brewery products. Imports of fertilizers and some paper products have also been replaced to a considerable extent by local production, while increased amounts of meat products, rattan furniture and clothing are being exported.

3. THE GOVERNMENT SECTOR

In 1971, the contribution of the government sector to the gross domestic product was estimated at nearly 11 per cent of the total. Since then, government activities have been expanding, with the result that government expenditure has increased steadily. New capital projects accounted for the major part of recent increases in expenditure; these include infrastructural development such as land reclamation, afforestation, public works and utilities.

Estimates of government recurrent revenue for 1973 increased by nearly 16 per cent as against 13 per cent in 1972. Since 1970, the share of import duties has declined from 46 per cent of total recurrent revenue to 37 per cent. Income tax accounts for about 17 per cent. Other taxes have been growing significantly, partly because of increased production and exports.

Government expenditure, which is financed largely from local revenue, was estimated at 36 million Belize dollars for 1973. It is significant that in both 1972 and 1973 planned capital expenditure was over 41 per cent of total expenditure, compared with about 33 per cent in 1971.

4. EXTERNAL TRADE

The Belize economy depends heavily on imports for a major proportion of its capital and consumer goods and on exports of foodstuffs, crude materials and some light manufactures to generate employment and income for a large part of the population. In 1972 exports increased by nearly 30 per cent and imports by about 14 per cent.

Available data indicate that the rising trend of exports continued in 1973, mainly because of increased exports of agricultural products. Preliminary data show that the principal export commodities increased by 32.6 per cent (see table 70).

Table 70. Belize: main exports
(Thousands of Belize dollars)

	1970	1971[a]	1972[a]	1973[a]
Sugar (unrefined)	11,142	12,241	16,912	20,842
Molasses	759	953	804	1,433
Fish and shellfish	2,100	2,396	2,730	2,719
Citrus juices	2,488	3,254	3,412	4,338
Grapefruit segments	1,706	381	640	641
Grapefruit and orange oil	81	102	91	121
Cucumber (fresh)	186	216	45	–
Live animals for food	246[b]	253[b]	36[c]	...
Logs and lumber	1,795	1,359	1,425	3,469
Clothing (outerwear)[d]	1,553	1,954	4,032	6,216
Other exports	9,244	8,791	11,173	13,221
Total exports	*31,300*	*31,900*	*41,300*	*53,000*

SOURCES: External trade reports and data supplied to ECLA.
[a] Provisional data.
[b] Including "other animals" which account for only a small part of the total, about 2.6 per cent in 1969.
[c] Live poultry only.
[d] May include re-exports.

On the other hand, the value of imports is estimated to have increased by more than 19 per cent to around 80 million Belize dollars. The rate of increase in the volume of imports, however, is likely to decrease as a result of substitution of domestic output for some imported goods. In accordance with these trends, the trade deficit is estimated to have been some 27 million Belize dollars in 1973, which is slightly higher than the 1972 figure.

BOLIVIA

1. INTRODUCTION

Bolivia is one of the countries of which it has been decided to make a more detailed economic survey in this issue, since its external trade and recent economic policy show significant changes compared with earlier periods.

The export sector in Bolivia has benefited to a particularly marked extent from the price increases for minerals, petroleum, gas and cotton. It seems useful, however, to study the difficulties facing a relatively less developed country in taking real advantage of the favourable situation in its external trade.

Furthermore, Bolivia constitutes a case worthy of study from the point of view of its economic policy, since at the end of 1972, despite a number of general circumstances, the Government decided to modify the exchange rate, which had been stable since 1959. The effects of this decision were not easy to control, and unleashed pronounced inflationary pressures which have had a persistent effect on economic policy.

Lastly, from the date of the devaluation to the present time, the Government of Bolivia has applied other measures in different areas of economic policy, some of which are described in this survey.

2. THE EXTERNAL SECTOR

This study of the Bolivian economy during 1973 must begin with an analysis of the very special conditions through which its external trade is passing, for this is a country whose social and economic situation is strongly affected by the movements of the international markets, both through the products it imports and through its own commodity exports. This influence has been notable even in periods in which world trade has fluctuated less. The present situation of the world markets, especially in the last few months of 1973, has had a particularly significant impact both on the country's external trade situation and on much of its production and distribution structure.

Bolivia's exports consist basically of a broad range of mineral products (tin, zinc, tungsten antimony, copper, silver, lead, bismuth and sulphur), crude oil, gas, cotton, meat and coffee. With the exception of sulphur, the export con-

tracts for all these commodities showed considerable price increases (see table 71 for price variations of minerals).

Still more spectacular was the increase in the price of petroleum, which rose from 18.20 dollars per cubic metre in December 1972 to 61.60 dollars in December 1973, i.e., by approximately 240 per cent. Other commodities such as cotton, natural gas and meat also recorded large increases. It should be noted that these are not reference prices, but the prices in force in the export contracts.

The value of exports of goods during 1973 amounted to 276.4 million dollars—an increase of 36 per cent over the previous year. As the export quantum increased by only about 2 per cent, almost the entire increase was due to higher prices. It should not be forgotten that the biggest increases in international prices came during the last few months of 1973 and that a large proportion of the exports was sold at much lower prices.

The small increase in the volume of exports (1.9 per cent) basically reflects the decline of 7 per cent in the volume of tin exports, which was partly offset by the increase in exports of other minerals (4 per cent) and of commodities such as petroleum (9 per cent), natural gas (56 per cent), and coffee (16 per cent). The volume of exports of cotton, however, declined by one-third.

As regards the value of exports, all the main commodities except meat recorded an appreciable increase. Despite the decline in their quantum, tin exports increased by 14 per cent. The largest increases were for natural gas (83 per cent), followed by petroleum and minerals (excluding tin), which showed rates of increase of the order of 55 per cent. Cotton and coffee recorded approximate increases of 40 per cent, but they have very little relative weight in the total (see table 72 and figure XXVI).

Exports of industrial products are insignificant, since Bolivia basically exports primary commodities, with very little value added in the country.

The general recovery of export prices, and the excellent prices of some commodities such as petroleum gas and cotton, were offset by a sharp increase in the value of imports, and for this and other reasons which will be analysed below, they did not lead to increases in international reserves nor to unusually large imports of capital goods

Table 71. Bolivia: unit values of exports[a]
(Dollars per metric ton of fine)

	Tin concentrate	*Metallic tin*	*Tungsten*	*Antimony*	*Lead*	*Zinc*	*Copper*	*Silver*	*Bismuth*
December 1972	3,723	3,696	3,549	779	303	406	987	55,909	5,778
November–December 1973	5,181	5,181	4,339	1,435	517	624	2,003	87,676	9,287
Percentage increase	39.1	40.2	22.3	84.2	70.6	53.7	102.9	56.8	60.7

SOURCE: Central Bank of Bolivia.

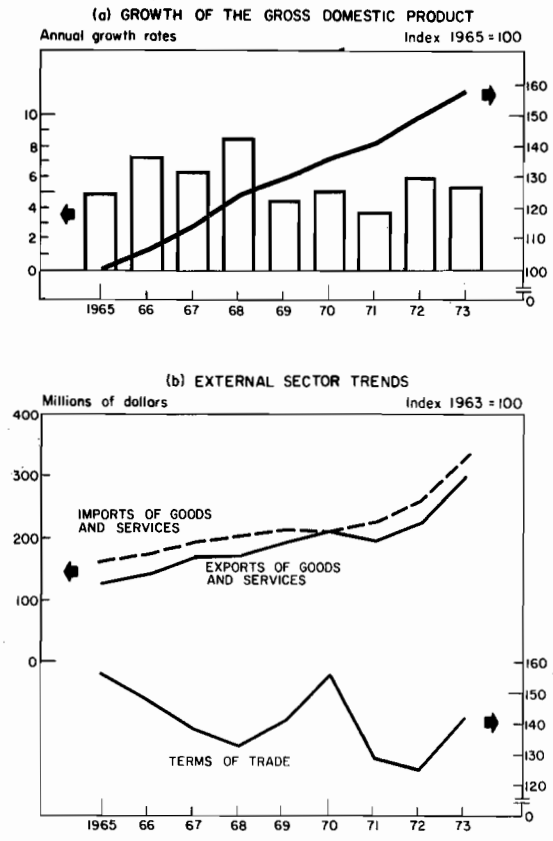
[a] Relation between value and volume of exports.

Table 72. Bolivia: structure of exports
(CIF value in millions of dollars)

	1970	*Percentages*	*1972*	*Percentages*	*1973*	*Percentages*	*Percentage variation 1972-1973*
Tin	101.9	44.6	114.0	46.7	130.0	40.4	14
Other minerals	102.2	44.8	60.1	24.6	93.3	29.0	55
Crude oil	13.2	5.8	31.7	13.0	48.9	15.2	54
Natural gas	–	–	9.9	4.1	18.1	5.7	83
Cotton fibre	3.0	1.3	7.6	3.1	10.8	3.4	42
Coffee	2.0	0.9	4.2	1.7	5.9	1.8	40
Meat	–	–	8.1	3.3	3.2	1.0	–60
Other products	6.0	2.6	8.5	3.5	11.3	3.5	33
Total	*228.3*	*100.0*	*244.1*	*100.0*	*321.5*	*100.0*	*32*

SOURCE: Central Bank of Bolivia, *Información económica, Estudios económicos y estadísticos*, September 1973. The figures for 1973 were slightly corrected on the basis of the complete data for the year.

Figure XXVI. Bolivia
Natural scale



likely to ensure the speeding up of future growth.

According to preliminary estimates, imports of goods amounted to 249.5 million dollars,[13] i.e., 27 per cent up on 1972 figures. A large part of this increase (18 per cent) is accounted for by the higher prices of capital goods, other industrial products and consumer goods, only 7.6 per cent being attributable to increases in the quantities imported. At the end of 1973, in particular, sharp increases were observed in the international prices of a number of commodities habitually purchased by Bolivia. On the basis of the available data it is not possible to make a detailed analysis of the structure of imports, but it is reasonable to expect a larger share of certain non-essential goods in view of the reduction in customs tariffs by an average of about 30 per cent which the Government decided to introduce in November 1972, the extraordinary increase in credit to the private sector, and the relative cheapening of the dollar which took place subsequent to the devaluation of October 1972. As will be seen below, the high income group, which is mainly linked with the export and import trade and banking and traditionally shows a pronounced tendency to import, increased its share of national income. At the same time, however, it should be pointed out that some basic products for which the demand is inelastic in the face of price variations have increased their share within the structure of imports. The best illustration of this is flour, which Bolivia habitually imports and which underwent considerable price increases in 1973.

Continuing with the analysis of the external sector, mention should be made of the items of freight and shipping insurance, which increased appreciably from 35.2 million dollars in 1972 to 50.2 million in 1973 (a 43 per cent increase). The increase in the prices of these services, together with the increased payments in respect of foreign investment, which came to 23 million dollars in 1973, represented a major outflow of foreign currency which ultimately led to a deficit of 46.1 million dollars in the current account of the balance of payments. Despite the much more favourable conditions prevailing in 1973, this deficit was similar to those recorded in the previous two years and resulted in a 7.7 million dollar loss in international reserves in contrast to an increase of 14 million dollars the year before.

The fact that the international reserves increased in 1972 but fell in 1973 is partly explained by the different amounts of income registered as movements of capital, for while in 1972 175.4 million dollars entered the country under this heading, in 1973 the corresponding figure was only 104.3 million, and while the net balance of capital movements amounted to 102.2 million dollars in 1972, it was only 36.9 million in 1973 (see table 73).

Some scattered indicators appear to show that in 1973 there was an increase in foreign currency lost through smuggling. In effect, as explained below, the Government established a new price policy in order to avoid export contraband.

During a large part of 1973, the domestic prices of a number of products were much lower than those prevailing in neighbouring countries, and this encouraged clandestine exports, with all their consequent detrimental effects: export taxes which were not collected, flight of foreign exchange, shortages of products inside Bolivia which became

[13] This figure may have to be considerably revised when calculations are made on the basis of the complete data provided by Bolivia's custom offices. The present estimate has been mainly based on data on exports by the industrialized countries to Bolivia and on purchases of foreign currency from the Central Bank, which do not always correspond to actual imports when these may be brought in without restriction.

Table 73. Bolivia: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	210.5	198.3	224.7	301.8
Goods FOB	195.7	181.9	203.1	276.4
Services	14.8	16.4	21.6	25.4
Transport	1.7	1.7	2.7	2.8
Travel	2.6	3.8	8.6	11.5
Imports of goods and services	210.7	227.5	260.6	330.1
Goods FOB	166.2	181.4	195.7	249.5
Services	44.5	46.1	64.9	80.6
Transport	28.6	29.3	35.2	50.2
Travel	3.9	5.8	10.5	9.5
Net external investment income	−23.3	−15.3	−21.8	−23.0
Profits	−17.0	−9.3	−8.0	−12.1
Interest	−6.3	−6.0	−13.8	−10.9
Net private transfer payments	1.5	2.1	4.3	5.2
Balance on current account	−22.0	−42.4	−53.4	−46.1
Capital account				
Net external financing ($a+b+c+d+e$)	22.0	42.4	53.4	46.1
(a) Net external non-compensatory capital	40.5	35.6	106.3	60.7
Direct investment	2.1	1.9	−10.6	86.0
Long- and medium-term loans	51.7	62.2	147.7	
Amortization payments	−20.1	−22.3	−30.9	−48.3
Short-term liabilities	4.4	−11.2	−8.5	12.8
Official transfer payments	2.4	5.0	8.6	10.2
(b) Domestic non-compensatory capital or assets	−3.4	−3.3	−8.2	−7.0
(c) Errors and omissions	−16.6	3.6	−35.1	−15.3
(d) Allocation of SDRs	4.9	4.0	4.3	–
(e) Net compensatory financing (increase −)	−3.4	2.5	−13.9	7.7
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	2.2	10.5	4.7	23.3
Amortization payments	–	−5.7	−8.2	−9.7
Movements of foreign exchange reserves (increase −)	0.1	−1.8	−9.0	−6.8
Movements of gold reserves (increase −)	−3.0	−0.8	−0.9	−0.1
SDRs (increase −)	−2.7	0.3	−0.5	1.0

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

quite critical at certain times and for certain goods, and the encouragement of import smuggling with detrimental effects very similar to those already described. Thus a considerable part of the exports was accompanied by various problems which prevented their benefits from spreading down to the middle- and low-income strata. In particular, it proved very difficult for the Government to attract part of the surplus generated by the favourable export situation.

3. THE PRODUCT AND FINAL DEMAND

The growth of the gross domestic product, which was 6 per cent in 1972, is estimated at 5.4 per cent for 1973, although the use of decimals in this percentage does not signify a correspondingly high degree of precision[14] (see table 74 and figure XXVI).

Analysis of the sectoral components of the gross domestic product shows that the growth of the services sector was higher than that of the product as a whole. It may once again be observed that this dynamism was due to activities of minor productive importance, with all the problems of income distribution and structure of supply that this implies. In 1973 the sectors producing goods showed a growth rate of 3.9 per cent—a figure

[14] Estimates of the growth of the product in 1973 made by various institutions, including the OAS Secretariat and the National Economic and Planning Council of Bolivia (CONEPLAN), vary from 4.8 to 5.7 per cent.

Table 74. Bolivia: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Agriculture	1,544.3	1,606.3	1,637.8	1,672.2	28.6	21.8	20.4	0.2	4.0	2.0	2.1
Mining	931.9	970.8	1,059.1	1,090.9[b]	10.3	13.1	13.3	11.0	4.2	9.1	3.0[b]
Manufacturing	958.9	985.9	1,052.1	1,120.5	13.1	13.5	13.7	6.4	2.8	6.7	6.5
Construction	331.0	344.5	372.0	398.8	5.7	4.7	4.9	1.8	4.1	8.1	7.2
Subtotal goods	*3,766.1*	*3,907.5*	*4,121.0*	*4,282.4*	*57.7*	*53.1*	*52.4*	*4.0*	*3.8*	*5.5*	*3.9*
Electricity, gas and water	122.4	130.8	142.3	156.0	1.3	1.7	1.9	11.1	6.9	8.8	9.6
Transport and communications	607.1	627.4	657.5	690.4	8.7	8.6	8.4	5.6	3.3	4.8	5.0
Subtotal basic services	*729.5*	*758.2*	*799.8*	*846.4*	*10.0*	*10.3*	*10.3*	*6.4*	*3.9*	*5.5*	*5.8*
Commerce and finance	784.0	798.9	849.9	909.4	10.4	11.0	11.1	7.1	1.9	6.4	7.0
Government	654.2	695.6	720.8	779.9	8.7	9.2	9.5	7.0	6.3	3.6	8.2
Ownership of dwellings	426.6	445.0	491.6	521.1	5.1	1.0	6.4	9.3	4.3	10.5	6.0
Miscellaneous services	738.6	770.1	807.7	846.5	8.1	10.4	10.3	11.2	4.3	4.9	4.8
Subtotal other services	*2,603.4*	*2,709.6*	*2,870.0*	*3,056.9*	*32.3*	*36.7*	*37.3*	*8.5*	*4.1*	*6.0*	*6.5*
Total	*7,259.1*	*7,535.8*	*7,989.9*	*8,421.4*	*100.0*	*100.0*	*100.0*	*6.3*	*3.8*	*6.0*	*5.4*

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Ministry of Planning and Co-ordination; 1973: ECLA estimates based on preliminary data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Estimates on the basis of exports of mining products.

considerably lower than in the previous year (5.5 per cent) and similar to the annual rate achieved during the five-year period 1965-1970.

The product generated by agriculture, mining, manufacturing and construction constituted 57.7 per cent of the total product in 1965, but the figure was only 52.4 per cent in 1973.

The stability of growth fundamentally based on the sectors producing goods contrasts with growth generated by the services sector. The latter are basically concentrated in the cities, and thus tend to produce a greater imbalance between urban and rural levels of living, with all the consequent internal migration problems.

Analysis by branches of economic activity brings out the chronic stagnation in agriculture, which continues to be Bolivia's most important activity on account of the size of the population which lives off it, and its contribution to the product. In 1973, it recorded a growth rate of only 2.1 per cent, which was less than that of the population. This explains why, in order to maintain and raise the population's levels of consumption, it is necessary to have recourse to imports, thus aggravating the problems of the balance of payments.

The inelasticity of agricultural supply explains a large part of the inflationary pressures and the levels of open or concealed unemployment observed in Bolivia. The share of the agricultural product in the whole dropped from 28.6 per cent in 1965 to 20.4 per cent in 1973, and if in addition it is considered that the per capita product in this sector is approximately one-quarter of the over-all per capita product and an even smaller fraction of what is recorded in other more dynamic branches it will be seen that this explains to a large extent the inequality of income distribution in Bolivia.

It is thus in the agricultural sector that one of the basic problems of the country lies. It is not only important in connexion with the structure and function of production in the Bolivian economy, but it also has a decisive influence in the short-term problems and situations which condition economic policy to such a marked extent.

Some non-traditional agricultural activities are beginning to appear, such as the production of cotton, soya beans and pyrethrum, which may have quite an important influence if their future growth achieves appreciable levels. From the point of view of the absorption of labour and the supply of food products, however, increasing the productivity of the factors of production in the traditional crops will continue to constitute a priority target, the achievement of which will call for enormous efforts. In addition to the difficulties stemming from the archaic techniques of production of many items, there is a need for large-scale investment with medium- and long-term yield. Furthermore, the priorities originally assigned in this context are usually at odds with the pressures of the economic situation.

During the five-year period 1965-1970, mining output increased at an annual rate of 11 per cent, but this dropped to 9.1 per cent in 1972 and to only 3 per cent in 1973. The main problem has been the decline in the output of tin concentrates, which are still the country's main export product. From a figure of 24,315 metric tons of fine in 1972, exports of these concentrates dropped to 21,551 in 1973, i.e., a decline of 11 per cent, but this was more than offset by the increase in exports of metallic tin, antimony and zinc, and even more by the increased exports of petroleum and gas. Table 75 shows the variation in the volume of exports of the main mining products, which constitutes a good index for appraising the development of their output in 1973.

The figures reviewed confirm the importance of the drop in tin concentrates, the decline of which is probably largely due to changes in the degree of purity of the ore.

As mining activity accounts for more than 85 per cent of the foreign exchange coming from exports, it is the decisive source of means of payment for the exterior. It is quite possible that the prices achieved by mining products in the last

Table 75. Bolivia: mining exports

	Metric tons of fine						*Thousands of cubic metres*	
	Tin concentrates	*Metallic tin*	*Antimony*	*Zinc*	*Copper*	*Silver*	*Gas*	*Petroleum*
1972	24,315	6,257	13,130	39,702	8,430	134	1,005,141	1,740
1973	21,551	6,993	14,735	47,730	8,187	167	1,433,994	1,894
Percentage variation . .	−11.4	10.8	12.2	12.0	−2.9	24.6	42.7	8.8

SOURCE: Central Bank, *Boletín estadístico*, December 1973 (updated).

few months of 1973 may make some activities of lower-yield mines profitable, and this should lead to some increase in output.

The growth rate of the construction sector (7.2 per cent) undoubtedly constitutes a positive development, mainly from the point of view of employment, and since the growth rate of 8.1 per cent achieved by this sector in 1972 came after an average of only 1.8 per cent for the five-year period 1965-1970, the 1973 figure still indicates an important reactivation. Moreover, the direct and indirect effects of the growth of this sector probably influence economic activity in general.

Manufacturing has also grown in a sustained manner in recent years at rates similar to the 6.5 per cent recorded in 1973. This is of some importance, in view of the limitations of a small consumer market as regards scales and costs of production and the heavy dependence on imports of equipment, spare parts and raw materials. Between 1965 and 1973 the sector's contribution to the product varied little. The development of this undoubtedly incipient sector has to overcome a series of obstacles, including illegal imports, which have apparently become more serious in recent years.

Moreover, the unequal income distribution has led to the creation of small enterprises with a high import coefficient, in which the transformation process is concentrated in the final stages of production. The poor use made of the installed capacity calls for special comment, since in some items this represents waste of such a scarce factor as capital.

The programme of public and private investment begun in 1973 may bring with it appreciable changes in the structure of industrial production: although in 1973 only 60 per cent of it was implemented,[15] its effects should be felt in future increases in the industrial product.

As regards basic services, although the 1973 growth rate was slightly less than the rates for the five-year period 1965-1970, it continued to be higher than the general average. Electricity, gas and water in particular showed high growth rates over the last three years (6.9 per cent, 8.8 per cent and 9.6 per cent). In the transport and communications sector, the increase in 1973 was 5 per cent.

In the services sector Government activity was important, its growth rate being 8.2 per cent in 1973, although there is possibly some overestimation due to the deflators used, in view of the austerity instructions regarding the recruitment of Government officials issued in the course of the year.

The growth of other service activities such as commerce and finance underwent no marked change in comparison with the previous year or the five-year period 1965-1970. All the service activities grew at higher rates than the gross domestic product, and thus increased their share in it.

Analysis of the gross domestic product from the point of view of final demand shows some very significant changes during 1973, including a sharp increase of 27.6 per cent in gross domestic investment, which is far above the average for the five-year period 1965-1970 (5.3 per cent per year). This high rate contrasts with the decline of 11.2 per cent which investment underwent in 1972, and although it is possible that some considerable quantitative change may have to be made as a result of the final estimate, it can hardly deprive this increase of its importance. The effects of this increased investment will be felt in the generation of the product and in the absorption of labour in the immediate future, and the stabilization of a rate of this level will undoubtedly produce important changes in the structure of production in Bolivia. The coefficient linking investment and the product has already undergone a considerable change, since it increased from 15.3 per cent in 1972 to 18.5 per cent in 1973, thus approaching the levels achieved in the past (see table 76).

While as regards investment events have been extremely encouraging, the increase recorded in private consumption is inadequate. This variable is generally obtained by taking the difference between the total supply and demand equations, and is therefore subject to the cumulative errors in the estimates of the other variables. The growth rate of consumption in 1973 was estimated at 2.3 per cent—less than the growth rate of the population—and this implies a decline in per capita consumption.[16]

The consumption growth rate indicated, the lowest in recent years, gives rise to some very delicate situations and imposes very uneven rates of sacrifice. The aggravation of the inequality in income distribution and consequently in consumption during periods of sharp price increases is a frequently observed phenomenon. Generally speaking, the groups which can pass on increased costs of production and higher demand pressures by charging higher prices have an efficient defence mechanism against inflation. If, despite the efforts of the Government, this were to take place in Bolivia, it is possible that the most under-privileged groups might see their already low level of consumption drop still further, and in addition to causing concern as a social problem, from the

[15] CONEPLAN, *Cuentas nacionales*, estimates for public investment.

[16] Preliminary estimates of CONEPLAN show a decline of 0.6 per cent in total private consumption.

Table 76. Bolivia: total supply and demand

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Total supply	*9,834.2*	*10,259.4*	*10,926.5*	*11.573.3*	*131.8*	*128.6*	*130.5*	*5.8*	*4.3*	*6.5*	*5.9*
Gross domestic product	7,644.8	7,936.1	8,414.4	8,868.8	100.0	100.0	100.0	6.3	3.8	6.0	5.4
Imports[b]	2,189.4	2,323.3	2,512.1	2,704.5	31.8	28.6	30.5	4.1	6.1	8.1	7.7
Total demand	*9,834.2*	*10,259.4*	*10,926.5*	*11,573.3*	*131.8*	*128.6*	*130.5*	*5.8*	*4.3*	*6.5*	*5.9*
Exports[b]	1,472.1	1,634.1	1,802.4	1,881.6	15.8	19.3	21.2	10.7	11.0	10.3	4.4
Gross domestic investment	1,457.3	1,447.4	1,284.6	1,639.1	20.0	19.1	18.5	5.3	–0.7	–11.2	27.6
Gross fixed investment	1,292.1	1,406.1	1,155.7	...	17.3	16.9	...	5.9	8.8	–17.8	...
Public	816.8	...	...	...	7.2	10.7	...	15.2	...	...	...
Private	475.3	...	...	...	10.1	6.2	...	–3.5	...	...	...
Total consumption	6,904.8	7,177.9	7,839.5	8,052.6	96.0	90.2	90.8	5.0	4.0	9.2	2.7
General government	907.5	841.0	1,076.8	1,134.9	11.6	11.9	12.8	6.9	–7.3	28.0	5.4
Private	5,997.3	6,336.9	6,762.7	6,917.7	84.4	78.3	78.0	4.8	5.7	6.7	2.3

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Ministry of Planning and Co-ordination; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

economic point of view this would mean further limitations on the size of the market for production activities.

As regards the behaviour of external variables as components of total supply and demand (described in the chapter on the external sector), the import coefficient shows no major changes, whereas the export coefficient has recorded increasing values in recent years and is opening up real possibilities of making the economy more dynamic.

The Five-Year Development Plan set a number of global quantitative targets for 1973, but actual events, many of them difficult to foresee, resulted in fairly illustrative discrepancies between the intentions and the actual facts.[17]

	Growth rate laid down in the Plan	*Actual growth rate*
Gross domestic product	6.1	5.4
Gross investment	9.6	27.4
Private consumption	6.6	2.3
Exports	7.2	4.4
Imports	11.2	7.7

The clearest differences are in external trade, gross investment, and private consumption, mainly as a result of the behaviour of external and domestic prices (of goods and factors).

Investment, the State component of which increased by 36.8 per cent in 1973,[18] merits special comment. If this figure is confirmed in the final quantifications, and if the favourable performance of exports continues, a lack of capacity for administrating new projects may occur. If growth rates of this magnitude continue for two or three years, a very vigorous response from the public sector will be needed if they are to generate an increasingly large product.

4. Development policy

Bolivia's economic policy has assigned fundamental importance to private enterprise, both domestic and foreign. With this in view, new rules for the treatment of private capital were approved,[19] which contain a number of direct tax incentives within the general context of promotion of free enterprise and competition and leave much of the taking of decisions in the production and distribution fields to market forces.

It is unfortunately not possible to determine categorically what the response of the production sectors to the Government's policy has been. The following comments may assist in interpreting the recent economic process in Bolivia, however.

Granted that one of the basic objectives of private enterprise is to obtain profits, it is legitimate to suppose that its activities are basically aimed at satisfying the needs of those sectors which have high purchasing power—the external sector and the high income group—and at producing and distributing goods where demand is inelastic vis-à-vis price increases. The consumer market in Bolivia, which is small in both numbers and purchasing power, makes it difficult for enterprises which compete on prices and quality in order to win part of it to survive. It is rare for full use to be made of the installed capacity, and generally speaking the productivity of the factors of production could be considerably increased. The management of production units in countries with small markets involves problems which are clearly relevant to Bolivia. Thus, there are areas of production where the sound management of enterprises demands the capacity to plan ahead in keeping with the maturity periods of the investments, which are not always short. The need to take risks and go ahead with investments which, on account of their volume and the time they will need to bring returns, involve some degree of uncertainty, is inherent in a concerted development policy designed to transform the structure of production. Otherwise, free enterprise, with its habitual rationalism, would choose to direct its activities towards those areas where the returns are immediate and usually involve high profit margins. Indeed, when no attempt is made to provide tax reductions and other fiscal concessions, free enterprise may well turn to tertiary activities, and even in many cases to speculation.

The appraisal of the manner and extent of the private sector's reaction to the decision to grant it an appreciable measure of responsibility for the growth of the economy calls for a profound and detailed investigation. The private sector in Bolivia is not a homogeneous unit, and its components behave very differently. The indicator which shows a real growth of 11 per cent in gross private investment between 1972 and 1973[20] is insufficient to provide conclusions. It would be necessary to know the structure of this investment, the financial sources which made it possible, and its

[17] Data taken from CONEPLAN, *Plan quinquenal de desarrollo económico y social, 1972–1977*, table 8, and ECLA estimates on the basis of official data.

[18] According to estimates of the CONEPLAN Secretariat.

[19] Law on Investments, December 1971.

[20] Secretariat of CONEPLAN, *Cuentas nacionales*, preliminary estimates.

repayment deadlines. It is generally difficult to find out many details of private investment from national accounts, and estimates about it may involve serious over- or under-calculations. The inflow of long-term private capital dropped considerably between 1972 and 1973, declining by 45 per cent from 94.5 to 51.6 million dollars, while the net balance of movements of long-term private capital also showed a considerable decline, dropping from 59.7 million dollars in 1972 to 15.1 million in 1973.[21]

From the growth indicators of the economy—taking the most important real global figures—it may be deduced that the substantial incentives offered to national and foreign private enterprise have not had the quantitative and qualitative effects sought for by the development policy, and despite the shortage of data, it may be concluded that although private activity showed signs of reactivation during 1973, this has still not reached the levels expected in the development policy.

5. Main aspects of economic policy

It has been considered desirable for the description of the Government's measures in the field of economic policy to cover the period which began with the devaluation of the Bolivian peso in October 1972, since this marked the beginning of a new process in this area of activity. The description of the economic policy given below is strictly limited to the economic field and takes no account of other aspects which are essential to a full appraisal.

(a) *The devaluation of the Bolivian peso*

Late in 1972, the Bolivian Government decided to modify the parity of the Bolivian peso with respect to gold, and consequently also with respect to the dollar. The exchange rate of 11.8 Bolivian pesos to the United States dollar was lowered to 20 pesos to the dollar: i.e., a devaluation of 68 per cent. It should be remembered that the exchange rate had not been modified since 1959, so that the dollar was becoming one of the relatively cheaper assets, with the result that the tendency to import had increased, export possibilities had been restricted, and the accumulation of foreign currency by private persons had been encouraged. In the light of the price movements in Bolivia and the United States between 1959 and 1972, the Bolivian peso had become overvalued by between 25 and 35 per cent, since in those 13 years the general price index in Bolivia showed an increase of approximately 100 per cent, while that of the United States rose by less than 50 per cent. This is obviously a very rule-of-thumb method of estimating the over-valuation of the Bolivian peso, but it gives an approximate idea.

It is of interest to recall the reasons which led to the fixing of the new exchange rate at 20 Bolivian pesos per dollar. Apart from the general problem of the overpricing of the Bolivian peso, what determined this devaluation was the brusque drop in international reserves, mainly owing to the increase in the fiscal deficit (50 per cent of which was financed with credits from the Central Bank) and the general atmosphere of uncertainty and speculation in the foreign exchange market. If the end of 1971 is taken as a point of reference, it will be noted that in October 1972, one week before devaluation, the variables indicative of the financial and monetary situation showed a drop of 44 per cent in net international assets (Central Bank reserves from 402.2 to 225.6 million Bolivian pesos and a 17 per cent increase in net credit to the Government, which 10 days later increased to 29 per cent.[22] If these figures are compared with the general movement in prices in the country, which did not exceed 4 per cent over the same period (from January to October), it may be concluded that the increases noted meant a considerable real expansion, which had a decisive effect on the balance of payments and subsequently on the general level of prices. It should be noted that the fiscal deficit increased from 555 million pesos at current prices at the end of 1971 to 928 million at the end of 1972 (a growth of 67 per cent, mainly generated in the first 10 months of the year), while credit to the private sector during the same period showed an increase of 43 per cent.[23]

(b) *Exchange policy*

It was decided to continue with the policy of a single exchange rate (20 pesos to the dollar) and complete liberty in exchange operations, both for current and capital transactions. At the same time, the sworn declaration required from any purchaser of foreign currency regarding its destination was abolished. The system of the obligatory sale to the Central Bank of the total foreign currency earned by exports by the private and public sectors, less the costs and royalties paid in foreign currency, was however confirmed. This meant that while there was a control ensuring that foreign currency entered the Central Bank, the system of free exchange allowed the unrestricted acquisition of foreign currency within the banking system, the aim of this latter measure being to restore confidence in the currency of the country.

[21] According to Central Bank estimates.

[22] Central Bank of Bolivia, Monetary Programme.

[23] Inter-American Committee on the Alliance for Progress (CIAP), preliminary report for the subcommittee on Bolivia, 25 February to 1 March 1974, table II-11.

This exchange policy does not appear to have given the desired results, since the country suffered a loss of 7.7 million dollars in reserves during 1973, despite the very favourable external trade situation. It is very possible that the outflow of capital was due to the freedom of exchange in a situation of increasing domestic inflation. Furthermore, because of the differences in exchange rates existing in some neighbouring countries between the official prices of foreign currency and the price on the so-called parallel market, it proved lucrative to import goods legally or illegally, change the Bolivian pesos from the sale of these into dollars, and then sell the dollars on the parallel markets of the neighbouring countries. This self-supporting cycle partly explains the bigger purchases of foreign currency which private persons made within the banking system.

Whereas in 1972 private persons required a monthly average of 13 million dollars, in 1973 this average increased by 33 per cent. As the value of imports recorded for the same period increased by only about 27 per cent, however, part of the increase in purchases of foreign currency had no identifiable counterpart in real inflows of goods and services. The movement of the international prices of a series of products, especially during the second half of 1973, offered very favourable conditions for speculation, with possibilities of big profits, and this made it difficult for the Government to keep an effective check on these activities.

In January 1973 the Bolivian Government made a standby credit agreement with the International Monetary Fund for the sum of 27.3 million Special Drawing Right units (at present equivalent to 32.9 million dollars), which were to be used when Bolivia's gold tranches in the Fund had been exhausted, and Bolivia used 18 million of these units during 1973.[24] The Central Bank balance-of-payments estimates show an increase in net liabilities with the IMF of 11.8 million SDR units (14.2 million dollars). The use of this credit was subject to the fixing of maximum limits on net credit by the Central Bank to the Government and on net domestic assets, implying commitments as regards wages and salaries policy.

The monetary programme was formulated with the aim of guaranteeing previously fixed increases in the general level of prices and the gross domestic product (the basic assumptions were 25 to 30 per cent for the former and around 7 per cent for the latter). This programme was limited to the economic and financial field, however, and the exclusion of factors such as pressures for wage increases and their political repercussions, along with other social factors, made the programme unviable. Although it contained some elements aimed at giving it flexibility, these frequently only allowed for marginal adjustments, so that after a short time it was necessary to make large-scale modifications. Around the middle of the year the situation was very different from that programmed, and only the increase in export prices mitigated the serious problems which it was reasonable to expect. In the 1973 Monetary Programme it was laid down that net credit to the Government would decrease by 130 million pesos, but in actual fact it increased by 224 million, and while the programme anticipated an increase of 16 per cent in monetary issues, the real increase was rather more than 30 per cent. Table 77 shows the monetary programme for 1973 and the degree to which it was fulfilled.

It is worth emphasizing that in certain circumstances it is particularly difficult to carry out monetary programmes. Economic phenomena cannot always be forecast, and continual revisions of the programme become a regular task.

In this case, the discrepancies between the programme and reality would appear to be largely due to the magnitude of the devaluation and its multiplier effects on prices, which exceeded the limits projected and resulted in wage increases higher than those anticipated. The increase in the prices of imports and the fact that tax revenue was less than estimated also had some influence, however.

(c) *Prices policy*

It was estimated that as a result of the devaluation the general level of prices would show an increase of around 25 per cent during the first year. This estimate was based on three major components: imports, with a weighting of 22 per cent, wages and salaries (40 per cent), and other inputs (38 per cent). It was anticipated that imports would undergo a price increase of 68 per cent (the same as the percentage devaluation), that according to Government policy wages would increase by 15 per cent, and that the prices of other inputs would rise by 10 per cent. Taking into account the weightings specified above, these increases gave a total increase of 24.8 per cent in the general level of prices.[25]

This preliminary estimate of the price rises likely to result from the devaluation was debatable from a methodological point of view, and was far exceeded by actual fact, for the consumer price

[24] IMF, *International Financial Statistics*, February 1974. Each SDR unit is worth 1,206.35 dollars.

[25] Ministry of Finance and Office of the Executive Secretary of the National Economic and Planning Council, *Informe conjunto*, Stabilization and Development Programme, November 1972, page 59.

Table 77. Bolivia: monetary programme for 1973
(Millions of Bolivian pesos)

	Real situation on 31 December 1972	*Programmed situation for 31 December 1973*	*Real situation on 31 December 1973*
A. Net external assets	970.0	1,019.4	819.2
B. Net domestic assets	740.7	917.4	1,386.9
1. Credit to the Government (net)	1,805.7	1,673.4	2,031.5
2. Credit to the rest of the public sector	185.0	210.0	285.9
3. Counterpart funds (United States)	−94.6	−100.0	−102.3
Emergency plan funds	−102.3	–	−63.4
Development plan financing	−405.3	−110.0	−237.5
4. Credit to banks (net)	−43.4	−167.4	51.8
5. Other	−604.4	−588.6	−579.0
C. Long-term foreign liabilities	88.2	60.6	87.1
D. Currency issues (D = A + B − C)	1,622.5	1,876.2	2,119.0

SOURCE: Central Bank of Bolivia, Financial Division, Monetary Programme.

index showed a rise of 52 per cent between October 1972 and October 1973,[26] even though, on account of its structure and the methodology applied to obtain the basic data, this index reflects the evolution of prices only with a considerable time-lag. The preliminary report of the CIAP Secretariat on Bolivia, for example, includes an estimate of the increase in prices in the city of La Paz for the same period which gives a figure of 66 per cent.[27]

Judging by the regulations about prices, the Government authorities were concerned not to exceed the figure of 25 to 30 per cent of general increase. Thus, the relevant articles of the decree on devaluation contain decisive measures which reflect the concern of controlling inflationary pressures.[28]

In order to be effective, price control implies the existence of extremely efficient supervisory machinery, with the capacity to take action on the production, import, distribution and marketing of products. Otherwise, it is common for the supply to diminish as a result of hoarding by merchants and consumers and for a more or less artificial scarcity to be produced which helps to keep the process of speculation alive. Furthermore, an appreciable imbalance between domestic prices and those prevailing in neighbouring countries for a number of food products such as meat, sugar, rice, flour, etc., has been observed, and this has served, as already noted, to encourage export contraband on a scale whose real volume has still not been estimated.

This latter phenomenon, which has aggravated the problem of scarcities on the domestic market, partly explains the speeding up of inflation in recent times. In view of the seriousness of the problem, the Government authorized price increases for some products with a view to bringing the prices closer to those in force in neighbouring countries. Prices which are not subject to official control usually follow the trend of the price rises authorized. Table 78 shows the prices of some products, although obviously these are not sufficiently representative to allow generalizations.

(d) *Wages policy*

Together with the currency devaluation, the Government granted all wage-earners an increase of 135 pesos per month (6.75 dollars at the new exchange rate) or 4.50 pesos per day's work. Miners working inside the mines were granted an increase of 150 pesos per month, or 5 pesos per day's work. The wages and salaries thus readjusted were to remain frozen for one year.

[26] National Institute of Statistics, CONEPLAN, *Indice de precios al consumidor.*

[27] CIAP, op.cit., table II-17.

[28] Chapter III of Supreme Decree No. 10550 on the devaluation specified that in order to avoid speculation and to protect the national economy, the prices of essential articles and basic services fixed by legislation would be regulated by the National Economic and Planning Council. Meanwhile, it said, the prices and tariffs in force on the date on which the law was passed must be retained unchanged under pain of severe punishments. Hoarding, concealment and speculation in essential goods and the suspension of basic services would be subject to similar punishment. Provision was also made for the freezing of the rents of rooms, apartments and dwelling houses.

Table 78. Bolivia: prices of selected products in La Paz
(Bolivian pesos)

	Unit	Price in October 1973	Price in January 1974	Percentage increase
Sugar	Pound	1.40	3.20	128.5
Regular-grade rice	Pound	1.50	3.68	145.3
Ground coffee	Pound	13.00	18.00	38.4
Noodles	Pound	2.30	3.70	60.9
Wheat flour	Pound	2.00	3.05	52.5
Bread	Unit	0.30	0.50	66.7

The 68 per cent devaluation of the Bolivian currency led to generalized price increases. Such a strong and immediate reaction can only be explained by the deep roots which such a long-standing exchange rate had established among the agents of the economic process, for the stability of the exchange rate had become an indicator of the general situation of the country, even in matters quite outside its scope, so that its sudden change appeared to producers, distributors and consumers to be a symptom of a strong inflationary process such as occurred between 1953 and 1958.

In view of this situation, the wages policy had to be amended, and low-income workers were granted subsidies according to the number of dependants (20 pesos per worker, plus 25 pesos for each dependant). Towards the middle of 1973 an extra payment of one month's wages per worker was decreed in order to offset the continuing price rises of essential articles, and in October 1973, as a result of new price rises for these articles, another wage adjustment of 120 pesos per month or 4 pesos per day's work was decided upon. This readjustment was of a provisional nature for the workers of the private sector, since their trade union organizations secured authorization to conclude their own agreements on wage increases with employers.

The successive wage readjustments strove to keep up with the price increases and market forces thus placed severe restrictions on general economic policy and on the wages and prices policy in particular. Judging by the price increases recorded in 1973, the purchasing power of the workers seems to have been undermined. This decline has been more severe in the case of the higher wages, since most of the readjustments were established on the basis of fixed sums, independent of wage levels in an endeavour to redistribute the weight of the devaluation by favouring the most underprivileged groups.

From the point of view of income distribution, the groups which are able to cope with the cost and demand pressures typical of Bolivia's inflation by passing them on in the form of higher prices are in a very advantageous position. The big profits shown by some entrepreneurial sectors in their balance sheets confirm this opinion. From this point of view the inflationary process has affected the different sectors of social and economic activity in a discriminatory manner.

(e) *Tax policy*

The supreme decree ordering the devaluation of the Bolivian peso also contained a number of tax measures which the Government believed it appropriate to take in view of the new exchange rate. Among the most important was the revaluation of net fixed assets by 60 per cent for imported goods and 20 per cent for buildings and other goods of domestic origin, with a tax of 5 per cent on this revaluation. Measures were also taken to revalue assets in gold and foreign currency at the new rate of exchange, with a tax of 20 per cent on the increase.

The following domestic taxes were established: 40 per cent on the net value (gross value less operational expenditure and royalties) of exports of minerals, hydrocarbons, and cotton already produced and existing in the country or exported but still awaiting payment and the compulsory sale of foreign currency; 20 per cent on the net value of exports of all new production and exports of minerals, metals, hydrocarbons, cotton and meat, and 15 per cent on the value of exports of other goods not already produced. A tax of 60 per cent of the import value of stocks of imported goods and raw materials existing in the commercial sector was also applied. This group of measures was aimed at securing for the treasury the automatic profits which a devaluation implies. Indeed, the tax of 20 per cent on the value of new exports acted as a sort of differential exchange rate. A difficult problem is that of checking the real operational costs of exports, whose increase by more than the net rise in prices could render the measure ineffective.

A year after the devaluation, in October 1973, tax reforms were introduced in order to simplify

the tax legislation in force as regards important taxes and facilitate the corresponding administration and control arrangements. The fundamental aim was to set up a basic structure made up of a small number of taxes with a broad tax base.[29]

One of the traditional problems of taxation in Bolivia has been the high level of tax evasion, a result *inter alia* of the complicated tax legislation, which prevents the application of efficient methods of control, and of the tax structure, which in many cases imposes almost prohibitive tax burdens and thus encourages such evasion.

The tax reform referred to above takes this problem into account and deals with it by reformulating the following taxes: personal income tax, tax on the income of medium and large enterprises, tax on the income of small enterprises, sales tax, selective consumption tax and specific consumption tax (beer and alcohol). It will only be possible to evaluate the quantitative scope of this tax readjustment in 1974, when its yield and its influence on social and economic activity can be analysed.

As regards the personal income tax, the most important feature is the replacement of an analytical schedule system by a global or synthetic system subject to a single progressive scale.

As regards the tax on the income of enterprises, the tax reform establishes a new concept of the enterprise, different from the legal and formal concept, which emphasizes the function of production made up of the factors of capital and labour. The universe of contributors is extended to agricultural and livestock enterprises, and distinction is made between enterprises with sales exceeding 200,000 pesos annually (of which there are around 1,500) and the smaller enterprises. The rate of the tax on profits increased from 26.4 to 30 per cent, but clear incentives are given for the investment and reinvestment of profits and for the utilization of labour-intensive techniques. Another major modification, which is of importance for its effect on the tax yield rather than for its influence on the structure of consumption, is the selective tax on luxury goods, of which three categories are established according to their degree of non-essentiality. These three categories are taxed at the producer or importer level at the rate of 10, 15 or 20 per cent. As far as customs duties are concerned, the reform will only begin to be applied in 1974.

The taxes on exports introduced when the currency was devalued were modified in October 1973, when the tax of 20 per cent on the net value of exports of minerals (COMIBOL, Empresa Nacional de Fundiciones, and medium-scale mining) was replaced by taxes on the gross value[30] of exports of high-content (7.5 per cent) and low-content (6.5 per cent) tin, silver, lead and bismuth (3 per cent), and zinc (2 per cent). The scales applied to exports by the small-scale mining sectors are slightly lower.

(f) *Financial policy*

From an analysis of the fiscal budget approved for 1973 and the budgetary performance over the same year it may be concluded that the increased prices of export products made possible, especially towards the end of the period, a considerable reduction in the deficit which might have been expected from the trends of the first nine months. Thus, whereas in October 1973 it was estimated that the deficit on the fiscal budget would amount to 960 million pesos,[31] the actual deficit was only 304 million, plus the payments carried over to the following financial year and less the cost balance in hand. It has already been said that the fiscal revenue on exports was far higher than anticipated, and there was also a sharp decline in budgetary expenditure. Thus, for example, capital transfers estimated at 144.5 million pesos actually amounted to only 66.5 million; local contributions estimated at 149 million only came to 48 million, and the amortization of the external public debt, anticipated at 274.8 million, actually amounted to 210.5 million.[32] In short, the decline in the budget deficit was due partly to sharp drops in the non-current expenditure budget and partly to the improved prices of exports. Most of this deficit was financed with net credit from the Central Bank to the Government, which in 1973 amounted to a total of 225.8 million pesos[33] (see table 79).

It should be pointed out that between the date on which the budget was approved and 31 December 1973, the general level of prices increased by at least 50 per cent, so that the real values (at constant prices) involved in the implementation of the budget will show appreciable reductions.[34]

As already pointed out, in order to finance the budget deficit recourse was had to a credit of 225.8 million pesos from the Central Bank, which

[29] Office of the Under-Secretary for Tax Administration, *Política Tributaria del Ministerio de Finanzas.*

[30] The gross value is to be fixed by the Ministry of Finance.

[31] CIAP, op.cit.

[32] Data provided by the Office of the Under-Secretary of Financial Administration.

[33] Data provided by the Central Bank of Bolivia, Financial Division, Monetary Programme.

[34] CIAP, op.cit. It is estimated that between December 1972 and October 1973 prices went up by around 40 per cent.

Table 79. Bolivia: National Treasury operations, 1973
(Millions of Bolivian pesos at current prices)

	Budget approved	*Budget implemented*
Income	*2,732.0*	*2,440.9*
Internal revenue	740.0	773.0
Customs revenue	600.0	522.1
Mining revenue (from private sector)	95.0	157.8
Revenue from the Bolivian Mining Corporation (COMIBOL)	60.0	28.3
19% on YPFB petroleum production	170.5	213.4
19% on YPFB gas production	25.9	45.0
1.6% on sales of foreign currency	79.0	100.4
9% on bank credits	30.0	28.2
Tax on revaluation of assets	100.0	32.3
Tax on exports (40%, 20% and 15%)	780.0	452.2
Other income	51.6	44.1
Expenditure	*2,917.0*	*2,745.2*
Personal services	1,305.3	1,331.8
Non-personal services	136.3	205.6
Materials and supplies	169.1	153.0
Fixed and financial assets	31.9	112.1
Internal public debt	232.5	188.6
External public debt	274.8	210.5
Reserves	0.6	0.5
Transfers to the private sector	110.1	111.8
Transfers to the public sector	272.9	291.3
Capital transfers	144.5	66.5
Local contributions	149.0	48.0
Contributions to international agencies	20.0	25.5
Amortization payments to the Central Bank	70.0	–
Deficit	*185.0*	*304.3*

SOURCES: CIAP, op. cit., table II-13, and Office of the Under-Secretary of Financial Administration.

constituted more than half the currency issue for the year.

The Central Bank contributed more than 100 million pesos to the financing of the rest of the public sector. Big enterprises such as Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and Corporación Minera de Bolivia (COMIBOL) made very limited use of external credit. The prices of minerals, petroleum and gas, together with the currency devaluation, however, have resulted in a financial recovery which has even enabled them to make significant contributions to the National Treasury.

The actual external debt of Bolivia on 30 June 1973 was 703 million dollars, and the increase in the first half of the same year was 22 million dollars.[35] As regards the financing of the private sector of production, external credit has continued to be of great importance. Apart from the frequently mentioned factor of the general rise in prices, which in fact has constituted a very important source of financing, bank credit has contributed substantially to financing private activities. Thus, the monetary programme of the Central Bank shows that credit to the development banks and commercial banks during 1973 amounted to 466 million pesos, an increase of 106 per cent over the total such credit at the end of 1972. In order to check this monetary expansion, the Central Bank authorities decided in August 1973 to order the commercial banking system to maintain additional cash reserves of 70 per cent of the increased sight deposits in national and foreign currency, taking as a reference point the 1973 mid-year balances. The basic cash reserves are 40 per cent on sight deposits and 25 per cent on time deposits for the national banks and 40 per cent and 30 per cent for the foreign banks. It should be noted that in mid-1973, before the rules on extra cash reserves came into force, six of the 16 banks operating in the country had cash reserve shortages totalling 6.2 million pesos.[36]

[35] According to data provided by the Central Bank of Bolivia, the total debt contracted on 30 June 1973 amounted to 993 million dollars.

[36] Central Bank of Bolivia, *Información económica*, September 1973.

6. Short-term prospects of the Bolivian economy

It is always difficult to analyse the prospects of the movement of economies, and even more so when the country concerned is very closely linked to the external sector and the world markets are showing extreme sensitivity. With these reservations, it seems advisable in this analysis of reasonable conjectures to concentrate attention on Bolivia's external trade and, following the economic process, to analyse its effects on the other areas of the economy.

If international price trends continue in 1974, the external sector is likely to be once again the centre of dynamism in the economic activity of the country. Even if external prices settle down at a level equivalent to the average of those recorded for 1973, the effect on the external trade of Bolivia will continue to be of great importance.

For a developing country, the most important consequence of the rise in international prices is perhaps the possibility of discussion and negotiation with the countries and enterprises of the industrialized centres on very different terms from those of the past. It is very possible that Bolivia is passing through an economic situation which is propitious for the establishment of reciprocal supply arrangements under favourable conditions.

Purely with the aim of having available some quantification which will give an idea of the dynamic role that the export sector may play in 1974, a preliminary estimate has been made on the assumption that the export quantum will be similar to that of 1973 and that the prices of the different export goods will maintain the real levels in force in the export contracts drawn up in November and December 1973. Both these hypotheses are very conservative, and any increase in the quantities exported or in the average end-of-year prices will mean additional foreign exchange earnings, possibly of considerable proportions. According to these hypotheses, the FOB value of exports of goods will amount to 400 million dollars at the end of 1974, i.e., 45 per cent more than in 1973, the largest increases being recorded in petroleum exports, which are expected to amount to 94 million dollars, and cotton (33 million). If these hypotheses are confirmed, Bolivia's exports will have doubled in two years.

It should be clearly understood that the estimates given above are in no sense a projection. For this, it would have been necessary to go into the projects connected with exports and study very carefully the probable movements of the world markets. The estimates are only aimed at illustrating the volume of growth in terms of possibly very debatable hypotheses.

International price movements will probably greatly increase the prices of Bolivia's imports. Towards the end of 1973, there were increases in the international prices of capital goods and other supplies which give grounds for assuming that a large part of the current extra income from exports will have to be used to finance increasingly costly imports. This means that although the terms of trade have improved during the last year, it is reasonable to expect, if not a reversal in this indicator, at least a less positive result than the cyclic trend would indicate. The magnitude of this result will depend on the prices agreed upon in Bolivia's external trade negotiations.

The structure of the country's exports is particularly suitable for making large profits on external trade, for commodities such as petroleum, gas, cotton, meat, etc., have a very dynamic market which, together with the currently favourable market for exports of minerals, constitutes the basis for a solid strategy in the external sector. Another point worth mentioning is the compatibility, in the present circumstances, between the stability of domestic prices and a policy aimed at channelling into the country the surpluses which may be generated by external trade. An appropriate prices policy is one of the decisive instruments available to a modern State for achieving its most authentic objectives. It is very possible, however, that external inflation, expressed through imports, may make it necessary to put up with unaccustomed rates of increase in prices.

The above is obviously closely linked with the concept of an economic policy clearly oriented in this direction. The incomes policy, and especially domestic and customs taxation, should be closely co-ordinated with the exchange policy within the framework of a new external trade strategy. Emphasis must be placed on the foresight and anticipation which are indispensable in an economic policy that claims to channel efficiently the surpluses generated in the external sector, and on the crucial role which a prices policy may play in the above-mentioned circumstances.

The preparation of an economic policy comes within the work of formulating a general development policy, and this in its turn is a function of a long-term strategy. Because of the possibility of unforeseen circumstances and the natural accumulation of data and knowledge with the passage of time, the content of these three concepts may undergo changes. It is the economic policy, however, which is most exposed to changes, since it is much more directly conditioned by short-term social, political and economic developments, to

which it must provide an answer without distorting the development policy or the long-term strategy. This means that it is subject to a larger number of restrictions and conditioning factors, many of which are constantly changing.

Too much stress has been laid on the fact that there have for long been a great many diagnoses of Bolivia's problems. It is true that several have been made, but none has gone in any depth into the functioning of socio-economic activity: little is known about price formation, the factors conditioning private investment decisions, the way tax is evaded, the ultimate use of credit, and so on. When such diagnoses leave out the study of essential elements and the dynamics of their formation, it is not surprising that the programmes and plans are left behind by actual developments. This task should not be underestimated, and serious consideration should be given to the possibility of acquiring a fuller knowledge of the situation, especially as it is a changing one and demands continuing research of both a qualitative and a quantitative nature.

In the general description presented in the foregoing pages, some problems stand out in particular.

The concern shown by the Government regarding the proliferation of smuggling–and especially export smuggling–is clearly due to the need to deal with a form of flight of currency which has serious consequences. Judging from official statements, the difference between the total resources entering the country and those which actually come within the scope of the Treasury is quite considerable. This and other factors which have also aggravated the flight of currency and benefited minority groups have not only undermined the resources of the Treasury, but also favoured the scarcity of some commodities and generated an extremely detrimental climate of speculation.

Any analysis of the prospects of the Bolivian economy in 1974 should certainly bear in mind these ways in which surpluses may be eaten away, for if they occur frequently they may seriously reduce the profits provided by the external sector.

The persistent increase in prices, with its consequences on the level of living (especially in the most modest sectors), its effects on income distribution, and the climate of speculation which it brings with it, is another phenomenon which is helping to keep the extra income from external trade within limited groups and to prevent it from being channelled towards larger and more needy sectors. As already stated, the imported component in inflation probably militates against attempts to control it.

From the point of view of the utilization of scarce resources, the import of non-essential goods not only represents a waste of foreign exchange but also only beneifts the most opulent sectors.

To sum up, inflation, luxury consumption and the flight of foreign exchange have been the most obvious manifestations of the problems characterizing the distribution side of the Bolivian economy. They constitute the final expression of the concentration of income, and at the same time they have slowed down the implementation of the Government's economic programme. Their continuation in 1974 would impede the proper utilization of the profits which the external sector can provide.

From the point of view of the production side of the economy, the stagnation of the agricultural sector which has ceased to be merely a superficial expression, has constituted the central problem. There is no need to insist on the importance of this sector both because of the population which depends on it and because of its potential, which external demand has brought into prominence. Obviously, one of the basic problems of the Bolivian economy is to be found in this sector, and as regards its short-term prospects, the inelasticity of agricultural supply appears to be a major problem. The projections of international demand and prices for a variety of agricultural products, together with growing domestic requirements and considerations of a social order, make it a matter of indubitable priority.

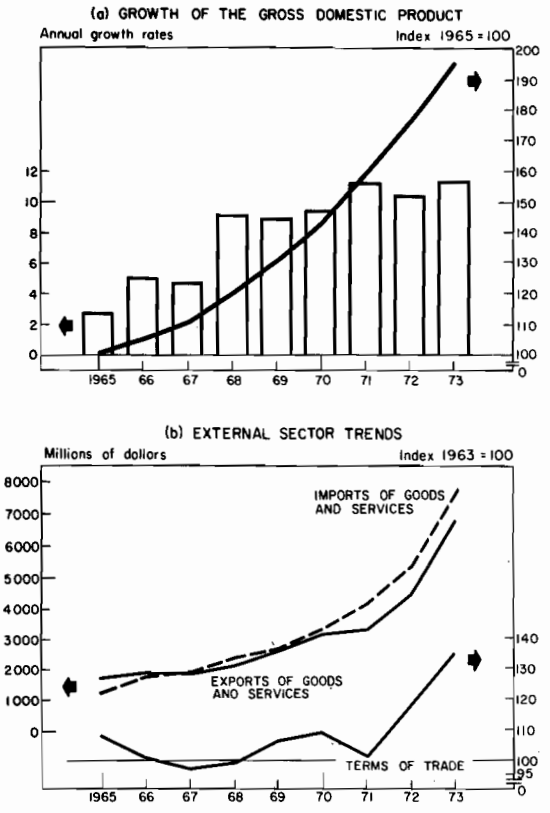
The analysis of the structure of investment during 1973, although based on very fragmentary data, raises a query that calls for evaluation in greater depth, i.e., what the private sector's response to development policy will be. Preliminary figures enable the conclusion to be drawn that it was public investment which showed most dynamism, since it registered 36.8 per cent growth over the last year, compared with only 11 per cent for the private sector. It is possible, however, that international prices will lead in the short term to more investment by entrepreneurial groups in the production of goods.

BRAZIL

1. Recent economic trends

The process of rapid economic expansion begun in 1968 was maintained in 1973, when the gross domestic product increased by 11.4 per cent, a higher rate than that achieved in 1972 (see figure XXVII).

Figure XXVII. Brazil
Natural scale



The relative importance of the external sector also increased significantly, for the value of exports increased by 57 per cent (approximately 14.5 per cent in quantum and 37.4 per cent in unit value) to the unprecedented figure of 6,200 million dollars. The increase in the value of imports of goods was also considerable, since it came to 43 per cent (approximately 20 per cent in quantum and the same in unit value). Although the trade balance improved by 440 million dollars, the increasing deficit on services and an increase in payments of foreign capital caused the deficit on current account to rise between 1972 and 1973 to about 1,650 million dollars in the latter year. However, abundant inflows of non-compensatory capital totalling more than 4,250 million dollars gave a balance-of-payments surplus or more than 2,600 million dollars and brought the year-end total of international reserves to more than 6,500 million dollars.

Other significant developments in the over-all evolution of the economy were the substantial increase of 20 per cent in gross investment, which maintained the trend started several years ago and gave an investment coefficient of over 22 per cent for 1973, and the balanced dynamism shown by all the productive sectors with the sole relative exception of agriculture, which increased by 3.5 per cent.

In the agricultural sector there was a marked recovery in the production of wheat and a considerable increase in that of soya beans, the latter being touched off by the big rise in international prices for this product. However, drops in the production of coffee and other crops, plus the fact that the stock-farming sector apparently continued to grow at a stable but modest rate, prevented a more rapid expansion of the agricultural sector as a whole.

The 15.8 per cent increase recorded in the manufacturing sector was due in particular to the dynamism of the transport, chemical and metal manufactures and machinery industries. As far as oil refining was concerned, there were no problems regarding supplies of imported crude, but there were big increases in international oil prices. In addition, there were difficulties in the domestic supply of iron and steel products, which affected prices and import needs and were also a factor in the decision to speed up the implementation of the iron and steel development programme.

Prices increased by 15.5 per cent during 1973, a rate slightly lower than that of 1972 but higher than the target of 12 per cent fixed by the Government. The increase in the international prices of some products imported and exported by Brazil had a greater impact than expected on domestic prices. Minimum wage rates were adjusted midway through the year by an average of 15 per cent.

In the monetary field there was a considerable increase (46 per cent) in real liquidity in the economy, in spite of the fact that the central government showed a surplus over the financial year. Various measures were taken to reduce the rate of increase of real liquidity by reducing the rate of inflow of foreign capital, and towards the end of the year the monthly rate of increase of bank loans to the private sector was reduced.

2. The external sector

One of the highlights of the performance of the external sector of the Brazilian economy during 1973 was the substantial rise in the value of exports of goods, which totalled about 6,200 million dollars at current prices—an increase of more than 57 per cent. The value of imports of goods also increased significantly (by more than 43 per cent), but as this was a slower rate than that of exports the trade balance, which showed a deficit of 252 million dollars in 1972, changed to a surplus of 188 million dollars in 1973. In spite of this favourable development in the trade balance,

however, the deficit on current account increased slightly from 1,592 million dollars in 1972 to 1,649 million dollars in 1973, as a result of the increases recorded in the negative balance for services and the increased net payments of profits and interest on foreign capital (see table 80).

The major factor responsible for the increase in exports of goods was the rise of 37.4 per cent in the average unit value. The quantum, for its part, increased by 14.5 per cent. In 1972 the comparable relative changes were 25.2 and 9.2 per cent, respectively.

Outstanding among the staple export commodities were soya beans, exports of which rose from 280 million dollars in 1972 to 917 million dollars in 1973. This increase of 227 per cent was accounted for by an increase of 38 per cent in the quantity exported and a rise of more than 137 per cent in the average international price. In contrast, the increased revenue from coffee exports (1,243 million dollars in 1973 as against 989 million in 1972) is explained almost entirely by the increase of approximately 25 per cent in the international price of this product, for a drop in domestic production meant that not only was there no significant exportable surplus, but coffee even had to be imported to meet domestic requirements. Among other export commodities, mention should be made of the increase of 56 per cent in sales of iron ore. In conclusion, it should be noted that in both 1972 and 1973 commodities maintained

Table 80. Brazil: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	3,068.0	3,279.0	4,374.3	6,767.6
Goods FOB	2,739.0	2,882.0	3,941.1	6,198.2
Services	329.0	397.0	433.2	569.4
Transport	167.0	165.0	182.4	267.8
Travel	30.0	36.0	38.0	48.3
Imports of goods and services	3,297.0	4,182.0	5,348.3	7,574.6
Goods FOB	2,507.0	3,246.0	4,193.0	6,010.0
Services	790.0	936.0	1,155.3	1,564.6
Transport	349.0	421.0	510.3	768.4
Travel	160.0	171.0	216.1	277.5
Net external investment income	−428.0	−517.0	−618.8	−843.2
Profits	−186.0	−188.0	−206.3	−282.3
Interest	−242.0	−329.0	−412.5	−560.9
Net private transfer payments	13.0	11.0	1.1	1.2
Balance on current account	−644.0	−1,409.0	−1,591.7	−1,649.0
Capital account				
Net external financing ($a + b + c + d + e$)	644.0	1,409.0	1,591.7	1,649.0
(a) Net external non-compensatory capital	1,222.0	2,257.0	3,944.3	
Direct investment	196.0	225.0	414.7	
Long- and medium-term loans	1,143.0	1,838.0	4,620.8	
Amortization payments	−479.0	−572.0	−1,217.1	4,272.8
Short-term liabilities	354.0	764.0	121.6	
Official transfer payments	8.0	2.0	4.3	
(b) Domestic non-compensatory capital or assets	−41.0	−275.0	−328.0	
(c) Errors and omissions	38.0	−6.0	437.8	
(d) Allocation of SDRs	59.0	47.0	51.0	–
(e) Net compensatory financing (increase −)	−634.0	−614.0	−2,513.4	−2,623.8
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.0	–	55.4	–
Amortization payments	−101.0	−78.0	−54.3	−72.4
Movements of foreign exchange reserves (increase −)	−367.0	−488.0	−2,463.5	−2,551.4
Movements of gold reserves (increase −)	−105.0	–	–	–
SDRs (increase −)	−62.0	−48.0	−51.0	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

their share in total exports of goods at around 70 per cent.

Exports of industrial products rose from 1,220 million dollars in 1972 to 1,840 million dollars in 1973, i.e., by 51 per cent. Although detailed information is not available on the trends in international prices for these goods, it can be estimated on the basis of other indirect information that the increase in the quantum of such exports was not less than 30 per cent. In the fourth quarter of the year there was some contraction in exports of manufactures apparently connected with the relatively less favourable conditions prevailing in international trade and transport, but it is difficult to judge the degree of intensity and permanence of this conjunctural trend.

As regards export promotion policies, the first point to mention is that the flexible exchange policy of making moderate periodical changes in the value of the cruzeiro so as to maintain the "real value" of this currency was continued during 1973. The changes in the exchange rate during the period covered are dealt with later. In addition, the export incentive policy for manufactures was maintained in full. This policy involves the provision of an export infrastructure, machinery for the provision of subsidies, the encouragement of mergers and of the importation of turnkey industrial plants, and the granting of financing options to facilitate export sales.

The increase of 43.3 per cent recorded in imports of goods at current prices is accounted for by increases of 19.7 per cent in both the unit value and the quantity. In 1972 the corresponding rates were 6.7 and 21 per cent respectively.

The rates of expansion of the various types of imports were similar to the growth rate of total exports, except for wheat, petroleum and petroleum products, and metals, which recorded relatively higher variations. In the case of wheat, the shortfall in the national harvest for the crop year 1972/1973 (although the harvest in that year was higher than that of 1971/1972) and increasing domestic demand for wheat products, caused the amounts imported to rise by 63.4 per cent, while the average international price in dollars for wheat brought by Brazil rose by 67.8 per cent, so that the value of imports of this cereal increased by 174.2 per cent (from 122 million dollars in 1972 to 334 million in 1973). In the case of petroleum and petroleum products, the value of imports rose from 409 million to 680 million dollars (i.e., by somewhat more than 66 per cent) as a result of an increase of 33 per cent in the quantity imported and a rise of approximately 25 per cent in the average price of petroleum purchased abroad. Finally, metal imports as a whole rose by more than 65 per cent, from 460 million dollars in 1972 to 760 million in 1973, but no information is available on the quantities and prices of the individual metals imported.[37]

With respect to services, the deficit increased from 722.1 million dollars in 1972 to 995.2 million in 1973, i.e., by 38 per cent. The main factor in this was the increase in freight charges, insurance, and other transport costs, which rose by more than 50 per cent, from 510 million to 768 million dollars. This percentage increase is higher than that recorded for the quantum and current value of imports of goods and therefore reflects the real increase in transport costs which the country had to face in 1973.

There was a 36 per cent increase in net payments of profits and interest on foreign capital, the increases being proportionally similar for each of these two headings.

During 1973 the Brazilian economy continued to receive an increasing inflow of foreign capital, amounting to an estimated total net inflow of 4,273 million dollars. Although information on this inflow is incomplete, it is known that it was made up, in the main, of net disbursements of long-term and medium-term loans amounting to more than 3,800 million dollars. Net direct foreign investment, for its part, is estimated to have been around 900 million dollars.

This capital account income made it possible to more than cover the current account deficit, leaving a balance of payments surplus of more than 2,600 million dollars, so that at the end of 1973 Brazil's international reserves came to approximately 6,550 million dollars.

In September 1973 Brazil's external debt came to 11,946 million dollars: 25 per cent higher than the figure recorded at the end of 1972 and approximately 80 per cent higher than that recorded at the end of 1971. In spite of this rapid rate of increase, the Brazilian Government believes that the trends observed in recent years in exports and in the international reserves of the country are such that the external debt and the amount paid in debt servicing still stand in a reasonable relationship to these two variables.[38]

During the year the Government adopted measures to reduce the net inflow of foreign capital because of the rapid rate at which such capital was entering the country and the excessive liquidity being created both in international reserves and in the domestic means of payment. The measures taken were the fixing of compulsory

[37] See Banco Central do Brasil, Annual Report for 1973, pp. 221-224.

[38] *Ibid.*, pp. 234-240.

deposits in cruzeiros in proportion to the amount of foreign currency brought into the country (25 per cent to begin with and later 40 per cent) and the establishment of a minimum period for which such currency must stay in the country (in the early part of 1973 this was fixed at six years and subsequently increased to ten). Examination of the quarterly figures for the inflow of foreign capital reveal that the net inflow decreased in the course of the year.

3. Evolution of prices and other mainly financial variables

(a) *Prices and wages*

The general index of prices for domestic goods and services rose by 15.5 per cent during 1973.[39] Although this figure was a little lower than the 15.7 per cent recorded in 1972 it nevertheless surpassed the 12 per cent target fixed by the Government at the beginning of the year (see table 81).

One of the underlying causes of the increase in prices above the target fixed was the increase of approximately 20 per cent in the unit value of imports and, in particular, the rise in the international prices of some commodities such as wheat, as mentioned earlier. Furthermore, the increase in the world prices of some of the commodities exported by Brazil also exerted inflationary pressure and tended to force up the domestic prices for these commodities and/or reduce the domestic supply. Soya beans and beef are examples of this.

The examination of other price indexes reveals first of all that in 1973 the wholesale price rises were similar for both agricultural and industrial products, whereas in 1972 the increase in the prices of the former was considerably higher.

Secondly, the cost of living indexes for several big cities show that the most moderate increases were recorded in Belo Horizonte and Río de Janeiro (13.0 and 13.7 per cent respectively), whereas the highest were recorded in Curitiba and Brasilia (33.3 and 23.0 per cent). It was also observed that in the seven cities for which indexes were calculated, the cost of food rose much more than the general index, the difference in each case being not less than 20 per cent.

Thirdly, the price indexes prepared to measure trends in construction costs show increases of 21.1 per cent in Río de Janeiro and 53.5 per cent in São Paulo. The latter increase is noteworthy both because of its size and also because it is so much higher than the 21.9 per cent recorded in 1972.

Table 81. Brazil: domestic price indicators
(Percentage movements December to December)

	December 1972	*December 1973*
General price index		
Domestic production	15.7	15.5
Total supply	16.8	16.2
Wholesale price index		
Domestic production	15.9	15.5
Total supply		
General	17.7	16.7
Agricultural products	22.2	16.7
Industrial products	15.1	16.6
Cost of living indexes		
Rio de Janeiro	14.0	13.7
São Paulo	17.5	14.5
Porto Alegre	18.1	21.1
Belo Horizonte	16.4	13.0
Curitiba	21.9	33.3
Florianápolis	18.8	16.7
Brasilia	–	23.0
Construction costs		
Rio de Janeiro	19.8	21.1
São Paulo	21.9	53.5

SOURCES: Getúlio Vargas Foundation and Banco Central do Brasil, op. cit., pp. 62-64.

The price policy followed in 1973 was, generally speaking, similar to that of previous years. During the year, however, greater efforts were made to contain the inflationary pressures caused by the increased demand for some goods produced by sectors or activities which were already operating at full capacity. In order to tackle this problem the Government (acting through the Inter-Ministerial Price Council) allowed prices for such goods to be readjusted only after a detailed examination of developments in the respective costs.

With respect to changes in wages, the information available shows that minimum wage rates were increased in May by amounts in the region of 15 per cent, thus continuing the policy of adjusting wages to the rise in domestic prices.

(b) *Exchange rates*

During 1973, the flexible exchange policy which had been in force for several years took account, in order to maintain the real value of the cruzeiro, of the fluctuations in the principal international currencies, particularly the dollar. This made it possible to reconcile domestic and external levels of inflation and thus protect the competitive position of the Brazilian export sector in international markets.

[39] Other price indexes, also of relatively wide coverage, indicated a similar trend. Thus, the wholesale price index for domestic goods and services increased by the same amount of 15.5 per cent, while in the general price index of total supply the change was 16.2 per cent (see table 81).

In keeping with this policy, the cruzeiro was revalued in February 1973 by 3 per cent with respect to the dollar. This coincided with the official 10 per cent devaluation of the United States currency which occurred in that month. Later on, on four different occasions, there were "minidevaluations" of between 0.5 and 1.2 per cent, with the result that in December the selling price of the dollar was 6,220 cruzeiros–only 0.1 per cent higher than the rate prevailing in December 1972.

(c) *Monetary trends and the government sector*

Between the end of 1972 and the end of 1973 the real liquidity[40] of the Brazilian economy increased by approximately 46 per cent, compared with 38.6 per cent in the previous year. Although the monetary policy applied in recent years has included among its objectives the continuous increase of real liquidity, the monetary authorities stated that during 1973 the rate of expansion of liquidity was higher than necessary.

The main underlying causes of this were the purchases by the Central Bank of international reserves (as a result of the surplus in the balance of payments) a substantial increase in private sector placements, and the inadequate operation of the factors that normally absorb the means of payment.

Against this background, several measures aimed at reducing the expansionary effect of the factors mentioned were introduced during the year. The measures aimed at reducing the rate of inflow of foreign capital and its impact have already been referred to in this respect. In addition, the rate of increase of bank loans by the Banco do Brasil to the private sector was reduced in the last two months of the year, and finally, with respect to the absorption factors, the open market operations carried out by the monetary authorities were intensified.

As in 1972, the operations carried out during the year by the Treasury in the monetary sector were not one of the factors underlying the expansion of the means of payment: indeed, they acted as an absorption factor.

This behaviour was due basically to the financial operations of the central government during the period, because for the first time in 20 years the central government closed the financial year with a surplus; this amounted to 295.1 million cruzeiros, resulting from income of 52,863.2 million and expenditure of 52,568.1 million. Revenue increased in real terms by 21.8 per cent compared with 1972, 60 per cent of the total income being made up of taxes on industrial products and income tax, while total expenditure increased by 19.5 per cent at constant values (see tables 82 and 83).

The evolution of the central government finances during 1973 is an indication of the satisfactory flexibility achieved in the Brazilian taxation system, which enables it effectively to increase its share of the domestic product which is rising both in real terms and as a result of price changes.

[40] The real liquidity corresponds to the means of payment, deflated by the general wholesale price index.

Table 82. Brazil: central government income
(Millions of cruzeiros)

	Current values		*Constant values (at 1972 prices)*	*Real percentage variation*
	1972	*1973*	*1973*	
Total income	37,738	52,863	45,968	21.8
Tax revenue	34,063	44,613	38,794	13.9
Tax on industrial products	14,626	19,116	16,623	13.7
Income tax	9,380	12,357	10,745	14.6
Import duties	2,779	3,727	3,241	16.6
Electric power	1,119	1,454	1,264	12.9
Minerals	217	301	262	20.5
Flat rate tax on fuels and lubricants	4,514	5,508	4,790	6.1
Tax on financial transactions	1,328	2,019	1,756	32.2
Other taxation	100	131	114	13.4
Taxes on the value of certain assets	897	2,250	1,957	118.1
Other income	2,778	6,000	5,217	129.1

SOURCE: Banco Central do Brasil.

Table 83. Brazil: central government expenditure
(Millions of cruzeiros)

	Current values		Constant values (at 1972 prices)	Real percentage variation
	1972	1973	1973	
Total expenditure	38,254	52,568	45,711	19.5
Payments, interest and commission	1,267	385	334	−73.6
Actual expenditure (unclassified)	22,026	30,955	26,952	22.4
Earmarked funds	10,045	14,300	12,435	23.8
Consolidated fund	2,881	3,777	3,284	14.0
Other expenditure	2,035	3,152	2,741	34.7

SOURCES: Banco do Brasil and Banco Central do Brasil.

4. TRENDS IN THE GROSS DOMESTIC PRODUCT AND ITS COMPONENTS

(a) *Total supply and demand*

The rapid economic expansion begun in 1968 continued in 1973, when the gross domestic product increased by 11.4 per cent, a figure higher than that achieved in 1972. In the 1968-1973 period the GDP increased by an average of 10.1 per cent annually, the comparable increase in the per capita product being 7.1 per cent per year. In order to appreciate the significance of this latter rate of increase, it may be pointed out that it will enable the per capita product to be doubled in 10 years, whereas the annual rate of approximately 3 per cent recorded in recent years for Latin America as a whole would only achieve this result after 24 years.

Total supply increased more rapidly than the gross domestic product because imports of goods and services increased by 18.3 per cent at constant values, thus continuing the trend of rapidly increasing imports, which began in 1965 and registers an average annual growth rate of approximately 19 per cent. In line with this the import coefficient with respect to the GDP doubled between 1965 and 1973, increasing from 4.1 to 8.3 per cent (see table 84).

As regards the evolution of total demand, the main highlight was the substantial relative increase (20 per cent) in gross domestic investment. This rate of increase, together with the similar ones achieved in 1971 and 1972, raised the investment coefficient from 18.1 per cent in 1970 to 22.2 per cent in 1973. This latter figure is high for Latin America and is close to that recorded in several developed economies. In recent years it has been estimated that 41 per cent of the gross fixed investment of the country is accounted for by construction and 59 per cent by machinery and equipment, 76 per cent of the latter being of domestic origin and 24 per cent of foreign origin.[41]

Total consumption increased by 9.6 per cent, i.e., at the same rate as in 1972, the most outstanding feature being the 13 per cent increase in central government consumption. The increase of only 9 per cent in private consumption meant that the share of the private sector in the gross domestic product dropped to 68.2 per cent in 1973.

Exports of goods and services increased by 15.1 per cent in constant values, thus exceeding the rates of around 9 per cent recorded in the 1965-1972 period. Since 1970 the export coefficient with respect to the gross national product has remained practically stable.

(b) *Major sectors of activity*

The rate of growth of the GDP was basically due to an increase of 10.9 per cent in the contribution of the goods-producing sectors and 13.6 per cent in that of the basic services sectors. It is estimated that in the services sectors proper the relative increase was equal to that of the GDP, i.e., 11.4 per cent (see table 85).

(i) *Agriculture.* The product of the agricultural sector increased by 3.5 per cent, i.e., less than the 1972 figure of 4.5 per cent. Agricultural production increased by the unsatisfactory amount of only 3 per cent owing to drops in the cultivation of coffee (−24 per cent), groundnuts (−36 per cent), bananas (−5 per cent), and cassava (−2 per cent). Wheat production, however, increased by

[41] See CIAP, *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo del Brasil*, CIAP/631, 7 November 1973, table II-3.

Table 84. Brazil: total supply and demand

	Millions of cruzeiros at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*5,264.7*	*5,889.8*	*6,540.0*	*7,318.4*	*104.1*	*106.7*	*108.3*	*8.0*	*11.9*	*11.0*	*11.9*
Gross domestic product	4,936.3	5,494.1	6,065.5	6,757.0	100.0	100.0	100.0	7.5	11.3	10.4	11.4
Imports[b]	328.4	395.7	474.5	561.4	4.1	6.7	8.3	18.2	20.5	19.9	18.3
Total demand	*5,264.7*	*5,889.8*	*6,540.0*	*7,318.4*	*104.1*	*106.7*	*108.3*	*8.0*	*11.9*	*11.0*	*11.9*
Exports[b]	309.0	336.4	366.0	421.3	5.7	6.3	6.2	9.5	8.8	8.8	15.1
Gross domestic investment	892.2	1,061.7	1,250.0	1,500.0[c]	18.1	18.1	22.2	7.5	19.0	17.7	20.0
Gross fixed investment	912.2	1,041.7	...	...	14.2	18.5	–	13.3	14.2	...	...
Construction	336.1	364.3	...	...	7.1	6.8	...	6.7	8.4	...	...
Machinery and equipment	576.1	677.4	...	...	7.2	11.7	...	18.6	17.6	...	...
Total consumption	4,063.5	4,491.7	4,924.0	5,397.1	80.3	82.3	79.9	8.0	10.6	9.6	9.6
General government	579.7	623.2	698.0	788.7[c]	11.5	11.7	11.7	8.0	7.5	12.0	13.0
Private	3,483.8	3,868.5	4,226.0	4,608.4	68.8	70.6	68.2	8.1	11.1	9.2	9.0

SOURCES: 1965–1972: ECLA calculations based on data supplied by the National Accounts Centre of the Getúlio Vargas Foundation; 1973: ECLA estimates based on global figures from the same source and the Banco Central do Brasil, broken down on the basis of incomplete data.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Provisional figures.

[b] Goods and services, excluding factor payments.

[c] Provisional estimates based on incomplete data and subject to revision.

Table 85. Brazil: gross domestic product at factor cost, by sector of economic activity

	Millions of cruzeiros at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Agriculture	807.8	899.9	940.3	973.2	23.4	19.1	16.9	3.0	11.4	4.5	3.5
Mining	32.8	36.5	...	...	0.7	0.8	...	10.6	11.2	...	...
Manufacturing	1,069.8	1,190.7	1,358.6	1,573.3	22.0	25.3	27.2	10.3	11.3	14.1	15.8
Construction	48.6	52.7	59.5	68.7	1.0	1.2	1.2	10.7	8.4	12.9	15.4
Subtotal goods	*1,959.0*	*2,179.8*	*2,400.0*	*2,661.6*	*47.1*	*46.4*	*46.1*	*7.0*	*11.3*	*10.1*	*10.9*
Electricity, gas and water	108.1	120.4	133.8	150.5	2.3	2.5	2.6	9.4	11.4	11.1	12.5
Transport and communications	336.6	364.9	394.5	449.7	7.1	8.0	7.8	9.9	8.4	8.1	14.0
Subtotal basic services	*444.7*	*485.3*	*528.3*	*600.2*	*9.4*	*10.5*	*10.4*	*9.8*	*9.1*	*8.9*	*13.6*
Commerce and finance	870.1	977.3	1,088.8	1,224.9	19.9	20.6	21.2	8.0	12.3	11.4	12.5
Government	329.0	1,057.0	1,167.0	...	7.7	7.8	...	7.5	11.3	10.4	...
Ownership of dwellings	135.9			...	3.2	3.2	...	7.6			...
Miscellaneous services	484.9			...	12.7	11.5	...	5.2			...
Subtotal other services	*1,819.9*	*2,034.3*	*2,255.8*	*2,513.3*	*43.5*	*43.3*	*43.5*	*7.1*	*11.8*	*10.9*	*11.4*
Total	*4,267.9*	*4,749.7*	*5,243.1*	*5,840.8*	*100.0*	*100.0*	*100.0*	*7.5*	*11.3*	*10.4*	*11.4*

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the National Accounts Centre of the Getúlio Vargas Foundation; 1973: ECLA estimates based on figures from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Provisional figures.

approximately 100 per cent, thus almost recovering the level of production of 1971 after the 57 per cent drop in 1972. Another product which showed a considerable (48 per cent) increase in production was soya beans, because of the encouraging upward trend in international prices for this product. The increase in the area devoted to soya beans was to the detriment of other crops such as coffee, beans and maize, however, and furthermore the very large exports of soya beans led to some problems in the domestic supply of soya-bean oil.[42]

Livestock production showed an increase of 4 per cent, according to estimates based on general information, since no detailed information was available. There was an imbalance between exports and domestic supplies of beef because of the price increases in the international market. In view of the unfavourable trend in domestic prices and supply, the Government therefore ordered the withholding of 200 dollars per ton exported, in order to protect the domestic market. In spite of other measures introduced to improve the domestic supply of meat, however, it became necessary during the year to import frozen meat, to free the prices of "special" meats and to suspend exports from the South Central region.

(ii) *Manufacturing.* Manufacturing production increased by 15.8 per cent, thus exceeding the rates recorded in 1972 and previous years. Taking a longer period, it is observed that the contribution of this sector to the GDP increased from 22 per cent in 1965 to 27.2 per cent in 1973 (see table 85).

Examination of the performance of the various manufactures shows that the trend of the last six years continued in that the transport equipment, chemical and metal manufactures and machinery industries were still the prime movers of the high rates of growth in this sector. The so-called traditional industries, in contrast, recorded lower than average relative movements (see table 86).

In the iron and steel industry there were increases of 10 per cent in the production of steel ingots and 13 per cent in rolled products. It is estimated that the apparent domestic consumption of iron and steel products increased by 28 per cent, amounting to some 9.4 million tons.[43] The sharp increase in demand made it necessary to increase imports of steel, and particularly of sheet, the seasonal shortage of which had a negative effect on motor vehicle production.

As regards the economic policy of the iron and steel sector, its programme for increasing production to 20 million tons of steel by 1980 was speeded up, and this target is now expected to be reached in 1978, which will permit domestic production to supply the market needs of that time. In addition, the Government approved the establishment in 1973 of Siderbrás S.A. to act as a holding company in the sector.

Table 86. Brazil: trends in the production of manufactures
(Rates of growth)

	January-November 1972	*January-November 1973*
Non-metallic minerals	12.9	16.0
Metal manufactures, machinery, electrical and communications equipment	16.2	17.8
Transport equipment	23.7	24.4
Paper and paperboard	6.8	9.5
Rubber	12.5	12.9
Chemicals, perfumery, soaps and candles, and plastics	15.6	24.3
Textiles and clothing	3.6	9.2
Food products, beverages and tobacco	15.9	8.7

SOURCE: Getúlio Vargas Foundation.

Motor vehicle production increased by 19.7 per cent, the increases in the manufacture of light commercial vehicles, trucks, and bus chassis being particularly large (see table 87). This dynamism was due to the increase in exports of motor vehicles of this type and the increasing use being made of them in the regional development and settlement programmes in the country.

In the chemical industry—another sector which showed vigorous expansion—the highlights were the progress achieved in the petrochemical branch, both in the building-up of the producing complex in São Paulo and the programming of the complex to be established in the Northeast.

Output of petroleum products increased by 19.2 per cent compared with 1972, bringing production to a total of 45,211,000 cubic metres, over 90 per cent of which was produced by PETROBRAS. For this purpose 41,030,000 cubic metres of crude had to be imported (i.e., approximately 80 per cent of the crude consumed in the country). While the petroleum crisis did not affect the supply of the imported quantities referred to, the average price of the petroleum bought by Brazil rose by 25 per cent, as already mentioned, and it is expected that the price paid in 1974 will show a relatively large increase also.

(iii) *Other sectors of production.* The con-

[42] See Fundación Getúlio Vargas, *Conjuntura Econômica*, February 1974, pp. 46 and 47.

[43] Sources: Brazilian Iron and Steel Institute and National Council for the Iron and Steel Industry.

Table 87. Brazil: output of motor vehicle industry
(Units)

	1972	*1973*	*Percentage variation*
Passenger cars	408,712	456,077	11.6
Light commercial passenger and goods vehicles	100,114	143,952	43.8
Utility vehicles	4,405	6,149	13.8
Light trucks	39,383	51,999	32.0
Trucks	50,153	64,890	29.4
Buses (complete)	1,872	2,033	8.6
Bus chassis	3,346	4,035	20.6
Total	*608,985*	*729,135*	*19.7*

SOURCE: National Motor Vehicle Manufacturers' Association.

struction sector grew by 15.4 per cent, i.e., faster than in previous years. The production of cement increased by about 18 per cent, but the sector had to face certain shortages of other essential inputs, mainly wood and iron and steel products, and the prices of these also rose considerably. The supply of unskilled labour, which is extensively used in this sector began to display some rigidity towards the end of the year and this led to a rise in the hourly wage, particularly in the State of São Paulo.

The installed capacity for generating electrical energy rose to 16,069 MW—an increase of 19 per cent over 1972—while it is estimated that the consumption of electrical energy increased by around 15 per cent.

Finally, the transport and communications sector showed an over-all growth rate of 14 per cent.

COLOMBIA

1. RECENT ECONOMIC TRENDS

In the last two years there has been a distinct change in the growth rate of the Colombian economy. From 1965 to 1971 the gross domestic product increased at the rate of 5.7 per cent annually, except in 1970 when the rate rose to 6.7 per cent. In 1972, however, the product increased by 6.8 per cent, and this rose to 7.3 per cent during 1973 (see table 88 and figure XXVIII).

The economic evolution of the country has been very sensitive to changes in external economic relations. The greater increase of the product in 1970 was related to a rise in coffee prices, which increased the value of exports by 17 per cent, and the movement of the last two years has also coincided with unusual increases in the value of exports of 24 per cent in 1972 and 44 per cent in 1973.

These facts produced very favourable changes in domestic economic activity, but they also caused imbalances in supply and demand which were reflected in bigger increases in domestic prices.

In only two years (from 1971 to 1973) the value of exports of goods rose from 755 to 1,347 million dollars. An increase of 28 per cent in unit values and 13 per cent in the quantum exported contributed to the considerable increase in 1973. It may be noted that in 1972 the quantum increased by 14 per cent.

The value of imports, which had declined in 1972, increased by 31.5 per cent in 1973, when the prices of imports increased by 18 per cent. The difference between the increases in import and export prices improved the terms of trade (although these remained below the 1970 level), and this gave an 8 per cent increase in gross earnings.

The greater growth of exports compared with imports left a positive trade balance which helped to reduce the current account deficit to 124 million dollars, the lowest figure since 1967. Although the net inflow of capital was less than that of the previous year, it was sufficient to cover the current deficit and to increase reserves by 173 million dollars.

The increased earnings from exports meant that abundant imports were available during the year, and these were encouraged by the authorities with a view to ensuring the supply of raw materials and

Table 88. Colombia: total supply and demand

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Total supply	*51,312.0*	*54,153.4*	*56,578.1*	*60,770.7*	*112.1*	*115.2*	*113.1*	*6.3*	*5.5*	*4.5*	*7.4*
Gross domestic product	44,523.5	46,967.4	50,093.2	53,750.0	100.0	100.0	100.0	5.8	5.5	6.8	7.3
Imports[b]	6,788.5	7,186.0	6,484.9	7,020.7	12.1	15.2	13.1	10.7	5.9	−9.8	8.3
Total demand	*51,312.0*	*54,153.4*	*56,578.1*	*60,770.7*	*112.1*	*115.2*	*113.1*	*6.3*	*5.5*	*4.5*	*7.4*
Exports[b]	6,286.1	6,575.6	7,302.2	8,152.5	20.2	14.1	15.2	5.5	4.9	11.0	11.6
Gross domestic investment	8,872.0	9,734.8	9,642.9	...	17.8	19.9	...	8.1	9.7	−0.9	...
Gross fixed investment	7,922.1	8,468.4	8,624.5	9,487.0	15.3	17.8	17.6	9.0	6.9	1.8	10.0
Construction	4,839.2	5,152.8	5,219.9	...	9.0	10.9	...	9.8	6.5	1.3	...
Machinery and equipment	3,082.9	3,315.6	3,485.6	...	7.3	6.9	...	7.7	7.5	5.1	...
Total consumption	36,171.9	37,843.0	39,633.0	42,011.0	80.0	81.2	78.2	6.1	4.6	4.7	6.0
General government	3,021.1	3,735.2	3,189.3	3,374.3	6.4	6.8	6.3	6.9	23.6	−14.6	5.8
Private	33,150.8	34,107.8	36,443.7	38,636.7	73.6	74.4	71.9	6.0	2.9	6.8	6.0

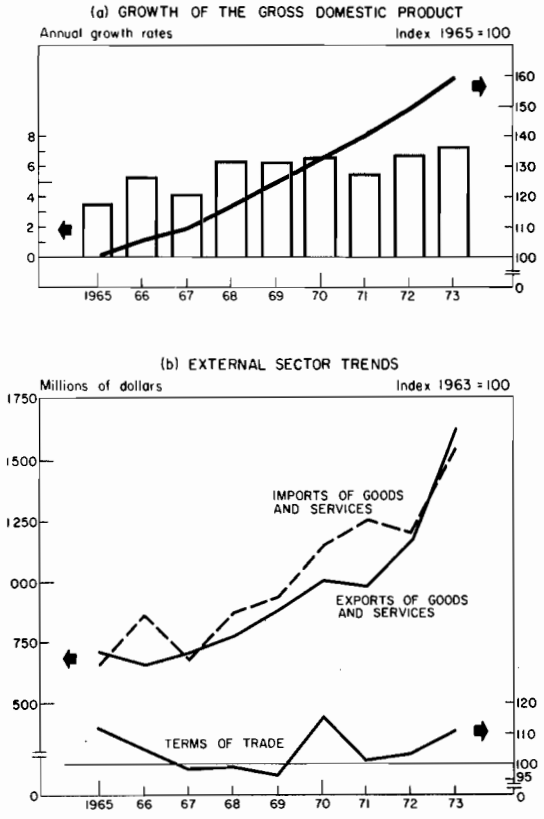
SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Banco de la República de Colombia; 1973: ECLA estimates based on preliminary data from the same source and from the National Department of Planning.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Figure XXVIII. Colombia
Natural scale



other imported inputs for industry, promoting imports of capital goods to increase investment and strengthening domestic supply through imports of foodstuffs and other essential consumer goods.

Owing to the rapid increase (in terms of constant prices) in exports of goods and services, the domestic availability of goods and services increased by only 6.8 per cent in 1973 (3.6 per cent in 1972), i.e., less than the product and less than imports. It was, however, sufficient to allow capital formation to increase by a high percentage (estimated at 10 per cent) and to permit a satisfactory increase in consumption (6 per cent in the private sector and 5.8 per cent in general government). The increase of 10 per cent in fixed investment represented only a partial recovery from the low level recorded in 1972, however. The investment coefficient of 17.6 per cent recorded in 1973 was less than those attained in 1970 and 1971, and much lower than those recorded in 1960 (20.7 per cent) and 1964 (19 per cent) (see table 88).

The generally high prices being offered on the international markets constitute a powerful incentive to increase exportable production, and the Government therefore temporarily prohibited the export of some commodities whose supply in the domestic market was not ensured.

In 1973 the sectors which grew most rapidly among the goods-producing and basic services activities were manufacturing, construction and the generation of electricity. In the services sector, only commerce and financial activity attained a high rate of growth, around 10 per cent (see table 89). All the sectors mentioned–except construction–recorded growth rates similar to those of the previous year.

Agriculture continued to be the most important activity in the country, although its share in the product has been losing relative importance and has declined from 31 per cent in 1965 to less than 28 per cent in 1973. According to figures which are still provisional, the agricultural product would appear to have increased by 4.8 per cent in 1973: a growth rate which may be deemed satisfactory when it is considered that an exceptionally harsh summer was followed by a hard winter which affected output and prevented many commodities from taking better advantage of the high prices.

The economic elements indicated were compounded by the accelerated increase in domestic prices due to the incorporation of a new pressure factor: imported inflation. This situation caused great concern to the economic authorities and led them to concentrate their policy measures on the control of inflation.

The increases in consumer prices, which were between 11 and 12 per cent in 1971, rose to 13-14 per cent the following year, but in 1973 there were increases of 19.6 per cent in the consumption costs of salaried employees and 22 per cent in those of workers. The process speeded up for both groups between March and May, but then slowed down as the market was supplied with more abundant harvests and increased imports. The food component of the price index, for its part, recorded a steeper trend of around 28 per cent.

So as to offset the decline in real wages caused by the rise in prices, the National Wages Council established new minimum wages for a large sector of the workers: thus, wages in the primary sector increased by 60 to 77 per cent according to the region; those in manufacturing increased by 39 to 45 per cent, and in the remaining sectors the increases were between 36 and 46 per cent.

Inflation in 1973 occurred in the economic context of real growth in output, rapid expansion in external demand, and an increase in domestic demand as a result of the unusually high earnings from exports. The various causes which normally produced these increases were joined in 1973 by

Table 89. Colombia: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	12,377.5	12,687.3	13,385.4	14,028.6	31.1	29.7	27.8	4.8	2.5	5.5	4.8
Mining	1,295.6	1,235.5	1,161.6	1,112.8	3.8	3.1	2.2	1.5	−4.6	−6.0	−4.2
Manufacturing	7,759.0	8,370.1	9,208.4	10,110.8	18.0	18.6	20.0	6.4	7.9	10.0	9.8
Construction	*1,837.8*	1,967.5	2,003.0	2,225.3	3.3	4.4	4.4	12.3	7.1	1.8	11.1
Subtotal goods	*23,269.9*	*24,260.4*	*25,758.4*	*27,477.5*	*56.2*	*55.8*	*54.4*	*5.6*	*4.3*	*6.2*	*6.7*
Electricity, gas and water	519.0	570.8	648.7	738.9	1.1	1.2	1.5	8.5	10.0	13.7	13.9
Transport and communications	3,108.7	3,308.4	3,549.7	3,779.2	7.2	7.4	7.5	6.6	6.4	7.3	6.5
Subtotal basic services	*3,627.7*	*3,879.2*	*4,198.4*	*4,518.1*	*8.3*	*8.7*	*9.0*	*6.8*	*6.9*	*8.2*	*7.6*
Commerce and finance	7,254.3	7,782.3	8,493.4	9,311.1	16.7	17.4	18.5	6.6	7.3	9.1	9.6
Government	2,344.5	2,503.3	2,608.2	2,759.5	5.9	5.6	5.5	4.9	6.8	4.2	5.8
Ownership of dwellings	2,454.4	2,628.2	2,782.7	2,949.7	5.9	5.9	5.8	5.8	7.1	5.9	6.0
Miscellaneous services	2,780.7	2,985.6	3,222.8	3,438.7	7.0	6.7	6.8	4.7	7.4	7.9	6.7
Subtotal other services	*14,833.9*	*15,899.4*	*17,107.1*	*18.459.0*	*35.5*	*35.5*	*36.6*	*5.8*	*7.2*	*7.6*	*7.9*
Total	*41,557.0*	*43,833.5*	*46,828.4*	*50,246.9*	*100.0*	*100.0*	*100.0*	*5.8*	*5.5*	*6.8*	*7.3*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco de la República de Colombia; 1973: ECLA estimates based on preliminary data from the same source and from the National Department of Planning.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

others coming from abroad. The high prices paid for imports (18 per cent above 1972 prices) were transferred directly to domestic production costs and to the prices of food, which had to be imported to a greater extent to offset deficits in production. In addition to these higher prices for imports, there were also variations in the dollar exchange rate during the year which meant a 7.8 per cent devaluation of the Colombian peso.

From another point of view, however, the high external prices constituted a powerful incentive for Colombian exports, and since these include commodities of great importance in the domestic market, such as meat, cotton, sugar, hides, etc., the Government was obliged to prohibit temporarily the export of some commodities in order to ensure domestic supply. The measures aimed at promoting an increased inflow of imports had a similar objective, and the import control system was considerably liberalized to this end, import duties on some materials and foodstuffs being reduced so as to soften the effect of external prices on domestic costs.

The considerable increase in international reserves during the year (173 million dollars in gold and foreign currency) helped to expand the means of payment. In order to offset this expansion, import payment arrangements were tightened up and the system of prior deposits was changed for that of advance payments, which became an effective instrument for reducing the money supply.

The means of payment grew by 29 per cent in 1973, but the increase in the money supply, which also includes saving deposits and constant purchasing power certificates (UPAC) for housing loans, was much greater (40 per cent up to the end of September). However, the effects of the expansion of the means of payment on prices were partly attenuated by the decline in the multiplier factor of the means of payment from 1.80 in 1972 to 1.73 in 1973 as a result of the increase in the rates of cash reserves and the limitations on bank placements.

2. The external sector and the balance of payments

(a) *External transactions*

The 44 per cent increase in exports of goods and the increase of slightly over 30 per cent in imports were the most significant economic developments in 1973, because of their importance for other economic activities. The previous year exports of goods had also increased by a considerable amount (24 per cent), so that in only two years their value increased from 755 million dollars (1971) to 1,347 million (see table 90).

The unusually high levels reached by prices on the international market affected Colombia through increases of around 28 per cent in the unit value of its exports and 18 per cent in the unit value of imports. The difference in the growth of these two unit values led to a considerable improvement in the terms of trade, although these did not reach the levels recorded in 1964 and 1970, when coffee prices were very favourable and import prices did not increase much.

During 1973, coffee continued to lose relative importance as the main export product. The value of coffee exports is estimated to have increased by approximately 40 per cent, from 429 million dollars in 1972 to around 600 million, but other exports–among them some new and very promising commodities–appear to have increased by 48 per cent, thus continuing with the rapid expansion which they have undergone in the last two years and which has brought them to over half the total value of exports of goods.

According to the registers of approved exports, 406,000 tons of coffee were sold in 1973 (4 per cent more than in 1972) at an average price which was 34 per cent higher. On the New York market, mild Colombian coffees reached their peak price towards the middle of the year, when prices were 42 per cent above the level of June 1972.

The coffee-producing countries have been concerned over the last year to establish machinery which will enable them to regulate the marketing of this product and exercise some influence on the international market. With this in mind, they decided to retain 10 per cent of the volume of their sales so as to reduce the world supply, maintain high prices, and build up a buffer stock for the organization in which they have grouped themselves. With the same aims in view, the Colombian authorities increased from 35 to 39 per cent the quantity of "diploma" coffee which the exporter has to deposit in the National Coffee Fund for each sack of "first grade" quality which he exports.

Important among the other major export products were textiles, including fibres–with cotton as the main component–yarn, fabrics and other manufactures. The value of textile exports in 1973 exceeded 130 million dollars, which represents an increase of 50 per cent.

The most notable growth, however, was observed in exports of emeralds. Between 1971 and 1972 the value of exports of these stones increased from 6 to 40 million dollars, and in 1973 it is estimated to have reached 80 million, thanks to the considerable increase in their price abroad.

Another product where exports have latterly increased at a rapid rate is meat: between 1970 and 1972 exports rose from 8,000 to 24,000 tons

Table 90. Colombia: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	1,000.0	984.0	1,174.8	1,627.9
Goods FOB	788.0	755.0	935.9	1,346.9
Services	212.0	229.0	238.9	281.0
Transport	95.0	106.0	107.5	133.9
Travel	54.0	69.0	74.9	84.4
Imports of goods and services	1,149.0	1,260.0	1,206.3	1,541.6
Goods FOB	802.0	878.0	815.4	1,072.4
Services	347.0	382.0	390.9	469.2
Transport	163.0	192.0	184.6	234.0
Travel	66.0	72.0	73.8	84.4
Net external investment income	−180.0	−176.0	−186.7	−213.5
Profits	−91.0	−71.0	−74.9	−92.9
Interest	−89.0	−105.0	−111.8	−120.6
Net private transfer payments	−1.0	3.0	1.1	3.6
Balance on current account	−330.0	−449.0	−217.1	−123.6
Capital account				
Net external financing ($a + b + c + d + e$)	330.0	449.0	217.1	123.6
(a) Net external non-compensatory capital	405.0	383.0	253.9	
Direct investment	43.0	43.0	35.8	
Long- and medium-term loans	308.0	290.0	413.6	
Amortization payments	−121.0	−144.0	−162.9	307.0
Short-term liabilities	138.0	163.0	−66.2	
Official transfer payments	37.0	31.0	33.6	
(b) Domestic non-compensatory capital or assets	−36.0	−12.0	−3.3	
(c) Errors and omissions	−18.0	55.0	91.3	
(d) Allocation of SDRs	21.0	17.0	18.5	–
(e) Net compensatory financing (increase −)	−42.0	6.0	−143.4	−183.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	42.0	55.0	30.4	1.2
Amortization payments	−87.0	−42.0	−68.4	−12.1
Movements of foreign exchange reserves (increase −)	2.0	−2.0	−95.5	−119.5
Movements of gold reserves (increase −)	1.0	3.0	–	−47.0
SDRs (increase −)	–	−8.0	−9.8	−6.0

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

net, while the value rose from 4.6 to 21 million dollars. This increase was inversely proportional to exports of livestock on the hoof, which declined from 92,000 head in 1970 to 50,000 in 1972 and from 17 to 11 million dollars in value. In 1973, the value of exports of meat increased much more, because of the rise in prices and the gradual replacement of animal carcasses by boned meat and special cuts.

Between 1972 and 1973 there was also a notable increase in exports of chemical products (from 15 to 30 million dollars), metal manufactures (from 11 to 26 million dollars) and wood and wood products (from 7 to 14 million dollars).

Exports of many other basic commodities and manufactures, though still of slight importance individually, have increased rapidly in recent years.

In contrast, however, exports of such important commodities as petroleum and fuels have shown a distinct decline in recent years. Crude oil exports have fallen from 21 million barrels in 1970 to around 16 million in 1973, and it is assumed that in 1974 the decline will be even greater because of the downward trend of production and the rapid increase in domestic consumption.

During the year Colombia's trade with other countries of the region showed considerable dynamism. Exports to the other countries of the Andean Group increased by more than 80 per cent in 1973 to around 100 million dollars, but exports to the remaining countries of LAFTA declined by half. Imports from the Andean Group also in-

creased by more than 80 per cent, to a total value of 70 million dollars.

Total imports of goods increased from 815 to 1,072 million dollars between 1972 and 1973, particularly on account of the considerable increase in imports of foodstuffs and raw materials for industry. The Agricultural Marketing Institute (IDEMA) imported 533,000 tons of foodstuffs costing 71.6 million dollars in 1973: more than twice the total for the previous year.

(b) *The balance of payments*

The fact that exports increased more than imports considerably improved the trade surplus, which rose from 120 million dollars in 1972 to 275 million in 1973 (in 1971 there was a deficit of 123 million dollars). The increased trade surplus enabled the current account deficit to be reduced from 217 to 124 million dollars, although net expenditure on freight and insurance amounted to 100 million dollars (77 million in 1972) and net remittances of profits and interest amounted to 214 million, 27 million more than the year before.

As regards movements of non-compensatory capital, net income was about 40 million dollars lower than in 1972, but as a result of the reduction of the current account deficit the inflow of such capital was sufficient to produce a balance of payments surplus of 183 million dollars before compensation, which improved the net position of the monetary authorities and increased reserves of gold, foreign exchange and Special Drawing Rights by 173 million dollars (see table 90).

Thanks to this increase in international reserves it was possible to reduce external liabilities, mainly those of a short- and medium-term nature, and it was not necessary to use a stand-by credit of 24 million dollars from the International Monetary Fund or seek any allocation of Special Drawing Rights.

(c) *External trade policy measures*

The external trade policy pursued during 1973 was designed to counter the effect of the considerable increase in international prices and domestic costs and prices and to make the export of commodities essential for domestic consumption subject to the prior satisfaction of local needs. There was therefore a tendency to liberalize the import system and the policy to promote new exports was modified.

Among the most important measures adopted with these objectives in view may be mentioned the temporary prohibition of exports of certain commodities–mainly agricultural products–which were scarce on the domestic market or were receiving domestic subsidies. Three categories of products were established for this purpose: those whose export was prohibited, those requiring previous authorization, and those which could be freely exported.

The system of advance settlement for exports other than coffee, which was intended to provide exporters with financial resources, was suspended and replaced with increased domestic credit through the Fondo de Promoción de Exportaciones or the commercial banks, which were authorized to grant loans for working capital to enterprises producing, storing or exporting commodities other than coffee and petroleum.

In addition, changes were made–depending on the amount of the transaction and the type of products exported–in the amounts and time-limits for negotiating the tax credit certificates (CAT) which exporters receive when they turn in the foreign currency coming from their sales abroad. These certificates are used for paying taxes and may be negotiated freely within a specific time-limit, which was extended in 1973 to eleven months. The amount of the CATs was also modified according to the value added in the commodity exported.

Also with the aim of ensuring adequate domestic supply, imports requiring advance authorization were liberalized to a large extent and the tariffs on imports of raw materials and other inputs for domestic industry were reduced in order to counter, even partially, the effects of high external prices on costs. The monthly foreign exchange budget for imports was raised from 80 to 85 million dollars, and to 120 million dollars towards the end of the year, while advance deposits for imports were replaced by a system whereby a varying proportion of the value of the import requested (depending on the type of product) must be put down for later use in payment of the import. These measures were aimed at using the growing inflow of foreign exchange without increasing internal reserves excessively, thus checking the effects on the means of payment and increased demand, which encourage inflation.

3. Major sectors of activity

(a) *Agricultural production*

During the first part of 1973, agriculture suffered from the effects of a serious drought which continued from the previous year, and this was followed by heavy rains in the second half of the year, but even so the preliminary figures indicate an increase of 4.8 per cent in the agricultural product, which is only slightly down on the 1972 percentages and is similar to the average for 1965-1970.

The area under cultivation has been extended little in recent years, and it is estimated that in

1973 13 per cent of the land normally given over to seasonal crops ceased to be used. The increases in output recorded in 1973 were therefore achieved through better yields, except in the case of sorghum, where the 33 per cent increase in output was due to a 40 per cent increase in the cultivated area, and potatoes, where there were increases of approximately 10 per cent in both output and area. The commodities which most increased their output through better yields were cocoa (10 per cent), beans (11 per cent) and rice (16 per cent), with smaller increases in coffee, bananas and wheat (see table 91).

The biggest drops in production were in barley (−16 per cent), sesame (−32 per cent) and cotton (−20 per cent), but there were also drops in the output of maize, soya and sugar-cane.

As regards livestock production, partial data seems to indicate a decline in the number of cattle slaughtered, while exports of meat increased at the expense of domestic consumption. At present a programme to build up cattle stocks is in progress.

Output of milk and pork has increased only slowly, and this has meant a decline in the per capita availability of these products. Poultry production apparently dropped in 1973, owing to the scarcity of raw materials for the production of poultry feed.

In 1973 the IDEMA helped to promote output through support prices and, as already stated, managed to reduce the inflationary pressures deriving from the temporary scarcity of some commodities by bringing in more imports.

One of the most important agricultural promotion measures is the Cattle Development Plan, a practical programme aimed at developing the output, marketing, consumption and export of meat.

In addition, Law No. 5 was promulgated. This legal instrument is designed to orient, rechannel and stimulate agricultural production. Basically, it provides for the expansion of credit and in particular the issue by the Banco de la República of agricultural development bonds which banking institutions may underwrite to the extent of up to 25 per cent of their placements. These bonds have an amortization term of one year and bear an annual rate of interest of 8 per cent. Their product goes to the Agricultural Finance Fund, which is also authorized to make use of domestic and external credits and receive contributions from para-State agencies connected with the agricultural sector.

The operations of this Fund are conducted at different interest rates, varying from 10 to 15 per cent according to the destination of the credit, while the resources are allocated according to the priority needs of the sector. In 1973 the Agricultural Finance Fund approved loans totalling 1,897 million pesos in respect of 640,000 hectares of land, i.e., for 50 per cent more money and 22 per cent more land than under the programme approved in 1972. Nearly half of the increased

Table 91. Colombia: output and area under cultivation, by main products

	Thousands of tons		*Thousands of hectares*	
	1972	*1973*	*1972*	*1973*
Rice (paddy)	998	1,151	258	291
Barley	98	82	64	52
Maize	806	739	625	580
Sorghum	210	280	84	117
Wheat	69	72	61	57
Potatoes	782	870	85	94
Yucca	1,280	1,720	160	165
Bananas	282	301	19	16
Coffee	460[a]	492[a]	1,070[b]	1,070[b]
Cocoa	20	22	59	62
Ordinary beans	43	48	69	69
Soya beans	105	97	54	54
Raw cotton	412	332	242	251
Sesame	28	19	43	37
Cane for refined sugar	814	800	98	104
Cane for panela (coarse brown sugar)	900	840	300	300

SOURCE: Ministry of Agriculture, Colombia. Figures with one decimal place were adjusted to the nearest whole number.

[a] Estimate.

[b] The 1970 figure has been maintained for lack of data and because the crop concerned is a perennial with slow variation of the area sown.

funds went to finance rice planting, while 38 per cent was divided between maize, sorghum and soya beans.

Agrarian reform during 1973 involved the expropriation of 22,100 hectares and the acquisition of 18,155 hectares through direct negotiations. Latterly, the Instituto Colombiano de Reforma Agrarica (INCORA) has been encouraging the creation of community enterprises instead of division into individual holdings.

Agricultural prospects for 1974 are good. The Agricultural Planning Office expects a substantial increase in production, thanks to the increase in the area cultivated and to better yields. The area cultivated is expected to reach 2,647,000 hectares, 6 per cent up on 1973. Crop farming expansion will take place mainly in the first half of 1974 and will cover 1,752,000 hectares (an area 9 per cent greater than in the first half of 1973), and this will be reflected in the second harvest of the year.

Of the area cultivated, 55 per cent will be given over to food crops for direct consumption, 19 per cent to industrial crops and the rest to raw materials and export commodities.

(b) *Mining*

The value added in mining declined for the third year running, after having achieved an annual growth rate of only 1.5 per cent during the five-year period 1965-1970. In 1973 the decline was 4.2 per cent, which basically reflected the downward trend of petroleum production, only partly offset by the evolution of other mining products such as gold, output of which increased approximately 13 per cent in 1973.

The production of petroleum dropped by 6.8 per cent during the year under review, and since domestic demand for liquid fuels increases by 8.5 per cent annually, it was necessary to cut down sharply on exports.

The constantly decreasing output of the Putumayo oilfields frustrated hopes that they would offset the decline in the old Magdalena oilfields and was a factor in the drop in crude oil exports from 31 to 15 million barrels between 1970 and 1972, and probably to only 10 million in 1973.

(c) *Manufacturing*

The growth rate of the manufacturing product has speeded up in recent years. Thus, during the five-year period 1965-1970 it increased at a rate of 6.4 per cent annually, and this rate rose to 7.9 per cent in 1971 and 10 per cent in 1972. In 1973, according to preliminary estimates, manufacturing output would appear to have increased by an amount (9.8 per cent) similar to that of the previous year.

The dynamism of the manufacturing sector has coincided with the rapid increase in exports of manufactures in recent years, especially in 1973. According to an industrial survey[44] made in the first half of 1973, an estimated 8.7 per cent of manufacturing output was exported.

During the year industry had ample imported inputs at its disposal, thanks to the greater availability of foreign currency, but their prices were high.

Although the indicators mentioned show a notable increase in manufacturing output in 1973, the results for some individual commodities were less satisfactory. Thus, for example, up to November steel production showed a decline of 5.5 per cent compared with the same period in 1972; up to October the amount of petroleum processed in the refineries was no greater than in 1972, and items such as cement, caustic soda, and the amount of electricity generated for industrial use showed increases of between 5 and 7 per cent.

(d) *Construction*

In 1973, construction showed a rapid recovery and its growth rate increased by 1.8 per cent over 1972 to 11 per cent. Up to September, data for the six largest cities in the country indicate that the area constructed had increased by 24 per cent. For the country as a whole, it is estimated that in the course of the year 5.7 million square metres were constructed: an increase of slightly more than 30 per cent over 1972.

It is also estimated that around 12,000 million pesos were invested in building during the year and that building credits were granted for a total of 8,500 million pesos, of which 3,300 million came from loans granted by the Savings and Housing Corporations. The operations of these Corporations expanded considerably during 1973, and by the end of the year they had approved further loans for another 7,000 million pesos. The savings attracted, which stood at 187.8 million pesos in December 1972, amounted by September 1973 to 3,478 millions, thanks to the interest aroused by the system of constant value savings (UPAC).

(e) *Other sectors*

In basic services, a marked difference is to be observed between electricity, gas and water services, whose growth rate had been following a continuous upward trend (13.9 per cent in 1973), and transport and communications services, which grew in the five-year period 1965-1970 and in the last few years (except 1972) at the rate of approximately 6.5 per cent annually.

As regards the other services, the only increase

[44] FEDESARROLLO, *Encuesta industrial*, 1973.

of note in 1973 was in commerce and financial services (9.6 per cent).

4. The reduction of the fiscal deficit in 1973

The tendency of the fiscal deficit to grow at a rapid rate (in 1972 it was 2.2 times larger than in the previous year) was checked in 1973, when the deficit was reduced by 35 per cent (see table 92).

This favourable turn in the financial situation of the Treasury was caused by an increase in current income (24.7 per cent) which was greater than that in expenditure (13.6 per cent). Payments of profits and interest on investments, in particular, only increased by 1.2 per cent, despite the devaluation of the Colombian currency which is implicit in these increases.

Current expenditure increased by 22.8 per

Table 92. Colombia: national government income and expenditure
(Millions of pesos)

	1972	*1973*	*Percentage variation*
Current income	*16,093*	*20,075*	*24.7*
Direct taxes	8,022	9,188	14.5
Income tax and complementary taxes	7,624	3,766	15.0
Cattle tax	159	137	−9.3
Inheritance	216	257	19.0
10% land surcharge	23	28	21.7
Indirect taxes	8,388	11,387	35.8
Customs and surcharges	2,748	3,603	31.1
3% CIF	338	446	31.9
Exchange profit tax	940	2,000	112.8
Gasoline	1,353	1,455	7.5
Sales	1,933	2,460	27.3
Stamp tax	1,040	1,375	32.2
Other	36	48	33.3
Non-tax income	806	956	18.6
Less CAT[a] and CDT[b]	−1,123	−1,456	29.7
Current expenditure	*11,397*	*13,992*	*22.8*
Operating expenditure	10,360	12,519	20.8
Interest on the debt	1,037	1,473	42.0
Internal	631	690	9.4
External	406	783	92.9
Current account surplus	*4,696*	*6,083*	*29.5*
Investments	*8,362*	*8,458*	*1.2*
Financing of deficit	*3,665*	*2,375*	*−35.2*
External credit	4,102	3,974	−3.1
AID: Counterpart funds	517	216	−58.2
AID: Sectoral funds	1,194	1,586	32.8
IBRD: Highways	261	124	−53.5
IBRD: Programme	113	230	103.5
IBRD: Education	–	20	–
IDB: Highways	242	149	−38.4
Resources under Law No. 3/72	1,775	1,549	−12.3
Resources under Decree 294	–	100	–
Domestic credit	1,428	1,796	25.8
Development bonds	1,077	1,367	26.9
Bonds issued under Law No. 21/63	243	343	41.2
Constant value bonds	80	86	−3.4
Other	28	–	–
Credit from Banco de la República	800	100	−87.5
Amortization	−2,695	−2,569	−4.7
External debt	−811	−1,031	27.1
Internal debt	−1,884	−1,538	−18.4
Adjustments	+30	−926	–

SOURCE: ECLA, on the basis of data provided by the Tesorería General de la República.
[a] CAT: Tax Credit Certificates.
[b] CDT: Tourism Development Certificates.

cent—although operating expenditure only increased by 20.8 per cent—while interest on the public debt increased by 42 per cent, mainly as a result of higher interest payments on the external debt, which were nearly double those of the year before.

The largest increases in current income came from indirect taxes (35.8 per cent), mainly currency exchange profits; taxes on external transactions increased by slightly over 31 per cent. Direct taxes, however, including income tax, which is the principal among them, increased by only 15 per cent.

The fiscal deficit of around 2,380 million pesos was financed to a slightly larger extent with gross external credit (65 per cent in 1972 and 67 per cent in 1973), but in absolute terms the proportion of such credit was lower. There was a considerable drop in the proportion financed by the Banco de la República, which fell from 12.6 per cent in 1972 to less than 2 per cent, but the proportion financed through development bonds and bonds issued under Decree 21/63 increased its relative contribution from 21 to 29 per cent.

Finally, the amortization of the public debt absorbed a very high proportion of the loan income in 1973: 26 per cent of the external credit and 81 per cent of the domestic credit.

COSTA RICA

1. Recent economic trends

Costa Rica's rate of economic expansion declined in 1973, when it registered an increase of only 3.9 per cent which, while slightly higher than that of the population, was lower than the 5 per cent average annual growth of the gross domestic product recorded for the previous three years (see table 93 and figure XXIX).

Inflation was aggravated by a set of domestic and external factors and had a decisive effect on the trend of the main macroeconomic variables. The wholesale price index[45] showed an average increase of almost 14 per cent during the first ten months of the year, compared with one of 4.1 per cent during the same period in 1972.

The domestic factors included the lack of flexibility of supply, especially of agricultural products for domestic consumption, combined with the incentive which higher world prices signified for the export of traditional products. In the first place, there was a further decline in the production of basic grains which had already dropped drastically owing to the drought, since it was more profitable to grow other crops or engage in other agricultural activities geared to external markets; secondly, much of the world-wide increase in prices was passed on to the domestic consumer; the liquidity of the economy was maintained through the increased monetary supply deriving from the external sector, which tended to encourage excessive demand and, in view of the prevailing economic situation, to provoke the above-mentioned increase in prices, as well as having less marked repercussions on imports and only a very slight positive effect in the form of larger production of goods and services.

The external factors that contributed towards inflation include a small increase in imports—almost 3 per cent in 1973 compared with 1.1 per cent in 1972—and the steady increase in their cost (15 per cent). The expansion of imports was partly due to the inadequate domestic production of basic grains, the need to make advance purchases of raw materials owing to general world shortages, the continued high investment of the public sector and the relative increase in private investment, and probable speculation in the form of advance purchases of essential goods in anticipation of a possible unification of exchange rates at a higher level than before.

The growth in global expenditure on consumption dropped from 3.5 per cent in 1972 to 3 per cent in 1973. A similar trend was apparent in general government and private sector expenditure. Taking into account the increase in the population, per capita consumption thus remained at virtually the same level as in 1972.

The expectation of higher profits as a result of substantial price rises, exchange incentives and credit facilities caused private capital expenditure to rise by 5 per cent compared with 4 per cent in 1972, most of the expenditure being channelled into agricultural, industrial and commercial activities (see table 93). The Government continued its efforts to widen and strengthen the basis of the country's economic development in 1973, by encouraging capital formation, which increased its rate of growth from 5 per cent in 1972 to 7 per cent in 1973, when it amounted to 343 million colones at 1960 prices. A major factor in this increase was the work carried out by public sector agencies, such as the Costa Rican Electricity Institute with its telecommunications and hydroelectric energy projects (Cachí and Tapantí) and electrical energy programmes in the rural area

[45] The available consumer price index only goes up to December 1970.

Table 93. Cost Rica: total supply and demand

	Millions of colones at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Total supply	*7,344.2*	*7,711.8*	*8,012.0*	*8,301.6*	*132.6*	*138.1*	*137.3*	*7.9*	*5.0*	*3.9*	*3.6*
Gross domestic product	5,318.9	5,531.7	5,808.3	6,034.8	100.0	100.0	100.0	6.9	4.0	5.0	3.9
Imports[b]	2,025.3	2,180.1	2,203.7	2,266.8	32.6	38.1	37.3	10.4	7.6	1.1	2.9
Total demand	*7,344.2*	*7,711.8*	*8,012.0*	*8,301.6*	*132.6*	*138.1*	*137.3*	*7.9*	*5.0*	*3.9*	*3.6*
Exports[b]	1,394.6	1,493.1	1,743.4	1,810.2	19.4	26.2	30.0	13.7	7.1	16.8	3.8
Gross domestic investment	1,386.6	1,407.1	1,287.4	1,362.4	27.5	26.1	22.4	5.8	1.5	−8.5	5.8
Gross fixed investment	1,132.4	1,220.6	1,272.4	1,342.4	21.9	21.3	22.1	6.4	7.8	4.2	5.5
Public	251.9	304.9	320.1	342.5	5.8	4.7	5.6	2.8	21.0	5.0	7.0
Private	880.5	915.7	952.3	999.9	16.1	16.6	16.5	7.6	4.0	4.0	5.0
Total consumption	4,563.0	4,811.6	4,981.2	5,129.0	85.6	85.8	85.0	7.0	5.4	3.5	3.0
General government	718.7	777.6	828.1	877.8	13.1	13.5	14.5	7.6	8.2	6.5	6.0
Private	3,844.3	4,034.0	4,153.1	4,251.2	72.5	72.3	70.4	6.9	4.9	3.0	2.4

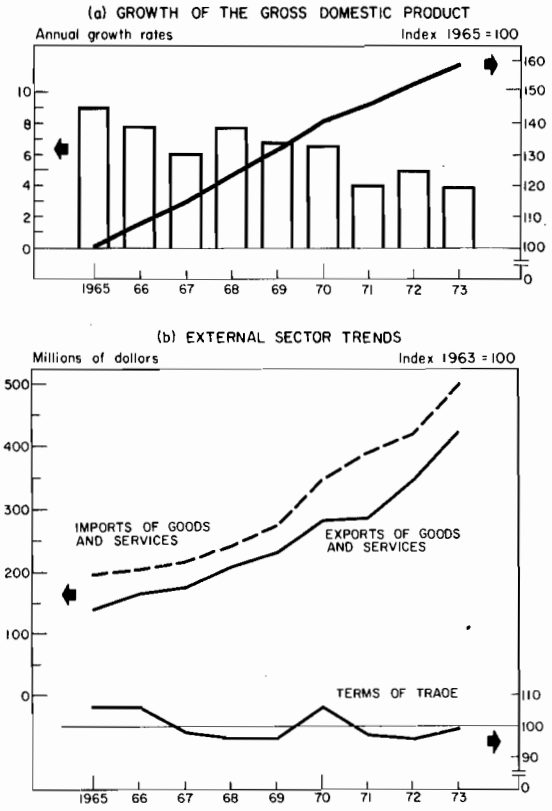
SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Central Bank of Costa Rica; 1973: ECLA estimates based on preliminary data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Figure XXIX. Costa Rica
Natural scale



(Guanacaste and Limón), the National Water Supply and Sewage Disposal Service (SNAA), which carried out sanitary improvements under a plan covering five cities, and such other institutions as the Costa Rican Social Security Fund.

The agricultural product rose by 3.5 per cent thanks to the exportable production, since production for domestic consumption declined in volume owing to the relatively less favourable prices (see table 94).

The industrial sector recovered somewhat with an expansion of 7 per cent compared with 1972's 5.5 per cent, thanks to credit facilities and to greater competitiveness as a result of the new exchange rate that came into force at the end of 1972.

The growth of the manufacturing sector was mainly attributable to the improvement of its trade relations with Central America. In the first place, exports to the sub-region were encouraged by the higher rate of exchange; in particular, exports of manufactures, most of which went to Central American countries, expanded by almost 33 per cent. At the same time, imports from the sub-region were cut back in view of their higher cost, and this led to an expansion in the demand for domestic products. In some branches of industry, installed capacity was more fully employed than in the past[46] and bottlenecks occurred in the supply of certain products, not only as a result of increased demand—both externally and domestically—but also because of the relatively low level of industrial investment in the past. The lack of flexibility in the supply of industrial goods further aggravated inflationary pressures.

Given the situation described above, the prospects for industrial investment plans aimed at expansion, complementarity, integration of processes and creation of new plants are more promising, especially as regards the projects connected with glass, cement, textiles, leather and shrimps which are to be implemented from 1974 onwards.

An important step forward was the formulation of the national medium-term development plan for 1974-1978, which is designed to overcome obstacles and lead the country into a new phase of economic and social development. Specifically, it sets out to alleviate unemployment problems, strengthen the action of the State, reduce existing social disparities and accelerate the economic transformation of the country. Just as important as improving the planning machinery to tackle the economy's medium-term problems is the study of the short-term situation with a view to defining measures capable of reducing inflation—a fairly new phenomenon in the country.

2. The external sector and the balance of payments

In view of the renewed upsurge in imports, it was essentially the increase in the value of exports of goods and services that prevented the deficit on current account from rising over the 100 million dollars level (see table 95). On the capital account side, the net inflows easily exceeded the current account deficit and almost completely satisfied the accumulated demand for foreign currency, net reserves of which actually rose by 5.7 million dollars.

In contrast with 1972, the increase in the value of exports of goods in 1973 (24.4 per cent) was mainly due to the higher world prices for traditional agricultural products, since the increase in the volume exported was only 3.7 per cent. In addition, towards the end of 1972 the adjustments in Costa Rica's rates of exchange with the other countries of the sub-region led to a substantial expansion of sales to the Central American Com-

[46] According to the periodic industrial survey carried out by the Central Bank, the percentage of enterprises with idle capacity has been gradually declining since 1971.

Table 94. Costa Rica: gross domestic product at factor cost, by sector of economic activity

	Millions of colones at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Agriculture	1,078.2	1,126.7	1,157.1	1,197.5	24.9	22.8	22.0	5.0	4.5	2.7	3.5
Mining	b	b	b	b	b	b	b	b	b	b	b
Manufacturing[b]	931.0	986.9	1,041.2	1,114.1	17.5	19.7	20.5	9.5	6.0	5.5	7.0
Construction	228.8	247.1	264.4	...	5.4	4.8	...	4.8	8.0	7.0	...
Subtotal goods	*2,238.0*	*2,360.7*	*2,462.7*	*2,584.5*	*47.8*	*47.3*	*47.7*	*6.7*	*5.5*	*4.3*	*4.9*
Electricity, gas and water	86.9	95.6	106.0	...	1.6	1.8	...	9.8	10.0	11.0	...
Transport and communications	216.6	226.6	240.2	...	4.4	4.6	...	7.6	4.6	6.0	...
Subtotal basic services	*303.5*	*322.2*	*346.3*	...	*6.1*	*6.4*	...	*8.2*	*6.2*	*7.5*	...
Commerce and finance	784.1	825.3	876.7	...	15.1	16.1	...	8.9	5.3	6.2	...
Government	541.5	571.3	608.4	...	11.0	11.5	...	7.8	5.5	6.5	...
Ownership of dwellings	367.1	377.4	388.7	...	9.3	7.7	...	3.2	2.8	3.0	...
Miscellaneous services	494.6	504.5	524.7	...	10.7	10.5	...	6.4	2.0	4.0	...
Subtotal other services	*2,187.3*	*2,278.5*	*2,398.5*	...	*46.1*	*46.3*	...	*7.0*	*4.2*	*5.3*	...
Subtotal services	*2,490.8*	*2,600.7*	*2,744.8*	*2,832.7*	*52.2*	*52.7*	*52.3*	*7.2*	*4.4*	*5.5*	*3.2*
Total	*4,735.0*	*4,924.4*	*5,175.4*	*5,377.2*	*100.0*	*100.0*	*100.0*	*6.9*	*4.0*	*5.0*	*3.9*

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Central Bank of Costa Rica; 1973: ECLA estimates based on preliminary data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Mines and quarries included under manufacturing.

Table 95. Costa Rica: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	280.1	283.8	344.5	424.1
Goods FOB	231.0	224.6	278.9	347.0
Services	49.1	59.2	65.6	77.1
Transport	14.5	20.6	23.3	29.0
Travel	22.1	24.2	27.4	31.6
Imports of goods and services	346.5	390.7	419.8	497.9
Goods FOB	286.8	316.3	337.5	398.0
Services	59.7	74.4	82.3	99.9
Transport	35.9	44.3	48.0	60.0
Travel	12.7	17.0	19.3	22.6
Net external investment income	−13.6	−14.6	−22.9	−29.7
Profits	−3.8	−3.4	−10.4	−14.5
Interest	−9.8	−11.2	−12.5	−15.2
Net private transfer payments	3.4	3.5	4.3	4.2
Balance on current account	−76.6	−118.0	−93.9	−99.3
Capital account				
Net external financing ($a + b + c + d + e$)	76.6	118.0	93.9	99.3
(a) Net external non-compensatory capital	79.1	128.0	67.9	
Direct investment	26.4	22.0	21.9	
Long- and medium-term loans	42.2	68.4	85.1	
Amortization payments	−19.2	−30.6	−51.6	103.8
Short-term liabilities	27.2	64.3	8.6	
Official transfer payments	2.5	3.9	3.9	
(b) Domestic non-compensatory capital or assets	−5.9	−19.8	−9.0	
(c) Errors and omissions	−9.5	20.3	28.2	
(d) Allocation of SDRs	4.2	3.4	3.7	–
(e) Net compensatory financing (increase −)	8.7	−13.9	3.1	−4.5
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.4	3.8	17.1	–
Amortization payments	−4.2	−3.3	−3.1	−5.7
Movements of foreign exchange reserves (increase −)	15.7	−20.2	−6.7	1.2
Movements of gold reserves (increase −)	−4.0	5.7	–	–
SDRs (increase −)	−0.2	0.1	−4.2	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

mon Market, which rose by 30 per cent compared with 9 per cent in 1972.

Thanks to the larger volume exported, banana exports rose by 8.5 per cent. Although this rate of increase was less than in 1972, they nevertheless amounted to almost 90 million dollars in value.

Sales of coffee also maintained a rapid upward trend (28 per cent), since higher world prices easily compensated for the 10 per cent decline in the volume exported caused by the decline in the 1972-1973 harvest to 1.7 million quintals compared with 1.9 million in the previous crop year.

The value of exports of meat continued to rise rapidly (27 per cent) and attained a value of almost 36 million dollars, thanks largely to favourable world prices and a slight increase in the volume exported.

Of the most important traditional exports, sugar registered the largest increase (60 per cent), reaching a value of 21 million dollars as a result both of the larger volume sold (up by 46 per cent) and the steady improvement in world prices.

Cocoa sales remained at 3.3 million dollars (similar to 1972), but the major factor in 1973 was the increase in external prices, since there was a substantial drop in the volume exported.

According to preliminary data, exports to the Central American Common Market rose by about 24 per cent from 50 million dollars in 1972 to about 62 million in 1973, mainly as a result of the

introduction of a more favourable exchange rate for sales to the sub-region. Imports from Central American countries, on the other hand, would seem to have declined in value from about 79 million dollars in 1972 to 72 million in 1973, also because of the change in exchange rates. Consequently, the trade deficit with the sub-region was reduced by almost 20 million dollars in 1973.

The revival of exports to the sub-region stems partly from the larger sales of the manufacturing sector, for data on exports of industrial products—most of which go to the Central American sub-region—indicate an increase of 33 per cent during the first nine months of the year, compared with 12 per cent in 1972.

The rise in the value of imports in 1973 was greater than in the year before mainly on account of the considerable increase in the price of the goods purchased.

With regard to the capital account, the inflow of private (mainly short-term) capital was double that of the year before, while the inflow of direct investment and long-term credit was similar to that recorded in 1972 and there was a slight rise in external resources received by the public sector. The larger inflow of short-term capital was mainly attributable to the return of capital[47] and to credits for importing machinery.

Although the total volume of net official capital did not appear to be very different from that recorded in 1972, there were differences in the various components. Thus, while external funds for the central government declined, there was a substantial increase in the inflow of funds to the rest of the public sector, especially those earmarked for the electrification programmes carried out by the Costa Rican Electricity Institute.

3. Public finance

Although the increase in current income was much greater than in previous years (34 per cent compared with 14.5 per cent in 1972 and 2 per cent in 1971), there was also marked expansion in total expenditure (about 30 per cent), and this led to a larger deficit in the accounts of the central government (468 million colones as against 393 million in 1972).

The increase in total expenditure was due mainly to higher wages. Interest payments on the public debt also rose considerably as a result of the increase in domestic and external financing that has been necessary in recent years to cover the fiscal deficit.

As regards capital expenditure, amortization and transfer payments went up appreciably, but real investment by the central government was lower than in 1972, principally because of the cut in expenditure on the construction of roads and highways (from 164 million to 124 million colones).

Both the tax reform of 1972 and the increase in prices in 1973 contributed to the rapid growth of current income, which rose from 768 million colones in the first ten months of 1972 to 1,031 million colones in the same period of 1973, i.e., an increase of 34 per cent.

Revenue from both direct and indirect taxes rose by approximately 33 per cent, while non-tax revenue rose by 23 per cent to 92 million colones.

Among the direct taxes, the most significant were income tax, which rose by 31 per cent to 158 million colones, and taxes on the profits of the banana companies. Although the latter taxes were well below 10 million colones for the first ten months of the year, they brought in more than twice as much as the year before.

As far as indirect taxation is concerned, there was a significant increase in revenue from tax on consumption and sales, which rose from 340 million to 451 million colones, and from taxes on foreign trade (74 million colones more than in 1972).

The deficit of the central government in 1973 was covered mainly by domestic credits, in view of the prevailing state of liquidity of the economy. Revenue from the sale of bonds in the first ten months of the year was up by 140 per cent, from 114 million to 274 million colones, whereas inflows of foreign loans dropped from 102 million colones in 1972 to 75 million in 1973. The external debt in any case rose from 570 million to 649 million colones, while by September the domestic debt had risen by slightly over 29 per cent from 1,801 million to 2,327 million colones.

4. Money and credit

For a variety of reasons, there was rapid expansion in the money in circulation in 1973. Figures for January to October indicate an increase of 27 per cent in the money supply (1,813 million colones against 1,425 million the year before), compared with 16 per cent in 1972 (see table 96).

However, domestic credit rose by only 9 per cent between January and October, compared with the 14.4 per cent rise recorded for the same period in 1972, and non-monetary deposits went

[47] According to available indicators, deposits by private individuals in United States banks dropped considerably; there was a drop of 20 million dollars by April 1973, and it is supposed that this money is returning to the country.

Table 96. Costa Rica: financial situation
(Millions of colones)

	End-of-year balance			October balance	
	1970	*1971*	*1972*[a]	*1972*	*1973*[b]
Domestic credit	*1,916.1*	*2,477.2*	*2,834.9*	*2,659.2*	*2,921.0*
Net government credits	231.2	291.7	385.6	340.7	330.1
Monetary sector	227.9	286.2	379.0	335.2	321.2
Other bank finance institutions	3.3	5.5	6.6	5.5	8.9
Credit to public bodies	29.2	73.5	83.3	84.6	121.1
Credit to the private sector	1,655.7	2,112.0	2,366.0	2,233.9	2,469.8
Monetary sector	1,195.6	1,569.9	1,785.3	1,708.7	1,904.6
Other bank finance institutions	460.1	542.1	580.7	525.2	565.2
Money	*1,052.5*	*1,339.6*	*1,548.3*	*1,424.6*	*1,812.5*
Quasi-money	*539.8*	*896.6*	*1,070.0*	*1,105.3*	*1,175.4*
Monetary sector	394.9	749.9	915.1	926.1	991.6
Other bank finance institutions	144.9	150.3	154.9	179.2	183.8
Private sector liabilities	11.3	17.1	19.3	14.5	21.7
Bonds in circulation	133.6	133.2	135.6	164.7	162.1
Long-term external liabilities	*284.4*	*288.7*	*331.3*	*279.4*	*345.7*
Monetary sector	170.7	177.0	220.7	198.8	266.6
Other bank finance institutions	113.7	111.7	110.6	80.6	79.1

SOURCE: Central Bank of Costa Rica.
[a] Preliminary figures.
[b] The figures for October are not strictly comparable with those for the previous year since they do not include the National Institute for Co-operative Development.

up by a mere 6.3 per cent—far less than in either of the two previous years (see table 96).

The modest increase in total domestic credit derived from the improvement in the financial situation of the central government, which in turn was largely due to the aforementioned increase in current income which enabled the Government to augment its deposits and reduce its credit requirements so as to cut back its net balance with the banking system (from 341 million colones in 1972 to 330 million in 1973). As in previous years, the programmes of other bodies received credit support, and their balances in October totalled 121.1 million colones, 43 per cent higher than at the same time the year before.

Private sector credits continued to be channelled into directly productive activities, especially stock-breeding and industry,[48] while there was a continued decline in the share of resources for crop farming—mainly because of the reduction in funds for coffee-growing, services, personal credits, etc.

In October 1973, the level of funds set aside for stock-breeding showed an increase of 29 per cent compared with the same period in 1972, thus maintaining the vigorous growth of previous years. Most of the new credits made available by the commercial departments of the banks went into investments and, to a lesser degree, into the financing of operational activities. Thus, for the first nine months of the year new credits for investment purposes increased from 109 million colones in 1972 to 171 million in 1973, while those for operational activities increased from 92 million to 148 million.

The national banking system placed 17 per cent more credit at the disposal of the industrial sector than in 1972, thereby raising the sector's October 1973 balance to 515 million colones. The industrial sector thus continued to increase its share of total private sector credits, accounting for almost 21 per cent in 1973 compared with 18 per cent in 1971.

A striking feature of the new bank credits for manufacturing and extractive industry is the growing support given to investment activities—credit for investment amounted to 76.6 million colones between January and September 1973, compared with a mere 38.8 million in 1970—and the volume of funds made available for facilitating the normal operation of enterprises, which rose by 40 per cent

[48] The proportion of loans that the national banks granted the private sector rose from 20 per cent in 1967 to 32 per cent in 1973 for stock-breeding, and from 18 per cent to 21 per cent for industry.

to 387 million colones in the period indicated. These figures include credits totalling 30 million colones granted in order to resolve problems arising from the shortage of raw materials and from the harder terms demanded for suppliers' credits.

The improvement in the situation of the industrial sector was reflected in the substantial increase of 23 per cent (up to September 1973) in the financing of industrial sales (especially wood, foodstuffs, textiles, metal goods and other products including those produced by the plastics industries).

In line with the policy of making better use of resources, there was a reduction in loans to the other sectors (especially loans for services, commerce, other unclassified uses and investment). Loans to the housing sector, however, increased by 14 per cent.

CHILE

1. Recent economic trends

The changes in the world economic situation also substantially influenced the evolution of the Chilean economy in 1973, yet there is no doubt that this is one of the few countries where internal events were the decisive factor. Thus, as everyone knows, during the course of the past year transcendental political and social developments took place which indubitably affected the operation of the country's economy, and moreover from September onwards the general circumstances and the orientation of economic policy underwent a significant change, as will be seen later in this study. The examination of Chile's economic evolution is therefore subject to more limitations and qualifications than is usual in this kind of annual review.

The above-mentioned developments had a vigorous impact on both the economic and social aspects of Chilean life, and in practice a clear distinction can be drawn between the nature of the evolution which took place in the first eight or nine months of the year and that of the last three months. So much so that ideally the two periods should be analysed separately, and an attempt has been made to do this wherever separate data have been available. Completely separate analyses are beyond the possibilities of the present survey, however, and in several cases the data available make such a division impossible. Accordingly, in the major part of the report, data relating to the whole year have been used and must be considered with caution.

During 1973, the gross domestic product dropped by 4.1 per cent, this over-all trend being accounted for mainly by reductions in the activity of certain sectors producing goods and basic services (agriculture, manufacturing, construction, and transport and communications). As regards the evolution of total supply and demand, imports and exports increased in terms of constant values, but total consumption–particularly gross fixed investment–declined by 14.3 per cent.

In the external sector, exports increased substantially in dollars at current prices, while imports also rose, though to a lesser extent. Thus, the current account deficit was reduced from 639 million dollars in 1972 to 408 million in 1973. It was covered by the net use of non-compensatory capital and, to a larger extent, by increasing the indebtedness of the monetary authorities. The increase in exports of goods was mainly attributable to the 70 per cent rise in the world price of copper, while the trend of imports of goods may be ascribed in the main to the rise in the unit value of imports (estimated at over 19 per cent) and the increased purchases of foodstuffs and raw materials for the food industry.

Inflation increased rapidly during the year and the rate of price increases between December 1972 and December 1973 stood at over 500 per cent, according to the consumer price index; other indexes point to a rate of inflation above that figure. The first part of the year was characterized, in general, by the difference between official prices and the prices actually paid by an indeterminate proportion of consumers–a situation which was often described as a black market. This sitution changed radically after September, when significant price adjustments were made which in practice enabled direct price controls to be largely eliminated or reduced. The acceleration of inflation was accompanied by a substantial deficit in the financing of the public sector and in the monetary sector. This trend adversely affected wages and salaries, to an extent which was hard to determine but was undoubtedly serious.

2. The external sector

In 1973, the balance of payments showed a current account deficit of 408 million dollars: while less than the 639 million dollars recorded in 1972, this is four times the average figure for the five-year period 1966-1970. The current value of exports of goods and services rose by 54.3 per cent, while that of imports grew by 23.5 per cent. Net payments of profits and interest on foreign

capital declined by 36.9 per cent (see table 97 and figure XXX).

The increase in exports of goods was 60 per cent in dollars at current prices, but since the index of the unit value of exports rose by 58 per cent, it may be deduced that the volume of exports grew by only slightly over 1 per cent. The key factor in the evolution of exports was the price of copper, which rose, for the large-scale mining sector, from an average of 47.6 U.S. cents per pound of electrolytic copper in 1972 to 80.8 U.S. cents on average in 1973, i.e., an increase of 70 per cent. Chile's total copper exports (produced by the large-, medium- and small-scale sectors of the industry), rose from 647.4 million dollars in 1972 to 1,125 million in 1973, and their share in total exports of goods increased from 75.7 per cent to 82.2 per cent.

For exports of goods other than copper the increase was 17.5 per cent, due entirely to the rise in the average price of these exports. In terms of constant prices, there was a slight drop in industrial exports, while mining products (excluding copper), agricultural commodities and fisheries products showed a slight increase.

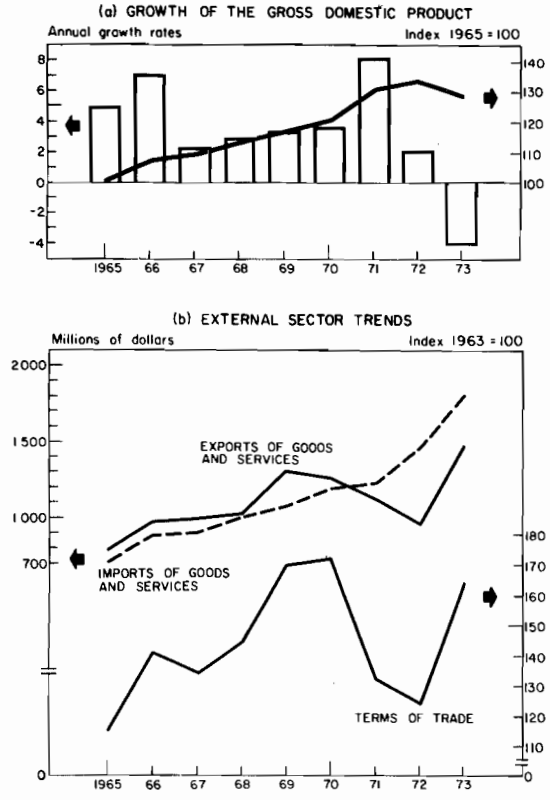
From the above trend it will be seen that during 1973 a traditional feature of the Chilean economy was further accentuated: namely, the large share of a single commodity in total exports–the coefficient for Latin America averages 50 per cent, compared with around 80 per cent for Chile–and the slow development of non-traditional exports.

Table 97. Chile: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	1,267.0	1,132.0	965.2	1,489.1
Goods FOB	1,124.0	984.0	855.2	1,369.1
Services	143.0	148.0	110.0	120.0
Transport	70.0	75.0	70.0	85.0
Travel	50.0	50.0	25.0	20.0
Imports of goods and services	1,202.0	1,231.0	1,463.0	1,807.8
Goods FOB	928.0	987.0	1,203.9	1,503.1
Services	274.0	244.0	259.1	304.7
Transport	133.0	142.0	174.1	216.7
Travel	86.0	46.0	35.0	33.0
Net external investment income	−179.0	−137.0	−141.0	−89.0
Profits	−126.0	−72.0	−11.0	–
Interest	−53.0	−65.0	−130.0	−89.0
Net private transfer payments	–	–	–	–
Balance on current account	−114.0	−236.0	−638.8	−407.7
Capital account				
Net external financing ($a + b + c + d + e$)	114.0	236.0	638.8	407.7
(*a*) Net external non-compensatory capital	235.0	−31.0	301.7	154.6
Direct investment	19.0	−42.0	–	–
Long- and medium-term loans	380.0	245.0	318.8	262.5
Amortization payments	−140.0	−192.0	−23.1	−111.9
Short-term liabilities	−24.0	−42.0	–	–
Official transfer payments	–	–	6.0	4.0
(*b*) Domestic non-compensatory capital or assets	−7.0	25.0	–	–
(*c*) Errors and omissions	−46.0	−22.0	−0.1	−0.2
(*d*) Allocation of SDRs	21.0	17.0	18.5	–
(*e*) Net compensatory financing (increase –)	−89.0	247.0	318.7	253.3
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	5.0	102.0	222.4	232.1
Amortization payments	−73.0	−40.0	−1.6	–
Movements of foreign exchange reserves (increase –)	8.0	202.0	58.5	19.1
Movements of gold reserves (increase –)	−7.0	−1.0	–	–
SDRs (increase –)	−22.0	−16.0	39.4	2.1

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

Figure XXX. Chile
Natural scale



Domestic production problems and a rigid foreign exchange policy up to the beginning of the last quarter were largely responsible for this.

The increase in the cost of imports of goods was mainly due to the rise of around 20 per cent in the index of the unit value of imports: the actual volume of imports is estimated to have increased by only slightly over 3 per cent. Among the items imported, the outstanding feature is the increase of more than 60 per cent, at current prices, in purchases of foodstuffs and raw materials for the food industry, which account for 70 per cent of the total increase in the country's imports. This trend is partly attributable to the decline in Chile's agricultural production and the efforts to offset it by larger substitutive imports, and partly to the sharp increase in the world prices of several primary commodities in 1973.

Imports of other items showed relative increases that were smaller than the rise in their unit values—a situation consistent with the contraction in domestic economic activity. The increases recorded for non-food raw materials, fuels and lubricants, consumer goods and spare parts were between 5 and 16 per cent, while imports of capital goods in dollars at current prices fell by 2.5 per cent.

As regards exports and imports of services, the trade deficit increased significantly. While exports rose by 9 per cent, imports increased by 18 per cent, so that the deficit on this account went up from 149 million dollars in 1972 to 185 million in 1973. Freight rates and insurance played a decisive part in this trend.

The reason for the drop in net payments of profits and interest on foreign capital was firstly that no profits were remitted abroad in 1973, and secondly that the interest paid on the external debt decreased by 52 million dollars on account of the postponement of interest payments as a result of the failure to reach any agreement on the matter in the renegotiation of the debt with the Paris Club in the course of the year.

There is little detailed information available on the capital account of the balance of payments. It is estimated that the surplus of 408 million dollars in 1973 was the result of a net inflow of non-compensatory capital amounting to 155 million dollars and the net use of compensatory financing to the value of 253 million dollars (see table 97). As regards non-compensatory capital, inflows of 267 million dollars were recorded and amortization payments of 112 million. The latter figure, although higher than that registered in 1972, would have been still higher had it not been for the postponement of the payments mentioned above (the amortization payments which fell due during the year amounted to about 360 million dollars).

The balance-of-payments trend was responsible for a further deterioration in Chile's international reserves. Thus, the international reserves position at the end of 1973 was estimated to be negative by approximately 600 million dollars.

3. Evolution of prices, wages and other financial variables

(a) *Prices*

During 1973 the Chilean economy underwent sharply accentuated inflation, which had already reached high levels in 1972. The consumer price index rose by 508.1 per cent between December 1972 and December 1973, or by 352.8 per cent if the averages for the two years are compared (see table 98).

At the beginning of the second half of the year, inflation as measured by the consumer price index had reached a rate of around 300 per cent annually, in spite of the adoption of a set of direct price control measures and the fact that the price statistics were no longer reliable indicators of what was actually happening, since they related to the

Table 98. Chile: consumer and wholesale price trends

	Consumer price index				*Wholesale price index*			*Adjusted consumer price index calculated by CIAP*		
	Average index for year, December 1969 = 100	*Variation between averages* (percentages)	*Variation December to December* (percentages)	*Average index for year, 1968 = 100*	*Average index for year, 1968 = 100*	*Variation between averages* (percentages)	*Variation December to December* (percentages)	*Average index for year, December 1969 = 100*	*Variation between averages* (percentages)	*Variation December to December* (percentages)
1968	71.8	26.6	27.9	100.0	100.0	30.5	33.1	–	–	–
1969	93.8	30.7	29.3	130.6	136.5	36.5	39.4	–	–	–
1970	124.4	32.5	34.9	173.1	185.8	36.1	33.7	124.4	–	–
1971	149.3	20.1	22.1	207.8	219.1	17.9	21.4	149.3	20.1	22.1
1972	265.5	77.8	163.4	369.6	372.5	70.0	143.3	281.9	88.8	243.0
1973	1,202.1	352.8	508.1	1,673.5	2,277.6	511.4	1,147.1	1,904.1	575.5	681.6

SOURCES: National Statistical Institute, consumer price index (for October–December 1973, estimates of the Department of Economics of the University of Chile were used in preparing this index) and wholesale price index; and CIAP, *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Chile*, CIAP/650, 28 January 1974, table AE-1 (adjusted consumer price index).

official prices of certain goods and services, whereas black marketing was rife. In the last three months, as a result of the policy launched by the new Government aimed at radically changing the price system and lifting a large part of the existing price controls, the rate of inflation increased, according to the same index, to over 500 per cent annually.

It is interesting to note the significant differences registered in 1973 between the rate of inflation as measured by the consumer price index and the wholesale price index. Thus, the increases of 352.8 per cent and 508.1 per cent referred to above must be compared with corresponding increases of 511.4 per cent and 1,147 per cent in wholesale prices. Obviously, the two indexes are used to examine price trends at different levels of production and marketing and cover different baskets of goods, so that they may very well show different variations, particularly over short periods. Nevertheless, the difference noted is considerable and may call for more thorough examination, in which a point to be borne in mind is that between 1968 and 1972 the values recorded for the two indexes were similar to each other.

Furthermore, in order to obtain an indicator giving a more accurate reflection of price variations, the Inter-American Committee on the Alliance for Progress (CIAP) has calculated an "adjusted" index of consumer prices[49] which indicates that the rate of inflation in 1973 was 575.5 per cent on the basis of annual averages and 681.6 per cent from December to December.

In short, the high rate of inflation in Chile during 1973 and the wide disparities observed between the results of the indexes make it difficult to assess the true magnitude of the inflationary process with any real degree of accuracy. Furthermore, the estimated trends of a number of nominal variables obtained by deflation are subject to a considerable margin of error. This makes it difficult to analyse these variables or to take policy measures based on such an analysis.

While admittedly the inflationary trend in 1973 was due in some measure to the estimated average increase of around 20 per cent in the unit value of Chile's imports in terms of dollars, the main factors were of an internal nature. In the first part of the year the essential factor was excessive demand, while in the last three months it was mainly pressure from rising costs, particularly in connexion with the devaluation of the currency and the suppression of subsidies. Thus, from July 1972 to July 1973 the amount of money in the hands of the private sector increased by about 300 per cent, while the basic exchange rate for imports[50] rose by 84 per cent, whereas from July to December 1973 the amount of money increased by 110 per cent and the basic exchange rate by over 900 per cent.

(b) *Wages and salaries*

A study of the trend followed by real wages and salaries is hampered by the nature of the deflators which must be used, taking into account the disparities already noted between the different prices indexes. Moreover, no studies are available in which physical indicators have been used to measure the real consumption or expenditure of persons or family units, and which might have served to provide a more solid basis for the above analysis. Consequently, the following comments are merely indicative of possible orders of magnitude and no final conclusions are meant to be drawn from them.

The index of nominal wages and salaries calculated quarterly by the National Statistical Institute (INE) can be deflated by different price indexes in order to estimate real wages and salaries, with the result, as might be expected, that similar trends but substantially different coefficients are obtained. Thus, if in January 1970 the real wage and salary index is given the value of 100—using the consumer price index as the deflator--it will be noted that after a relative maximum of 136.6 in January 1972 wages and salaries began to fall. In July 1973, if the INE consumer price index is used as a deflator, the value was 109.9, while if the deflator is the consumer price index used in the CIAP study, the figure is 63.9.[51] The substantial difference observed is not easily explained or reconciled with the trends of other real variables, especially if average figures are used for the whole of the wage-earning population without considering the different categories in which it can be classified.

Furthermore, if consideration is given to the ensuing period, i.e., the last quarter of 1973 and the first few months of 1974, it is clear that two contradictory developments have been taking place, offsetting one another: on the one hand, the substantive changes in the level and system of prices, which have undoubtedly affected the real

[49] For this purpose, the figures in the consumer price index of the National Statistical Institute (INE) were corrected as from July 1972, using data from the price index calculated by the Economics Department of the University of Chile, which included up to September 1973 the estimated prices of goods sold on the black market (see CIAP/650, op. cit., table AE-1).

[50] Up to September 1973, this rate applied to imports of foodstuffs and most raw materials; after that date the exchange rates for imports and exports were unified, except for a special rate for copper exports and another for the brokers' market (mainly foreign travel).

[51] See CIAP/650, op. cit., table AE-1.

situation with respect to income, and on the other, the adoption of a series of measures granting pay rises and bonuses of different kinds and sizes to various groups, depending on their income level.

Obviously, the above-mentioned difficulties and the lack of data on the basis of which to evaluate the net results of these contradictory influences make it impossible even to hazard a guess as to what the actual balance-sheet is in this respect for the past few months. The view of the present Minister of Economic Affairs on this subject is given later in this study.

(c) *Monetary and public sector trends*

Between December 1972 and December 1973 the amount of money in the private sector increased from 54,000 million escudos to 236,000 million, i.e., by 337 per cent, as against 152 and 114 per cent in 1972 and 1971, respectively. The financial evolution of the fiscal sector and of the enterprises included in the area of State ownership played a decisive role in the creation of money during the past year, particularly (up to September 1973) in the case of the latter. Thus, it is calculated that the credit that had to be granted to the Treasury and to those enterprises accounts for virtually the whole increase in the amount of money (about 43 and 57 per cent, respectively).[52]

The fiscal sector deficit increased four-fold between 1972 and 1973 as the result of similar increases in current income and expenditure. In addition, since capital expenditure increased almost six-fold, the gross treasury deficit went up five times to over 133,000 million escudos in 1973; this value represents nearly 45 per cent of total fiscal expenditure (see table 99). The gross deficit was covered for the most part by direct credit in national and foreign currency extended by the Central Bank to the Treasury, since the latter did not contract, or was unable to use, internal and external loans that would have had less impact on monetary expansion.

It is difficult to determine exactly what effect the operation of enterprises in the area of State ownership had on monetary trends, particularly as after September 1973 there was a change in policy as regards public enterprises tariffs, the precise effect of which is still not known, and because after that date a good many of these enterprises

[52] See CIAP/650, op. cit., table II-16.

Table 99. Chile: the fiscal sector

	1972	*1973*	*1973 / 1972*
	(millions of escudos)		*(factor increase)*
Current income	*38,375.1*	*167,568.2*	*4.4*
Tax income	36,145.3	163,172.7	4.5
Direct taxes	10,047.6	42,960.3	4.3
Indirect taxes	26,097.7	120,212.4	4.6
Non-tax income	2,229.8	4,395.5	2.0
Current expenditure	*50,799.9*	*219,127.1*	*4.3*
Operating expenditure	20,775.9	83,633.7	4.0
Compensation of employees	17,884.7	64,340.4	3.6
Purchase of goods and services	2,890.9	19,273.3	6.7
Transfers	29,667.9	134,152.6	4.5
Social security payments and family allowances	10,079.6	30,350.1	3.0
Transfers to the public sector	16,079.1	90,695.5	5.6
Transfers to the private sector	3,509.2	13,107.0	3.7
Interest on the public debt	356.1	1,360.8	3.8
Deficit on current account	*−12,404.8*	*−51,558.9*	*4.2*
Capital expenditure	*14,150.6*	*81,912.5*	*5.8*
Fiscal investment	12,924.7	74,597.9	5.8
Direct investment	6,406.6	33,999.8	5.3
Indirect investment	6,518.1	40,598.1	6.2
Amortization payments	1,225.9	7,314.6	6.0
Gross fiscal deficit	*−26,555.4*	*−133,471.4*	*5.0*

SOURCE: Ministry of Finance, Budget Office.

were returned to the private sector. To give a general idea, however, it may be affirmed that their current account deficit was probably about 90,000 million escudos, and their gross deficit over 170,000 million escudos; the latter figure is approximately 40 per cent of the total expenditure of the public enterprises sector.[53]

To sum up, the above information shows that in view of the deficits in the Treasury and the public enterprises, the magnitudes involved and the mode of financing used, it was inevitable, on the one hand, that the whole financial system should play an active part in stepping up inflation and, on the other hand, that the measures to curb inflation, which aimed to exercise direct control only over increases in costs, prices, and wages and salaries, should have proved ineffectual.

4. Trends of the gross domestic product, its components, and employment

(a) *Total supply and demand*

The gross domestic product decreased by 4.1 per cent in 1973. This fact, combined with the growth rates recorded in 1971 and 1972, caused Chile's per capita product in 1973 to be only about the same as in 1970. Total supply declined in a smaller proportion than the gross domestic product, because imports offset part of the reduction through their increase of 3.5 per cent at constant prices. The import coefficient in relation to the product rose from 16.3 per cent in 1971 to 19.3 per cent in 1973 (see table 100 and figure XXX).

As regards the evolution of total demand, the first point to note is that gross fixed investment fell by 14.3 per cent. This drop and those observed in 1971 and 1972 caused the ratio of gross fixed investment to the product to shrink from 16.5 per cent in 1970 to 12.3 per cent in 1973, the latter figure being substantially lower than the average of over 19 per cent recorded for Latin America as a whole. Total consumption fell by 2.5 per cent, as the result of an estimated contraction of 3.2 per cent in private consumption and a 2.1 per cent rise in general government consumption.[54] In a longer-term perspective, comparing this with the composition of the product in 1965 and 1970, total consumption as a proportion of the gross domestic product is seen to have increased steadily from 81.1 per cent in 1965 to 86.3 per cent in 1970 and 95.1 per cent in 1973. Lastly, the export coefficient, although showing a slight recovery in 1973, remained below the levels reached in the years before 1972.

(b) *Major sectors of activity*

In addition to the more general political and economic factors which influenced the behaviour of the economy during the past year and which, as pointed out above, were of crucial importance, the trend of activity in the major sectors of production was also a decisive factor in the drop in the gross domestic product. Thus, the goods-producing sectors as a whole recorded a reduction of 6.4 per cent in their contribution to the gross domestic product (only mining showed a small increase), while the decline in transport and communications was 5.7 per cent (see table 101).

Agricultural production declined by 14.6 per cent, as a result of reductions of 16.1 per cent in crop farming and 13.6 per cent in stock raising, while fisheries registered much the same level in 1973 as in 1972. If a longer period is examined, it may be noted that the agricultural sector's contribution to the gross domestic product in 1973 was the same as in 1965 in absolute terms, but its share was substantially reduced. In crop farming, the production of industrial crops shrank by 35 per cent in 1973, while that of cereals decreased by approximately 18 per cent; in fruit and vegetables, on the other hand, there were increases of 4 and 7 per cent, respectively. As regards the livestock sub-sector, the decline in production averaged around 30 per cent in the varous meat-producing activities, while wool and dairy products suffered smaller contractions.

Mining activity as a whole stepped up its output by 1.5 per cent over 1972, the determining factor in this trend being the 4 per cent increase in large-scale copper mining, which showed a considerable improvement in the monthly production levels during the last quarter of the year. With an increase of 12 per cent in production, the iron ore industry partially recovered from the decline experienced in 1972. Output of other mining sectors (small- and medium-scale copper mining, nitrates and petroleum) declined, however, the most significant contraction (9 per cent) being in petroleum.

The index of manufacturing output prepared by the National Statistics Institute showed a drop of 4.3 per cent in the average for 1973; comparing the averages for the first eight months of 1972 and 1973, however, the drop is 6.4 per cent. Of the 20 groups in which manufacturing activities are usually

[53] See *Exposición sobre el estado de la hacienda pública*, presented by Rear-Admiral Lorenzo Gotuzzo, Minister of Finance, October 1973, leaflet No. 124, Budget Office, table No. 4.

[54] It is difficult to reconcile this reduction of around 3 per cent in private consumption with some estimates of trends in real wages and salaries: for example, with the estimated average drop of over 40 per cent during the year (see CIAP/650, op. cit., table AE-1). These contrasts tend to confirm what was said before about the problems involved in the use of deflators.

Table 100. Chile: total supply and demand

	Millions of escudos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*[a]	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*[a]	*1973*[a]
Total supply	*7,566.7*	*8,088.3*	*8,370.1*	*8,123.2*	*113.6*	*117.9*	*119.3*	*4.6*	*6.9*	*3.5*	*-3.0*
Gross domestic product	6,418.3	6,953.0	7,099.0	6,807.9	100.0	100.0	100.0	3.8	8.3	2.1	-4.1
Imports[b]	1,148.4	1,135.3	1,271.1	1,315.3	13.6	17.9	19.3	9.7	-1.1	12.0	3.5
Total demand	*7,566.7*	*8,088.3*	*8,370.1*	*8,123.2*	*113.6*	*117.9*	*119.3*	*4.6*	*6.9*	*3.5*	*-3.0*
Exports[b]	808.6	893.3	750.5	811.2	14.1	12.6	11.9	1.5	10.5	-16.0	8.1
Gross domestic investment	1,218.5	923.2	...	...	18.4	19.0	...	4.5	-24.2	...	...
Gross fixed investment	1,057.9	1,005.8	976.6	836.9	16.1	16.5	12.3	4.3	-4.9	-2.9	-14.3
Construction	549.2	579.8	...	...	9.6	8.6	...	1.5	5.6	...	...
Machinery and equipment	508.7	426.0	...	...	6.5	7.9	...	8.1	-16.3	...	...
Total consumption	5,539.6	6,271.8	6,643.0	6,475.1	81.1	86.3	95.1	5.2	13.2	5.9	-2.5
General government	699.4	769.0	799.8	816.6	10.1	10.9	12.0	5.4	9.9	4.0	2.1
Private	4,840.2	5,502.8	5,843.2[c]	5,658.5[c]	71.0	75.4	83.1[c]	5.1	13.7	6.2[c]	-3.2[c]

SOURCES: 1965-1972: ECLA calculations based on figures supplied by ODEPLAN; 1973: ECLA estimates based on preliminary data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

[c] Including changes in stocks.

Table 101. Chile: gross domestic product at factor cost, by sector of economic activity

	Millions of escudos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*[a]	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*[a]	*1973*[a]
Agriculture	581.2	611.0	589.7	503.5	10.2	9.8	8.1	3.0	5.1	−3.5	−14.6
Mining	610.4	620.7	605.8	614.9	9.8	10.3	9.9	4.9	1.7	−2.4	1.5
Manufacturing	1,486.7	1,678.8	1,737.6	1,649.0	25.4	25.2	26.6	3.6	12.9	3.5	−5.1
Construction	245.3	268.7	215.8	172.6	4.8	4.2	2.8	0.7	9.5	−9.7	−20.0
Subtotal goods	*2,923.6*	*3,179.2*	*3,148.9*	*2,940.0*	*50.1*	*49.5*	*47.4*	*3.5*	*8.7*	*−1.0*	*−6.4*
Electricity, gas and water	82.8	95.0	102.7	107.3	1.4	1.4	1.7	3.7	14.7	8.1	4.5
Transport and communications	625.1	647.1	658.1	620.6	10.6	16.6	10.0	3.8	3.5	1.7	−5.7
Subtotal basic services	*707.9*	*742.1*	*760.8*	*727.9*	*12.0*	*12.0*	*11.7*	*3.8*	*4.8*	*2.5*	*−4.3*
Commerce and finance	1,091.0	1,191.2	1,248.3	1,201.3	16.3	18.5	19.4	6.4	9.2	4.8	−3.9
Government	268.5	281.6	291.7	297.8	9.9	4.5	4.8	2.3	4.9	3.6	2.1
Ownership of dwellings	278.7	270.4	272.0	273.9	5.2	4.7	4.4	1.8	−3.0	0.6	0.7
Miscellaneous services	632.4	702.2	737.3	759.4	11.5	10.7	12.2	2.3	11.0	5.0	3.0
Subtotal other services	*2,270.6*	*2,445.4*	*2,549.3*	*2,532.4*	*37.9*	*38.5*	*40.9*	*4.1*	*7.7*	*4.2*	*−0.7*
Total	*5,815.2*	*6,299.6*	*6,431.9*	*6,168.2*	*100.0*	*100.0*	*100.0*	*3.8*	*8.3*	*2.1*	*−4.1*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by ODEPLAN; 1973: ECLA estimates based on preliminary data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

classified, reductions were recorded in 13, the sharpest being in wood, printing and publishing, furniture, electrical apparatus and appliances, and textiles. Among the seven groups which raised their output, the most important increases were in the manufacture of machinery and in pulp and paper (see table 102). Taking into consideration the general characteristics of the evolution of the Chilean economy in the past year, the performance of manufacturing may be ascribed both to factors connected with supply—problems in the supply of domestic and imported inputs, the utilization of manpower and the limited production capacity—and to factors related to the contraction of demand for various industrial goods, e.g., construction inputs.

Construction dropped by 20 per cent, and this, coming on top of the decline of about 10 per cent in 1972, substantially reduced its share of the gross domestic product compared with previous years. Available estimates indicate that the past year's trend was due to drops in both private and public construction.

As regards the trends registered in the sectors producing basic and other services, the main increases were in electricity, gas and water, and in government, the increase in the latter being due to the larger number of persons employed in the sector, since its contribution to the gross domestic product is calculated on this basis. Basic services as a whole dropped by an average of 4.3 per cent, the decline in the total for other services being smaller (0.7 per cent) (see table 97).

5. Some aspects of economic policy[55]

Generally speaking, the new policy stresses the role of market forces and private enterprise in the promotion of development. Accordingly, the transfer to the State of the ownership and/or management of a large group of activities is no longer the basic objective of economic action, as it was during the previous Government.

Moreover, the characteristics of the Chilean economy up to September 1973 prompted the new Government to give particular importance to the adoption of measures with fairly immediate effects. On the basis of a diagnosis identifying situations of repressed inflation and distortion in the relative prices of the economy, it was decided, first, that a strategy of free prices was the best

[55] This section takes account, in particular, of the statement delivered by Mr. Fernando Léniz, Minister of Economic Affairs, at the meeting of the Sub-Committee of the Inter-American Committee on the Alliance for Progress (CIAP) on 30 January 1974.

Table 102. Chile: manufacturing production index
(Average 1968 = 100)

Major group	*Weighting*	*1972*	*1973*	*Percentage variation*
General index	*100.00*	*122.6*	*117.3*	*−4.3*
Food	15.101	105.9	102.0	−3.7
Beverages	4.16	123.3	134.3	8.9
Tobacco	3.18	126.3	131.3	4.0
Textiles	9.68	113.1	101.5	−10.3
Footwear and clothing	6.81	123.0	117.1	−4.8
Wood, excluding furniture	4.37	146.7	93.1	−36.5
Furniture and wood accessories	1.49	155.5	120.8	−22.3
Pulp, paper and paper products	2.55	90.1	104.5	16.0
Printing and publishing	3.30	126.4	96.0	−24.1
Leather and leather products, excluding footwear	1.36	90.1	85.8	−4.8
Rubber products	2.51	138.8	127.5	−8.1
Chemical substances and products	9.62	150.4	147.6	−1.9
Petroleum and coal products	0.87	138.5	129.6	−6.4
Non-metallic mineral products	3.86	123.2	126.5	2.7
Basic metal industries	9.59	124.2	119.7	−3.6
Metal products, excluding machinery and transport equipment	5.70	117.8	121.4	3.1
Machinery, excluding electrical machinery	2.38	151.5	189.3	25.0
Electrical apparatus, appliances and supplies	4.88	104.2	89.1	−14.5
Transport equipment	5.76	120.4	130.8	8.6
Other manufacturing industries	2.83	123.1	119.6	−2.8

SOURCE: National Statistical Institute.

means of solving both these problems and, secondly, that foreign exchange and wage policies were key elements in restoring the equilibrium of the markets of goods and factors. Hence, "the foreign exchange position was drastically overhauled by establishing approximately the same values as those prevailing at the end of 1969, simplifying its structure through the adoption of only two exchange rates, and re-initiating a policy of frequent minor devaluations, thus reverting to a policy guaranteeing its real level".[56] In addition, as the Minister goes on to explain, it was decided that in the last three months of the year real wages and salaries should reach an average value of about 70 (compared with 60 in the third quarter and 100 at the beginning of 1970), for which purpose wage and salary rises were granted which were designed to double the nominal income during the fourth quarter in relation to the third.

Another significant feature was the adoption of a number of measures which, Mr. Léniz stated, were intended "to normalize production activity". The most immediate effect in this connexion was the production increase achieved in large-scale copper mining, the monthly average in the last quarter being approximately 50 per cent higher than the average output for the first nine months.

The economic programme for 1974 is centred on three main areas and has been prepared on the assumption that the domestic product can grow by about 8 per cent. As regards income, the various measures which have been or are to be adopted during the year are aimed firstly at achieving real average remuneration 30 per cent higher than that calculated for the last quarter of 1973, while the intention is to continue with a policy of realistic prices involving the progressive elimination of controls and subsidies and providing an incentive to free competition among Chilean producers and from abroad.

A second area consists of a policy of stabilizing and financing investment, one of the main objectives being the sharp deceleration of inflation. In order to attain this objective, recourse will be had in particular to fiscal and monetary policy. As regards the fiscal aspect, it is hoped by means of tax and government expenditure control measures to reduce the gross fiscal deficit to 9 per cent of total expenditure, compared with 40 per cent in 1973. The real increase in public enterprise tariffs also means a smaller deficit in State enterprises and reduces the need for Treasury funds to be transferred to them. As regards monetary policy, it is estimated that the amount of money may be increased by about 110 per cent in 1974.

In the external sector, which is the third area identified, it is planned to continue with the foreign exchange policy initiated in the last three months of 1973. Another aim is to intensify the promotion of exports and the gradual reduction of import controls and tariffs. Key factors in stabilizing the balance of payments are copper exports and copper prices, the renegotiation of the external debt and the receipt of about 500 million dollars in new loans and foreign investment.

[56] See the aforementioned statement, page 5).

ECUADOR

1. Recent economic trends

Ecuador is one of the Latin American countries that has most benefited from the current boom in the price of raw materials, especially crude petroleum, the rise in the price of which has combined with the remarkable development of the country's petroleum production to bring about far-reaching changes in the economy.

The opportunities for channelling surpluses deriving from the external sector into activities affording substantial value added are clearly apparent and truly remarkable in scope. One of Ecuador's most serious problems in the past has been precisely the bottleneck caused by the external sector, but in 1972, and even more so in 1973, the problem disappeared and the external sector became the most dynamic sector of the economy. The high growth rate of the gross domestic product is mainly attributable to the petroleum sector.

Another important factor is the extraordinary growth of private consumption. Considering the effect that such an increase can have on the expansion of markets and the possibilities for import substitution, especially if there is a genuine redistribution of income, this kind of phenomenon can provide the economy with a firm basis for rapid growth. The capacity of the public and private sectors to respond accordingly will largely determine whether or not this increased demand leads simply to greater pressure on the economic system and on domestic prices.

The highly favourable situation which the Ecuadorian economy enjoyed in 1973 coincided with the first year of the Transformation and Development Plan for 1973-1977. Development planning which has generally been seriously hin-

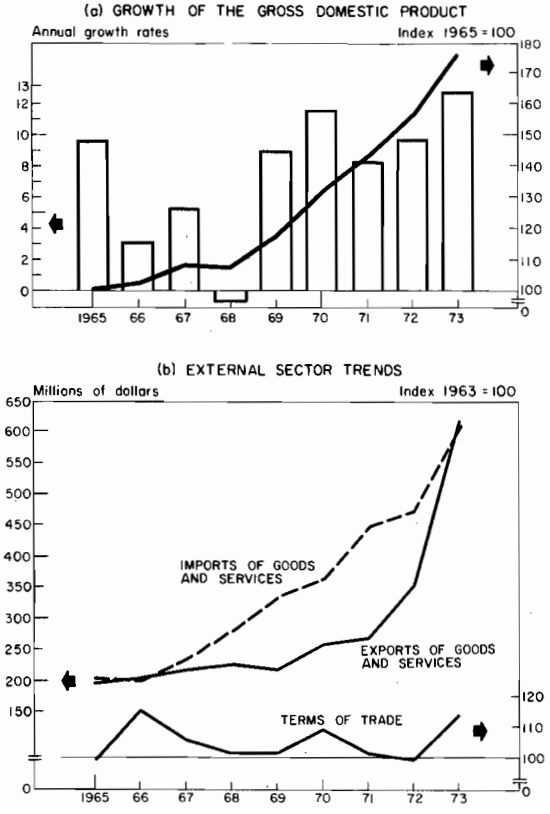
dered in the past by shortcomings of the external sector can now take place more freely.

2. The external sector

The evolution of Ecuador's foreign trade is characterized, on the one hand, by substantial progress in quantitative terms and, on the other, by sweeping changes in qualitative terms. Between 1972 and 1973, the value of exports of goods and services rose by 74 per cent at current prices, from 354 million to 615 million dollars. This performance is all the more impressive considering that there had already been a substantial expansion in exports in 1972, and it means that the value of Ecuador's exports at current prices has more than doubled in two years. This change in its pattern of foreign trade places Ecuador in a very different situation from that of the recent past. The sudden boom is having far-reaching repercussions on the entire economy, even though it originates almost exclusively from the export sector (see figure XXXI).

There have also been major changes in the structure of exports. Before 1972, the most important product was bananas, which accounted for 40 per cent of exports of goods, followed by petroleum which accounted for 19 per cent. In 1973, the roles of these two products were reversed, with petroleum making up 47 per cent of exports of goods and bananas 23 per cent. In other words, whereas agricultural products represented two thirds of total exports in 1972, they did not even amount to 40 per cent in 1973 (see table 103).

Figure XXXI. Ecuador
Natural scale



The implications of these changes are considerable. In the first place, there is a vast difference between a foreign trade situation in which agricultural exports (which are perishable and dependent on weather conditions, ripening, etc.) account for a large share and one in which petroleum, with its tremendous potential in terms of prices and international markets, is the major product. Secondly, although the petroleum sector is not particularly labour-intensive and does not involve an integrated process of industrialization, the volume of the surpluses it generates and the capacity it has to promote other industrial processes make it particularly conducive to accelerated economic growth. Finally, world demand makes petroleum readily convertible into cash, which is a definite advantage for any country seeking to pursue a stable external policy. The measures that the Government of Ecuador has adopted for utilizing its surpluses point to a promising future.

The rise in petroleum prices obviously explains a good deal of the increase in the value of exports, but it should be noted that the increase in the volume exported in 1973 was even more significant. Since the value of petroleum exports at current prices went up by 353 per cent and the volume by 185 per cent, the price effect was only 59 per cent. It should be noted, moreover, that these figures are not based on reference prices but on prices actually paid under export contracts, and that the biggest increases took place during the last few months of the year, most of the exports being undertaken at much lower prices. The calculation of the price and quantum effects on exports as a whole where they appear to be more or less the same, conceals the enormous difference between them in the case of petroleum (where the quantum effect was three times as great as the price effect). Table 104 gives some idea of these components of the value of exports.

Ecuador's external sector benefited both from the favourable prices of all its export products and from the unprecedented expansion of its production of petroleum, whose price went up remarkably.

There was a considerable increase in imports, but not to the extent of offsetting the positive effect of the export boom. At current prices, imports of goods and services in 1973 amounted to 612.6 million dollars, an increase of 29.2 per

Table 103. Ecuador: composition of exports of goods
(FOB values in millions of dollars at current prices)

	1971	*Percentages*	*1972*	*Percentages*	*1973*	*Percentages*
Petroleum	1.0	0.4	59.9	18.5	276.5	47.5
Bananas	120.6	50.0	125.5	38.8	134.9	23.1
Coffee	36.5	15.2	42.6	13.2	60.0	10.3
Cocoa	25.4	10.5	23.3	7.2	25.0	4.3
Sugar	13.5	5.6	17.1	5.3	13.0	2.2
Fishery products	14.6	6.0	22.4	6.9	24.0	4.1
Other goods	29.8	12.3	32.4	10.1	49.4	8.5
Total	*217.0*	*100.0*	*323.2*	*100.0*	*582.8*	*100.0*

SOURCES: Central Bank and Planning Board of Ecuador.

Table 104. Ecuador: indicators of exports of goods
(Millions of dollars. Index: 1970 = 100)

	1972	*1973*	*Percentage increase*
FOB value of exports	323.2	582.8	80.3
Quantum index	146.5	190.3	29.9
Price index	99.7	138.4	38.8

SOURCE: ECLA, on the basis of official data.

cent. With regard to the importation of goods alone, there was an expansion of 31.9 per cent due to an increase of 12.6 per cent in the volume imported and 17 per cent in unit value.

An important factor in the higher value of imports at current prices was the increase in imports of capital goods for agriculture (169.2 per cent), raw materials for agriculture (167.6 per cent), and construction materials (111.3 per cent). Although in absolute terms the values involved are fairly small, such variations indicate a desire to promote agricultural expansion and to absorb manpower in such a particularly labour-intensive sector as construction. Although the increases in imports for Ecuador's industrial sector (58.5 per cent for raw materials and 41.4 per cent for capital goods) were less spectacular than those indicated above, they are none the less extremely important, especially considering that they represent 188 million and 100 million dollars respectively in absolute terms.

There was also a sharp increase in imports of consumer goods in 1973 (61.3 per cent in the case of durable goods and 35.4 per cent in that of non-durable goods).

With regard to the other current account items, remittances in respect of foreign capital doubled from 45.6 million dollars in 1972 to 94 million in 1973, mainly on account of profits, which rose by 143 per cent from 34.3 million to 83.3 million dollars, while interest dropped from 11.3 million to 10.7 million dollars. The increase is attributable to profits of petroleum enterprises.

The merchandise trade surplus of 100 million dollars in 1973 (compared with the 43 million dollar deficit of 1972) partly offset the higher cost of transport, services and remittances of profits and interest, etc., and did much to reduce the balance-of-payments deficit on current account, which fell from 159.4 million dollars in 1972 to 83.7 million in 1973.

During the past two years, the net inflow of non-compensatory capital was appreciably higher than the deficit on current account, but compared with the year before, 1973 saw a sharp reduction in the inflow of capital in the form of direct investment and long- and medium-term loans. In addition, there was an increase in amortization payments on the external debt and an extraordinary but unexplained jump in the figure for errors and omissions (see table 105).

The movement of transactions on the current and capital accounts in the past two years has led to large increases in foreign currency reserves: 103 million dollars in 1972 and 92 million in 1973.

It may be thought that the way the prices of export products have evolved recently has been extraordinarily beneficial to Ecuador's economy. However, although price increases have been considerable (particularly in the case of petroleum), a look at the past trend of export products as a whole shows that they are merely recovering the levels of previous years. If 1960 is taken as the base year for the terms of trade, it will be seen that the corresponding index in 1973 was slightly below 100, while in 1962, 1964 and 1966 it had been similar or even higher. This is apparent from the following data which are based on official statistics:

	Terms-of-trade index (1960 = 100)	*Terms-of-trade effect (millions of dollars at 1960 prices)*
1960	100.0	–
1961	96.6	−5.3
1962	99.1	−1.6
1963	87.8	−23.4
1964	99.3	−1.3
1965	87.8	−27.4
1966	101.0	2.1
1967	94.5	−12.6
1968	90.1	−24.4
1969	90.5	−22.3
1970	97.2	−7.0
1971	89.5	−28.1
1972	87.8	−41.8
1973	99.5	−2.3

The **total value** of accumulated losses since 1960 (negative effect of the terms of trade) amounts to 195.4 million dollars at 1960 prices, which, in terms of 1973 prices, is equal to approximately 270 million dollars. It is obvious, then, that from the standpoint of the terms of trade, this loss can only be offset if future increases in export prices are greater than those of import prices.

3. The gross product and the composition of domestic demand

An analysis of Ecuador's economic trends reveals a rapid growth of the gross domestic product, the estimated figure of 12.7 per cent shown in national accounts being one of the highest of all the Latin American countries.

Table 105. Ecuador: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	256.1	266.2	354.0	615.3
Goods FOB	232.8	241.4	323.2	582.8
Services	23.3	24.8	30.8	32.5
Transport	1.1	1.1	6.4	6.3
Travel	10.0	10.0	9.1	10.0
Imports of goods and services	361.1	446.1	474.1	612.6
Goods FOB	262.3	526.9	366.6	481.9
Services	98.8	119.2	107.5	130.7
Transport	45.8	54.0	64.3	87.1
Travel	9.8	9.0	11.0	11.0
Net external investment income	−33.5	−34.9	−45.6	−94.0
Profits	−23.6	−19.6	−34.3	−83.3
Interest	−9.9	−15.3	−11.3	−10.7
Net private transfer payments	5.4	5.3	6.3	7.6
Balance on current account	−133.1	−209.5	−159.4	−83.7
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	133.1	209.5	159.4	83.7
(*a*) Net external non-compensatory capital	126.0	163.6	243.0	105.8
Direct investment	50.0	157.0	150.0	84.7
Long- and medium-term loans	50.4	39.4	111.9	53.0
Amortization payments	−20.9	−42.5	−28.3	−40.0
Short-term liabilities	−1.8	2.0	–	–
Official transfer payments	8.3	7.7	9.4	8.1
(*b*) Domestic non-compensatory capital or assets	4.7	−2.9	−0.3	–
(*c*) Errors and omissions	2.1	15.0	15.6	69.7
(*d*) Allocation of SDRs	4.2	3.5	3.8	–
(*e*) Net compensatory financing (increase −)	−3.9	30.3	−102.7	−91.8
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	22.9	20.8	9.7	10.9
Amortization	−6.5	−11.0	−35.0	−20.7
Movements of foreign exchange reserves (increase −)	−21.3	23.3	−80.5	−75.2
Movements of gold reserves (increase −)	1.1	0.4	6.7	−8.1
SDRs (increase −)	−0.1	−3.2	−3.6	1.3

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

Whereas the annual average increase in this growth rate during the five-year period 1965-1970 was 5.6 per cent, it was 8.3 per cent in 1971 and 9.8 per cent in 1972. Clearly there has been a rapid increase in the growth rate that calls for some comment (see table 106 and figure XXXI).

The goods-producing sector registered an exceptional expansion of 20.8 per cent in 1973, which definitely represents a considerable change. Looked at separately, however, the picture is very different from one branch of activity to another. While the growth rate of the mining sector (essentially petroleum extraction) was 192 per cent in 1973, that of the agricultural sector was a bare 0.7 per cent. Even though weather conditions were favourable for agricultural production during the year, a retrospective analysis shows that its growth has traditionally been slow. Since a large segment of the population depends on this sector, it has high priority from the social point of view. Moreover, it is also extremely important in strictly economic terms. The rigidity of supply tends constantly to push prices upwards and to absorb foreign currency for importing goods that could be produced domestically. The slow growth of the agricultural sector has caused its share of the gross domestic product to decline from 35 per cent in 1965 to 26 per cent in 1972 and 23 per cent in 1973.

In 1973 the growth rate of manufacturing was 13.6 per cent, which points to a clear upward trend considering that from an annual average of 6 per cent in the five years 1965-1970 it rose to 8.7 per cent, and 9 per cent in the two following years. It would therefore appear to be capable of generating a considerable share of the country's product and the Government is accordingly pursuing a policy of industrial development.

The growth of the construction sector, which was less than that of the mining and manufacturing sectors, was 8.8 per cent in 1973, marking a decline from the annual average of 11.1 per cent during the period 1965-1970 and the figures of 27.7 per cent in 1971 and 10.7 per cent in 1972. The deceleration of this sector is partly attributable to the completion of the construction work for the petroleum sector, but even so its growth rate is now lower than during the period that preceded the petroleum boom.

The growth rate of basic services was 11.2 per cent in 1973 which, though lower than in the two previous years, is somewhat higher than the 8 per cent registered during the years 1965-1970. Its share in the product has thus risen from 6.6 per cent in 1965 to 7.9 per cent in 1973. The performance of the two components of this group was very disparate in 1973: while transport and communications expanded by 12.5 per cent, electricity, gas and water did so by only 4.9 per cent.

Under the heading "miscellaneous services", which mainly includes commerce and finance, government and ownership of dwellings, the growth rate in 1973 was 7.1 per cent and its share of the gross domestic product remained around 36 per cent. The most important component of this group, commerce and finance, expanded by 8.7 per cent and its participation in the economy as a whole remained more or less stable. Not enough information is available to analyse the trend of each of the other services, which, after excluding commerce and finance, grew at an estimated rate of 6.1 per cent.

There were a number of substantial changes in total supply and demand, which expanded by 12.3 per cent in 1973. To take demand first, exports expressed at constant prices rose rapidly for the second year in succession. As already indicated, the external sector's growth rate of 32 per cent in 1973 makes this the most dynamic component of the country's economy. Moreover, there was an exceptional increase in private consumption: the rate of 10.5 per cent may be something of an underestimation since, as usual, this variable is obtained by subtraction and thus accumulates any unavoidable inaccuracies in the separate components. General government consumption rose moderately by 4.2 per cent, far less than the annual average of 7.8 per cent recorded during the period 1965-1970. Unlike the other components of demand, gross domestic investment rose slowly. In 1973, it expanded by 5 per cent, a sharp drop from 1965-1970 when the annual average was 17.7 per cent. Considering the disinvestment that took place in 1972, when there was a negative growth of –4.5 per cent, it would seem fair to say that the figure for 1973 does not fit in with the rapid expansion of economic activity or with the far greater expansion of activities connected with investment, such as industry and construction. The anomaly may perhaps be explained by the problem of "cyclical time lags" between investment and the product (see table 107).

With regard to over-all supply, there was an increase in imports as well as the exceptional growth of the gross domestic product. Thus, imports were up by 10.4 per cent in 1973, much the same as in the past eight years except for 1972 when there was a temporary lull.

The growth of imports of both raw materials and consumer goods was considerable. At current prices the former increased by 60 per cent and the latter by 42 per cent. Comparatively speaking, there was a slight decline in the growth rate of imports of capital goods, but even so, at a growth rate of 15 per cent, such imports would double in the space of five years. Obviously, Ecuador's foreign trade is making great strides in every

Table 106. Ecuador: gross domestic product at factor cost, by sector of economic activity

	Millions of sucres at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Agriculture	6,687	6,793	6,842	6,890	34.8	30.5	23.0	2.8	1.6	0.7	0.7
Mining	404	413	1,096	3,200	2.0	1.8	10.7	4.3	2.2	165.4	192.0
Manufacturing	3,683	4,003	4,363	4,956	16.5	16.8	16.6	6.0	8.7	9.0	13.6
Construction	1,114	1,422	1,574	1,713	3.9	5.1	5.7	11.1	27.7	10.7	8.8
Subtotal goods	*11,888*	*12,631*	*13,875*	*16,759*	*57.2*	*54.2*	*56.0*	*4.5*	*6.3*	*9.9*	*20.8*
Electricity, gas and water	270	310	369	387	1.0	1.2	1.3	11.2	14.8	19.0	4.9
Transport and communications	1,348	1,499	1,742	1,960	5.6	6.2	6.6	7.4	11.2	16.2	12.5
Subtotal basic services	*1,618*	*1,809*	*2,111*	*2,347*	*6.6*	*7.4*	*7.9*	*8.0*	*11.8*	*16.7*	*11.2*
Commerce and finance	3,042	3,691	3,984	4,330	13.5	13.9	14.5	6.1	21.3	7.9	8.7
Miscellaneous services[b]	5,384	5,630	6,110	6,483	22.7	24.5	21.7	7.3	4.6	8.5	6.1
Subtotal other services	*8,426*	*9,321*	*10,094*	*10,813*	*36.2*	*38.4*	*36.1*	*6.9*	*10.6*	*8.3*	*7.1*
Total	*21,932*	*23,761*	*26,080*	*29,392*	*100.0*	*100.0*	*100.0*	*5.6*	*8.3*	*9.8*	*12.7*

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals for 1973 were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Including government and ownership of dwellings.

Table 107. Ecuador: total supply and demand

	Millions of sucres at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*29,436*	*32,317*	*34,874*	*39,153*	*118.1*	*123.2*	*122.6*	*6.6*	*9.8*	*7.9*	*12.3*
Gross domestic product	23,897	25,785	28,342	31,941	100.0	100.0	100.0	5.7	7.9	9.9	12.7
Imports[b]	5,539	6,532	6,532	7,212	18.1	23.2	22.6	11.1	17.9	–	10.4
Total demand	*29,436*	*32,317*	*34,874*	*39,153*	*118.1*	*123.2*	*122.6*	*6.6*	*9.8*	*7.9*	*12.3*
Exports[b]	4,060	4,376	5,583	7,373	20.2	17.0	23.1	2.1	7.8	27.6	32.0
Gross domestic investment	5,270	6,216	5,939	6,236	12.9	22.1	19.5	17.7	18.0	-4.5	5.0
Gross fixed investment	4,812	5,726	5,318	5,573	11.1	20.1	17.4	19.1	19.0	–7.1	4.8
Public	3,614	4,464	3,996	...	6.8	15.1	...	23.0	23.5	–10.5	...
Private	1,197	1,262	1,322	...	4.3	5.0	...	9.0	5.4	4.8	...
Total consumption	20,106	21,725	23,352	25,544	85.0	84.1	80.0	5.5	8.1	7.5	9.4
General government	3,448	3,936	4,072	4,243	13.1	14.4	13.3	7.8	14.2	3.5	4.2
Private	16,658	17,789	19,280	21,301	71.9	69.7	66.7	5.1	6.8	8.4	10.5

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

domain, and failure to ensure that the growth of each component is compatible with that of the others could detract from the efficiency of this sector's over-all expansion. In view of the large quantities being imported, however, it can be assumed that the possibilities of import substitution will increase in the next few years.

The five-year Transformation and Development Plan began to be implemented in 1973, and the conditions and assumptions on which the Plan's objectives and targets were based were naturally altered radically. Many of the changes appear to be linked to the sensitivity of world market prices, though some were the result of delay or failure to implement some of the measures contained in the Plan, particularly in the agricultural sector where the situation was further aggravated by bad weather conditions.

In comparing the 1973 growth rates with those which the Plan indicated as being desirable for the principal macroeconomic variables, it is important to realize what this first year of the Plan has signified for Ecuador. In 1973, the external sector assumed dimensions that it was very difficult to foresee. The expansion of the petroleum sector largely explains the cases where real growth was higher than planned (see table 108). Furthermore, 1972, which is the base year for the calculation of the growth rates, is not an appropriate choice since it was a period of exceptional activity in the construction of petroleum plants. The differences shown in table 108 should be interpreted in the light of these considerations. Moreover, the growth rates that the Plan advocates for the five-year period are average figures and do not necessarily have to correspond to 1973.

4. Economic policy

(a) *Prices*

The changes in the various price indicators in 1973 point to moderate inflation of the Ecuadorian economy. Taking the consumer price index for the city of Quito,[57] the annual average increase in prices was 8.4 per cent in 1971, 7.9 per cent in 1972 and 13 per cent in 1973. Between December 1972 and December 1973, this same indicator showed a price rise of about 20 per cent. Indicators for the cities of Guayaquil and Cuenca show a similar pattern.

The reasons behind this phenomenon include the rise in import prices (17 per cent in 1973)—a major factor in an economy in which imports account for a quarter of global supply—and the slow growth of the supply of agricultural products and its failure to meet real demand. Moreover, the expansion in the means of payment available to the public and government, which has reached 17 per cent by November 1973, explains

[57] National Statistical Institute, *Indice de precios al consumidor No. 247.*

Table 108. Ecuador: real increases in certain economic indicators compared with the targets of the five-year Plan

	Annual growth rate	
	Real increase 1973	*Planned target 1972-1977*
Gross domestic product	*12.7*	*9.8*
Consumption	9.4	8.9
(*a*) Private	10.5	8.7
(*b*) Public	4.2	9.8
Gross investment	5.0	7.9
Exports of goods and services	32.0	15.9
Imports of goods and services	10.4	9.6
Product of certain sectors		
Agriculture	0.7	5.3
Industry[a]	13.6	9.7
Construction	8.8	11.2
Electricity[b]	4.9	12.3
Petroleum[c]	185.0	196.0

SOURCES: ECLA, on the basis of official data; ILPES, INST/79/Add.1, *Resumen de los trabajos*, annex I.

[a] The targets of the Plan cover industry, fishing and mining but do not include petroleum.

[b] The real growth rate covers electricity, gas and water.

[c] The target in the Plan refers exclusively to 1973.

why demand is constantly increasing. It must be remembered that, in the monetary balance, the increase in foreign currency reserves of 91.8 million dollars in 1973 includes a form of counterpart in sucres. Of course, if the analysis is taken further and a comparison made of the structure of supply and demand by socio-economic group and if the effect on prices of the profit margins of producers, intermediaries and distributors are identified, it is possible to define more accurately the sources that generate the increases in price. However, those mentioned above would seem to provide the fundamental explanation, namely, the combined pressure of costs and demand.

In 1973, the Government of Ecuador adopted a series of provisions and regulations in respect of tariff reductions, the sale of State bonds, the promotion of agricultural and industrial credit, through financial funds for each sector, the modification of legal cash reserves, certain forms of price control, etc. These measures are indicative of the type of corrective measures that the government authorities are taking to arrest the upward trend of prices.

(b) *Agrarian policy*

The most important event in this area was the passing of the Agrarian Reform Law.[58] The approaches and intentions explicitly set out in this law leave no doubt as to its social and economic motivation. In view of the provisions regarding deadlines and qualifications for land expropriation, however, it is not yet possible to evaluate what its full effect is likely to be.

The most notable feature of this agrarian reform is the intention to carry it out step by step and in a rational manner. From 1975 onwards, the Co-ordination Council, an inter-ministerial body, will classify each case in terms of the general justification for expropriation,[59] which means that the scope of the reform will depend on the specific criteria adopted by the Council in each case. The Ecuadorian Institute of Agrarian Reform and Settlement (IERAC) will be responsible for implementing the agrarian reform plans, programmes and projects and will also act as the court of first instance in the process of expropriation; the courts of second instance will be the Regional Appeals Committees, while the final decisions will be taken by the Agrarian Co-ordination Council. Compensation for expropriation will be based on the registered value of the land 10 years before its expropriation. In view of the foregoing, this process will have to be assessed as it progresses.

Ecuador's agricultural sector faces serious difficulties both from the point of view of production and productivity and from that of land distribution. The above agrarian reform and other economic policy measures in the same direction could signify a decisive step towards the solution of this age-old problem. The possibility of channelling some part of the foreign trade surplus into the sector affords interesting prospects, as a great deal remains to be done regarding the use of fertilizers and pesticides, crop rotation, selection of seed and other modern techniques. The shortcomings are even greater in the stock-breeding sector and urgent steps are needed to remedy them.

(c) *Industrial policy*

An important development in this respect is the creation of a Ministry of Industry, Trade and Integration, responsible for formulating, directing and implementing policies relating to industrial development, the promotion of small and artisan-type industry, standardization, tourism, foreign trade and integration. Towards the end of 1973, the Law on Industry was amended and incentives introduced for industrial development on a regional basis. These industrial policy decisions are apparently beginning to bear fruit, as witnessed by the establishment of 32 new enterprises in Guayaquil, according to the records of the Chamber of Industry.

Another factor worth mentioning is the creation of funds in the Central Bank designed to channel domestic and external resources for the promotion of agricultural and industrial activities.

During the last few months of the year, the financing of small industry was stepped up and amounted to 22 million sucres.

Furthermore, the creation of the National Development Fund (FONADE) may open up major sources of financing for the development of the productive sectors. The Fund is to be fed by any increase in the price of crude petroleum over 7.30 dollars per barrel. In view of current prices, the large volume of resources that will pour into

[58] Agrarian Reform Law, Official Register No. 410, 15 October 1973, Decree No. 1172. One of its provisions contains the following decision of the Government of Ecuador: "That Agrarian Reform implies a process whereby property and income is redistributed in such a way as to eliminate the *latifundio*, integrate the *minifundio*, break down the rigid social stratification and incorporate the marginal rural workers in the development process, with a view to consolidating and integrating the domestic market and making the social system as flexible as possible so as to put an end to all overt or concealed forms of discrimination or exploitation and generate increasing agricultural production".

[59] With regard to the expropriation of land, the principal justification given is non-fulfilment of social function. A rural property is considered not to fulfil its social function when the land is worked inefficiently, when renewable resources are not conserved, when the direct responsibility and administration of the owner is not maintained, when there is a monopoly of land ownership and when the laws governing agricultural work are not complied with.

this source of financing offers exceptionally interesting prospects for the growth of the productive sectors, especially agriculture and industry. The preferences that the Cartagena Agreement, and the Andean Group market in particular, offer a country classified as "least developed", together with the real availability of financing, give reason to look forward to a significant process of industrialization.

(d) *Petroleum policy*

The creation of the Ecuadorian State Petroleum Corporation (CEPE) in 1972 to promote the extraction, export, transport, refining, marketing and industrialization of petroleum, and its subsequent development in 1973, definitely constitutes an important decision. In January 1973, CEPE officially began working the oilfields of Santa Paula, Petrópolis, Concepción and Certeza, ownership of which reverted to the State upon the termination of concessions granted to private companies. In 1974 work will begin on the construction of the State refinery, which will be CEPE's biggest project and one of the most important in Ecuador's petroleum industry.

The allocation of foreign currency to promote industrial and agricultural activities through the creation of funds supplied from the increased petroleum revenue is another vitally important decision in terms of economic policy in general and petroleum policy in particular.

The petroleum policy is divided into three phases: prospecting, extraction and production. Given the price levels that petroleum has attained on world markets recently, the last of these phases would seem to be particularly delicate. Ever since it started operating, CEPE has been advocating a new conception of relations between the State and private petroleum enterprises. In formal terms, the policy of granting concessions on a contractual basis has been replaced by a system of association, in which co-participation is guaranteed by Committees of Administration composed of equal numbers of representatives of the State and of the private enterprise in question. Among other things, these Committees are responsible for taking decisions in respect of subcontracting agreements, location of drilling sites, rate of extraction, external marketing, etc. The system of association allows for the State to purchase up to 25 per cent of the assets of the enterprises concerned.

(e) *Public revenue and expenditure policy*

A comparison of the figures for 1972 and 1973 shows that budgetary income increased substantially. Total net current income rose by 47.2 per cent to 7,711 million sucres. This increase is only apparent, of course, since when allowance is made for the rise in prices during 1973 (the consumer price index went up by 20 per cent between December 1972 and December 1973), real growth is seen to have been approximately half that suggested by a comparison of figures expressed in current prices. With regard to the growth of tax revenue in particular, the increase at current prices was over 50 per cent; naturally, a large part of this expansion must be attributed to the increase in taxes on foreign trade, since the yield from import duties rose by 47 per cent and that from exports by 228 per cent (see table 109).

Table 109. Ecuador: current income of the general state budget
(Millions of sucres at current prices)[a]

	1972	*1973*	*Percentage variation*
I. *Gross current income*	*5,218.3*	*7,704.1*	*47.6*
A. Tax income	4,945.4	7,434.3	50.3
(*a*) Taxes	4,944.0	7,432.0	50.3
Exports	334.0	1,096.4	228.3
Imports	1,935.2	2,843.6	46.9
Income	986.1	1,621.9	64.5
Financial transactions	223.7	151.9	−38.9
Production and sales	1,232.7	1,416.1	14.9
Transport and communications	44.0	62.4	41.8
Other	188.3	239.7	27.3
(*b*) Special property tax	1.4	2.3	64.2
B. Non-tax income	264.4	197.4	−25.3
C. Other outstanding income	8.5	72.4	751.7
II. *Transfers*	*20.0*	*6.8*	*−66.0*
Total (I *plus* II)	*5,238.3*	*7,710.9*	*47.2*

SOURCE: Ministry of Finance.

[a]Does not include supplementary period which represents less than 3.5 per cent of the total for the year.

Attention should be drawn to the small growth of taxes on production and sales (14.9 per cent), which is not in keeping with the increase in prices and the growth of the gross product. By contrast, income taxes rose sharply (64.5 per cent). As far as the tax structure is concerned, the most important factor—as mentioned above—was the duty on exports, whose share of total taxes went up from 6.8 per cent in 1972 to 14.8 per cent in 1973. There was a slight increase in the share of income tax and a considerable reduction in that of taxes on production and sales. It may be of interest to note the disparity between the trend of taxation on the petroleum sector and that of traditional taxes, as illustrated by the following data supplied by the Ministry of Finance:

	Millions of sucres		*Percentage increase*
	1972	*1973*	
Traditional taxes.	4,884.6	6,225.8	27.5
Petroleum taxes .	353.7	1,485.1	319.8
Total . . .	*5,238.3*	*7,710.9*	*47.2*

The growth of 27.5 per cent in traditional taxes in 1973 was less than the combined effect of the increase in domestic prices and gross product, and this would appear to point to a certain degree of inelasticity of traditional taxation to deal with an expansion of economic activity and a rise in prices.

With regard to budgetary disbursements there was an increase of 40.6 per cent in total real expenditure between 1972 and 1973. As a result of the slower growth of expenditure than of income, there was a larger surplus in 1973 (796.5 million sucres at current prices) than in 1972 (349.3 million sucres). This surplus was used mostly for Central Bank financing and for the payment of interbudgetary transfers.

For illustrative purposes, it is interesting to note that the tax burden coefficient (excluding expenditure on social security) rose from 9.5 per cent in 1972 to 11.2 per cent in 1973. The increase in this coefficient was once again due to the petroleum sector, and it may rise even higher. Table 110 shows in some detail the most important items of the financial situation.

The size of the surplus and its utilization are worthy of particular attention. In the past, Ecuador's budgetary situation was characterized by persistent deficits in its balance of payments, as well as in its public sector and central government budgets. In 1973, however, the situation changed radically thanks to the favourable situation of the country's external sector. Furthermore, since 1972 the fiscal surplus has been used largely to pay off accumulated debts with the Central Bank so as to offset the marked increase in the money supply and arrest inflation. This reduction in liquidity represented more than 10 per cent of the total budget in 1973—a point which loses none of its significance even though the policy was already put into effect for a similar purpose and on a comparable scale in 1972.

The efforts made to harmonize fiscal and monetary policies within the framework of the Transformation and Development Plan are worthy of praise, for although it is true that the international situation has favoured such efforts, a lack of consistency in these policies could have had very unfavourable effects.

Broken down in another way, budgetary expenditure shows highly significant changes between 1972 and 1973 (see table 111).

Table 110. Ecuador: financial situation of the general state budget[a]
(Millions of sucres)

	1972	*1973*	*Percentage variation[b]*
Real current income.	5,145.2	7,537.2	46.5
Real total expenditure	4,795.9	6,740.7	40.6
Surplus	349.3	796.5	128.0
Utilization of the surplus	−349.3	−796.5	–
(*a*) External	946.2	−65.0	–
(*b*) Internal	−1,295.5	−731.5	–
Bonds	4.8	390.6	–
Central Bank financing	−733.8	−775.6	5.7
Other financing	8.7	−5.5	–
Inter-budgetary transfers	−575.2	−341.0	−40.7

SOURCE: Ministry of Finance.
[a] Does not include supplementary period.
[b] Only percentages of significant size have been calculated.

Table 111. Ecuador: **principal disbursements under the general state budget**[a]
(Millions of sucres)

	1972	*Percentage*	*1973*	*Percentage*	*Percentage variation between 1972 and 1973*
General services	1,719.6	34.1	2,095.8	29.5	21.9
Social development	1,857.5	36.9	2,467.2	34.8	32.8
Economic development	1,100.2	21.8	2,070.6	29.2	88.1
Public debt	364.1	7.2	460.0	6.5	26.3
Total	*5,041.4*	*100.0*	*7,093.6*	*100.0*	*40.7*

SOURCE: Ministry of Finance; 1972 figures: ECLA estimates based on official data.
[a]Does not include supplementary period.

The largest increases in 1973 were under the headings of social development and economic development. The former has to do essentially with education, social security and public health, and the latter with public works and communications, natural and energy resources, agriculture and stock-breeding, industry, trade and integration. From this it can be concluded that the expenditure policy for 1973 gave priority to economic growth and basic social services.

5. SHORT-TERM PROSPECTS FOR ECUADOR'S ECONOMY

Any attempt to forecast future developments in the Ecuadorian economy, based more on reasonable conjecture than on strict projections, naturally points to the external sector, and particularly petroleum and possible changes in the petroleum market, as being the most significant.

The National Planning Board has estimated that exports in 1974 will earn 1,179 million dollars at current prices, an increase of almost 92 per cent. A marked acceleration is expected in the growth of the external sector, which, even expressed at current prices, would almost double in value in the space of a year. If these estimates prove correct, 1974 will see yet another change in Ecuador's economic situation and offer an altogether different picture. If it is true that periods of crisis demand careful and urgent reflection, a period of external prosperity such as Ecuador is enjoying also requires profound analysis. The situation through which the country is passing must be put to the best possible use, and the undesirable indirect repercussions that accompany the boom must be identified and dealt with accordingly.

In the Planning Board's estimate, petroleum obviously accounts for almost the entire increase, since the growth rates for the other export items are quite modest. The price effect is a decisive factor in this respect and its calculation is an extremely delicate task. Imports are also expected to increase appreciably, although to a lesser extent: 64 per cent in 1974, representing a total value of 1,000 million dollars. The shares of goods and services in the total are expected to remain the same. As regards the structure of imported goods, marked increases are likely to take place in 1974 in some items, such as raw materials for agriculture (190 per cent), capital goods for agriculture (150 per cent), construction materials (100 per cent) and durable and non-durable consumer goods (50 per cent and 43 per cent, respectively).

Given this general pattern of sudden change in Ecuador's external sector, it might be well to ponder the following points:

If the review and adjustment of the Transformation and Development Plan were intended to be routine parts of the planning process, their continuation and intensification must now be much more important than in normal circumstances.

The probable magnitude of imported inflation, the monetary expansion that will result from the greater absorption of foreign currency by the Central Bank, and the price gap with neighbouring countries will have a more decisive effect on the evolution of the country's economic system. Fixing stability targets promises to be an extremely delicate operation, and price and exchange policies seem likely to be vital instruments in the general economic policy.

Special reference should be made to the problem of the structure of consumption, particularly of "luxury" goods. If appropriate measures are not adopted, the ample availability of foreign currency could lead to an increase in the consumption of sophisticated goods, and thus to a damaging demonstration effect.

Any analysis of the short-term prospects of the Ecuadorian economy must include an assessment, on the one hand, of the extraordinary potential of its export sector and, on the other, of the ability of the other productive sectors to react favourably to the new policy of allocation of resources. The magnitude of the surpluses tapped by the Ecuadorian economy will demand a vigorous response from both the public and the private sector, especially in terms of their capacity to formulate and, above all, implement projects. Designing policies that are not necessarily orthodox in nature will require no mean effort on the part of the public sector's advisory and research centres.

To sum up, the obvious problem is the sharp contrast between two sectors: the petroleum sector, with its extraordinary growth potential and high productivity, and the agricultural sector, notoriously backward and slow-moving. This gap would seem to pose one of the most serious difficulties faced by any developing country attempting to take full advantage of favourable phases in its fluctuating external trade, and the way in which Ecuador tackles the problem will undoubtedly have far-reaching implications for its future development.

EL SALVADOR

1. Recent economic trends

The slow rate of growth which had characterized the Salvadorian economy since the middle of the 1960s continued during 1973, when the gross domestic product increased by approximately 4 per cent—a rate similar to that achieved during previous years (see table 112 and figure XXXII).

It was expected that the high world prices for the principal exports of the country would have a powerful impact on the economy in view of the importance of exports (28 per cent of the product). However, for various reasons supplies for export failed to rise sufficiently to take advantage of this favourable situation, and the high prices of imports offset in part the effect of the higher export prices on net external income.

In spite of the efforts made in recent years to counter the effect of such growth-limiting factors as the smallness of the domestic market, the excessive concentration of resources on traditional export agriculture, and the lack of complementarity between the productive sectors, production activities and private spending were affected during the year by both domestic and external factors which were difficult to control. On the one hand, adverse climatic conditions caused a drop of 20 per cent in the coffee harvest, which had a considerable effect on the agricultural product and on the volume exported during the second half of the year, while the severe drought of the previous year reduced the supply of staple grains, with the result that there was an unusually large increase in imports of foodstuffs. As for other major export products, the volume of sales of cotton increased little, while that of sugar and shrimps fell considerably, although in reality sugar sales only fell in comparison with the extraordinarily high volume exported in 1972, so that it could be said that normal levels were maintained.

In these circumstances, agriculture scarcely managed to recover the levels reached prior to 1972, while the growth rates of the other sectors producing basic goods and services in general fell in comparison with the levels of 1971 and 1972.

As a growth-limiting factor, the sharpened pace

Figure XXXII. El Salvador
Natural scale

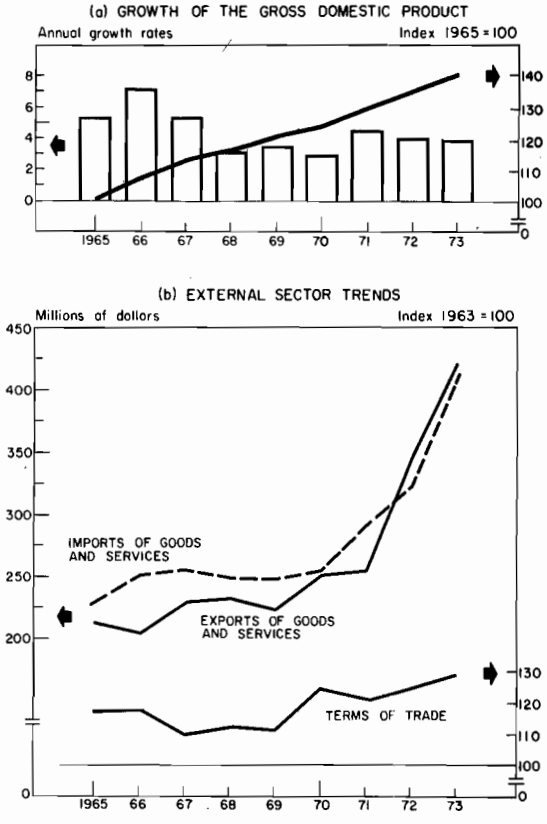


Table 112. El Salvador: total supply and demand

	Millions of colones at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*3,051.1*	*3,238.6*	*3,392.5*	*3,554.1*	*128.1*	*124.1*	*127.7*	*3.8*	*6.1*	*4.8*	*4.8*
Gross domestic product	2,458.2	2,571.7	2,676.7	2,783.8	100.0	100.0	100.0	4.4	4.6	4.1	4.0
Imports[b]	592.9	666.9	715.8	770.3	28.1	24.1	27.7	1.3	12.5	7.3	7.6
Total demand	*3,051.1*	*3,238.6*	*3,392.5*	*3,554.1*	*128.1*	*124.1*	*127.7*	*3.8*	*6.1*	*4.8*	*4.8*
Exports[b]	583.8	613.0	747.2	770.9	26.8	23.7	27.7	1.9	5.0	21.9	3.2
Gross domestic investment	302.8	338.8	284.9	369.0	15.5	12.3	13.3	−0.3	11.9	−15.9	29.5
Gross fixed investment	277.8	298.8	319.9	338.0	15.0	11.3	12.1	−1.3	7.6	7.1	5.7
Public	68.7	82.4	94.8	106.1	4.2	2.8	3.8	−3.8	20.0	15.0	11.9
Private	209.1	216.4	225.1	231.9	10.8	8.5	8.3	−0.3	3.5	4.0	3.0
Construction	126.1	...	...	...	5.9	5.1	...	1.6	...	...	...
Machinery and equipment	151.7	...	...	...	9.1	6.2	...	3.3	...	...	...
Total consumption	*2,164.5*	*2,286.8*	*2,360.4*	*2,414.2*	*85.7*	*88.0*	*86.7*	*5.0*	*5.7*	*3.2*	*2.3*
General government	229.3	240.2	255.6	271.2	8.4	9.3	9.7	6.6	4.8	6.4	5.5
Private	1,935.2	2,046.6	2,104.8	2,143.0	77.3	78.7	77.0	4.8	5.8	2.8	1.8

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco Central de Reserva; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

of inflation in the industrialized economies had just as important an effect as the weak response of export supplies to the price incentives, for it affected domestic prices through the large increase of approximately 18 per cent in the prices of imports. The wholesale price index also recorded an increase of 18 per cent in the first nine months of 1973. The rise in international prices for Salvadorian exports had little effect on this, both because of the very slight impact of exports on domestic consumption and because of the measures taken to maintain normal supplies in the domestic market. Even so, however, there was a shortage of basic consumer goods and production costs increased because of wage increases.

The signs of economic instability which were observable in productive activities, on the domestic market and in the unprecedented rise in prices in El Salvador were reflected in the reduced growth rate of private investment. Bank credit went mainly to finance imports as a hedge against expected price rises and to build up stocks of coffee in order to regulate its supply and maintain high prices. However, the high value of exports helped to increase public revenue and made it possible to press forward with a series of projects, mainly covering electrification, telecommunications, health, housing and education. Thus, general government expenditure (which increased by 5.5 per cent) and public investment (which increased by 11.9 per cent) were the most dynamic demand variables in 1973 (see table 112).

2. Major sectors of activity

From the point of view of supply, the prime movers in the over-all development process in 1973 were the recovery in the production of an important group of agricultural products for internal consumption (most important among them being beans, maize and, to a lesser extent, sorghum), the expansion of cotton and sugar-cane cultivation, and the considerable increases in the generation of electrical power and in commercial activity. In contrast, the drops in the production of coffee and rice, the pronounced reduction in the growth rate of construction and the downturn in some service activities had a marked effect in slowing down the economic expansion of El Salvador (see table 113). Moreover, the sluggish growth of domestic consumption due to the big rise in domestic prices reduced the incentives to the manufacturing sector to accelerate its growth.

Provisional figures indicate a rise of 1.6 per cent in the value added in agriculture, which can be explained by the recovery in the production of cereals after a year of adverse climatic conditions. Thus, although a smaller area was devoted to the main crops for domestic consumption, the considerable increase in yield provided, in general, higher volumes of production than in the previous year, especially in the case of maize and beans. However, it should be pointed out that because these increases in production came from harvests in the second half of the year, they did not give a corresponding increase in domestic supplies in time, so that the deficit in domestic supply had to be made up with imports.

The increased productivity referred to was apparently due to the return of normal climatic conditions after the severe drought of 1972, although this does not mean that the results of the increasing use of technological improvements should be underestimated. Among the most important of these improvements are the widespread use of new seed varieties, the wider coverage of State agricultural extension services, and the introduction of new regulations which improved control of the use of pesticides, fertilizers and other inputs. A further impetus to production was the strengthening of the support price schemes promoted by the Institute for Regulating Supply whose efforts in 1973 were also aimed at easing the inflationary pressures which might result from the poor previous harvest. In addition, it is hoped that in the medium term other institutional changes, such as the recent establishment of the Agricultural Development Bank, will help to consolidate the official machinery to maintain supplies of basic cereals and will facilitate the implementation of agricultural plans, particularly those designed to provide incentives for small- and medium-scale farmers.

Although area yields of rice increased appreciably, a sharp reduction of 46 per cent in the area under cultivation resulted in a smaller harvest than in 1972, as a consequence of which it will undoubtedly be necessary to make further imports in 1974. On the face of it, it would appear that this is the result of the increased production of export crops, stimulated by the rise in international prices, to the detriment of crops for domestic consumption. It is possible, therefore, that if the present international prices for products such as cotton persist, it will be difficult to keep on providing an adequate supply of products for domestic consumption. The inflationary consequences of this, which are already being felt in other countries of the region, doubtless constitute one of the biggest immediate problems. It is probable that in El Salvador the severe shortage of cultivable land and strong demographic pressure will make it necessary to redouble efforts to increase the area of land under irrigation and make better use of areas at present not fully cultivated.

With respect to the main export crops, atten-

Table 113. El Salvador: gross domestic product at factor cost, by sector of economic activity

	Millions of colones at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	622.3	645.7	640.3	650.5	28.6	27.7	25.5	3.9	3.8	−0.9	1.6
Mining	3.5	3.4	3.9	3.9	0.2	0.2	0.2	3.8	−2.9	14.3	–
Manufacturing	385.8	412.7	434.4	453.9	16.3	17.2	17.8	5.7	7.0	5.2	4.5
Construction	76.8	85.0	98.9	102.6	4.0	3.4	4.0	1.2	10.7	16.5	3.7
Subtotal goods	*1,088.4*	*1,146.8*	*1,177.5*	*1,210.9*	*49.1*	*48.5*	*47.4*	*4.3*	*5.4*	*2.3*	*2.8*
Electricity, gas and water	46.6	50.8	56.6	61.0	1.6	2.1	2.4	10.0	9.0	11.4	7.7
Transport and communications	132.0	133.6	141.0	148.6	5.2	5.9	5.8	7.1	1.2	5.5	5.4
Subtotal basic services	*178.6*	*184.4*	*197.6*	*209.6*	*6.8*	*8.0*	*8.2*	*7.8*	*3.2*	*7.2*	*6.1*
Commerce and finance	485.3	494.3	516.6	548.5	23.7	21.6	21.5	2.7	1.9	4.5	6.2
Government	187.6	204.7	219.2	233.7	7.8	8.4	9.2	5.9	9.1	7.1	6.6
Ownership of dwellings	110.9	114.1	118.7	123.2	5.2	4.9	4.8	3.7	2.9	4.0	3.8
Miscellaneous services	191.9	205.2	217.4	227.9	7.4	8.6	8.9	7.5	6.9	5.9	4.8
Subtotal other services	*975.7*	*1,018.3*	*1,071.9*	*1,133.3*	*44.1*	*43.5*	*44.4*	*4.3*	*4.4*	*5.3*	*5.7*
Total	*2,256.5*	*2,360.7*	*2,457.1*	*2,555.4*	*100.0*	*100.0*	*100.0*	*4.4*	*4.6*	*4.1*	*4.0*

SOURCES: 1965-1971: ECLA calculations based on figures supplied by the Banco Central de Reserva of El Salvador; 1972-1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a]Preliminary figures.

tion may be drawn to the sharp drop in the production of coffee, the yield of which was severely affected by adverse climatic conditions (drought in April, hail at the beginning of the winter, and rain and wind towards the end of the year), which reduced production by approximately 20 per cent.

Cotton production increased by more than 10 per cent, in contrast with the 1972 performance, when in spite of the considerable increase in the area of land sown, the severe and prolonged drought drastically reduced the yields of raw and ginned cotton. That shortfall in the harvest, together with the increase in the cost of imported inputs, made the 1973 operating results less favourable than in previous years. It should be noted, in this connexion, that although the international price for the fibre rose considerably during the year, the manner of marketing of the product, with a large proportion of the sales on a future basis, meant that the income of producers did not rise at the same rate as that of the prices prevailing in foreign markets.

In the remaining branches of agricultural activity, climatic conditions favoured normal development, and in sugar-cane, in particular, it was possible to see the favourable effects of the improvement in cultivation methods and the increasing use of fertilizers in recent years.

One of the factors that stood in the way of higher manufacturing output was the sudden deterioration in the conditions of access to the Costa Rican market as a result of the foreign exchange arrangements adopted by that country in 1972. The effect of these regulations was to improve the competitive position of Costa Rican products, and to some extent this also affected the potential for increasing Salvadorian supplies to other countries of the sub-region. In order to counteract this situation, bank credit was substantially increased, the extra credit being channelled primarily to the building up of stocks and the support of exports to third countries. Measures were also taken to strengthen the interrelation between productive activities so as to alleviate the relative scarcity of employment opportunities in the face of the increasing supply of urban workers and to facilitate the access of Salvadorian products to new markets.

Although these efforts do not seem to hold out any short-term prospects, they do represent a significant advance in the convergence and harmonization of the instruments of industrial policy, and this has been reflected, in part, in a considerable increase in the number and size of projects submitted to take advantage of fiscal incentive schemes. Among these the most important are the financing programmes undertaken by the Industrial Development Institute, which specialize in agro-industrial projects,[60] the preferential attention given to the development of small-scale enterprises,[61] the consolidation of certain external trade agreements, and in particular the incentives for the promotion of private projects based on the protection to be provided by the law on free zones. Assistance was also given to the establishment of make-up industries which, because of the increasing costs of labour in the industrialized countries, offer greater advantages than in the past.

The conditions which have temporarily slowed down expansion in the manufacturing sector were compensated to a certain extent by the increased demand generated by the reconstruction work in Nicaragua and increases in some trade flows to countries outside the area. Thus, the performance of some branches of manufacturing activity, especially the cotton textile industry, the manufacture of agricultural tools and implements, chemical products, and building materials, brought about a moderate increase in industrial production as a whole (see table 113).

Intermediate activities such as commerce and transport grew more rapidly than in 1972, mainly because of the sharp increase in imports. The value added in the generation of financial intermediation services also reflected greater activity in 1973 because of the credit policy followed.

3. The external sector

Exports of goods increased during the year by a little more than 21 per cent at current prices, as a result of an increase of approximately 3 per cent in the quantum and 18 per cent in prices. The outstanding feature as regards exports was the favourable trend in the international prices for the principal products. The three most important items in external sales recorded an average growth of more than 20 per cent in volume. On the other hand, sugar and shrimps recorded quite marked drops, while cotton and coffee expanded at comparatively low rates.

Exports of coffee during 1973 went through two entirely different periods: one of sharp growth in the first six months, and the other of decline in the second part of the year. In view of the importance of foreign sales of this product to the Salvadorian economy, this fact caused rela-

[60] Especially the central sugar refinery in Jiboa, which will make possible an increase in the cultivation of this crop in the Jiboa Valley, where a major problem at present is the high cost of transporting cane to the factory.

[61] A notable measure in this connexion is the establishment of a financial institution (Fondo de Garantía para la Pequeña Empresa) to deal especially with the problems of small-scale enterprises.

tively important changes in domestic demand, in government income and in the means of payment.

During the first part of the year, in keeping with the high level of the 1972/1973 harvest, sales of coffee were similar to those of the previous year, that is to say, large quantities were exported to meet the sustained demand on the world market. In the last six months, however, there was a marked contraction in exports, not so much because of the smaller size of the 1973/1974 harvest as because Salvadorian exporters—by agreement with other coffee-exporting countries and as part of a price defence policy—restricted sales so that, after exporting 80,000 tons in the first part of the year only 30,000 were exported in the second half.

Under this policy, jointly adopted by 14 producing countries which account for approximately 80 per cent of world production, a system of regulating supply through the establishment of buffer stocks[62] was introduced and proved successful in keeping prices up.

International market prospects for 1974 continue to be favourable in view of the probable reduction in the world production of coffee beans and the continued implementation of the current policy of the producer countries designed to protect prices. It is expected, therefore, that even if there is a contraction in Salvadorian supply because of a drop in production in the current crop-year, price changes and the use of a part of the surplus accumulated from the previous harvest could mean that the country would receive more foreign currency than it did in 1973.

In contrast to previous years, there was a marked reduction in the growth rate of cotton sales as a result of the abnormally poor harvest in 1972. Furthermore, the average unit price obtained by Salvadorian exports was lower than the prevailing international price, since a large part of the production had already been sold at the beginning of the season on a future basis.

There was a drop of 20 per cent in the volume of sugar exported compared with the high export levels of 1972, which had been achieved to a large extent by using accumulated surpluses. As for prices, the non-renewal of the international sugar agreement led to considerable world demand which increased the unit value of Salvadorian exports by approximately 27 per cent.

The domestic controls introduced to protect the supply of raw materials and essential consumer goods within the country acted to some extent as a constraint on external sales. During 1973 controls were introduced to regulate the export of products such as sugar, meat and cereals, with a view to discouraging possible speculation and excessive price increases because of the scarcity of supplies.

As regards exports to the Central American area, the main features were the high growth rate of Guatemalan purchases, the considerable imports by Nicaragua due to the exceptional demand caused by the Managua earthquake, and the decline in sales to Costa Rica.

With regard to the export of manufactures to third countries, the most notable feature was the satisfactory results obtained this year within the Generalized System of Preferences granted by the developed countries. These results may be explained, in part, by the improvement in the competitiveness of some of the country's manufactured articles, particularly cotton textiles. A high proportion (80 per cent) of the exports of manufactures to third countries was made up of cotton textiles, for which Japan was the major buyer, accounting for two thirds of total purchases under this heading.

Moreover, in 1972 an agreement was reached with the United States for sales of cotton textiles amounting initially to 5.1 million yards, to increase by 5 per cent each year. This quota was raised to 6.2 million yards for the period April 1973-March 1974 and will continue to increase by 5 per cent each year.

During the year, efforts to find new markets continued. As a result, in addition to the sales made under the Generalized System of Preferences and the favourable agreement on cotton textiles concluded with the United States, progress was made in the bilateral negotiations with the Dominican Republic and efforts to reach trade agreements with Ecuador and Colombia continued. It is also hoped to increase trade with Mexico.

Imports of goods, for their part, increased by approximately 29 per cent at current prices and by 10 per cent in quantity.

This marked increase in purchases is explained by the need to import foodstuffs to satisfy domestic demand following the poor harvest in the previous year. Moreover, with a view to limiting domestic inflationary pressures, bank credit was made available for advance purchases of a wide range of imports, the reason for this being the expected increase in prices in the United States, from which more than half of El Salvador's imports come, and also the desirability of converting a proportion of El Salvador's dollar reserves into actual goods, in view of the expected downward trend of that currency on world markets.

[62] The countries undertook to maintain during the next few years a buffer stock equivalent to 10 per cent of their average exports for the last three years, i.e., a stock of 5.5 million bags.

The rate of increase of imports from the Central American Common Market during 1973 was considerably higher than that of exports to the same area but the balance still remained favourable.

The big increase in purchases from Costa Rica stands out among the imports from the Common Market. This, together with the deterioration in exports to that country, considerably reduced the favourable trade balance traditionally enjoyed by El Salvador.

As in 1972, the difference between the increase in exports and that of imports produced a relatively satisfactory trade balance which, in spite of the increased net payments for services, gave a current surplus of 8.6 million dollars, compared with 22 million in 1972. However, El Salvador has long been characterized by very irregular capital movements, and in 1973 there was a considerable net outflow estimated at some 19 million dollars which was a contributory factor in the drop of 10.6 million dollars in the international reserves (see table 114).

4. Public income and expenditure

During 1973 the public sector continued to give impetus to the formation of capital, thus compensating for the sluggish growth of private investment. Measured in constant prices, public fixed investment increased by 12 per cent, but this rate of increase nevertheless represents a continuation of the downward trend in growth rates observed since 1970 (see table 112). The increased invest-

Table 114. El Salvador: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	252.4	263.2	347.8	421.9
Goods FOB	231.5	238.9	312.9	380.0
Services	20.9	24.3	34.9	41.9
Transport	1.5	1.8	8.6	9.9
Travel	8.5	10.1	10.9	12.7
Imports of goods and services	253.8	291.0	323.7	410.2
Goods FOB	194.7	227.3	248.2	321.5
Services	59.1	63.7	75.5	88.7
Transport	26.3	29.8	36.0	43.4
Travel	20.4	20.4	20.4	22.9
Net external investment income	−8.8	−10.2	−11.0	−13.4
Profits	−6.7	−6.4	−6.8	−7.8
Interest	−2.1	−3.8	−4.2	−5.6
Net private transfer payments	12.4	16.1	8.9	10.3
Balance on current account	2.2	−21.9	22.0	8.6
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	−2.2	21.9	−22.0	−8.6
(*a*) Net external non-compensatory capital	14.7	29.0	14.3	
Direct investment	3.7	7.0	6.6	
Long- and medium-term loans	8.7	14.7	33.2	
Amortization payments	−6.8	−10.3	−14.1	−19.2
Short-term liabilities	7.2	16.5	−14.6	
Official transfer payments	1.9	1.1	3.2	
(*b*) Domestic non-compensatory capital or assets	−6.0	−1.0	−10.9	
(*c*) Errors and omissions	−2.7	−14.0	−10.8	
(*d*) Allocations of SDRs	4.2	3.7	4.0	–
(*e*) Net compensatory financing (increase −)	−12.4	4.2	−18.6	10.6
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.1	18.3	18.0	0.6
Amortization payments	−12.1	−13.7	−19.1	−10.6
Movements of foreign exchange reserves (increase −)	1.1	1.7	−16.0	23.1
Movements of gold reserves (increase −)	−2.5	0.1	0.2	−2.0
SDRs (increase −)	–	−2.2	−1.7	−0.5

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

ment was made mainly by the decentralized agencies and public sector enterprises, since central government investment apparently remained similar, at current prices, to that of 1972.

The increase in investment was connected mainly with work on the Central American telecommunications network and work carried out by CEL (Comisión Ejecutiva Hidroeléctrica del Río Lampa), which completed the thermal plant at Soyapango and made considerable progress in the work on the geothermal station at Ahuachapan and the hydroelectric station at Cerrón Grande.

External participation played a considerable part in public investment, for foreign capital provided a third of the total cost, a similar amount being provided by the decentralized agencies themselves.

Central government capital expenditure remained at a similar level to 1972, but there was an increase of 19 per cent in current expenditure, although this was less than the 21 per cent increase in current income. The result was an increase of 35 per cent in current savings.

In the 1973 national budget, high priority was given to the implementation of social programmes. Special attention was given to programmes of preventive medicine, which included an extensive vaccination campaign, educational targets were achieved, and the planned programmes on improvement of the environment, nutrition and epidemiology were implemented. Community development programmes gave priority to manpower training and the construction of infrastructural works to improve community living conditions, while a Social Housing Fund was set up for financing building programmes.

The increase in current income resulted from higher revenue from taxation, mainly from external trade, since the higher volume of exports and imports during the year increased the receipts from duties levied on them. The adoption of administrative measures—among them the introduction of a tax identification card—increased receipts, particularly from income, property, and inheritance taxes.

The relatively high level of current saving achieved by the central government covered almost two thirds of capital expenditure (47 per cent in 1972); the remainder was covered by foreign loans.

5. Monetary and credit policy

Monetary policy was directly affected by tensions in the external sector and consequently varied during the year.

Table 115. El Salvador: consolidated balance of the banking system, 1970–1973
(Millions of colones)

	End-year balances			
	1970	*1971*	*1972*	*1973*[a]
Assets	*875.4*	*961.4*	*1,162.6*	*1,279.9*
International reserves (net)	131.1	131.0	182.4	131.8
Credit and investments	681.2	771.9	912.6	1,081.8
Public sector (net)	78.8	92.0	115.5	83.4
Central government	30.4	49.9	58.1	23.1
Official institutions	48.4	42.1	57.4	50.3
Private sector	602.4	679.9	797.1	998.4
Other assets (net)	63.1	58.5	67.6	66.3
Liabilities	*875.4*	*961.4*	*1,162.6*	*1,279.9*
Money supply	295.3	315.4	389.6	466.0
Coin and bank-notes	136.1	145.2	174.9	201.1
Private sector sight deposits	159.2	170.2	214.7	264.9
Other private sector deposits	300.2	342.8	417.5	491.5
Savings	141.3	156.4	176.3	199.3
Fixed-term deposits	157.7	185.8	240.7	291.7
Foreign exchange	1.2	0.6	0.5	0.5
Mortgage bonds, share certificates and capital stock holdings	99.3	97.6	120.2	121.1
Foreign long-term debentures	70.6[b]	84.7[b]	97.7[b]	76.9[b]
Capital and reserves	110.0	120.9	137.6	124.4

SOURCE: Banco Central de Reserva of El Salvador.
[a]Estimates.
[b]Including allocations of International Monetary Fund Special Drawing Rights amounting to 10.5 million colones in 1970, 19.9 million in 1971 and 31.6 million in 1972 and 1973.

Towards the end of 1972 there was a sharp expansion in the money supply and bank deposits, which enabled the banking system to increase the volume of credit considerably, and during the first months of 1973 the considerable inflow of foreign currency resulting from coffee exports also helped to strengthen credit possibilities by providing the banks with greater liquidity than had been planned for the first half of the year. The international reserves of the banking system continued to increase rapidly (50 per cent between December and May), and the monetary authorities therefore decided to revise the programme prepared at the beginning of the year and to use the machinery at their disposal to channel the liquidity generated by the external sector in the appropriate directions. Some measures were designed for that purpose and, since the economy was showing signs of increasing inflation which was mainly of external origin, it was decided to promote advance external purchases in order to reduce the effect on domestic prices (see table 115).

This financing of imported stocks coincided with the policy of the coffee exporters to withhold supplies, and they in turn requested bank credit to be able to continue their sales strategy. Thus, the main cause of the increased creation of means of payment was the rapid expansion of credit to the private sector. The main purpose of this was to finance stocks but it also had the effect of reducing considerably the resources available for development purposes.

The Government's success in improving revenue from taxation, together with the considerable inflow of external funds, enabled the public bodies to reduce their liabilities to the banking system.

Within the framework of the policy of institutional organization followed during the year in the field of finance, the main development was the passing of the law setting up the Monetary Board, a body responsible for formulating and directing State policy in monetary, exchange, credit and general financial matters in the interests of economic and social development.

WEST INDIES ASSOCIATED STATES

1. Recent economic trends

The gross domestic product, measured at current prices, increased by an estimated 7 to 8 per cent in 1973 compared with an average of 10 per cent annually between 1970 and 1972 (see table 116).

The main boost in economic activity came from agriculture, construction, tourism and government. Following a peak period in 1969, agriculture declined sharply in 1970, but it has been recovering slowly to the levels of the former year, thanks to sharp price increases. The most dynamic sectors were tourism and government, which together stimulated the construction and services sectors. The planned government expenditure will doubtless speed up economic activity, especially in construction, but the growth of tourism will partly depend on an improvement in the international economic situation, especially in North America, where the majority of tourists come from.

Table 116. West Indies Associated States: estimates of gross domestic product at current factor cost

	Millions of East Caribbean dollars				*Annual growth rate (percentages)*			
	1970[a]	*1971*[a]	*1972*[a]	*1973*[b]	*1970*[a]	*1971*[a]	*1972*[a]	*1973*[b]
Export agriculture	31.5	31.2	32.6	...	-16.9	-1.0	4.5	...
Agriculture for domestic consumption, livestock and fishing	26.4	27.6	29.2	...	6.0	4.5	5.8	...
Mining and manufacturing	10.3	11.2	12.1	...	2.0	8.7	8.0	...
Construction	42.0	47.9	51.3	...	34.2	14.0	7.1	...
Distribution	47.7	54.2	60.2	...	32.9	13.6	11.1	...
Government[c]	48.2	55.4	61.4	69.0	13.9	14.9	10.8	12.4
Miscellaneous	71.8	79.8	86.3	...	14.7	11.1	8.1	...
Hotels	(18.0)	(21.6)	(24.3)	...	(36.4)	(20.0)	(12.5)	...
Total	*277.9*	*307.3*	*333.1*	*358.0*	*13.4*	*10.6*	*8.4*	*7.5*

SOURCES: Mainly *Economic Surveys and Projections* (several issues), British Development Division in the Caribbean, Barbados; and data provided by the territories. (Adjustments have been made to projected figures on the basis of data available in ECLA's files.)

Note: Several of the figures have been revised on the basis of more definitive data.

[a] Estimates.

[b] ECLA's preliminary projections.

[c] Including public utilities.

In the external sector the large deficit on the merchandise trade continued to grow, but there was some indication in 1972 and 1973 that the rate might be slowing down, since imports appear to have grown slightly less than exports.

The net position, however, has continued to deteriorate, as may be seen from the fact that while in 1971 the commercial banks had a net surplus of foreign exchange, in 1972 and 1973 there was a deficit.

The economies of the WIAS countries have been hard hit by inflation and shortages of several basic commodities. In view of the high propensity to import, the effect of world price increases has been severe, but it has had one favourable result in arousing interest in developing local production, especially of foodstuffs.

2. Major sectors of activity

Revised estimates of the gross domestic product at current factor cost show a modest recovery by the agricultural sector in 1972 after the decline of 1970 and 1971. At current prices, the gross domestic agricultural product increased by 5 per cent in 1972, and preliminary figures indicate that there was a further slight increase in 1973. While export agriculture is still the major sub-sector, it has been declining since 1970, but production for domestic consumption has been growing gradually, and in 1972 its share in the agricultural product was 47 per cent. Generally speaking, from 1969 onwards climatic conditions have been bad and the sector has also suffered from marketing problems. Furthermore, Antigua's withdrawal in 1972 from sugar production caused a decline in output which has still not been made good. Available data show that the volume of exports of most crops declined between 1971 and 1972, and this trend continued in 1973, except for citrus fruit. In both 1972 and 1973, however, the prices of the main basic commodities increased and thus offset the decline in volume.

As regards agriculture for the domestic market, the production of root crops, vegetables and fruit has been increasing, generally speaking, in most of the States, despite the drought. Progress has also been made in livestock production—particularly small stock—and catches of fish and lobster have increased.

In 1973 the contribution of the government sector to the total gross domestic product was around 19 per cent. According to rough estimates, the value added in the sector, measured at current prices, increased by 12 per cent. The previous year it had increased by 11 per cent, while in 1971 the figure had been higher (15 per cent).

Expenditure on general administration (mainly wages and salaries) and social services absorbs an overwhelming proportion of the total ordinary expenditure. The structure of capital expenditure fluctuates from year to year, as projects are completed, but it has been observed that there has recently been an emphasis on agriculture, tourism, and infrastructural projects.

According to estimates, the total ordinary revenue budgeted by the Governments amounted to more than 120 million East Caribbean dollars in 1973, but later events tend to suggest a rather higher final figure. At all events the figure estimated is 45 per cent higher than in 1969.

As is consistent with their dependence on imports, the States obtain much of their ordinary revenue from import duties. In 1970 these accounted for 33 per cent of total ordinary revenue, but this figure dropped to slightly over 29 per cent in 1971 and 1972. Income tax is the second most important source of revenue, its share being 20 per cent in 1972, but it is estimated that it dropped in 1973. Revenue from miscellaneous taxes, duties, licences, etc., continues to increase rapidly. Generally speaking, government revenue mainly originates from local sources and from funds provided by the United Kingdom to finance capital expenditure. The States also receive technical and financial assistance from other Governments and from international organizations, particularly for development projects.

Projections for 1973, based on partial data, suggest a moderate increase of less than 5 per cent in the tourism sector. It is estimated, however, that the relative importance of this activity in the gross domestic product continued to increase and rose to approximately 7 per cent.

Available figures indicate that in 1973 there was no appreciable increase in the number of visitors staying in the Associated States but the number of cruise-ship visitors increased significantly. The decline in the growth rate of the number of visitors may be attributed largely to external factors, such as international monetary problems, the consequent devaluation of the dollar, and the inflation which has made itself felt throughout the world. The general climate of uncertainty would appear to have reduced vacation travel, while the Associated States, which have not escaped the effects of inflation either, have transferred some price increases to the tourist sector, thus increasing costs for the tourist.

Available data for 1972 and 1973 indicate that other sectors showed less dynamism than in previous years. The rate of growth of accommodation for tourists has been declining, and the rather slower growth of government expenditure, together with shortages and increased prices of imported materials, has checked the growth of the construction sector. Manufacturing seems to be barely

Table 117. West Indies Associated States: value of total trade, selected states
(Thousands of East Caribbean dollars)

	1971[a]			1972[a]		
	Imports	*Exports*	*Balance*	*Imports*	*Exports*	*Balance*
Antigua	...	...	...	...	...	...
Dominica	31,963	13,286	−18,677	34,693	13,459	−21,234
Grenada	45,590	10,163	−35,427	42,811	10,491	−32,320
Montserrat	8,558	279	−8,279	12,080	122	−11,958
St. Kitts-Nevis-Anguilla	30,505	8,059	−22,446	30,563	12,117	−18,446
St. Lucia	68,998	12,227	−56,771	68,690	15,118	−53,572
St. Vincent	36,172	5,957	−30,215	35,164	6,704	−28,460
Total	*221,786*	*49,971*	*−171,815*	*224,001*	*58,011*	*−165,990*

SOURCES: External trade reports and data supplied to ECLA.
[a]Estimates.

maintaining its share of 4 per cent in the gross domestic product. Distribution, which depends heavily on imports, is estimated to have increased in 1972 and 1973, but at rates believed to be lower than that of 1971, which was 14 per cent. The banking sector showed great activity during 1972, but in 1973, in response to what was happening in other sectors, its growth rate declined a little.

3. THE EXTERNAL SECTOR

External trade is of great importance for the economies of the West Indies Associated States, since the structure of production is mainly oriented towards export agriculture and depends to a large extent on the importation of a wide range of consumer goods and production inputs.

The annual rate of growth of imports has declined since 1969. Available figures for exports, however, indicate that there was a recovery in 1972, in contrast to the trend observed in 1970 and 1971, when some major exports, including bananas, declined. In 1972 the volume of exports of bananas dropped, but their value increased. The volume of exports of spices, sugar, citrus fruit and coconut oil increased in 1972, but cocoa declined. Data on trade movements in 1973 are lacking, but there are indications of an improvement in exports compared with the previous year.

In 1972, the United Kingdom occupied first place among the nations trading with the Associated States, followed by the CARIFTA countries (taken as a whole), the United States and Canada. Although data for 1973 are not available, these positions do not appear to have changed.

In spite of the progress in the export trade observed in 1972, the merchandise trade deficit continued to be appreciable (see table 117). Revised estimates placed the 1971 deficit at around 220 million East Caribbean dollars, and according to projections for 1972 and 1973, the deficits for these years were still higher. It is believed that these deficits were offset to some extent by the increased inflows of foreign capital for investment in tourism and the inflow of official capital. Net foreign exchange assets in the commercial banks have been negative since 1972, showing the deterioration in the external payments situation.

GUATEMALA

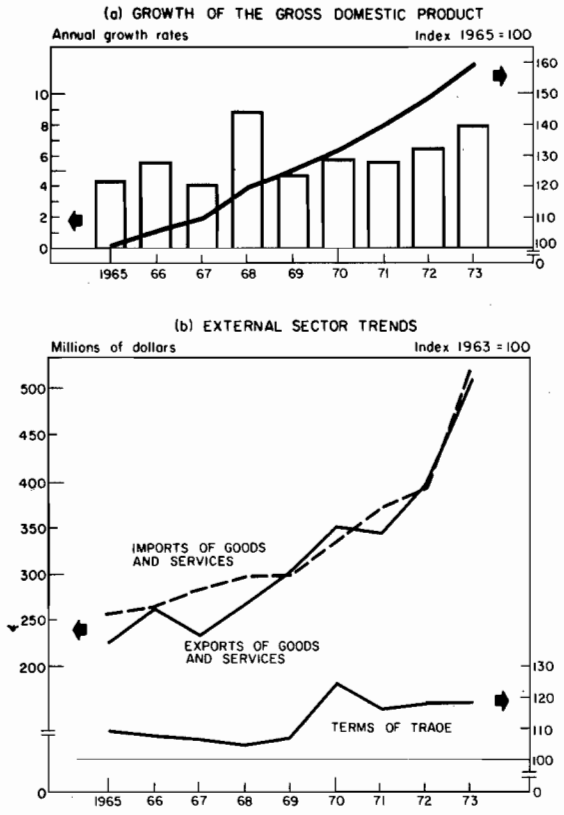
1. RECENT ECONOMIC TRENDS

The growth rate of the Guatemalan economy, which has been increasing from year to year since the beginning of the 1970s, was approximately 8 per cent in 1973. This was considerably higher than the growth rate of the population, and raised the per capita product to approximately 445 quetzales (see figure XXXIII).

The higher rate of growth registered in 1973 occurred against an unusual background of inflationary pressure which can be considered significant for the country, in view of the relative stability of prices in the past. Thus, the consumer price index shows that there were increases of approximately 14 per cent compared with only 0.5 per cent in 1972.

Further, for the second successive year, the favourable performance of the economy was associated with increases in the volume of exports—6 per cent in 1972 and 7.7 per cent in 1973—due mainly to higher sales of traditional agricultural products such as sugar, bananas, fresh meat and coffee. Moreover, during 1973, increases in the volume of exports were associated with the higher

Figure XXXIII. Guatemala
Natural scale



prices prevailing in external markets. For this reason the unit value of Guatemalan exports increased by 20.7 per cent, which, in addition to increasing the value of exports, was yet another factor exerting pressures on domestic prices, owing to an increase in liquidity and its incidence on the cost of certain products. In this respect, mention should be made of the marked influence of external factors on the means of payment in the banking system, and on the inadequate domestic supply of basic grains, not only as a result of adverse weather conditions, but also because of the high rate of investment in export crops in response to higher international prices. The inadequate supplies exerted pressure on prices and stimulated imports, which, in turn, because of prevailing world inflationary trends, had to be purchased at relatively high prices. This also had its effect on domestic costs and prices.

Because of the relative inelasticity of domestic production and the fact that it is export-oriented, the upturn in economic activity and the levelling-off of imports in 1972 made it impossible to avoid foreign purchases in increased quantities and at higher prices. The quantity of imported goods increased by 11 per cent, and the rise in unit value was 21 per cent. This rate was considerably higher than that of 1972 (7.2 per cent). Thus the impact of foreign purchases on the level of prices was greater in 1973, since imports (at constant prices) accounted for almost 17 per cent of the gross domestic product.

Apart from those factors linked with foreign trade, there was the pressure on prices which stemmed from higher capital expenditure. This increased by 5.7 per cent compared with 3.9 per cent in 1972. The continuous activity of the public sector was of particular importance (for the second consecutive year public investment was higher than 20 per cent), for it had the immediate effect of increasing demand without simultaneously increasing the supply of goods and services, which needs a certain amount of time to respond to these changes. Thus, investment in the public sector was higher than the targets established in the National Plan for 1973 (see table 118).

High levels of investment continued to be channelled into the expansion of the road network and the construction of access roads–to bring new areas within the market economy–as well as into rural electrification and irrigation works, with a view to alleviating the problems of employment and low income in the marginal population groups, and helping to increase their productivity. Social programmes were also implemented, among others, the construction of schools and hospitals, and the completion of urban infrastructure works.

Private investment began to react slightly. It increased by 1.2 per cent following its contraction in 1972, so that it barely regained the levels of investment registered in 1971. This recovery could be attributed to greater stability in trade relations with the Central American sub-region (especially Honduras), and the increased expectations and income stemming from the high international prices for the principal exports. However, it seems likely that a large part of private investment continues to be channelled into relatively secure activities such as construction. There is reason to expect a more rapid growth of private investment following the efforts made by the Finance Corporation (CORFINA) in identifying projects and providing financial backing.

The higher prices also had an impact on private consumption expenditure, which increased at a slightly slower rate than that of the previous year, in spite of the high liquidity in the economy as a result of the reduced capacity of many sectors to adjust salaries to the pace of inflation.

Monetary liquidity was directed to a great extent to foreign purchases–at higher prices as mentioned earlier–and exercised pressure on the domestic level of prices. The increase in bank

Table 118. Guatemala: total supply and demand

	Millions of quetzales at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965–1970*	*1971*	*1972*	*1973*[a]
Total supply	*2,100.6*	*2,218.0*	*2,335.2*	*2,522.8*	*117.9*	*117.8*	*116.7*	*5.7*	*5.6*	*5.3*	*8.0*
Gross domestic product	1,783.2	1,882.7	2,004.3	2,162.6	100.0	100.0	100.0	5.7	5.6	6.5	7.9
Imports[b]	317.4	335.3	330.9	360.2	17.9	17.8	16.7	5.5	5.6	–1.3	8.9
Total demand	*2,100.6*	*2,218.0*	*2,335.2*	*2,522.8*	*117.9*	*117.8*	*116.7*	*5.7*	*5.6*	*5.3*	*8.0*
Exports[b]	307.3	307.2	325.7	350.7	16.8	17.2	16.2	6.3	–	6.0	7.7
Gross domestic investment	204.1	235.7	220.0	263.8	11.8	11.4	12.2	5.2	15.5	–6.7	19.9
Gross fixed investment	198.5	215.4	223.9	236.7	11.2	11.1	10.9	5.7	8.5	3.9	5.7
Public	38.6	41.0	50.0	60.7	2.3	2.2	2.8	4.3	6.2	22.0	21.4
Private	159.9	174.4	173.9	176.0	8.9	8.9	8.1	6.0	9.1	–0.3	1.2
Construction	62.0	...	...	...	4.6	3.5	...	0.1	...	...	...
Machinery and equipment	136.5	...	...	...	6.6	7.6	...	9.0	...	...	...
Total consumption	1,589.2	1,675.1	1,789.5	1,908.3	89.3	89.1	88.2	5.7	5.4	6.8	6.6
General government	126.1	116.7	122.5	130.1	6.8	7.1	6.0	6.6	–7.5	5.0	6.2
Private	1,463.1	1,558.4	1,667.0	1,778.2	82.5	82.0	82.2	5.6	6.5	7.0	6.7

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Banco de Guatemala; 1973: ECLA estimates based on official figures.

Note: The figures for exports and imports of goods and services were taken from the balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

deposits continued and the domestic supply of goods and services increased somewhat.

In respect of production, the agricultural sector maintained practically the same rate of growth (7 per cent) as in the two preceding years, supported by the development of traditional crop farming for export and livestock (see table 119).

Difficulties continued to be experienced in the production of basic grains, not only because of unfavourable weather conditions, but also because more and more funds were being channelled towards the production of export goods which could earn high prices. Maize had to be imported from the United States and Honduras, and beans from the latter country, to offset the shortfalls in production.

The effect of increased economic activity, the improvement in sales to the sub-region and a favourable credit policy helped to stimulate growth in the manufacturing sector: the growth rate rose from 5.2 per cent in 1972 to 6 per cent in 1973. Construction recovered its previous high rates of growth (15 per cent in 1973).

The increased electric energy generation capacity installed in recent years helped to maintain the high rate of growth in the electricity, gas and water sector (9 per cent in 1973). As regards the supply of drinking water, of particular importance were the works carried out on the Atlantic and Xaya-Pixcaya projects. The former is already operating and it is expected that the first phase of the latter will be completed in 1974. As to electric power, work on the programmed regional systems of rural electrification is continuing and is expected to be completed in 1975.

2. The external sector

In 1973, the current account of the balance of payments showed a negative balance of approximately 27 million dollars, in spite of the pronounced increase in exports of goods and services (29 per cent), which was not enough to finance an even higher increase in imports (31.7 per cent). Net external investment income increased by 22 per cent (see table 120 and figure XXXIII).

The large increase in exports was associated mainly with high international prices for traditional exports, since although the volume of exports increased considerably (8 per cent) the index of unit values for exports rose by 20.7 per cent.

Income from coffee sales continued to increase (36 per cent compared with 1972) reaching approximately 146 million dollars, mainly owing to sharp increases in prices. The major buyers of the product continued to be the United States, the Federal Republic of Germany and the Netherlands, while Japan is emerging as an important new market for Guatemala. Cotton sales were also higher than those of the previous year (by 26 per cent). These increases also reflected, in the main, the effect of international prices, since the increases in the quantities exported were very small owing to the poor harvests in 1972/1973.

The lifting of the restrictions imposed by the United States helped to maintain the increase in exports of fresh meat to that market. In 1973, 26 million dollars' worth was sold (32 per cent increase over 1972), mainly owing to higher prices, since the increase in quantity was less pronounced. Because of the powerful attraction of the external market, controls had to be introduced to ensure adequate domestic supplies. Thus export permits had to be suspended and domestic prices controlled, in order to avoid the disproportionate effect of international prices on the domestic market.

Exports of sugar continued to increase significantly (more than 40 per cent) as a result of the greater quantities exported to the United States, although considerable quantities were also sold in other markets.

Greater stability in trade relations with the sub-region, particularly with Honduras following the signature of bilateral agreements, as well as the demand generated in Nicaragua by the reconstruction of Managua, stimulated exports to the sub-region. Trade with the sub-region amounted to approximately 121 million dollars (15 per cent more than in 1972). Favourable balances were maintained in Central American trade, for imports were approximately 84 million dollars.

The biggest increases in sub-regional sales were in foodstuffs, paper and paperboard articles, chemical and pharmaceutical products, textiles and electric batteries, as well as in construction materials, mainly for the reconstruction works in Managua.

There was a considerable increase in imports in 1973 (31.7 per cent) which even exceeded the increase in exports. In contrast with the previous year, in which the volume of imports fell, the greater economic activity in the country in 1973 stimulated foreign purchases, which increased by 11 per cent in volume. However, the main factor underlying the increased outflow of foreign exchange, which was spent on imports of goods and services, was the prevailing world inflation, for unit values increased by 21 per cent.

In the capital account in the balance of payments, the net inflow of non-compensatory capital of 89.5 million dollars more than offset the deficit on current account and, moreover, international reserves increased by approximately 62 million dollars.

Table 119. Guatemala: gross domestic product at factor cost, by sector of economic activity

	Millions of quetzales at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	453.5	485.6	521.7	558.2	28.9	27.5	28.1	4.7	7.1	7.4	7.0
Mining	1.6	1.6	1.4	1.6	0.1	0.1	0.1	1.3	–	-12.5	13.3
Manufacturing	217.6	233.2	245.3	260.0	11.8	13.2	13.1	8.2	7.2	5.2	6.0
Construction	26.8	26.9	32.1	36.9	1.9	1.6	1.9	3.0	0.4	19.3	15.0
Subtotal goods	*699.5*	*747.3*	*800.5*	*856.7*	*42.6*	*42.4*	*43.1*	*5.5*	*6.8*	*7.1*	*7.0*
Electricity, gas and water	19.4	20.4	24.3	26.4	1.0	1.2	1.3	8.9	5.2	19.1	8.6
Transport and communications	77.5	83.3	94.7	107.0	4.7	4.7	5.4	5.8	7.5	13.7	13.0
Subtotal basic services	*96.9*	*103.7*	*119.0*	*133.4*	*5.7*	*5.9*	*6.7*	*6.4*	*7.0*	*14.8*	*12.1*
Commerce and finance	558.1	583.7	611.7	654.5	32.5	33.8	33.0	6.6	4.6	4.8	7.0
Government	88.7	89.9	94.5	100.7	5.3	5.4	5.1	6.0	1.4	5.1	6.6
Ownership of dwellings	115.3	117.7	120.0	128.2	8.0	7.0	6.5	3.0	2.1	2.0	6.8
Miscellaneous services	90.9	97.7	105.2	112.6	5.9	5.5	5.7	4.5	7.5	7.7	7.0
Subtotal other services	*853.0*	*889.0*	*931.4*	*996.0*	*51.7*	*51.7*	*50.2*	*5.8*	*4.2*	*4.8*	*6.9*
Total	*1,659.7*	*1,752.3*	*1,865.5*	*2,012.9*	*100.0*	*100.0*	*100.0*	*5.7*	*5.6*	*6.5*	*7.9*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco de Guatemala; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

Table 120. Guatemala: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	350.8	344.3	395.7	510.1
Goods FOB	298.3	290.5	337.4	440.0
Services	52.5	53.8	58.3	70.1
Transport	10.9	11.4	11.8	15.1
Travel	12.1	13.6	16.9	20.6
Imports of goods and services	337.3	373.2	394.9	520.0
Goods FOB	266.6	292.0	295.6	397.0
Services	70.7	81.2	99.3	123.0
Transport	35.4	37.9	50.6	62.7
Travel	14.5	21.5	24.3	30.2
Net external investment income	−31.2	−36.4	−42.5	−51.9
Profits	−22.9	−24.0	−28.2	−36.7
Interest	−8.3	−12.4	−14.3	−15.2
Net private transfer payments	17.9	25.7	30.1	34.4
Balance on current account	0.2	−39.6	−11.6	−27.4
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	−0.2	39.6	11.6	27.4
(*a*) Net external non-compensatory capital	46.1	51.0	65.8	
Direct investment	22.5	22.8	19.5	
Long- and medium-term loans	71.7	59.3	70.0	
Amortization payments	−46.9	−33.3	−43.4	89.5
Short-term liabilities	−1.3	3.2	21.0	
Official transfer payments	0.1	−1.0	−1.3	
(*b*) Domestic non-compensatory capital or assets	−18.5	11.8	−4.5	
(*c*) Errors and omissions	−12.1	−11.6	−14.0	
(*d*) Allocations of SDRs	4.2	3.9	4.1	–
(*e*) Net compensatory financing (increase −)	−19.9	−15.5	−39.8	−62.1
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	3.4	2.9	1.8	–
Amortization payments	−11.5	−4.0	−6.5	–
Movements of foreign exchange reserves (increase −)	−9.6	−5.8	−35.3	−57.5
Movements of gold reserves (increase −)	−0.2	−2.8	–	–
SDRs (increase −)	−2.0	−5.8	0.2	−4.6

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

3. PUBLIC FINANCE, MONEY AND CREDIT

In 1973 the financial position of the central government improved considerably with the sharp fall in the budgetary deficit to 36 million quetzales compared with 52 million in 1972. This recovery was closely linked with the slower growth of total expenditure (4.1 per cent compared with 25 per cent in 1972), for although current income increased rapidly (14 per cent), the rate of increase was slower than in 1972 (21 per cent).

The income from indirect taxes accounted for most of the growth of total income, increasing by 17 per cent, whereas income from direct taxes increased at a much lower rate (7 per cent).

Expenditure, as mentioned above, rose more slowly (4.1 per cent), in spite of the fact that current spending increased by 10.2 per cent as a result of an increase in operational expenditure. The greatest fluctuations occurred in investment expenditure, which after increasing by more than 80 per cent in 1972 fell to 8.2 per cent because of a cutback in investment during the year. (In 1972 the volume of investment was very high on account of purchases of shares in the Empresa Eléctrica de Guatemala, S.A.) On the other hand, expenditure channelled towards the real formation of capital increased significantly (approximately 35 per cent) and continued to be directed preferably to the construction of roads, agricultural development and the basic social infrastructure.

The share of domestic funds in financing the deficit was proportionately greater this time be-

cause of the excess liquidity in the economy, and for this reason dependence on external funds was reduced. Thus whereas in 1972 external funds financed 62 per cent of the budgetary deficit, in 1973 their share fell to 52 per cent.

In the monetary sphere, the greater inflow of foreign exchange earnings from exports continued to increase the means of payment of the economy during 1973 to a level of almost 574 million quetzales in September. The increase in this period was 28 per cent compared with 17 per cent for the same period in the previous year, and 90 per cent of this increase was due to the inflow of foreign currency. The composition of the means of payment did not change during 1973, for both monetary and non-monetary deposits showed similar rates of increase (28 per cent) (see table 121)

Domestic credit activity did not increase on a par with the greater liquidity in the economy (5.7 per cent), so that reserves continued to build up to amounts exceeding the proportions required by the authorized bank liquidity ratio, and simultaneously rediscounting with the Central Bank continued to decrease. Faced with this situation, the Government adopted measures to alleviate the problems of liquidity. On the one hand, in the second half of 1973 it increased the liquidity ratio for savings and time deposits from 10 to 15 per cent. These deposits accounted for almost 75 per cent of all funds deposited, and the liquidity ratio for monetary deposits was reduced from 35 to 30 per cent. On the other hand, the quota for commercial credit allowed by the banks was lifted and several measures connected with open market operations were introduced. Thus, the Central Bank was authorized to sell public bonds in the banking circuit[63] so as to absorb the exces and halt the growth in liquidity stemming from the increase in non-monetary deposits. Lastly, the Central Bank was authorized to sell bonds up to an amount of 26 million quetzales in the private sector, offering a rate of interest which varied between 6.5 and 8 per cent per year, depending on the redemption date.

The cancellation of the Emergency Control Regulations on International Transfers at the beginning of February 1973 probably also had some effect in alleviating the tensions provoked by the fact that the liquidity was contributing to the outflow of private short-term capital–121 million compared with 63 million in 1972–and in reducing the pressure on liquidity being generated by external factors.

[63] The rate of interest was set at 5 and 8 per cent, depending on the buyer.

Table 121. Guatemala: consolidated accounts of the banks
(Millions of quetzales)

	As at end of year				*As at September*	
	1969	*1970*	*1971*	*1972*	*1972*	*1973*
Assets	*392.3*	*420.0*	*465.8*	*568.2*	*518.5*	*655.8*
Foreign (net)	49.3	63.2	68.7	116.5	80.7	193.0
Domestic	343.0	356.8	397.1	451.7	437.8	462.8
Government debt (net)	44.6	42.2	69.0	102.8	94.9	100.6[a]
Private debt	238.3	244.3	254.5	275.0	271.5	298.5
Other (net)	60.1	70.3	73.6	73.9	71.4	63.7
Liabilities	*392.3*	*420.0*	*465.8*	*568.2*	*518.5*	*655.8*
Monetary	161.1	172.9	178.2	211.3	172.5	220.9
Cash	90.9	96.1	98.5	113.6	94.7	113.0
Deposits	70.2	76.8	79.7	97.7	77.8	107.9
Non-monetary	158.2	181.9	220.8	285.4	275.7	353.3
Balance of lines of credit	13.4	6.2	9.2	4.8	5.9	8.1
Banks	6.2	5.8	5.4	5.1	5.4	5.0
Capital	53.4	53.2	52.2	61.6	59.0	68.5

SOURCE: Banco de Guatemala.

[a] Including the debt of the Agricultural Marketing Institute (INDECA).

GUYANA

1. Recent economic trends

The gross domestic product, valued at current prices, increased during 1973 by slightly more than 7 per cent. This increase compares favourably with the growth rates recorded for this indicator in the preceding years of the present decade, but it loses much of its apparent significance if viewed in the context of the accelerated increase in domestic prices during the last year (see table 122).

The performance of the product was influenced considerably both by the prevailing world economic situation and by domestic conditions. Among external factors, the continuing link between sterling and the Guyana dollar should be mentioned since it meant that the devaluation of the former automatically made Guyana's purchases in other monetary areas more expensive. Another factor was the inflation experienced in these areas, which was reflected in higher investment costs, higher prices for intermediate goods, and increased consumption expenditure. The level of national economic development is such that these requirements are satisfied to a great extent by imports. At the same time, however, international inflation has raised export prices in recent months and thus counteracted to some extent the trends just mentioned.

The domestic situation was greatly influenced by the fall in agricultural production which resulted from unfavourable climatic conditions. The reduced supplies both for export and for the domestic market increased the latter's dependence on imports and also contributed to a drop in the effective demand for local manufactures, to the detriment of the manufacturing sector.

Domestic prices, which had been increasing by 2 per cent annually up to 1971 and increased by 4.5 per cent in 1972, rose by almost 10 per cent in 1973.

The trends recorded in external demand and in imports gave rise to a deficit of almost 28 million dollars on the trade balance. The balance-of-payments deficit on current account thus increased to 46 million United States dollars and exerted considerable pressure on the level of international reserves.

2. Major sectors of activity

Agricultural production declined considerably in 1973, with the result that its contribution to the over-all product dropped to 15.8 per cent.

This sector was affected during the year by adverse climatic conditions which caused quite a pronounced decline in the output of sugar-cane and permitted only a slight increase in rice production. Thus, sugar-cane production (which provided more than 50 per cent of the total agricultural value added) fell by approximately 9 per cent from 3,566,000 tons in 1972 to 3,252,000 tons in

Table 122. Guyana: gross domestic product at current factor cost, by sector of economic activity

	Millions of Guyana dollars (at current prices)				*Annual growth rate (percentages)*		
	1970	*1971*	*1972*	*1973*[a]	*1971*	*1972*	*1973*[a]
Agriculture	80.0	91.2	92.7	88.4	14.0	1.6	−4.6
Of which: Sugar-cane	(42.8)	(54.3)	(56.7)	(48.8)	(26.0)	(4.4)	(−13.9)
Rice paddy	(13.2)	(11.2)	(9.2)	(10.0)	(−15.2)	(−18.8)	(9.9)
Fishing	5.1	5.4	5.9	6.7	5.9	9.3	13.6
Forestry	5.1	5.0	5.6	6.5	−2.0	12.0	16.1
Mining and quarrying	95.5	90.7	89.7	88.6	−5.0	−1.1	−1.2
Manufacturing	56.9	61.2	64.0	64.2	7.6	4.6	0.3
Of which: Sugar manufacturing	(15.0)	(19.1)	(19.9)	(17.1)	(27.3)	(4.2)	(−14.1)
Rice milling	(3.8)	(3.2)	(2.1)	(2.2)	(−15.8)	(−34.4)	(4.8)
Transport and communications	27.7	29.8	32.8	35.3	7.6	10.1	7.6
Engineering and construction	36.8	38.6	42.8	46.2	4.9	10.9	7.9
Commerce	53.5	54.5	58.7	62.2	1.9	7.7	6.0
Rent of dwellings Financial and other services	44.9	48.8	50.7	53.3	8.7	3.9	5.1
Government	61.9	70.0	79.1	107.7	13.1	13.0	36.2
Total	*467.4*	*495.2*	*522.0*	*559.1*	*5.9*	*5.4*	*7.1*

SOURCE: *Economic Survey of Guyana 1971*, and Information provided by the Statistical Bureau, Guyana.

[a] Provisional figures.

1973 while rice production (whose value added represented more than 10 per cent of the total for agriculture as a whole) increased by only 3 per cent over the previous year.

The performance of the rest of the sector was more encouraging, particularly as regards minor crops (fruit, vegetables, etc.) and poultry production, which continued to expand. Meat production maintained the level reached in 1972 (see table 123).

A number of projects are being implemented to improve the stability of the two most important crops. The irrigated area under rice cultivation is being increased, and at the same time a flood control system is being introduced. These projects will also benefit sugar-cane, the growing area of which is being increased.

The dominant position in the mining sector in Guyana is held by bauxite and alumina. The depressed international demand for aluminium, which was reflected in the lower demand for these two mineral products, persisted until the end of 1973, and although demand recovered towards the end of the year, there was an increase in the price of fuel oil, which is one of the main input costs in the production of alumina and bauxite.

In 1973, therefore, the mining product fell for the third consecutive year. The production of dried bauxite maintained the level of the previous year, but that of calcined bauxite and alumina contracted, on average, by approximately 10 per cent. However, the production of gold increased sharply, apparently by almost 75 per cent, compared with 1972, and the output of diamonds increased by more than 15 per cent.

As a result of the smaller sugar-cane harvest, the sugar, molasses and rum industries reduced their activity in 1973. Because of the importance that this sub-group still retains in the total of the manufacturing sector the product of the latter fell during the year, and its contribution to the over-all product decreased from 12.3 per cent in 1972 to 11.5 per cent in 1973.

There was also a contraction in the activity of other industries processing domestic agricultural products, and in the production of vegetable oils and margarine. On the other hand, there was an increase in the milling of rice and wheat, in animal feed production, paint manufact and the production of lumber.

The slow growth of manufacturing production in recent years mirrors the decline in private industrial investment, which has been decreasing since 1971. During 1973 there was a decline of nearly 21 per cent, but there are indications that the situation improved towards the end of the year, and this should give rise to increased manufacturing output in 1974.

The growth rate of construction declined in 1973 in spite of the plans designed to accelerate it. This was mainly due to the shortage of cement and other imported inputs.

As regards the performance of the private services sector, only rental of dwellings, financial, and personal services grew at a higher rate than in 1972.

Table 123. Guyana: output of selected agricultural products

	Unit (thousands)	*Average 1967-1970*	*1971*	*1972*	*1973*[a]
Sugar-cane	tons	3,770	4,242	3,566	3,252
Rice	tons	129	120	94	97
Coconuts	nuts	50,567	55,744	68,469	61,094
Root crops	lb	48,575	58,425	60,500	62,662
Plantains	lb	49,975	54,650	52,000	55,000
Citrus	lb	20,275	22,626	23,000	23,753
Bananas	lb	12,079	13,805	14,803	18,234
Coffee	lb	2,155	1,678	1,680	1,645
Maize	lb	3,438	5,300	6,200	7,343
Tomatoes	lb	3,198	4,892	5,610	4,455
Beef	lb	8,908	9,524	9,600	9,612
Other livestock products[b]	lb	2,407	3,432	3,515	3,197
Poultry[c]	lb	6,204	8,709	10,843	12,553

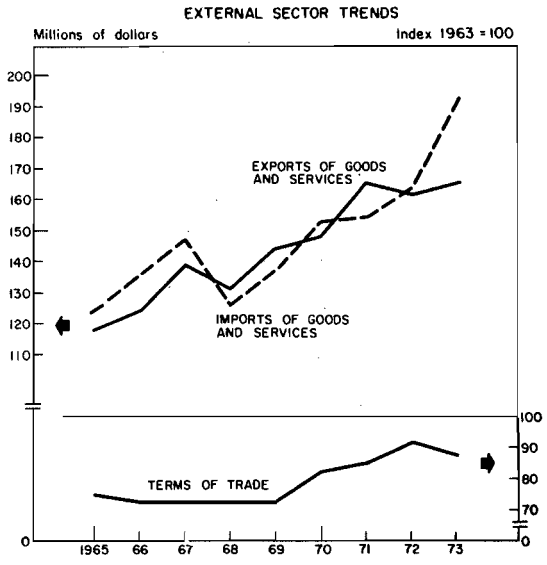
SOURCE: Economic Division of the Ministry of Agriculture, Guyana.
[a] Provisional figures.
[b] Pigs, sheep and goats.
[c] Commercial producers only.

Lastly, as regards the government sector it should be noted that the value added by the general government increased by 36 per cent at current values during 1973, so that its share in the over-all product amounted to 19.3 per cent.

In view of the performance of the other sectors, it was the general government sector which prevented a drop in economic activity, the main factors in this respect being the higher wage and salary payments during the year, which helped to maintain the activity of sectors that switched to supplying consumer goods.

Capital expenditure increased rapidly through the implementation of national development plans. These included the expansion of public services, irrigation and flood control, and roads and communications. In addition, there were capital transfers to public enterprises in the mining sector. Such measures caused capital expenditure to rise from 63 to 145 million Guyana dollars between 1972 and 1973, while current expenditure increased from 158 to 174 million.

Figure XXXIV. Guyana
Natural scale



3. Balance of payments

In 1973 there was a trade deficit, in contrast with the favourable balances recorded in previous years. This imbalance was the result of the drop of almost 27 per cent in exports of agricultural goods, among them sugar. Exports of beverages, tobacco and manufactures increased in value by 31 per cent, while mineral exports maintained the level recorded in 1972 (see table 124 and figure XXXIV).

The value of imports of goods increased by 10 per cent to 149 million dollars, a significant factor in this being the increase in world prices of cereals, fats and oilseeds which raised the value of food imports by more than 35 per cent. The value of chemical products imported increased by a similar figure, and there were smaller but still considerable increases in the prices of other groups of imports.

In the services account, remittances of profits on foreign capital stayed at the level recorded in 1972, but other items caused the deficit on the services account to rise to 39 million dollars, giving a deficit of 46 million dollars on current account (see table 125).

Table 124. Guyana: exports of selected products
(Millions of Guyana dollars)

	1971	*1972*	*1972*[a]	*1973*[a]
Bauxite	136.5	132.1	118.2[b]	119.1[b]
Sugar	92.2	103.8	94.3[b]	60.4[b]
Rum	6.6	5.6	4.5[c]	4.5
Molasses	4.0	3.3	2.6[c]	2.9[c]
Rice	21.3	25.3	...	25.0[d]
Timber	6.5[e]	3.5	2.2	4.0
Shrimps	8.7	10.2	7.6	10.4
Diamonds	2.4	2.3	1.7	2.3

SOURCES: *Annual Account Relating to External Trade 1971, Monthly Account Relating to External Trade* (October, November and December 1972), and data supplied to ECLA.

[a] January to October.
[b] January to November.
[c] January to September.
[d] Whole year.
[e] Includes prefabricated housing.

Table 125. Guyana: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	148.9	165.7	162.9	165.5
Goods FOB	129.0	145.5	141.1	142.0
Services	19.9	20.2	21.8	23.5
Transport	3.8	3.9	4.2	4.8
Travel	3.4	3.4	3.6	4.2
Imports of goods and services	153.6	154.2	163.3	193.1
Goods FOB	119.9	119.7	126.1	149.3
Services	33.7	34.5	37.2	43.8
Transport	17.1	16.5	18.9	22.3
Travel	3.0	3.4	3.9	5.8
Net external investment income	−15.9	−18.1	−19.3	−19.8
Profits	−14.2	−16.5	−16.6	−16.5
Interest	−1.7	−1.6	−2.7	−3.3
Net private transfer payments	−0.5	−0.2	0.9	1.0
Balance on current account	−21.1	−6.8	−18.8	−46.4
Capital account				
Net external financing ($a + b + c + d + e$)	21.1	6.8	18.8	46.4
(a) Net external non-compensatory capital	14.4	9.1	28.4	
Direct investment	9.0	−55.6	1.6	
Long- and medium-term loans	10.1	69.5	19.0	
Amortization payments	−1.2	−1.7	−2.7	14.6
Short-term liabilities	−3.5	−4.1	10.2	
Official transfer payments	–	1.0	0.3	
(b) Domestic non-compensatory capital or assets	1.5	4.0	4.2	
(c) Errors and omissions	2.8	−4.8	−5.2	
(d) Allocation of SDRs	2.5	2.1	2.3	–
(e) Net compensatory financing (increase −)	−0.1	−3.6	−10.9	31.8
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	2.2	–	4.8
Amortization payments	–	−0.1	−2.1	–
Movements of foreign exchange reserves (increase −)	0.6	−5.4	−5.8	26.2
Movements of gold reserves (increase −)	−0.6	1.8	−0.7	0.7
SDRs (increase −)	−0.1	−2.1	−2.3	0.1

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

HAITI

1. RECENT ECONOMIC TRENDS

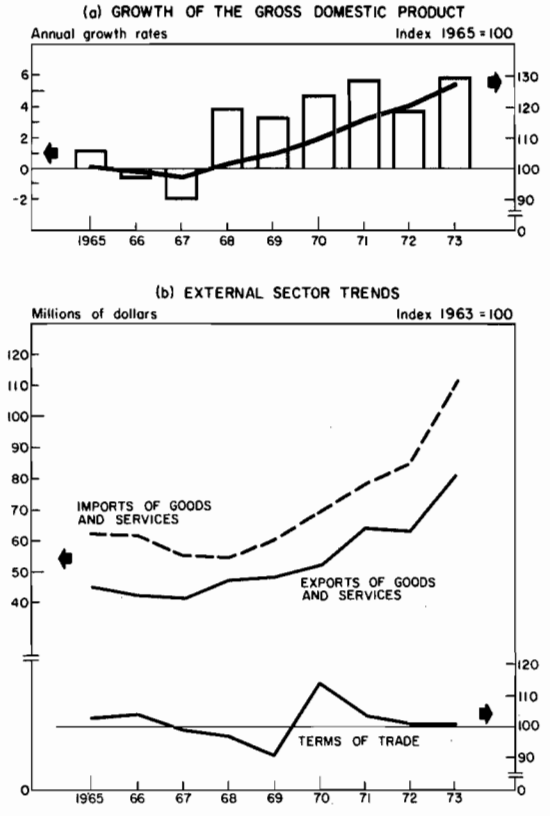
The process of recovery in Haiti's economy which started at the beginning of the 1970s continued in 1973. The gross domestic product increased in terms of real value by 5.8 per cent; in 1972 it had increased by 3.7 per cent, and in the period 1965-1970 by only 1.8 per cent annually. Even so, the per capita gross product in 1973 merely regained the levels reached at the beginning of the 1960s (see figure XXXV).

The upward movement observed in 1973 reflected in particular the considerable expansion of gross domestic investment, together with a recovery of the export sector following the decline of the previous year.

The evolution of the various sectors of production shows that, as in the previous year, the most important factors of growth were manufacturing, construction and energy, while the growth rate of the tertiary sector continued to increase.

After the decline of the previous year, the value of exports increased substantially in 1973, especially as a result of the sharp increases in international prices and the extraordinary expansion of tourism. Expenditure on imports, however, increased at a similar rate and, together with the

Figure XXXV. Haiti
Natural scale



other items of the current account, pushed up the current account deficit which the balance of payments had been showing in recent years: in 1973 it exceeded its 1972 level by 67.2 per cent; but the strengthening of the international reserves which had been observed since 1970 was not much affected during 1973. The compensatory financing required was insignificant, because of the larger inflow of non-compensatory capital during the year.

2. The evolution of the product and its main components

(a) *Total supply and demand*

The total supply of goods and services increased by 6.2 per cent during 1973, which compares favourably with the rate of 3.7 per cent in the previous year and with the cumulative annual rate of 1.7 per cent recorded during the period 1965-1970 (see table 126). It still maintained its basic structure, however, which reflected a high level of external dependency, and imports continued to constitute the component showing the highest growth. Compared with its annual growth rates of 10.1 per cent in 1971, 3.8 per cent in 1972, and 8.4 per cent in 1973, the increases in domestic production were only 5.7 per cent, 3.7 per cent and 5.8 per cent, respectively.

The same structural weakness is noted in the utilization of goods and services. With the relative exception of investment, which showed some degree of autonomy partly stemming from government influence on it, a significant parallel may be observed between the evolution of exports and the evolution of the product, and also between the growth rates of imports and of consumption. In this context the evolution of the different components of total demand may be appreciated. In real terms, gross domestic investment during 1973 was the most dynamic component, since it grew by 11.3 per cent, and thus nearly doubled its growth rate of the previous year. Equally important was the 6.6 per cent expansion in exports, following the decline of 5.9 per cent recorded the previous year. Domestic consumption, as in previous years, continued to be the least dynamic component of total demand, mainly on account of the extremely low level of income in the country and its concentration in an essentially metropolitan élite, which means that a considerable proportion of the large rural population is excluded from the monetary market.

In 1973 total consumption increased by 5.7 per cent (compared with 4.9 per cent in 1972), mainly as a result of the 10 per cent increase in government consumption, which was more than three times the increase recorded in 1972.

The moderate growth of domestic consumption at a rate similar to that of the product was, however, accompanied by increased inflation. Following decades of perfect price stability, inflation has begun to take root in Haiti. The cost of living index, calculated only for the capital city, went up 3.5 per cent in 1972 and 14.9 per cent in the first quarter of 1973. The largest increases were recorded in foodstuffs, the prices of which increased by 4.7 per cent in 1971, 8.2 per cent the following year, and 22 per cent in the first quarter of 1973. These increases reflected both the inelasticity of food supply, stemming partly from the stagnation of the agricultural sector and from deficiencies in distribution services, and the significant increases in the prices of imported foodstuffs as a result of the inflation observed in the main countries supplying Haiti.

(b) *Major sectors of activity*

The sectors which contributed most to the growth of the product in 1973 were, as in the previous two years, manufacturing, construction and energy (see table 127).

For the second year running agriculture showed little increase in output (2.1 per cent), which, as in

Table 126. Haiti: total supply and demand

	Millions of gourdes at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*2,059.0*	*2,190.6*	*2,271.9*	*2,413.0*	*118.6*	*118.0*	*119.2*	*1.7*	*6.4*	*3.7*	*6.2*
Gross domestic product	1,745.5	1,845.5	1,913.8	2,024.8	100.0	100.0	100.0	1.8	5.7	3.7	5.8
Imports[b]	313.5	345.1	358.1	388.2	18.6	18.0	19.2	1.1	10.1	3.8	8.4
Total demand	*2,059.0*	*2,190.6*	*2,271.9*	*2,413.0*	*118.6*	*118.0*	*119.2*	*1.7*	*6.4*	*3.7*	*6.2*
Exports[b]	217.5	272.5	256.5	273.5	13.0	12.5	13.5	1.1	25.3	-5.9	6.6
Gross domestic investment	132.7	143.2	153.1	170.4	6.7	7.6	8.4	4.3	7.9	6.9	11.3
Construction	52.4	57.8	....	...	3.0	3.0	...	1.7	10.3	...	...
Machinery and equipment	80.3	85.4	...	...	3.7	4.6	...	6.2	6.4	...	...
Total consumption	1,708.8	1,774.9	1,862.3	1,969.1	98.9	97.9	97.2	1.6	3.8	4.9	5.7
General government	137.6	141.7	145.9	160.5	8.1	7.9	7.9	1.2	3.0	3.0	10.0
Private	1,571.2	1,633.2	1,716.4	1,808.6	90.8	90.0	89.3	1.7	3.9	5.0	5.4

SOURCES: 1965-1971: ECLA calculations based on figures supplied by the National Development and Planning Council (CONADEP); 1972-1973: ECLA estimates based on preliminary data supplied by the Haitian Institute of Statistics.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using prices indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Table 127. Haiti: gross domestic product at factor cost, by sector of economic activity

	Millions of gourdes at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	794.4	845.3	863.0	881.2	50.3	48.9	46.9	1.3	6.4	2.1	2.1
Mining	12.9	15.2	14.6	14.8	0.7	0.8	0.8	5.0	17.8	-4.0	1.4
Manufacturing	215.4	228.4	244.7	262.4	11.7	13.2	14.0	4.4	6.0	7.1	7.2
Construction	26.2	28.9	32.3	36.6	1.6	1.6	1.9	1.4	10.3	11.8	13.3
Subtotal goods	*1,048.9*	*1,117.8*	*1,154.6*	*1,195.0*	*64.4*	*64.5*	*63.7*	*1.8*	*6.6*	*3.3*	*3.5*
Electricity, gas and water	22.6	23.9	26.6	29.8	1.3	1.4	1.6	2.6	5.7	11.3	12.0
Transport and communications	53.8	55.4	57.6	59.9	2.8	3.3	3.2	5.3	2.9	4.0	3.9
Subtotal basic services	*76.4*	*79.3*	*84.2*	*89.7*	*4.1*	*4.7*	*4.8*	*4.4*	*3.8*	*6.2*	*6.5*
Commerce and finance	178.5	185.8	202.4	217.3	11.8	11.0	11.6	0.3	4.0	8.9	7.4
Government	102.6	105.6	101.1	124.3	6.5	6.3	6.6	1.3	2.9	-4.2	23.0
Ownership of dwellings	160.7	167.1	170.7	174.5	9.5	9.9	9.3	2.7	4.0	2.2	2.2
Miscellaneous services	58.7	60.5	68.2	76.3	3.7	3.6	4.0	1.6	3.0	12.7	11.9
Subtotal other services	*500.5*	*519.0*	*542.4*	*592.4*	*31.5*	*30.8*	*31.5*	*1.4*	*3.7*	*4.5*	*9.2*
Total	*1,588.4*	*1,679.5*	*1,741.4*	*1,842.1*	*100.0*	*100.0*	*100.0*	*1.8*	*5.7*	*3.7*	*5.8*

SOURCES: 1965-1971: ECLA calculations based on figures supplied by CONADEP; 1972-1973: ECLA estimates based on preliminary data supplied by the Haitian Institute of Statistics.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

the early 1960s, barely satisfied the food requirements stemming from the natural increase in the population, and slowed down the growth of the volume of exports. In addition to its adverse effects on the volume of traditional exports (coffee, sugar, cotton, bananas, sisal, etc.), the slow rate of growth resulted in a certain inelasticity of food supply, aggravated in the course of the year by damage to the rice harvest caused by the bursting of a dike in the Artibonite Valley. The resulting shortage forced the Government to liberalize the system of food imports during the year and to control prices.

Mining showed similar trends, and has been undergoing a process of deterioration since 1971, with the cessation of the activities of the copper company (SEDREN). Its rate of growth was only 1.4 per cent in 1973. A recovery of activity of this sector is expected, however, when the production of lignite (to be used in the operation of a projected thermoelectric plant) begins and when copper mining starts up again in the near future.

Since the beginning of the 1970s manufacturing has been the most dynamic sector of the Haitian economy. Direct foreign investment—associated with local capital—in assembly industries has contributed to its sustained growth. The output of these industries, after satisfying domestic demand, will be destined for export, and extraordinary incentives of all types have been granted for this purpose. The manufacturing product, which has grown at a rate of 4.4 per cent annually during the five-year period 1965-1970, increased its rate of growth to 6 per cent in 1971 and to slightly over 7 per cent in 1972 and 1973.

An even higher rate of growth than in the industrial sector was recorded by construction, whose annual growth rate has increased steadily from 1.4 per cent in 1965-1970 to 10.3 per cent in 1971, 11.8 per cent the following year and 13.3 per cent in 1973. The impulse came both from the public and from the private sector. The public sector's contribution took the form of the initiation and execution of projects designed to strengthen the economic infrastructure (the start of dredging work in order to modernize the port of the capital city, the erection of some shipping facilities, etc.). Construction work on the Southern Highway continued, mainly with the aid of IDB, while assistance was provided by the Agency for International Development of the United States Government in connexion with services for the permanent upkeep of the highway network, and the World Bank took an interest in the construction of the Northern Highway.

Private construction continued to grow, stimulated to a large extent by the enormous lack of housing mainly in the higher income metropolitan area, and by the excellent financial prospects in property speculation. The tourism boom also had a significant impact on this sector, if the large number of guest-houses opened during the year is taken into consideration.

Since the hydroelectric power plant of Péligre began to operate, the energy, gas and water sector has recorded a steady growth. Its annual growth rate increased from 2.6 per cent in 1965-1970 to 12 per cent in 1973. The investment envisaged in the 1973/1974 budget for the installation of a third generating unit in the Péligre power plant, the execution of work in connexion with electrification and water supply in the main cities and the implementation of the second phase of the drinking water project in the metropolitan area are all aimed at maintaining this rate of growth.

A lower rate of growth was recorded in the transport and communications sector which was especially affected by deficiencies in the highway network, shipping facilities and provincial airports and also by the lack of permanent maintenance services. The growth rate of the sector during 1973 was 3.9 per cent, similar to that of the previous year. In order to achieve a prompt recovery of activity in this sector, it was given high priority in the distribution of budgetary resources during the financial year 1973/1974, although most of these resources were earmarked first and foremost for construction and the improvement of construction works (national highways, the port and airport of the capital city, and the improvement of provincial airports). In the communications sub-sector, with external technical and financial assistance from the Organization of American States, the Inter-American Development Bank, and the United Nations Development Programme, work was begun or continued on projects for doubling the number of telecommunication lines, installing new automatic exchanges and extending the telephone network in the provinces.

In view of the virtual stagnation of agriculture and despite progress in the majority of the activities making up this sector, the sectors producing basic goods and services increased as a whole, as in the previous year, at a slower rate (3.5 per cent) than the tertiary sector (9.2 per cent).

The dynamism of the commerce and finance sector, the government sector and other services contributed to the increased expansion of services. During 1973, commerce increased its contribution to the total product by 7.4 per cent, taking advantage of the favourable situation produced by the expansion of domestic demand for domestic and imported goods, and the relative lack of control of marketing margins. The finance sector also expanded, with the opening during the year of branches of the Bank of Nova Scotia and of the

First National City Bank of Boston and the considerable increase in savings and time deposits. In 1973 these deposits were stimulated by the increase in the interest rate from 2 to 5 per cent, and to 5.5 per cent for six-month deposits and 6.5 per cent for twelve-month deposits.

The government sector recovered from the decline (4.2 per cent) recorded the previous year. Its product increased by 23 per cent in 1973, mainly as a result of increased expenditure on the recruitment of staff to implement new projects and on bringing up to date payments to government officials.

Lastly, the expansion of tourism and of the consumption of a developing urban middle class were apparently the factors which determined the increase in 11.9 per cent in the contribution of "miscellaneous services" to the total gross domestic product during 1973.

3. The external sector

In 1973 the current value of exports amounted to around 81 million dollars, exceeding by 31 per cent the level of the previous year. The increase of 21.7 per cent in exports of goods following the decline of 9 per cent in the previous year, was a factor of this growth. It should be noted, however, that the rise in exports reflected the increases in international prices rather than significant increases in the volume exported. The persistent decline in the main traditional commodities (coffee, cotton, sisal, bananas, etc.) has led to a steady reduction in the volume of exports, which in 1962 exceeded the 1973 figure by 25 per cent (see table 128 and figure XXXV).

Table 128. Haiti: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]	
Current account					
Exports of goods and services	52.9	64.3	63.1	81.2	
Goods FOB	39.0	47.1	42.8	52.1	
Services	13.9	17.2	20.3	29.1	
Transport	0.9	1.0	1.0	1.1	
Travel	6.6	8.7	13.5	19.9	
Imports of goods and services	69.5	78.6	85.8	110.1	
Goods FOB	47.7	55.9	60.8	79.0	
Services	21.8	22.7	25.0	31.1	
Transport	9.8	10.7	13.0	16.8	
Travel	4.3	4.5	5.2	6.3	
Net external investment income	−3.6	−3.9	−4.6	−5.5	
Profits	−3.2	−3.6	−4.1	−4.9	
Interest	−0.4	−0.3	−0.5	−0.6	
Net private transfer payments	15.0	13.1	21.2	24.2	
Balance on current account	−5.2	−5.1	−6.1	−10.2	
Capital account					
Net external financing ($a+b+c+d+e$)	5.2	5.1	6.1	10.2	
(*a*) Net external non-compensatory capital	9.8	10.6	8.9		
Direct investment	2.8	3.4	4.1		
Long- and medium-term loans	1.2	2.6	0.7		
Amortization payments	−1.3	−1.3	−1.4		10.0
Short-term liabilities	0.2	0.1	0.5		
Official transfer payments	6.9	5.8	5.0		
(*b*) Domestic non-compensatory capital or assets	−2.6	−3.4	−2.7		
(*c*) Errors and omissions	−0.9	3.9	6.3		
(*d*) Allocation of SDRs	2.5	2.0	2.2	–	
(*e*) Net compensatory financing (increase −)	−3.6	−8.0	−8.6	0.2	
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	0.3	–	0.4	0.4	
Amortization payments	−2.9	−2.1	−1.4	−1.1	
Movements of foreign exchange reserves (increase −)	−0.9	−2.8	−4.8	−3.4	
Movements of gold reserves (increase −)	–	−2.1	−0.7	3.0	
SDRs (increase −)	−0.1	−1.0	−2.1	1.3	

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

The most notable growth was observed in the services sector (freight, insurance, travel and other items of transport), which, stimulated by the upward trend in tourism, generated an inflow of foreign exchange of around 29 million dollars. This figure, 43 per cent up on 1972, basically reflects the substantial earnings from tourism, which in 1973 increased by 47 per cent, and in 1972 had already recorded an exceptional increase of 55 per cent.

Imports of goods and services increased by 28 per cent in 1973 to 110 million dollars. The increases in requirements of consumer and capital goods and also the rapid increase in payments for freight, insurance and other items of transport contributed to this expansion. Expenditure under this head amounted to around 17 million dollars, 29 per cent above the level of the previous year, and represented slightly over one fifth of the value of imports of goods.

This meant a deterioration in the deficit which the balance of goods and services had been showing since the beginning of the 1960s, and which in 1973 amounted to around 29 million dollars (36 per cent of the value of exports). As regards the other items of the current account, net remittances of profits and interest abroad increased slightly, while net inflows in the form of private transfer payments increased by 3 million dollars; all this contributed to an increase in the balance-of-payments deficit on current account from 6.1 million dollars in 1972 to 10.2 million in 1973.

The coverage of this deficit did not greatly affect the position with regard to Haiti's reserves, since inflows of non-compensatory capital in 1973 amounted to around 10 million dollars. It is pointed out that from 1970 to 1972 this position improved consistently and in 1973 it underwent no major variation, partly owing to the rapid increase in inflows from tourism and transfers of capital. It is possible that this favourable trend will be maintained in the near future as far as international reserves are concerned.

At the end of 1972, outstanding payments in respect of loans granted by the IDB, the World Bank, AID and EXIMBANK, of which IDB loans accounted for about 80 per cent, totalled around 16.5 million dollars. Assistance from international agencies and governments (OAS, France and the Federal Republic of Germany) will also help to speed up external financing, when the preparation of a number of concrete projects has been completed.

HONDURAS

1. Recent economic trends

In 1973 the Honduran economy did not even match the slow rate of growth achieved in the previous year, for according to provisional figures the gross domestic product increased by little more than 3 per cent compared with the 3.9 per cent recorded in 1972 (see table 129 and figure XXXVI). Real income increased at a similar rate to the product, since the terms-of-trade effect was the same as in the past year, as a result of movements of equal magnitude in both export and import prices.

On the demand side, fixed investment expenditure increased appreciably (a rise of 10 per cent in contrast with a drop of almost 12 per cent in 1972) and thus heightened the impact of the more dynamic performance of exports. A factor of special significance in this connexion seems to have been the recovery of private investment, which benefited from the multiplier effect of the external sector, the greater expectations arising from increased public spending, and more stable trade relations within the Central American subregion, finally showing an increase of approximately 12 per cent compared with the drop of 6.7 per cent reported during 1972.

Although not as pronounced as that of private investment expenditure, the recovery of public capital formation helped to stimulate economic growth. Even so, difficulties continued to be experienced in implementing government policy to find new national development incentives. Thus, even though capital expenditure in the public sector was approximately 50 million lempiras (at 1960 prices), this was still lower than the level reached in the three-year period 1969-1971.

In spite of the effect of the increased investment, consumption expenditure reflected the effects of the increase in prices during 1973, which was higher than the increases recorded in previous years. Thus, total consumption expenditure increased by 3.5 per cent, which was more than in the two previous years.

Following the decline in 1972, exports increased by 4.7 per cent at constant prices, a moderately good rate of growth, but insufficient to provide any significant stimulus to production. However, 1973 saw a big increase in export prices (18.7 per cent on average, compared with 3.1 per cent in 1972), which helped to provide more foreign exchange for financing the increased imports.

Table 129. Honduras: total supply and demand

	Millions of lempiras at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*1,592.1*	*1,593.8*	*1,618.8*	*1,710.1*	*130.7*	*141.5*	*133.9*	*6.4*	*0.1*	*1.6*	*5.6*
Gross domestic product	1,125.1	1,189.2	1,236.1	1,276.9	100.0	100.0	100.0	4.7	5.7	3.9	3.3
Imports[b]	467.0	404.6	382.7	433.2	30.7	41.5	33.9	11.3	−13.4	−5.4	13.2
Total demand	*1,592.1*	*1,593.8*	*1,618.8*	*1,710.1*	*130.7*	*141.5*	*133.9*	*6.4*	*0.1*	*1.6*	*5.6*
Exports[b]	292.8	312.5	324.1	339.2	24.2	26.0	26.6	6.3	6.7	3.7	4.7
Gross domestic investment	257.6	209.9	192.2	230.1	16.2	22.9	18.0	12.3	−18.5	−8.4	19.7
Gross fixed investment	225.6	217.0	191.5	211.0	14.6	20.1	16.5	11.7	−3.8	−11.8	10.1
Public	79.1	62.8	47.6	49.9	2.7	7.1	3.9	27.0	−20.6	−24.2	4.8
Private	146.5	154.2	143.9	161.1	11.9	13.0	12.6	6.6	5.3	−6.7	11.9
Total consumption	1,041.7	1,071.4	1,102.5	1,140.8	90.3	92.6	89.3	5.3	2.9	2.9	3.5
General government	137.0	141.2	144.3	147.5	10.3	12.2	11.6	8.4	3.1	2.2	2.2
Private	904.7	930.2	958.2	993.3	80.0	80.4	77.8	4.8	2.8	3.0	3.7

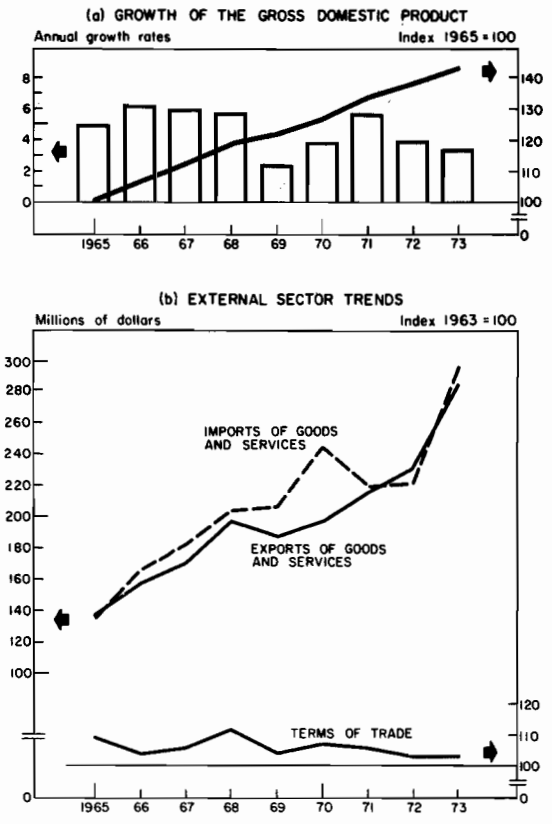
SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco Central de Honduras; 1973: ECLA estimates based on preliminary data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Figure XXXVI. Honduras
Natural scale



Various circumstances combined during the year to cause a considerable increase in imports. In addition to the fact that the productive structure is dependent on foreign trade, there were other underlying reasons such as the reduction in the supply of essential consumer goods (maize, beans, rice and vegetables) because of the drought in the previous year; the need to replenish stocks as a result of the two successive years in which there was a reduction in imports; and the agreements reached with other Central American countries for the partial restoration of free trade. As a result, the volume of imports increased by 13.2 per cent in contrast with the reduction of 13 and 5 per cent in 1971 and 1972 respectively. Owing to the considerable increase in prices, the increase in the value of imports was much higher (more than 37 per cent), which led to a further deterioration in the current external payments position.

From the point of view of production, the stagnation in the agricultural sector and the slower growth of manufacturing output reduced the growth rate of the total product in 1973, in spite of the fact that the majority of the other sectors, except personal services, showed relatively higher rates of growth (see table 130).

The drop in production of some mass-consumption agricultural products, and the slow growth in the production of others, caused some difficulties in supply on the domestic market, and these, together with the rapid rise in import prices, contributed to the increase in inflationary pressures, especially in clothing and foodstuffs.

Because of this, the increased domestic demand—fostered mainly by an easy credit policy aimed primarily at reactivating the manufacturing sector, construction and stock-raising—tended to be reflected in price rises rather than an increase in output. Even so, however, prices did not increase by more than 5 per cent, partly because of the introduction of controls and the fixing of retail prices for an important group of staple foodstuffs.[64]

Since 1969, the problems faced by the Honduran economy have become more pronounced not only because of the smallness of the domestic market, which became evident when the economy was functioning more or less outside the Central American trade flows, but also because of the sharp fluctuations in exports and the slowness with which the development programme has been implemented. Progress was made in 1973, however, in the preparation of a global and sectoral growth strategy and in the identification of priority action in the public sector. Furthermore, the measures taken to co-ordinate the institutional and administrative machinery gave satisfactory results, and in the formulation of programmes every effort was made to see that they met the real needs of the major productive activities and of social development.

2. The external sector

According to provisional estimates, the balance on current account in the balance of payments showed a deficit of approximately 35 million dollars, i.e., several times higher than that recorded in 1972. Such a big deficit is probably the direct result of the larger increase in imports compared with exports, which reduced the favourable trade balance from 31 million dollars in 1972 to 19 million in 1973. In addition to this, there were also increases in transport costs, remittances of profits and interest, etc.

At the same time, however, there was a net inflow of mainly long-term non-compensatory capital estimated at 38 million dollars, which is a good deal higher than that recorded in 1972 and enabled the monetary authorities to reduce their liabilities by 7.5 million dollars, although a further

[64] See, in this connexion, Decree No. 55 of 28 June 1973, which came into force in September of the same year.

Table 130. Honduras: gross domestic product at factor cost, by sector of economic activity

	Millions of lempiras at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	365.4	389.7	396.9	395.3	40.1	35.7	34.0	2.3	6.7	1.8	−0.4
Mining	20.0	20.7	22.0	23.3	1.8	1.9	2.0	6.8	3.5	6.3	6.0
Manufacturing	139.8	151.2	162.4	172.6	12.4	13.6	14.9	6.8	8.2	7.4	6.3
Construction	51.7	54.1	57.2	60.5	3.9	5.0	5.2	10.4	4.6	5.7	5.7
Subtotal goods	*576.9*	*615.7*	*638.5*	*651.7*	*55.1*	*56.2*	*56.1*	*4.1*	*6.7*	*3.7*	*2.1*
Electricity, gas and water	17.0	18.4	19.4	20.5	1.0	1.7	1.8	16.0	8.2	5.4	5.7
Transport and communications	70.5	73.4	75.4	78.0	7.2	6.9	6.7	3.8	4.1	2.7	3.5
Subtotal basic services	*87.5*	*91.8*	*94.8*	*98.5*	*8.2*	*8.6*	*8.5*	*5.6*	*4.9*	*3.3*	*3.9*
Commerce and finance	160.4	164.1	167.4	173.8	14.5	15.6	15.0	6.3	2.3	2.0	3.8
Government	34.8	36.4	38.4	39.9	3.2	3.4	3.4	5.9	4.6	5.5	4.0
Ownership of dwellings	78.6	83.4	88.5	93.8	7.7	7.7	8.1	4.8	6.1	6.1	6.0
Miscellaneous services	87.5	92.8	100.1	103.5	8.3	8.5	8.9	5.5	6.1	7.9	3.4
Subtotal other services	*361.3*	*376.7*	*394.4*	*411.0*	*33.7*	*35.2*	*35.4*	*5.7*	*4.3*	*4.7*	*4.2*
Total	*1,021.7*	*1,080.0*	*1,122.6*	*1,159.6*	*100.0*	*100.0*	*100.0*	*4.7*	*5.7*	*3.9*	*3.3*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco Central de Honduras; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a]Preliminary figures.

4.8 million dollars had to be taken from foreign exchange reserves (see table 131).

Exports increased in value by 25.5 per cent, mainly owing to increased sales of coffee, timber and non-traditional products to Central America, but imports increased by rather more than 37 per cent because of an import-promotion policy aimed at replenishing stocks, complementing domestic supply more adequately, increasing total investment, and satisfying more fully the demand for primary commodities. There were particularly sharp increases in imports of foodstuffs, beverages and tobacco, and capital goods. Imports of machinery and equipment (mainly for the industrial and agricultural sectors) are estimated at approximately 56 million dollars.

Major items in the 25.5 per cent rise in exports were the considerably increased sales of coffee, timber and meat, both because of the increased volume of sales and the favourable international prices. On the other hand, there was only a slight improvement in banana sales following the drop in the previous year. Coffee exports, in contrast, reached an unprecedented level as a result of the considerable increases in production achieved through the implementation of the plantation renovation plans of the Honduran Coffee Institute (IHCAFE).[65]

Foreign currency earnings from meat exports

[65] During 1972-1973, 886,000 bags of coffee were produced and 686,000 were exported.

Table 131. Honduras: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	196.5	215.6	230.6	285.7
Goods FOB	178.2	194.8	207.8	260.8
Services	18.3	20.8	22.8	24.9
Transport	5.1	6.8	6.5	7.5
Travel	4.1	4.3	4.9	4.9
Imports of goods and services	244.3	219.5	220.9	296.9
Goods FOB	203.4	177.5	176.5	241.8
Services	40.9	42.0	44.4	55.1
Transport	20.5	20.6	21.1	28.6
Travel	11.9	12.2	14.0	16.0
Net external investment income	−22.6	−23.3	−22.8	−27.7
Profits	−20.0	−18.6	−17.2	−20.5
Interest	−2.6	−4.7	−5.6	−7.2
Net private transfer payments	2.9	3.1	3.3	3.5
Balance on current account	−67.5	−24.1	−9.8	−35.4
Capital account				
Net external financing ($a + b + c + d + e$)	67.5	24.1	9.8	35.4
(a) Net external non-compensatory capital	57.6	33.0	32.6	
Direct investment	8.4	7.3	0.7	
Long- and medium-term loans	38.4	30.9	24.2	
Amortization payments	−5.6	−7.8	−7.8	
Short-term liabilities	12.7	−1.1	12.2	38.1
Official transfer payments	3.7	3.7	3.3	
(b) Domestic non-compensatory capital or assets	−2.9	−8.0	−15.0	
(c) Errors and omissions	0.9	−1.5	3.2	
(d) Allocation of SDRs	3.2	2.7	2.8	–
(e) Net compensatory financing (increase −)	8.7	−2.1	−13.8	−2.7
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	0.1	0.9	–
Amortization payments	−0.9	−0.3	−0.9	−7.5
Movements of foreign exchange reserves (increase −)	5.1	0.8	−11.0	4.8
Movements of gold reserves (increase −)	4.7	–	–	–
SDRs (increase −)	−0.2	−2.7	−2.8	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

came to 19.2 million dollars in 1973, thus exceeding the level reached in the previous year. An important factor in this increase was the implementation of stock farming programmes backed by funds from the National Development Bank (approximately 20 million lempiras in 1973).

Sales of timber accounted for 37.3 million dollars (an increase of 38 per cent compared with 1972). An upward trend has been manifest in recent years due to strong short-term demand, and there are good prospects of continued improvement.

During 1973, Honduran trade with Central America started taking shape within the framework of bilateral agreements begun with the signing of the agreement with Nicaragua in 1972. Similar treaties were signed with Guatemala and Costa Rica in February and May 1973. According to the information available, Honduras' exports to Central America have increased by some 50 per cent, but the increase in imports has been much higher, and this is why the trade deficit of 16 million dollars in 1972 increased to 25 million in 1973. In this connexion, special mention should be made of the negative balance with Guatemala, which increased from 8 million dollars in 1972 to 14 million in 1973.

As regards the prospects for improving the trade balance, the negotiations between Honduras and El Salvador covered matters of direct concern to the Central American Common Market such as the reopening of communication routes and population exchanges. Furthermore, the High Level Committee (CAN) for the improvement and reorganization of the Central American Common Market has studied the obstacles standing in the way of integration and has requested in this connexion the points of view of regional organizations and Governments, as well as their suggestions for integrated development.

3. Public finance

The increase in the quantity of coffee exported, the high prices received for exports of timber, the increase in the current values of imports, and the strengthening of machinery for collecting direct taxes increased the ordinary revenue of the central government by 14 per cent, compared with the 7.3 per cent increase in the previous year. At the same time, the stricter controls imposed on administrative expenditure kept the increase in current expenditure to less than 3 per cent. This increase was less than the year before and was due primarily to the higher interest payments resulting from the growing domestic and external indebtedness of past years (see table 132). Central government savings also showed a considerable increase, rising from 30 million lempiras to more than 52 million.

Together with the increased surplus on current account, there was also a considerable change in the composition of the financing of the over-all

Table 132. Honduras: current central government income and expenditure
(Millions of lempiras)

	1970	*1971*	*1972*[a]	*1973*[a]
Current income	*175.3*	*176.1*	*189.0*	*215.4*
Tax income	161.6	164.2	170.7	196.8
Direct taxes	44.4	44.0	45.6	53.2
On income	42.4[b]	41.8[b]	40.5[b]	...
On property	2.0	2.2	2.1	...
Indirect taxes	117.2	120.2	125.1	143.6
On imports	45.1	48.1	51.7	...
On exports	5.8	6.3	6.0	...
Other	66.3	65.8	67.4	...
Non-tax income	7.2	11.9	18.3	17.2
Current transfers	6.5	6.9	5.5	5.3
Current expenditure	*142.1*	*153.2*	*158.6*	*163.0*
Operating expenditure	126.0	136.0	138.0	138.4
Wages and salaries	89.4	95.1	96.6	96.9
Goods and services	36.6	40.9	41.4	41.5
Transfers	8.7	7.5	8.6	9.2
Interest on the public debt	7.4	9.7	12.0	15.4
Current saving	*33.2*	*22.9*	*30.4*	*52.4*

SOURCES: Supreme Economic Planning Council and ECLA estimates.
[a] Preliminary figures.
[b] Including social security tax.

deficit. In the past, growing use had been made of domestic credit (mostly from the banking system) for this purpose, but in 1973 greater recourse was had to long-term foreign credit, which was used to finance almost two thirds of the deficit, compared with 40 per cent in 1972.

The increase in tax revenue resulted primarily from the marked increase in taxes on external trade, which in some cases more than doubled their yield. Provisional estimates indicate that the increased coffee exports meant that in the first nine months of 1973 more than 6 million lempiras were collected, compared with 3.4 million for the same period in 1972, while in the same period the taxes on timber exports brought in 2.3 million lempiras compared with the average of 1 million lempiras in previous years. In spite of this, export taxes still represent a relatively low percentage of total tax revenue (see table 133).

Despite the economic recession experienced in recent years there were appreciable increases in the yield of direct taxes. Revenue from income tax increased by almost 9 per cent, in contrast with the moderate decline which had been experienced. Indirect taxes, for their part, increased by 15 per cent (compared with 7 per cent in 1972). The growth rate of revenue from import taxes, however, although higher than that of the previous year (13 per cent compared with 7.5 per cent), did not match the expansion in imports (see tables 132 and 133).

Public investment concentrated mainly on the execution and expansion of projects begun in previous years, so that the increase in investment expenditure was basically used for continuing and strengthening the major projects in the transport and communications sector, the most important of which are the surfacing of the highway between

Table 133. Honduras: central government tax income
(Millions of lempiras)

	1970	*1971*	*1972*[a]	*January to September*	
				1972	*1973*[a]
Total	*159.4*	*161.4*	*168.2*	*130.8*	*148.3*
Direct taxes	*44.5*	*44.1*	*42.6*	*40.2*	*44.2*
On income	42.5	41.8	40.5	38.7	42.1
Corporate	35.2	33.6	31.0	30.7	32.6
Banana companies	11.3	5.6	3.5	3.5	...
Other	23.8	28.0	27.5	27.2	...
Personal	7.0	7.9	9.1	7.7	9.1
Fines and social security tax	0.3	0.3	0.3	0.3	0.3
On property	2.0	2.2	2.1	1.5	2.1
Indirect taxes	*114.9*	*117.3*	*125.6*	*90.6*	*104.1*
Production, domestic commerce, consumption and transactions	64.0	62.9	67.8	49.5	54.3
Beer	13.2	14.6	15.4	11.3	12.4
Liquor	9.6	10.1	9.9	7.0	7.9
Sales	13.0	11.7	12.1	9.2	9.8
Gasoline and petroleum products	8.7	9.5	12.1	9.2	9.8
Non-essential consumer goods	4.4	0.2	0.1	0.1	–
Other	15.2	16.8	18.2	13.2	15.9
Exports	5.8	6.3	6.0	5.2	9.4
Coffee	3.7	4.0	3.4	3.4	6.2
Timber	1.0	1.1	1.3	0.9	2.3
Bananas	0.6	0.8	0.7	0.5	0.5
Other	0.5	0.4	0.6	0.4	0.4
Imports	45.1	48.1	51.7	35.8	40.3
Economic stabilization	6.7	0.2	–	–	–
Other	38.4	47.8	51.7	35.8	40.3
Miscellaneous taxes	0.1	0.1	0.1	0.1	0.1

SOURCE: Contaduría General de la República.

Note: Due to adjustments in the final accounts, the figures given for tax income do not agree with the corresponding totals in the original table.

[a] Preliminary figures.

Puerto Cortés and the Guatemalan frontier, the construction of feeder and access roads for agricultural areas, and the construction and surfacing of the Tegucigalpa-Danlí road. Another important feature during the year was the increase in investment in communal projects, although the amount invested is still relatively small compared with the total amount expended on public works.

4. Money and credit

The improvement in international reserves in the first quarter of the year due to the vigorous growth of exports in this period, together with the strengthening of public finances as a result of the behaviour of the external sector and the cutbacks made in expenditure, made possible the completion of relatively ambitious support programmes for the productive sectors and commercial activities.

Credit to the private sector showed an increase of 18.7 per cent by September 1973—a good deal more than in 1972. This was due to the larger credits given to industry, stock-breeding, construction and commerce.

Credit operations for the agricultural sector as a whole did not show any change, but an examination of the principal items shows a decline in the use of these funds in the coffee and cotton sectors, because of the increased income currently earned by producers of these crops, while more funds were provided, in contrast, for sugar-cane, basic cereals and other crops, as part of a policy to stimulate the expansion of land under cultivation, so as to produce surpluses for export, and to reactivate the supply of essential consumer goods and industrial inputs.

The importance attached to increasing exports of non-traditional goods to Central America was reflected in the credit policy measures taken in order to increase the potential of the bilateral trade agreements. Thus, the increase in bank lending to the industrial sector was in line with certain features of a scheme to complement the arrangements for non-reciprocal free trade, granted under the previously mentioned agreements, in respect of an extensive list of manufacturing products from Honduras. These mechanisms were also used, although to a lesser degree, to strengthen certain import substitution activities which had been starting up under the customs protection in force in the country in recent years.

The increase in international reserves, noted in the early months of the year subsequently weakened as a result of the drop in coffee surpluses, a reduction in banana sales, and an increase in purchases abroad. The rapid expansion of domestic credit also seems to have contributed to the decline in the reserves which was observed midway through the year. The September balances showed that the domestic money-generating factors exercised greater influence than external ones in increasing the means of payment. The increase in the money supply was approximately 25 per cent, i.e., considerably higher than in 1972 (14.3 per cent).

However, the expansion of non-monetary deposits (18.2 per cent compared with 15 per cent the previous year) and longer-term investments in the banking system by the private sector (stocks, special savings and other debentures) was also high; the latter investments increased by over 30 per cent and thus accentuated the upward trend begun in 1972, helping at the same time to reduce the inflationary financing of the fiscal deficit. In these circumstances, it is probable that substantial margins exist—particularly if favourable conditions in the external sector continue—for keeping up the absorption of private resources through mechanisms which help to increase financial savings and channel them to a large extent towards the implementation of long-term projects that are essential for the strengthening of the economy.

JAMAICA

1. Recent economic trends

On the basis of available indicators, it is estimated that in 1973 Jamaica's gross domestic product increased by 14.9 per cent and reached around 1,330 million Jamaican dollars, calculated at current prices.[66] It should be borne in mind, however, that in 1973 there was a sharp increase in domestic prices and that the average level of the consumer price index was 19 per cent higher than in 1972.

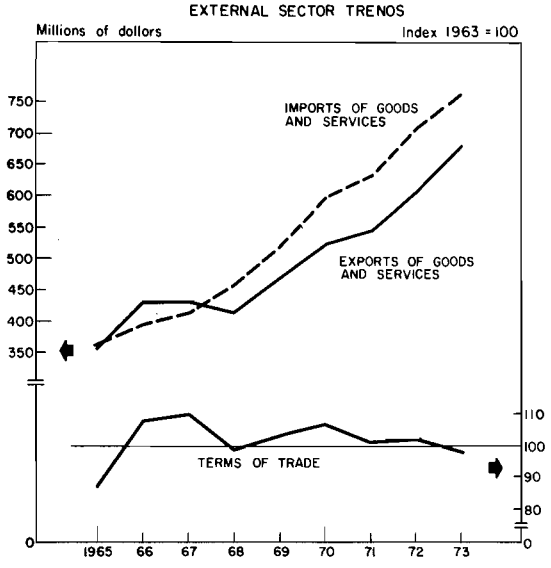
Except for mining and construction, performance in terms of volume of output of main sectors of production was uneven. In general, the agricultural sector suffered from the effects of the drought, particularly at the beginning of the year. Manufacturing output was affected, on the one hand, by strikes in some major industries, shortages of materials and the effects of the higher cost of imports and, on the other hand, by the control of some consumer prices.

[66] The usual indicators of activity in the Jamaican economy are not yet available for 1973. As a result, the estimates and projections prepared by the Port-of-Spain Office are not as accurate as usual.

The public sector accentuated its role as a stimulus to economic activity, but by pouring large sums of money into the economy during the year, especially to cover increased wages and salaries, undoubtedly helped to encourage general inflationary trends.

During 1973 the negative trade balance increased, but was offset by increased net inflows from services and transfers (see figure XXXVII). This produced a slight reduction in the deficit on current account compared with the previous year. It is estimated, however, that net capital inflows in 1973 were less than in 1972, which indicates a sharp reduction in international reserves.

Figure XXXVII. Jamaica
Natural scale



2. Major sectors of activity

In 1973 the gross domestic product of the agricultural sector amounted to around 117 million Jamaican dollars compared with 106 million in 1972; the growth rate reached approximately 11 per cent (see table 134), although the sector's share of the total product was slightly reduced. The increase indicated was mainly due to price rises, as the production of many commodities for both the export and the domestic market suffered declines.

Data on the performance of the export agriculture sub-sector in 1973 indicate that important items such as sugar and bananas declined. As regards the much larger domestic agriculture subsector, indications are that output of tubers remained at about the levels of 1972, but the production of vegetables declined. The general drop in output was mainly due to the drought at the beginning of 1973 which caused particular damage to vegetables.

Production of poultry, eggs and pigs increased compared with 1972, but that of cattle and other livestock and their products was lower, on account both of the drought and because of shortages and higher prices of feed for animals. Fishing and forestry output did not increase significantly in 1973.

The world-wide shortage of animal feed, fertilizers and agricultural products and the conse-

Table 134. Jamaica: gross domestic product at current factor cost, by sector of economic activity

	Millions of Jamaican dollars				*Annual growth rate (percentages)*		
	1970	*1971*	*1972*[a]	*1973*[b]	*1971*	*1972*[a]	*1973*[b]
Agriculture	78.8	98.8	105.6	117	25.1	7.1	10.8
Mining, quarrying and refining	147.8	144.8	141.1	180	-2.2	-2.6	27.6
Manufacturing	132.5	148.6	165.5	191	12.2	11.4	15.4
Construction	114.3	123.0	130.9	144	7.6	6.4	10.0
Electricity, gas and water	14.5	16.3	18.9	21	12.4	16.0	11.1
Transport communications and storage	70.3	77.2	84.0	93	9.8	8.8	10.7
Commerce	138.9	148.6	160.3	180	7.0	7.9	12.3
Financial services	56.1	64.7	76.8	88	15.3	18.7	14.6
Ownership of dwellings	27.6	29.3	31.7	36	6.2	8.2	13.6
Government	82.0	88.1	108.6	132	7.4	23.3	21.5
Miscellaneous	112.0	121.9	134.2	148	8.8	10.1	10.3
Total	*974.8*	*1,061.2*	*1,157.6*	*1,330*	*8.9*	*9.1*	*14.9*

SOURCE: Department of Statistics, Jamaica, *National Income and Product*, 1972.

[a] Provisional figures.
[b] ECLA projections.

quent increase in their prices had a considerable effect on the country during 1973, but at the same time they induced greater local efforts. The objective of the main agricultural projects introduced in 1973 was to increase food output and employment and reduce foreign exchange requirements. With favourable weather conditions, the impact of these projects should be more pronounced in 1974.

It is estimated that in 1973 the gross domestic product of the mining, quarrying and refining sector was 180 million Jamaican dollars, nearly 28 per cent up on the 1972 figure; the sector's percentage contribution to the total gross domestic product therefore increased by nearly 14 per cent, which would indicate that the industry is recovering from the decline of 1971 and 1972.

The output of bauxite and alumina (which contributes more than 90 per cent of the total gross domestic product of the sector) increased in quantity by between 7 and 8 per cent over the level achieved in 1972, while output of refined petroleum products is estimated to have exceeded the 1972 figure by nearly 9 per cent.

In 1973 the gross value added for the manufacturing sector is estimated at 190 million Jamaican dollars at current prices. This indicates a 15 per cent increase over the 1972 estimate and is more attributable to higher prices than to the growth of the real product.

Available part-year data show a mixed pattern for manufacturing output, with more increases than decreases in the production of several major commodities. Among those which recorded increases were beverages, chemicals, plastic products and steel products, while sugar, flour and cigarettes registered decreases. In 1973 there were strikes in the cement industry and the flour mills, so that the output of these branches of industry also declined compared with 1972.

Industry was affected by the rise in prices of raw materials and the higher cost of factors from both local and foreign sources. Many of these increases in prices of inputs were passed on to the prices of locally manufactured goods, thus inflating the value of sales.

According to estimates, in 1973 the gross domestic product of the construction sector amounted to around 144 million Jamaican dollars at current prices, a 10 per cent increase over 1972 figures. This growth rate was higher than in any of the three previous years and indicates that construction is recovering the dynamism it displayed in the past.

The main impulse appears to have come from government projects for the construction of housing, public buildings and establishments, and infrastructure. The construction of housing and commercial buildings by the private sector also increased rapidly and several large hotels begun in 1972 have been completed, but the building of new hotels appears to have been tapering off.

The value added in the government sector, which continued to give dynamism to the economy, increased by 21 per cent in 1973, a slightly smaller increase than in 1972.

The increases mentioned in the main economic sectors meant that, in general, the growth rates of service activities were slightly up on the rates for 1972.

3. The external sector[67]

The increase in international prices stimulated exports in 1973. Thus, earnings from exports of alumina and bauxite together were over 230 million Jamaican dollars. The value of exports of sugar and bananas also increased notably. The 34 per cent increase in the value of banana exports (16.5 million Jamaican dollars) was a result of the improved prices on the international markets, since the quantity exported underwent a sharp contraction (around 16 per cent).

The value of exports of goods amounted to 400 million dollars and was 6 per cent over the 1972 level (see table 135). The value of imported goods amounted to 564 million dollars, 6.6 per cent more than in 1972.

In the services account the increased earnings of 36 million dollars from tourist expenditure was a major factor, which enabled the higher expenditure in other items of current transactions to be partly offset. The current account deficit dropped slightly from 194 million dollars in 1972 to 185 million in 1973.

According to the partial data available, capital movements in 1973 were not enough to offset the above deficit, although towards the end of the year the new conditions for the operation of the mining industry began to open the way for an expansion of direct investment in this industry.

Over-all, the movement of the current and capital accounts reduced net international reserves by around 66 million dollars.

Jamaica's trade with the CARIFTA countries, which had increased rapidly in 1972, maintained this trend in 1973. Exports amounted to around 25 million Jamaican dollars, with an increase of slightly more than 40 per cent over the level of the previous year. The major part of Jamaica's exports to the countries of the sub-region was made up of processed foodstuffs, manufactures, including elec-

[67] Unless otherwise stated, the values are in United States dollars.

Table 135. Jamaica: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	521.6	545.2	607.8	680.3
Goods FOB	342.1	345.6	377.5	400.0
Services	179.5	199.6	230.3	280.3
Transport	27.6	29.0	31.2	34.4
Travel	95.5	109.0	134.7	171.1
Imports of goods and services	598.1	631.5	706.8	762.2
Goods FOB	449.0	473.1	528.6	563.7
Services	149.1	158.4	178.2	198.5
Transport	87.8	88.4	98.8	105.6
Travel	15.5	16.3	20.6	25.3
Net external investment income	−98.2	−102.8	−125.7	−138.3
Profits	−103.9	−105.9	−125.2	−132.3
Interest	5.7	3.1	−0.5	−6.0
Net private transfer payments	26.2	26.2	31.0	35.0
Balance on current account	−148.5	−162.9	−193.7	−185.2
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	148.5	162.9	193.7	185.2
(*a*) Net external non-compensatory capital	191.0	174.9	165.5	
Direct investment	162.1	174.7	130.3	
Long- and medium-term loans	14.1	27.5	30.8	
Amortization payments	−4.3	−8.1	−7.2	119.2
Short-term liabilities	23.5	−13.7	18.3	
Official transfer payments	−4.4	−5.5	−6.7	
(*b*) Domestic non-compensatory capital or assets	−35.1	−7.9	−10.5	
(*c*) Errors and omissions	7.4	16.1	13.2	
(*d*) Allocation of SDRs	6.4	5.7	6.1	–
(*e*) Net compensatory financing (increase −)	−21.2	−25.9	19.4	66.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	–	–	22.6
Amortization payments	–	–	–	−6.6
Movements of foreign exchange reserves (increase −)	−14.6	−15.7	−1.4	49.5
Movements of gold reserves (increase −)	−0.2	−3.8	14.4	–
SDRs (increase −)	−6.4	−6.4	6.4	0.5

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

trical equipment, and chemicals. Half of the exports to the sub-region went to Trinidad and Tobago, around 20 per cent to Guyana and 24 per cent to Barbados and Belize.

Lastly, preliminary estimates indicate that Jamaica's imports from the CARIFTA countries increased by around 30 per cent, Trinidad and Tobago being the main supplier within the area.

MEXICO

1. RECENT ECONOMIC TRENDS

In 1973, the growth rate of the Mexican economy was similar to that of the previous year, with an increase in the gross domestic product of approximately 7.5 per cent.[68] The recovery begun in the second half of 1972 thus continued, with the maintenance in all sectors, during most of 1973, of high levels of economic activity, although the problems of the balance of payments and the high rate of increase in prices meant that economic

[68] The Banco de México has presented the preliminary estimates for the gross domestic product with a range of variation which in 1972 was between 7 and 7.5 per cent. According to the data provided for 1973, the range of variation was between 7.1 and 7.6 per cent. As the figure adopted in the Annual Report of the Banco de México in 1972 was 7.5 per cent, it has been considered advisable to maintain the same increase for 1973.

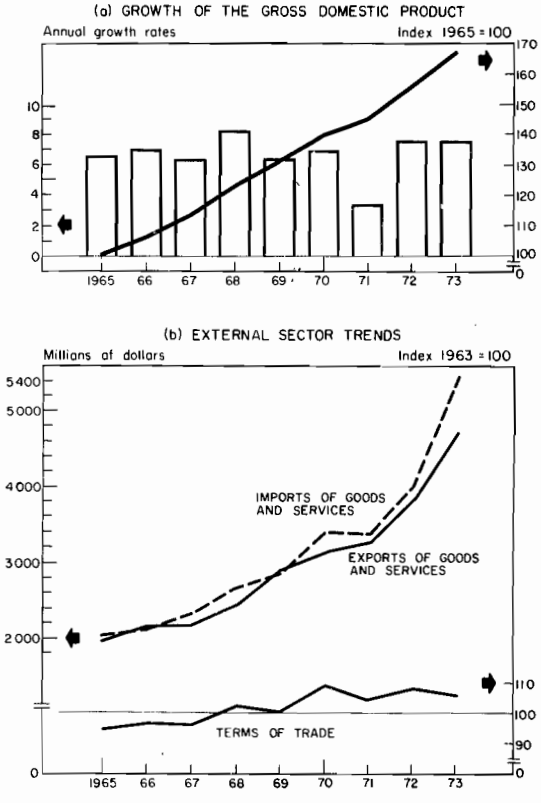
policy during the last few months tended to moderate the repercussions of increasing economic activity on domestic equilibrium and payments abroad (see figure XXXVIII).

External trade grew considerably in 1973, as was the case in most of the countries of the region, mainly as a consequence of the high prices in force in the external market. The current value of exports showed a growth rate of 24 per cent, and that of imports a rate of 33 per cent, while the quantum at constant prices also showed significantly high rates, of 8.4 per cent in the case of exports and 12.6 per cent in the case of imports; although these are lower than the 1972 rates, they are considerably higher than those of the five-year period 1965-1970.

As regards demand, public investment was again the factor which stimulated growth. The sustained growth rate (18 per cent), although lower than in 1972, contributed to a relative recovery of private investment, which showed an increase of 7.6 per cent in comparison with 6.1 per cent in 1972 (see table 136).

The growth of imports made it possible to maintain a high rate of consumption (7.2 per cent in 1973) and at the same time to supplement domestic supply, the inelasticity of which would have produced greater inflationary pressures. In other words, external policy has given priority to the objective of maintaining growing consumption with a stable exchange rate, at the expense of an increase in the external debt of the public sector.

Figure XXXVIII. Mexico
Natural scale



Although a relatively high rate of growth was maintained in the production of goods and services, the Mexican economy developed during 1973 under especially complex conditions, owing to the presence of powerful factors of disequilibrium of domestic and external origin, which combined to produce substantial increases in prices and distortions in the balance of payment. Price increases not only speeded up considerably in comparison with 1972, but, even more important, inflation took on a new form which exerted new pressures on costs in addition to the factors of imbalance that have traditionally existed on the side of demand.

As the inflationary process developed, pressures stemming both from the shortage of fiscal resources to finance public investment and from the greater importance given to slow-maturing infrastructure projects and to social projects which did not immediately increase the supply of goods and services available predominated during the greater part of the year. In any case, at the beginning of the year the development of economic activity was already suffering the effects of the inflationary trends from outside and the scarcity of domestic raw materials, the supply of which had been relatively restricted owing to the slow expansion of the agricultural sector and the execution of few private investment projects capable of strengthening inter-industrial relations. Furthermore, some bottlenecks in the basic infrastructure (mainly electric energy and transport) and in strategic inputs (mainly steel and petrochemicals)—which the aim is to eliminate in the medium term through the implementation of a specific strategy—accentuated the disequilibrium between a growing demand and a supply which was unable to satisfy it immediately. As regards imports, while many items helped to alleviate the pressure of demand, in most sectors there was an increase in costs which had repercussions on prices.

Added to the increases in the prices of domestic inputs and of raw materials and capital goods of external origin was the effect of the wage increases authorized in the last quarter. Lastly, the prospects of increases in domestic and external prices also led to a rapid growth of stocks which aggravated the inflationary process by introducing an element of speculation. This has thus shown the need to adjust mechanisms and policies through energetic action in the area of supply. Apart from the circumstantial deficiencies which appeared at the beginning of the year in the non-processed food sector, due to the poor performance of

Table 136. Mexico: total supply and demand

	Thousands of millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*331.8*	*340.4*	*367.9*	*397.4*	*110.0*	*111.9*	*112.1*	*7.3*	*2.6*	*8.1*	*8.0*
Gross domestic product	296.6	306.7	329.8	354.5	100.0	100.0	100.0	6.9	3.4	7.5	7.5
Imports[b]	35.2	33.7	38.1	42.9	10.0	11.9	12.1	10.7	-4.3	13.1	12.6
Total demand	*331.8*	*340.4*	*367.9*	*397.4*	*110.0*	*111.9*	*112.1*	*7.3*	*2.6*	*8.1*	*8.0*
Exports[b]	28.7	30.6	33.4	36.2	10.3	9.7	10.2	5.6	6.6	9.2	8.4
Gross domestic investment	62.6	...	...	...	19.8	21.1	...	8.3	...	...	...
Gross fixed investment	57.0	57.3	63.6	70.7	17.5	19.2	19.9	8.9	0.5	11.0	11.2
Public	19.4	17.7	21.6	25.5	5.7	6.5	7.2	9.9	-8.8	22.0	18.1
Private	37.6	39.6	42.0	45.2	11.8	12.6	12.8	8.4	5.3	6.1	7.6
Total consumption	240.5	252.5	270.9	290.5	79.9	81.1	81.9	7.2	5.0	7.3	7.2
General government	22.0	23.9	26.1	27.9	7.2	7.4	7.9	7.6	8.9	9.1	7.0
Private	218.5	228.6[c]	244.8[c]	262.6[c]	72.7	73.7	74.0[c]	7.2	4.6[c]	7.1[c]	7.3[c]

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco de México, S.A.; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Provisional figures.

[b] Goods and services, excluding factor payments.

[c] Including changes in stocks.

agriculture the previous year, a more efficient co-ordination is required between the programmes and projects of the public sector and those in which the private sector is engaged.

The intensification of inflationary pressures affected Mexico's balance of payment position. An increase in wholesale prices of 25.2 per cent between December 1972 and December 1973 was accompanied by a current account deficit of 1,622 million dollars for the same period (a 66 per cent increase over 1972). This is another example of the pronounced trend towards disequilibrium which is characteristic of the operation of the Mexican economy since the end of the 1960s; thus the increase in the product–required to generate proportionally the same number of jobs as in the past–has resulted in a further deterioration in the balance of payments and an aggravation of inflationary pressures. The existing international situation, the slow growth of private investment in recent years, the increase in costs and the exceptional effort which the public sector has had to make in order to maintain its rate of activity, despite difficult financial conditions, combined in 1973 to produce external disequilibria without precedent in nearly two decades. Economic policy during 1973 was aimed at tackling the main problems stemming from the increased dynamism of demand vis-à-vis domestic supply. It is possible that if a series of measures had not been adopted during the year, the disequilibria and pressures would have been even greater.

The factors determining inflation varied in the course of the year as a result of the progressive adjustments which it was necessary to introduce. In the first quarters of the year the causes of inflation were related to demand factors, while towards the end of 1973 they were predominantly associated with cost pressures, in view of the action taken to prevent deterioration in the income of broad sectors of the population and the gradual increase in the cost of raw materials. It is not surprising, therefore, that the measures adopted (the increase in cash reserves, the rechannelling of funds towards the public sector and the slowing up of public spending in the last few months) were directed for the most part towards dealing with the pressures of demand which predominated during the year.

Much of the action taken by the authorities was in answer to the financial needs stemming from increased spending by the public sector, influenced in 1973 by the maintenance of investment expenditure and temporarily by the repercussions at the beginning of the year of the 1972 drought. This made it necessary to increase considerably imports of grains, machinery and equipment, which underwent sharp price increases abroad. In the case of grains, imports helped to keep domestic prices below the level they would have reached on the markets and this protected the income of the majority of the population.

Subsequently, with the intensification of the inflationary process, there were considerable adjustments in wages, which contributed to changing the pattern of inflation by putting more emphasis on cost factors–already influenced by the increases in raw materials–in comparison with the pressures of demand. These increases affected the cost structure of the sectors of production in different ways, but, in view of the credit restrictions, they possibly had most effect on industrial activities devoted to the production of raw materials and capital goods.

The repercussions of the credit restrictions, the increase in production costs and the channelling of substantial sums towards the financing of public expenditure began to be visible in the financial system in that the tapping of resources in the form of securities declined, since the decreased liquidity of enterprises in general and the high rates of inflation demanded a growing use of funds, which were obtained by liquidating securities (see table 137).

In the face of this situation, the authorities took several measures to reduce the pressures which public expenditure was putting upon available resources. Especially in the last two months of the year, a check was put on the impetus of public expenditure, which had initially served to help reactivate the economy as from 1972, especially real capital formation. Subsequently, adjustments were also made in the rates of large-scale public enterprises with a view to alleviating their financial problems and encouraging increased investment in the future; lastly, modifications were introduced in the State expenditure budget with the purpose of reducing the increase next year.

The results of the series of measures adopted began to be reflected in a decrease in inflationary pressures towards the end of the year, although possibly their effects will show the growth of the economy in 1974.

2. Major sectors of activity

Although the dynamism of sectoral activities was similar to that of the previous year (an increase of 7.5 per cent), the contribution of the sectors varied slightly with the decline in the growth of industry, while primary activities and services improved slightly (see table 138).

(a) *Agriculture*

Agricultural production showed a recovery compared with the previous year, although the

Table 137. Mexico: tapping of monetary resources

	Millions of pesos			*Annual growth rate (percentages)*	
	December			*December*	
	1971	*1972*	*1973*[a]	*1972*	*1973*[a]
Total	*222,224*	*258,406*	*306,550*	*16.3*	*18.6*
Foreign currency	40,108	42,598	61,076	6.2	43.4
National currency	182,116	215,808	245,474	18.5	13.7
Bank-notes and coins	21,824	26,777	34,141	22.7	27.5
Current accounts	31,236	37,550	45,704	20.2	21.7
Subtotal	*53,060*	*64,328*	*79,845*	*21.2*	*24.1*
Savings accounts	11,597	13,604	16,938	17.3	24.5
Finance bonds	25,694	30,150	33,348	17.3	10.6
Finance certificates	10,266	8,165	4,690	−20.5	−42.6
Promissory notes	32,150	41,387	45,349	28.7	9.6
Mortgage bonds	17,250	20,892	22,935	21.1	9.8
Bonds and debentures	14,487	17,054	17,340	17.7	1.7
Subtotal	*111,444*	*131,252*	*140,600*	*17.8*	*7.1*
Other deposits	17,612	20,229	25,028	14.9	23.7

SOURCE: ECLA, on the basis of data provided by the Banco de México, S.A.
[a]Preliminary figures.

different agencies do not agree on the level reached.[69] All in all, it appears that this improvement was associated with the increase in the production of commodities for the domestic market (6.5 per cent), while the supply of export products decreased by 8.1 per cent (see table 139). Livestock production declined by 2.8 per cent, on account of the drop in cattle stocks caused by exports of beef the previous year. This decline (8.2 per cent) was only partly offset by the increase in pig farming (5.7 per cent), since the production of sheep and goats declined by approximately 3 per cent.

As regards the increased agricultural production for domestic consumption, stimuli were provided by the combination of a satisfactory rainy season and the increases agreed upon in the support prices for the main commodities. Output of soya rose by 30.5 per cent, of wheat by 18.4 per cent, of maize by 8.1 per cent and of beans by 8.7 per cent. The production of sorghum, however, on account of excessive rain, and despite the increase in the support price and other measures aimed at benefiting producers, increased by only 1.3 per cent.

Export crops were affected by the growth of production for domestic consumption, fostered by the increase in support prices, while international prices did not constitute sufficient incentive to increase or, in some cases, even to maintain the areas given over to export crops, on account of their longer maturing period, the uncertainty as regards international price levels, and possibly the high cost of producing these items. Production of cotton thus declined by 12 per cent, that of chick-peas by 15.5 per cent, of cocoa by 5.2 per cent, of melons by 13.3 per cent and of pineapples by 25.5 per cent.

(b) *Mining*

The supply of mining products was 4.1 per cent[70] over the 1972 level, mainly as a result of an appreciable rise in international market prices. This increase was not, however, uniform, since it

[69] The margin of discrepancy is fairly pronounced, the rate varying between 6.8 per cent according to some national and foreign sources, 2.7 per cent according to the estimate usually prepared by the Joint ECLA/FAO Agriculture Division, and 1.7 per cent which is the estimate of the Banco de México. Since in the other sectors no alternative sources are available it has been considered appropriate, for the sake of consistency, to adopt the estimates of the Banco de México. In view of the fact that the Bank has not provided a breakdown of its estimates, however, the variations in the different products were based on quantum indexes of ECLA and thus should be interpreted as manifestations of trends rather than as final figures.

[70] The estimated increase in mining output also varies considerably according to the source, ranging from 2.5 per cent which is the estimate of the Banco de México, to 6.4 per cent on the basis of figures prepared by the Mining Development Commission. For this reason, as in the case of agriculture, the figures mentioned have been taken as indicators of trends and represent ECLA estimates.

Table 138. Mexico: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	34,417	35,118	35,322	35,939	14.8	12.2	10.6	2.7	1.9	0.6	1.8
Mining	12,662	12,952	13,582	14,136	4.4	4.5	4.2	7.2	2.1	4.9	4.1
Manufacturing	66,916	69,030	75,224	81,392	21.5	23.6	24.0	8.8	3.2	9.0	8.2
Construction	13,583	13,230	15,348	17,727	4.2	4.8	5.2	9.8	-2.6	16.0	15.5
Subtotal goods	*127,578*	*130,330*	*139,476*	*149,194*	*44.8*	*45.1*	*44.1*	*6.9*	*2.1*	*7.0*	*7.0*
Electricity, gas and water	4,612	4,979	5,509	5,950	1.2	1.6	1.8	14.1	8.0	10.6	8.0
Transport and communications	9,185	9,824	10,865	12,006	3.1	3.2	3.5	7.8	7.0	10.6	10.5
Subtotal basic services	*13,797*	*14,803*	*16,374*	*17,956*	*4.3*	*4.9*	*5.3*	*9.7*	*7.3*	*10.6*	*9.7*
Commerce and finance	87,872	90,527	97,815	...	31.3	31.0	...	6.6	3.0	8.1	...
Government	17,097	18,636	20,349	22,486	5.8	6.0	6.6	7.6	9.0	9.2	10.5
Ownership of dwellings	18,098	18,554	19,270	...	6.8	6.4	...	5.4	2.5	3.9	...
Miscellaneous services	18,749	19,966	21,521	...	7.0	6.6	...	5.7	6.5	7.8	...
Subtotal other services	*141,816*	*147,683*	*158,955*	*171,349*	*50.9*	*50.0*	*50.6*	*6.4*	*4.1*	*7.6*	*7.8*
Total	*284,118*	*293,793*	*315,921*	*339,615*	*100.0*	*100.0*	*100.0*	*6.9*	*3.4*	*7.5*	*7.5*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco de México, S.A.; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a]Preliminary figures.

Table 139. Mexico: agricultural and livestock production trends

	Indexes (1959-1961 = 100)				*Annual growth rate (percentages)*		
	1970	*1971*	*1972*[a]	*1973*[b]	*1970-1971*	*1972*	*1973*
Total	*150.0*	*151.9*	*152.9*	*155.2*	*1.3*	*6.6*	*1.5*
Crops	147.2	149.8	148.7	152.7	1.8	−0.8	2.7
For export	109.1	115.2	121.1	111.4	5.6	5.1	−8.1
For domestic consumption	165.4	166.4	161.9	172.4	0.6	−2.8	6.5
Livestock	161.4	160.8	170.6	165.9	−0.4	6.1	−2.8

SOURCE: ECLA, on the basis of official statistics.
[a] Preliminary figures.
[b] Estimates.

Table 140. Mexico: production of petroleum and coke

	1971	*1972*[a]	*1973*[b]	*Annual growth rate (percentages)*	
				1972	*1973*
	(Index: 1970 = 100)				
General index	102.8	109.2	114.3	6.2	4.7
Petroleum, crude and condensed	102.4	108.6	113.5	6.1	4.5
Refining (charge of crude and liquids processed)	102.2	112.0	118.4	9.6	5.7
Production (products processed/charge)	98.7	102.0	105.2	3.3	3.1
Coke	116.6	127.4	138.0	9.3	8.3

SOURCE: Banco de México, S.A.
[a] Preliminary figures.
[b] Estimates.

reflected the production problems experienced in the past. Generally speaking, the output of non-ferrous metals declined, while that of non-metallic minerals increased. Among the former, however, the volume of production of silver, lead and manganese increased (4.8, 9.4 and 20 per cent, respectively), while output of the rest declined. In spite of the considerable increase in international prices, copper production dropped by 6.5 per cent owing to delays in plans for expanding several enterprises and the entry into operation of new projects.

Among the non-metallic mineral products, sulphur registered the most substantial increase (57.5 per cent), followed by graphite (19.2 per cent), coal (13.9 per cent) and limestone (11 per cent). Output of iron ore fell by 5 per cent, despite the sharp increase in the demand for iron products, particularly for construction purposes.

Output of crude and refined petroleum continued to increase, although at a slower rate than in 1972 (4.5 per cent compared with 6.2 per cent) (see table 140). Since this growth was less than the increase in demand, imports of crude oil and also of some refined products increased for the second year running, reaching 283 million dollars in 1973. This was essentially due to the delay in the plans to expand both the refining capacity and the exploration activities of PEMEX, on account of the freezing of the prices of petroleum products and the increase in operational costs which gradually undermined the financial capacity of the enterprise.

This situation, which had lasted for more than a decade, improved with the increase in fuel prices at the end of 1973. The rise in international petroleum prices during the last quarter could be adversely reflected in the balance of payments for 1974, since the volume imported, slightly larger than in 1973, at present prices would probably amount to around 700 million dollars. It would seem, however, that the development of the new

oilfield in Chiapas, begun at the end of 1973, offers magnificent prospects, and may permit the total elimination of imports of crude oil in the second half of 1974. The additional refining capacity, which will come into operation during the second quarter of 1974, appears to be sufficient to supply Mexico's gasoline and other fuel requirements over the next two years. It may therefore be assumed that the position as regards fuels will improve considerably in 1974.

(c) *Manufacturing*

Manufacturing continued to record a relatively high growth rate, although somewhat lower than in 1972 (8 per cent as against 8.7 per cent in terms of market prices). With the exception of the rubber, non-metallic minerals, machinery and motor-vehicle industries, the various branches of industry recorded lower growth rates than the year before; the leather industry declined in absolute terms for the second year running (see table 141).

The same trend was recorded throughout the year in the monthly indexes of manufacturing output. It is interesting to observe, however, that the reduction in growth rates was accentuated in the second half of the year. Comparing each half of the year with that immediately preceding it, production in the first half of 1973 was 6.9 per cent more than in the second half of 1972, while in the second half of 1973 it was only 2.3 per cent more than in the first half.[71] This decline in the rate of activity throughout the year is consistent with the data on the inadequacy of the installed capacity in some industries, e.g., steel and, in general, petrochemical products, and with the growing difficulties in the domestic and external supply of raw materials (cotton, wood, paper, some mineral products and other inputs).

The decline in the rate of expansion of manufactures in the second half of the year was also affected by inflation. The various branches of industry and the enterprises in particular, were differently affected by the increasing demand, rising costs and credit restrictions, according to their proximity to final consumption, the nature of their inputs, and the structure of the market and of costs, their sources of financing and their location, among other factors.

The indicators of volume per product published by the Banco de México[72] suggest that the pattern

[71] The average index for the second half of 1972 was 112.9, if the growth rates are compared half-year by half-year, the rate in the first half of 1972 was 8.1 per cent and in the first half of 1973 it was 7.9 per cent. The increase in the second half of 1972 was 10.6 per cent and in the second half of 1973 it was 9.4 per cent. The decline in growth rates proved to be greater in the second half of the year than in the first. The low level of activity recorded in 1971, however, introduces bias in this type of comparison which makes it rather irrelevant.

[72] The coverage of these indicators is 23.5 per cent of industrial output.

Table 141. Mexico: value added in manufacturing industry
(Millions of pesos at 1960 market prices)

	1971	*1972*[a]	*1973*[b]	*Annual growth rate (percentages)*	
				1972	*1973*
Manufacturing	69,745	75,804	81,869	8.7	8.0
Food, beverages and tobacco	19,849	20,845	21,637	5.0	3.8
Manufacture of textiles	5,669	6,136	6,627	8.2	8.0
Footwear and clothing	5,764	6,279	6,762	8.9	7.7
Wood and cork industries	1,441	1,545	1,591	7.2	3.0
Paper and paper products	1,951	2,110	2,249	8.1	6.6
Printing and publishing	1,472	1,666	1,696	13.2	1.8
Leather and leather products	682	637	616	−6.7	−3.4
Rubber products	1,300	1,417	1,577	9.0	11.3
Chemical products	8,764	9,972	11,069	13.8	11.0
Non-metallic minerals	3,220	3,590	4,168	11.5	16.1
Steel industry	4,762	5,349	5,798	12.3	8.4
Manufacture of machinery	8,380	9,247	10,356	10.3	12.0
Transport equipment	4,936	5,326	6,455	7.9	21.2
Other industries	1,555	1,685	1,268	8.4	−24.8

SOURCE: Banco de México, S.A.
[a] Preliminary figures.
[b] Estimates.

of industrial performance is changing considerably, especially as regards the sectors manufacturing producer goods. In other words, the consumer goods analysed—beer, soft drinks, tobacco and cigarettes, and products of the printing industry—follow patterns very similar to those observed in previous years, while significant changes may be noted in the half-yearly growth rates of the activities producing intermediate products (such as cement, steel casting, chemical products and fertilizers), owing to the fact that various factors operating during the year—inflationary pressures, credit restrictions, cost increases, etc.—affected their development to a more significant extent.

The indicators are obviously not enough to assess the effect of inflation on the output of each industry. They do, however, suggest that the rise in costs and prices and the anti-inflationary measures adopted are gradually changing the structure of manufacturing output. In the light of the foregoing considerations it may be assumed that this modification in the pattern of industrial growth will not foster sustained development; neither will it eliminate bottlenecks, nor, consequently, price increases. The most affected are producer goods, since industrial investment appears to be more oriented towards activities for domestic consumption and those with a high import content. If this trend continues, the changes in the structure of inter-industrial relations could eventually neutralize the efforts which have been made to encourage exports of manufactures and to achieve a better complementarity of the production base. They could also have negative effects on the capacity of industry to absorb labour and on the efforts to decentralize economic activity.

(d) *Prices*

An analysis of the different price indicators shows that the nature of the inflationary process in Mexico has changed with the gradual transfer of the pressure of demand towards an inflation of costs. It may also be observed that pressures on prices, nearly always most intensive in Mexico City, have begun to spread to the rest of the country, as a result of the adjustments introduced in some aspects of economic policy. It is possible that the subsidies for food, transport and fuels have inverted the traditional price situation, favouring Mexico City more than the rest of the country (see table 142).

According to the wholesale price index for Mexico City, the prices of producer goods—contrary to previous trends— increased more than the prices of consumer goods as a result of the wage adjustments made and the increase in the costs of the main raw materials, for both internal and external reasons.

Thus, although price increases affected both consumer articles (14.8 per cent) and producer goods (17.3 per cent), the greater influence of the latter goods in generating inflation in Mexico cannot be denied. More specifically, raw materials—particularly non-processed raw materials—were the factor which determined the rise in the prices of producer goods, where increases of around 25 per cent were recorded in comparison with only 3.5 per cent in 1972. The increases in the prices of fuels and lubricants and of motor vehicles and accessories were additional factors, although their impact was less severe.

As has already been mentioned, the increase in prices of consumer articles was also greater than in 1972. Food, which rose by 15.5 per cent, was the main factor of this increase, since it reflected the effects of the drought of the previous year and the increase in support prices adopted for the main basic grains. On a lesser scale, consumer articles other than foodstuffs, the prices of which rose 3.6 per cent in 1972 and 13 per cent in 1973, also had some influence.

The increases in prices throughout the year—at an average monthly rate of 1.9 per cent in the wholesale price index of Mexico City and of 1.6 per cent in the national consumer price index—have not been uniform. An acceleration of the process may be observed in the first three quarters, with a slight decline in the last quarter,[73] as a consequence of the restrictive measures taken by the Central Bank towards the middle of the year and the decline in public spending.

3. Balance of payments

The deficit on current account continued to increase during 1973, reaching 1,622 million dollars—a 66 per cent increase—as a consequence of internal and external inflationary pressures, the heavy indebtedness in previous periods and the measures adopted to finance the high fiscal deficit (see table 143).

However, the basic reason for the negative balance was the substantial rise in imports (33 per cent), which was only partially offset by the increase in exports of goods and services (24 per cent compared with 17 per cent in 1972) to 4,715 million dollars; thus the trade deficit in goods and services increased appreciably (from 243 to 675

[73] In the wholesale price index, prices increased at a monthly rate of 1.4 per cent in the first quarter, 1.8 per cent in the second quarter, 2.6 per cent in the third quarter, and 1.7 per cent in the last quarter. In the national consumer price index, the rate of growth was 1.1 per cent in the first quarter, 1 per cent in the second quarter, 2.3 per cent in the third quarter and 2.1 per cent in the last quarter.

Table 142. Mexico: consumer price indexes

	Annual growth rate (percentages)							
	1971		*1972*		*1973*		*September 1973-December 1973*	
	National	*Mexico City*	*National*	*Mexico City*	*National*	*Mexico City*	*National*	*Mexico City*
				By sector of origin				
General index	*5.5*	*5.7*	*4.9*	*5.0*	*11.6*	*11.3*	*6.5*	*6.9*
Agriculture, livestock production, forestry and fishing	−2.6	−3.8	6.9	8.1	17.3	17.0	5.8	10.8
Petroleum and petroleum products	0.4	0.1	2.1	–	6.7	6.1	71.6	73.3
Food, beverages and tobacco	6.9	8.5	3.2	4.7	15.4	16.7	4.4	3.7
Manufacture of textiles	5.3	7.4	6.2	5.3	16.9	17.0	4.4	5.5
Manufacture of wood products	4.2	2.6	3.3	1.1	8.9	10.9	17.0	22.9
Manufacture of chemical products	5.4	7.3	2.4	3.4	7.0	9.2	3.5	3.2
Manufacture of metal products	3.2	3.1	3.4	3.4	9.4	12.4	5.5	8.9
Electricity	0.3	–	1.2	–	5.8	6.0	23.2	23.8
Transport and communications	4.4	2.0	7.1	4.5	4.4	3.8	17.2	19.8
Services	7.4	6.9	6.4	5.9	9.3	7.1	2.6	2.0
				By object of expenditure				
General index	*5.5*	*5.7*	*4.9*	*5.0*	*12.2*	*11.3*	*6.5*	*6.9*
Food, beverages and tobacco	4.7	5.5	4.0	5.2	15.8	17.1	4.9	5.3
Clothing, footwear and accessories	6.0	7.8	6.6	5.4	17.1	17.8	3.7	4.4
Gross rents, fuels and lighting	5.1	4.7	5.6	6.1	9.0	4.3	3.6	1.9
Furniture and accessories, household goods and maintenance of dwelling	5.2	5.1	4.2	2.3	11.3	12.1	6.1	7.1
Medical services and conservation of health	5.6	4.3	6.5	6.4	7.8	9.4	1.8	–
Transport and communications	2.7	1.5	5.4	4.0	5.7	6.3	25.8	27.7
Education, recreation and entertainment	9.0	9.3	4.5	4.9	10.2	9.7	5.5	6.8
Other goods and services	10.5	12.6	3.8	3.2	9.1	7.5	5.8	6.8

SOURCE: Banco de México, S.A.

million dollars). Nevertheless, although the increase in net factor payments (232 million dollars or 29 per cent) was less than that of the foregoing items they continued to account for a substantial part of the deficit on current account, i.e., slightly over 63 per cent in 1973 (see table 143).

The most significant increase in imports was in purchases of goods, which rose by 41 per cent owing to the considerable increase in public sector expenditure and, to a lesser extent, in expenditure on the part of private activities. Imports by the public sector practically doubled–their value increased from 645 to 1,212 million dollars–owing to the considerable increase in international prices and the need to supplement domestic supply of some products by imports, particularly grains, oilseeds and fuels.[74]

Imports of goods by the private sector rose from 2,073 million dollars in 1972 to 2,628 million in 1973 (an increase of 27 per cent). This increase was accounted for mainly by purchases of raw materials which rose by nearly 40 per cent, and to a lesser extent by purchases of capital goods which increased by only 14 per cent.

Exports of goods increased by 29 per cent to a value of 2,408 million dollars. A substantial part of this increase was accounted for by the rise of just over 17 per cent in the unit values of exports, similar to that recorded in the average prices of imports (see figure XXXVIII).

The dynamism of exports is mainly attributable to manufactured products, which up to October had increased by 51 per cent over the same period in 1972. The biggest increase was in textiles (129 per cent), while sales by industries using imported inputs (*maquiladoras*)[75] are estimated to have

[74] These imports accounted for 370 million dollars out of a total increase of 567 million.

[75] These industries, which are generally located on the United States border, process inputs or assemble parts from that country, usually for re-export.

Table 143. Mexico: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	3,012.0	3,256.0	3,814.1	4,714.5
Goods FOB	1,439.0	1,521.0	1,862.0	2,407.9
Services	1,573.0	1,735.0	1,952.1	2,306.6
Transport	40.0	49.0	60.8	78.4
Travel	1,416.0	1,565.0	1,787.1	2,083.4
Imports of goods and services	3,408.0	3,383.0	4,057.2	5,389.4
Goods FOB	2,400.0	2,340.0	2,861.9	4,031.0
Services	1,008.0	1,043.0	1,195.3	1,358.4
Transport	140.0	136.0	156.3	205.1
Travel	755.0	796.0	889.2	966.3
Net external investment income	−691.0	−722.0	−793.7	−1,025.4
Profits	−474.0	−489.0	−525.5	−690.0
Interest	−217.0	−233.0	−268.2	−335.4
Net private transfer payments	49.0	45.0	59.7	78.4
Balance on current account	−1,038.0	−804.0	−977.1	−1,621.9
Capital account				
Net external financing ($a + b + c + d + e$)	1,038.0	804.0	977.1	1,621.9
(a) Net external non-compensatory capital	725.0	596.0	830.4	
Direct investment	323.0	293.0	283.4	
Long- and medium-term loans	860.0	798.0	1,053.1	
Amortization payments	−584.0	−524.0	−588.5	1,743.9
Short-term liabilities	119.0	31.0	72.7	
Official transfer payments	7.0	−2.0	9.7	
(b) Domestic non-compensatory capital or assets	−89.0	−29.0	216.1	
(c) Errors and omissions	432.0	379.0	450.7	
(d) Allocation of SDRs	45.0	40.0	42.3	–
(e) Net compensatory financing (increase −)	−75.0	−182.0	−130.2	−122.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	–	–	–
Amortization payments	–	–	–	–
Movements of foreign exchange reserves (increase −)	4.0	−171.0	133.5	−85.0
Movements of gold reserves (increase −)	−31.0	29.0	38.0	−22.0
SDRs (increase −)	−48.0	−40.0	−34.7	−15.0

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

risen by 65 per cent to a total of 270 million dollars.

Tourism and border transactions produced around 2,080 million dollars in 1973, or 16.6 per cent more than in 1972.

Net capital inflows (1,744 million dollars) meant that the deficit on current account could be covered, while it was also possible to continue increasing net international reserves which in 1973 increased by 122 million dollars. The financing of this deficit, however, required an appreciable expansion of net external credit to the public sector (from 360 to 1,022 million dollars). This situation was the result of the continued increase in public expenditure without any appreciable modification to date in the method of financing it.

4. PUBLIC FINANCE, MONEY AND CREDIT

Although no accurate information is yet available as regards the consolidated expenditure of the public sector, estimates regarding the total amount of public investment, federal income and internal and external financing contracted by the Government indicate an appreciable increase in the fiscal deficit.

In fact, the fiscal deficit on the consolidated public sector account may well have increased by around 50 per cent over 1972, when a negative balance was recorded of 22,000 million pesos. It would appear that not only has the increase in capital expenditure affected the situation—although less intensively than in 1972—but also the deterioration recorded in current account

savings. The Federal Government's savings decreased by 12 per cent to 4,809 million pesos as a result of the greater increase in current expenditure (31.2 per cent) compared with current income (25.8 per cent). Public sector enterprises also experienced a deterioration, since, while their income, generally speaking, remained relatively stable—prices did not vary significantly—the increases in the prices of imported commodities and raw materials and adjustments in wages affected their costs.[76]

The deficit of the public sector was largely financed with domestic resources, mainly private funds channelled through the banking system and issues of currency, although external credits also increased appreciably. The total value of government securities in the banking system thus increased from 64,593 million pesos in December 1972 to 83,434 million in December 1973, while net external credit rose from 360 to 1,022 million dollars and bonds worth 156 million dollars were sold abroad. Altogether, these funds amount to 33,566 million pesos, which is an indirect estimate of the public sector deficit.[77]

Anti-inflationary policy considerations and the need to finance the investment expenditure of the public sector prompted the Central Bank to introduce a restrictive credit policy. The legal cash reserves for finance companies increased by 5 per cent towards the middle of the year, while 15 per cent of the additional resources tapped by these institutions in bonds and 10 per cent in promissory notes were used to finance public expenditure. Around September there was an increase of 5 per cent in the legal cash reserves of deposit banks, which undertook to place State securities to a value of 2,000 million pesos to help close the financial gap caused by the increased expenditure of the public sector.

All this led to a severe restriction of credit to the private sector. While total financing (end-year balances) was 18 per cent higher than in 1972, financing by private institutions increased by only 8.8 per cent. In 1972 these increases were 16.5 and 15.1 per cent respectively. Deposit banks and finance companies were obviously the most affected, since in December 1973, their rates of increase were only 5.6 and 4.9 per cent respectively over December 1972, compared with 11 and 16.7 per cent respectively in December 1972 over December 1971. Only savings banks and other private institutions recorded a larger increase in financing in 1973 than in 1972 (see table 144).[78]

The variations shown by the above figures do not, however, give a true idea of the restriction of financing by private institutions, nor of the characteristics it assumed as from the month of October. Up to then, expansion on an annual basis showed a more than proportional growth of the amount of credit in 1973 with respect to 1972, while to a certain extent the supply of credit was in line with the nominal growth of transaction. Thus, in May 1973, before the first restrictions imposed by the Central Bank came into force, the growth rate of private financing was far higher than that recorded in May 1972 (18.3 per cent compared with 9.7 per cent). The same occurred in June (17.6 per cent compared with 9.8 per cent) and even in September (17.6 per cent compared with 11.4 per cent). It was not until October that the restrictive measures of the Banco de México began to reduce the expansion of credit in private institutions—although the rates continued to be higher than those recorded in 1972 (14.7 per cent compared with 12.5 per cent in October of the previous year); but it was only in December that the effects of these measures were substantially felt (a growth of 8.8 per cent compared with 15.1 per cent in 1972). In relative terms, the credit restrictions imposed on the private financial sector reduced the rates of expansion of credit to almost half in a period of two months. Taking the institutions of most importance for the volume of funds lent—finance companies and deposit banks—the decline appears still more pronounced: the former, which were increasing their credit at an annual growth rate of 18.8 per cent in May, reduced the rate to 15.5 in September and 4.9 in December, while the latter, which recorded rates of increase of 18 per cent in June and 18.7 per cent in September recorded an increase of only 5.6 per cent in December. Both types of institutions thus reduced the growth rate of credit by more than two thirds.

In the circumstances, many potential borrowers liquidated their savings assets in order to obtain the necessary working capital and in some cases to finance their plans of expansion. In this way they reduced the tapping of savings by the banking system and speeded-up the substitution of real assets for national financial assets.

If the financing figures for mid-1973 are compared with those for the same period in 1972, everything seems to indicate that the effects of the

[76] The price of some enterprises, especially the Federal Electricity Commission and Petróleos Mexicanos, were adjusted towards the end of the year, so the effects will be felt as from 1974.

[77] It has not been possible to obtain information on direct credits from the banking system to enterprises in the public sector; nor were the unused funds which may have existed in certain agencies, as yet not included in the consolidated public sector account, subtracted.

[78] Mortgage societies, savings banks and other private institutions account for only 22 per cent of private financing. Deposit banks account for 21 per cent and finance companies for 56 per cent.

Table 144. Mexico: financing of the public sector and private enterprises by the banking system[a]

	Millions of pesos			*Percentage increase*	
	December[b]			*December[b]*	
	1971	*1972*	*1973*	*1972*	*1973*
Total	*220,169*	*256,422*	*302,681*	*16.5*	*18.0*
Credit	157,233	178,427	203,727	13.5	14.2
Securities	62,936	77,995	98,954	23.9	26.9
Banco de México, S.A.	54,996	67,741	87,917	23.2	29.8
Credit	2,910	2,142	3,511	26.4	63.9
Securities	52,086	65,599	84,406	25.9	28.7
Other national institutions	64,964	73,330	89,280	12.9	21.8
Credit	60,566	68,561	82,940	13.2	21.0
Securities	4,398	4,769	6,340	8.4	32.9
Private institutions	100,208	115,352	125,484	15.1	8.8
Credit	93,757	107,724	117,275	14.9	8.9
Securities	6,451	7,628	8,209	18.2	7.6
Deposit banks	22,228	24,641	26,009	10.9	5.6
Credit	21,726	24,093	24,987	10.9	3.7
Securities	502	548	1,022	9.2	86.4
Savings banks	8,066	8,835	11,260	9.5	27.4
Credit	7,333	7,895	10,221	7.7	29.5
Securities	733	940	1,039	28.1	10.6
Finance companies	55,549	64,828	67,980	16.7	4.9
Credit	50,850	59,274	62,482	16.6	5.4
Securities	4,699	5,554	5,498	18.2	−1.0
Mortgage societies	13,248	15,875	18,900	19.8	19.1
Credit	13,112	15,745	18,780	20.1	19.3
Securities	136	130	120	−4.2	−7.8
Other private institutions	1,117	1,172	1,334	5.0	13.8
Credit	736	717	804	−2.6	12.1
Securities	381	455	530	19.7	16.4

SOURCE: ECLA, on the basis of data supplied by the Banco de México, S.A.

Note: In view of new measures and transfers of government securities from private banks to interest-paying deposits in the Banco de México, current account sales of government securities to the banking system (after deduction of the value of the loans which the Banco de México grants to private credit institutions and which are guaranteed by these securities) are considered as tapping of inter-banking resources through the liabilities of the central bank rather than as the disposal of bank assets to the banking institutions.

[a]Including common funds in the form of equity in the Nacional Financiera, S.A. Does not include financing granted from resources issued as mortgage bonds and bonds of the Patronato del Ahorro Nacional.

[b]Preliminary figures.

recession of 1971 were felt up to mid-1972 and that as from then the rates of expansion of credit approached the rates for the late 1960s,[79] and were maintained during the first three quarters of 1973. In the last quarter, however, the restrictive measures reduced them to unprecedented levels, less than those recorded in 1971, without taking into account the effect of prices on the amount of credit granted.

Considering that cost factors have begun to have a strong influence on the inflationary process—and obviously excluding the theory that domestic earnings and employment should be subordinated to balance-of-payments objectives—the persistence of an anti-inflationary policy centred on the restriction of credit could have a detrimental effect on investment without appreciably improving the external payments situation.

Credit restriction measures and inflation significantly affected the liquidity of the majority of enterprises, so that, as mentioned above, the tapping of resources in the form of fixed income bank securities declined. Up to May 1973, a normal increase in the tapping of resources was

[79] From December to December the rates of expansion of private financing were 18.5 per cent in 1968, 24.5 per cent in 1969 and 23.7 per cent in 1970.

observed, but as the effects of the restriction of credit became more severe, the rate of growth in the absorption of funds gradually dropped from 17.4 per cent–December 1972, compared with December 1971–to only 9.3 per cent in December 1973.

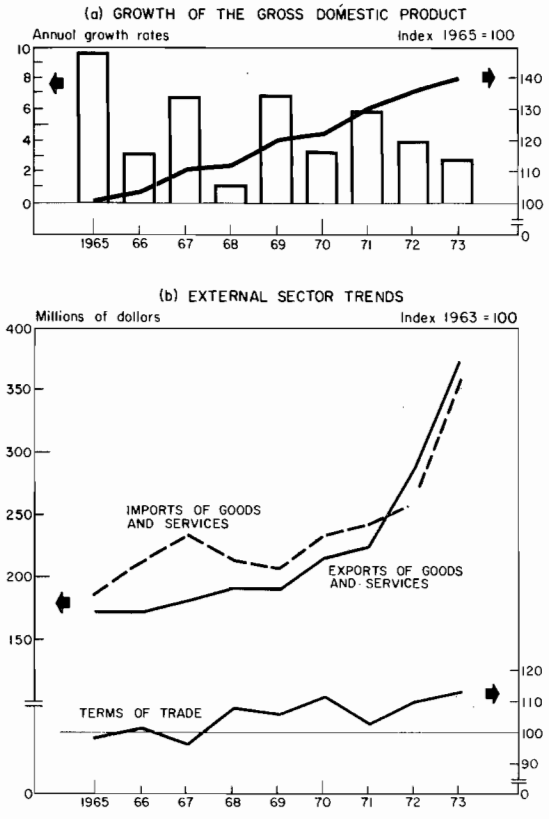
It should again be pointed out that the absence of any differentiation between the money and the capital markets in the financial system of Mexico makes it more difficult for the authorities to channel savings towards long-term financing. It thus seems essential to begin a gradual restructuring of the financial system so as to bring about its specialization and prevent any instability or vulnerability in its role of supporting the country's economic development.

NICARAGUA

1. Recent economic trends

Production in Nicaragua in 1973 suffered from the consequences of the serious drought of 1972 and of the earthquake which destroyed Managua towards the end of the same year. The extraordinary increase in external demand and the high world prices of exportable products did not prevent the growth of production from continuing to lose momentum. Since 1971, the growth rate of the gross domestic product has dropped from 5.8 per cent to the 2.7 per cent estimated for 1973 (see table 145 and figure XXXIX). The favourable impact of the terms of trade, however, meant that the increase in national income in 1973 (3.5 per cent) was slightly higher than the increase in production.

Figure XXXIX. Nicaragua
Natural scale



While the effects of the drought made themselves felt mainly in some important export products and in a drop in livestock production (in order to forestall possible heavy losses among livestock the slaughtering quota for 1973 had been brought forward to 1972), there was also a decline in the growth rate of manufacturing to 2.2 per cent, as a result of the extensive damage caused to industrial installations in Managua. In the public sector, however, the same causes produced a strong reaction which took the form of an increase in investment expenditure of around 24 per cent in real terms, while consumption expenditure increased by 13.5 per cent. This increase in expenditure was backed up by a considerable increase of nearly 17 per cent in the volume of imports of goods. At the same time, private investment showed a slight recovery from the declining trend of previous years (see table 145).

The contrast observed in 1973 between the growth of production and several of the elements making up over-all demand undoubtedly contributed to the relatively rapid rise in domestic prices, as did the high prices paid for imports (approximately 20 per cent higher than in 1972).

When the need to expand credit for reconstruction, the monetary effects of the growth of exports, and the net inflows of capital are added to the foregoing, it is not surprising that the increased liquidity, faced with the limitations of domestic supply, tended to go towards increased imports and to lead to higher prices. The consequent increase in domestic prices is estimated to have been around 25 per cent: a high figure for Nicaragua in view of the price stability previously observed. The donations received from the international community as a result of the earthquake and the joint action taken by the Government and the private sector to reduce the unemployment problem by means of rehabilitation and con-

Table 145. Nicaragua: total supply and demand

	Millions of córdobas at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*6,297.3*	*6,519.5*	*6,768.3*	*7,136.3*	*134.5*	*133.6*	*134.0*	*4.1*	*3.5*	*3.8*	*5.4*
Gross domestic product	4,712.4	4,984.3	5,181.4	5,323.9	100.0	100.0	100.0	4.2	5.8	4.0	2.7
Imports[b]	1,584.9	1,535.2	1,586.9	1,812.4	34.5	33.6	34.0	3.7	−3.1	3.4	14.2
Total demand	*6,297.3*	*6,519.5*	*6,768.3*	*7,136.3*	*134.5*	*133.6*	*134.0*	*4.1*	*3.5*	*3.8*	*5.4*
Exports[b]	1,231.2	1,289.2	1,500.8	1,606.9	29.8	26.1	30.2	1.5	4.7	16.4	7.1
Gross domestic investment	943.1	972.6	996.9	1,059.0	22.0	20.0	19.9	2.3	3.1	2.5	6.2
Gross fixed investment	841.2	863.9	883.5	964.5	19.8	17.9	18.1	2.1	2.7	2.3	9.1
Public	215.4	278.9	299.0	370.7	4.7	4.6	7.0	3.8	29.5	7.2	24.0
Private	625.8	585.0	584.5	593.8	15.1	13.3	11.1	1.5	−6.5	–	1.6
Construction	337.0	348.5	...	...	7.0	7.2	...	4.7	3.4	...	...
Machinery and equipment	504.2	515.4	...	...	12.8	10.7	...	0.6	2.2	...	...
Total consumption	4,123.0	4,257.7	4,270.6	4,470.4	82.7	87.5	84.0	5.4	3.2	0.3	4.7
General government	302.9	309.7	317.4	360.4	6.3	6.4	6.8	4.6	2.2	2.5	13.5
Private	3,820.1	3,948.0	3,953.2	4,110.0	76.4	81.1	77.2	5.5	3.3	0.1	4.0

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Nicaragua; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

struction programmes enabled the influence of price increases on levels of consumption to be checked in part.

Furthermore, private investment made a slight recovery, partly because of the stimulus of the need to begin the repair and reconstruction of dwellings and industrial and commercial premises, and partly because of the considerable expenditure of the public sector, which favourably affected the private sector's prospects.

Government action was instrumental in alleviating the problems of unemployment and activating the private sector, and public spending rose by unprecedented amounts. In fact, economic policy followed the main lines of the Immediate Action Plan for 1973, which was prepared and put into practice to deal with the most urgent problems stemming from the earthquake and the drought. This plan effectively helped to keep up levels of activity and ensure substantial strengthening of the planning process in the country. It should be mentioned in this connexion that the work required to carry out the operational plan for 1974 was executed, while preparations were begun for the formulation of the General Development Plan for the period 1975-1979.

External demand for the main export products was extremely favourable and became the main factor in the reactivation of the economy. Despite the increase in world prices, the credit facilities granted and the increase in the area devoted to the cultivation of export crops, however, the quantum increased by only about 7 per cent, which was much less than in 1972. Even so, this increase in the quantum, plus a price increase of around 23 per cent, meant that the value of exports of goods and services increased by 86 million dollars in comparison with the previous year, and this, together with the net inflow of capital, enabled the considerable increase in imports to be covered while simultaneously permitting an increase of over 15 million dollars in the net international reserves.

2. Major sectors of activity

The economic policy of the Government, aimed at increasing the availability of basic consumer goods for the population through trade and credit support measures, helped the agricultural sector to overcome its state of stagnation and to achieve in 1973 the relatively high growth rate of 6.9 per cent as compared with an increase of only 0.5 per cent in 1972. The increase in the production of basic cereals as a result of the extension of the area given over to these crops by more than 50,000 manzanas was the factor which most contributed to the development of the sector during 1973, since export products, generally speaking, recorded rather poor increases because of problems stemming from the drought (see table 146).

In contrast with the dynamism shown during recent years, the livestock sector recorded a sharp decline of about 8 per cent in its value added, mainly because of the reduction in slaughtering for domestic consumption, since the 1973 slaughtering quota, as explained above, was moved forward to 1972 in order to avoid losses due to the drought in that year.

The fisheries sector showed a similar performance, since its value added decreased by 9.6 per cent with the decline in catches of shrimps and lobsters. According to the ecological reproduction cycle, 1973 was expected to be a year of abundant catches, but unexpected changes in marine currents moved the fishing banks out towards the open sea.

Construction directly showed the dynamic effects of reconstruction, for its value added increased by 26 per cent, thus considerably surpassing its traditional growth rates. In addition to increased investment in work on hospitals, drinking water services, school classrooms, commercial premises[80] and electrification, work was also undertaken on the repair and construction of dwellings. Of the 15,000 dwellings programmed, 11,332 were completed, thus far surpassing the annual average, while there was also a big increase in expenditure by private persons on the repair of their dwellings and other buildings. The value added for construction might perhaps have been still greater had it not been for some problems and bottlenecks which arose as a result of the sudden renewal of activity. Mention may be made, for example, of delays in building permits caused by the need to first define a master plan of Managua and of the increase in building costs caused mainly by the higher prices of materials and labour.

The combined efforts of private enterprise and of the Government, which granted emergency credits, enabled the problems deriving from the destruction of a large part of medium- and small-scale industry to be partially alleviated.[81] A slight expansion (2.2 per cent) was thus achieved in the manufacturing sector, this result being especially

[80] Of a total of 1,573 hospital beds destroyed, 815 were restored, damage to the Military Hospital was repaired and the remodelling of the Vélez Paiz Hospital was continued. In the field of education, 1,174 classrooms were built, progress was made on an additional 274, and an investment of 2.9 million córdobas was made in buildings for higher education. As regards commercial premises, 200 shops were made available in the Managua shopping centre and 44 in the El Camino centre, while repairs were also made in the Ciudad Jardín and Colonia Mántica centres.

[81] Government estimates place losses and damage to workshops, small enterprises and 14 medium-sized factories at around 95 per cent.

Table 146. Nicaragua: gross domestic product at factor cost, by sector of economic activity

	Millions of córdobas at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	1,075.3	1,182.3	1,232.4	1,260.5	28.1	25.5	26.4	2.1	10.0	4.2	2.3
Mining	29.6	29.1	28.6	28.9	1.2	0.7	0.6	−5.9	−1.7	−1.7	1.0
Manufacturing	831.9	871.9	920.8	941.1	16.4	19.7	19.7	8.1	4.8	5.7	2.2
Construction	152.3	157.7	176.4	222.0	3.5	3.6	4.7	5.0	3.5	11.9	25.9
Subtotal goods	*2,089.1*	*2,241.0*	*2,358.2*	*2,452.5*	*49.1*	*49.5*	*51.4*	*4.3*	*7.3*	*5.2*	*4.0*
Electricity, gas and water	93.2	96.7	96.2	86.3	1.6	2.2	1.8	10.4	3.8	−0.5	−10.3
Transport and communications	237.2	249.2	262.3	293.6	5.7	5.6	6.2	3.7	5.1	5.3	11.9
Subtotal basic services	*330.4*	*345.9*	*358.5*	*379.9*	*7.4*	*7.8*	*8.0*	*5.4*	*4.7*	*3.6*	*6.0*
Commerce and finance	946.7	1,003.4	1,040.4	1,095.7	22.9	22.4	23.0	3.7	6.0	3.7	5.3
Government	248.2	247.7	252.7	265.8	5.6	5.9	5.6	5.2	−0.2	2.0	5.2
Ownership of dwellings	296.7	305.3	312.4	230.5	7.3	7.0	4.8	3.3	2.9	2.3	−26.2
Miscellaneous services	311.9	324.9	338.7	345.5	7.7	2.4	7.2	3.3	4.2	4.3	2.0
Subtotal other services	*1,803.5*	*1,881.3*	*1,944.2*	*1,937.5*	*43.5*	*42.7*	*40.6*	*3.8*	*4.3*	*3.3*	*−0.3*
Total	*4,280.9*	*4,527.9*	*4,706.7*	*4,836.1*	*100.0*	*100.0*	*100.0*	*4.2*	*5.8*	*4.0*	*2.7*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Nicaragua; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a]Preliminary figures.

influenced by the large increase in the demand for construction materials, but the output of several manufacturing activities declined, notably the slaughtering of cattle and pigs, the production of pasteurized liquid milk (owing to damage suffered by the main milk products factory), sugar refining, the canning and preserving of seafood, and the manufacture of textile products and articles of clothing.

In almost all the remaining sectors growth was less pronounced, and in some sectors there was even a decline. Exceptions to this were the general government, transport and communications and financial sectors, for it was in these areas that the greatest efforts were made to overcome the detrimental effects of the earthquake (see table 146).

3. The external sector and the balance of payments

The high international prices prevailing for Nicaragua's main export products were reflected in an increase of 23 per cent in unit values, which, added to an increased quantum of 7 per cent in exports, produced an increase of more than 30 per cent in the value of exports of goods during 1973. This rapid growth of exports, however, was less than that of the year before (33.5 per cent) since in 1972 the volume of exports recorded an increase of 20 per cent, especially in the most important export products (except for coffee), while prices reached quite satisfactory levels also. Thus, in two years the value of exports of goods increased from 187 to 326 million dollars.

The performance of traditional export commodities was satisfactory in the case of coffee, cotton and meat. Exports of coffee came to around 50 million dollars (46 per cent up on the 1972 figures) despite the poor harvest of the 1972/1973 cycle, thanks partly to the use of accumulated reserves.

As regards meat, the value of exports recorded a large increase in 1973; in four years this value has increased from 20 to 50 million dollars. This time, the increase was almost entirely due to higher prices (26 per cent increase), since the volume of exports showed little variation owing to the limited number of cattle slaughtered in the course of the year, for the reasons mentioned above.

There was no increase in the volume of cotton exported either, since the drought affected production, but even so the value of exports increased by about 20 per cent (around 75 million dollars), thanks to the high price achieved during the year.

Exports of sugar, which had been increasing in importance in recent years, dropped by 20 per cent in volume during 1973, likewise on account of the drought of the previous year, which reduced yields. Thanks to the increase in prices, however, the value of these exports declined by only around 10 per cent. Exports of shrimps and lobsters also dropped by 14 per cent owing to an unexpected drop in catches.

Exports of the products mentioned above amounted to around 195 million dollars in 1973, which is equivalent to around 60 per cent of total exports of goods. Exports to Central America came to approximately 60 million dollars (7.5 per cent more than in 1972), while it is estimated that imports from the other Central American countries increased by 7 per cent, leaving Nicaragua with a positive balance of 4.6 million dollars.

Generally speaking, there was an increase in Nicaragua's exports to all the Central American countries except Costa Rica, where the demand for products from Nicaragua declined owing to a modification in Costa Rican exchange rates. The strengthening of trade with the sub-region was a result of the agreement signed in March 1973 with a view to activating the solution of the problems stemming from the earthquake. The agreement with Guatemala and El Salvador was that these countries should export to Nicaragua at least the same volumes as in 1971 plus 5 per cent, while Nicaragua would export freely to these countries. As regards Costa Rica, the list of preferential products was extended, and in the case of Honduras agreement was reached on the inclusion of new products and the reduction of tariffs for others.

The unit value of Nicaragua's exports increased by 11.5 per cent in 1972 and 23 per cent in 1973, while the unit value of imports increased by 4 per cent in 1972 and 20 per cent in 1973. This largely offset the favourable effect of high export prices in 1973, and the terms-of-trade index improved by barely 2 per cent (see figure XXXIX).

Despite the considerable increase recorded for exports of goods, plus the private transfers received in connexion with the earthquake and the receipt of insurance compensation covering this risk, the current account of the balance of payments showed a deficit of 19.5 million dollars (4.5 million in 1972), owing to the high values recorded for imports of goods and services. These imports rose from 260 million dollars in 1972 to 357 million in 1973 (a 37 per cent increase), partly on account of the extraordinary imports made to restore the losses caused by the earthquake and partly because of the higher prices of imported goods (see table 147).

During 1973, there was a net inflow of non-compensatory capital, including official transfer payments, estimated at around 35 million dollars.

Table 147. Nicaragua: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]	
Current account					
Exports of goods and services	215.2	224.7	287.4	373.5	
Goods FOB	177.8	186.5	248.9	326.0	
Services	37.4	38.2	38.5	47.5	
Transport	9.7	8.2	9.6	12.7	
Travel	13.2	13.3	15.3	18.3	
Imports of goods and services	231.4	242.4	260.0	356.5	
Goods FOB	177.7	189.5	195.2	273.3	
Services	53.7	52.9	64.8	83.2	
Transport	24.2	22.3	25.5	35.1	
Travel	15.1	16.2	18.5	22.2	
Net external investment income	−29.1	−31.6	−35.5	−41.3	
Profits	−22.9	−22.4	−24.4	−28.3	
Interest	−6.2	−9.2	−11.1	−13.0	
Net private transfer payments	2.9	4.0	3.6	4.8	
Balance on current account	−42.4	−45.3	−4.5	−19.5	
Capital account					
Net external financing ($a + b + c + d + e$)	42.4	45.3	4.5	19.5	
(a) Net external non-compensatory capital	53.7	50.2	36.9		
Direct investment	15.0	13.3	10.0		
Long- and medium-term loans	41.4	53.7	58.6		
Amortization payments	−10.2	−14.3	−19.5		34.9
Short-term liabilities	4.3	−3.5	−12.5		
Official transfer payments	3.2	1.0	0.3		
(b) Domestic non-compensatory capital or assets	−2.7	–	−7.9		
(c) Errors and omissions	−1.0	−2.8	−4.2		
(d) Allocation of SDRs	3.2	2.9	3.1	–	
(e) Net compensatory financing (increase −)	−10.8	−5.0	−23.4	−15.4	
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	10.0	4.2	5.7	16.3	
Amortization payments	−13.8	–	−7.4	−9.7	
Movements of foreign exchange reserves (increase −)	−4.0	−6.5	−19.3	−22.4	
Movements of gold reserves (increase −)	−2.0	–	0.3	−0.2	
SDRs (increase −)	−1.0	−2.7	−2.7	0.6	

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

This inflow is estimated to have produced an increase of 15 million dollars in the country's international reserves.

4. PUBLIC FINANCE

Among the efforts made to restore economic activity following the earthquake, a prominent place was occupied by the strong participation of the Government, whose over-all expenditure increased by 70 per cent, at current prices, from 1,893 million córdobas in 1972 to 3,222 million in 1973. This expenditure was aimed at taking care of the public services and the needs arising from emergency situations and reconstruction, and was also designed to make it possible to go ahead with investment programmes. Even before December 1972, when the earthquake took place, a start had been made on a rapid increase in public spending as a way of countering the contraction in earnings and employment which the drought was causing.

The Immediate Action Plan fixed a target of 525 million córdobas for construction and the acquisition of machinery and equipment. During the year, an estimated investment of around 463 million córdobas was made, so that only 88 per cent of the programme has been carried out, mainly owing to administrative problems stemming from the emergency situation.

Direct investment by the central government, which amounts to slightly more than one-third of total public investment, increased by 43 per cent

compared with 1972. It was mainly channelled into infrastructural activities aimed at linking the centres of production with the centres of consumption and supporting the decentralization policy. Considerable resources were also allocated for the reconstruction and expansion of schools (31 million córdobas) and of hospitals and similar medical aid centres (43 million córdobas). The biggest increase, however, was recorded by the financial investment of the central government (3.4 times the 1972 investment), which channelled the aid and the extraordinary loans received to various public agencies and enterprises (see table 148).

The public enterprises and decentralized agencies made big investments during the year. They included the National Light and Power Enterprise, which invested over 60 million córdobas (mainly in the interconnexion programme with Honduras), and the Housing Bank, which allocated slightly over 50 million córdobas to its housing programmes (mainly the programme known as "The Americas").

Compared with the rapid increase in capital expenditure, there was a relatively small increase in current expenditure (20 per cent in current terms). The current income of the public sector showed a comparable increase, due to some fiscal measures, such as the introduction of a 10 per cent tax on the main exports to non-Central American countries, and the contribution of a one month's salary over two years by government officials earning more than 1,500 córdobas. An appreciable increase was also recorded in tax revenue, mainly from taxes on external trade. Thus, while revenue from direct taxes decreased by 6 per cent, owing to tax deferments granted to the inhabitants of Managua, that from indirect taxes increased by more than 40 per cent.

In 1972, current savings financed slightly less than a quarter of capital expenditure, while in 1973 they covered only 13 per cent. The rest was financed with 1,011 córdobas of external credit (double the amount of such credit in 1972) and with credit from the Central Bank, which showed an even greater percentage increase.

5. Money and credit

The banking system substantially improved its international reserves position, thanks to the large increase in exports of traditional products and to inflows of external capital which helped to finance imports. In this context, comparison of the October 1972 and 1973 balances shows a notable increase in the net supply of foreign currency (210 million córdobas) which is even higher than the figure envisaged in the Immediate Action Plan. The temporary disorganization of the channels of trade during the first part of the year was a factor in the relative limitation of imports, but in the second half of the year these appear to have

Table 148. Nicaragua: central government income and expenditure and financing of the deficit
(Millions of córdobas)

	1970	*1971*	*1972*	*1973*[a]
Current income	*571.4*	*639.3*	*639.3*	*900.1*
Tax revenue	512.4	561.0	606.8	800.2
(*a*) Income and property	106.5	116.9	132.7	124.6
(*b*) Production and consumption	237.7	282.6	305.9	331.4
(*c*) External trade	168.2	161.5	168.2	344.2
Other	59.0	78.3	32.5	99.9
Current expenditure	*480.3*	*508.8*	*518.7*	*651.7*
Wages and salaries	264.2	278.7	279.2	316.1
Purchases of goods and services	96.3	105.1	104.1	175.2
Transfer payments and other	119.8	125.0	135.4	160.4
Capital expenditure	*196.2*	*317.3*	*387.4*	*562.7*
Real investment	110.4	136.8	115.2	165.1
Financial investment	0.6	1.0	74.7	250.6
Transfer payments	53.4	140.9	150.7	77.8
Amortization of the debt	31.8	38.6	46.8	69.2
Financing of deficit	*105.1*	*186.8*	*266.8*	*314.3*
External credit	82.8	113.3	230.0	267.8
Domestic financing[b]	22.3	73.5	36.8	46.5

SOURCE: ECLA, on the basis of data supplied by the Central Bank of Nicaragua.
[a] Estimates.
[b] Including capital income of the central government.

undergone a considerable increase. Thus, although the increase in international means of payment—for the whole of 1973—was less than the above-mentioned figure, external factors did play an important role in the creation of the money supply and the possibilities of expanding bank credit. For 1974, an easing of the situation as regards the level of reserves is forecast in view of the good prospects for exports of cotton and coffee.

Credit policy was mainly aimed at supporting production for export, so as to take advantage of an international economic situation which was favourable to Nicaragua's main products.

Credit to agriculture increased by 13 per cent, particular support being given to the production of basic grains (the National Bank increased the credit programme for maize production by more than 50 per cent), coffee and cotton. This policy helped to alleviate the adverse situation caused by the drought of the previous year.

Both short- and long-term credit to livestock farming exceeded the levels of the previous year, in keeping with the programmes of the National Bank and of INFONAC for fattening livestock and expanding the herds.

Lastly, the preferential attention given to the industrial sector was largely designed to meet the need to replace stocks and working capital. Short-term credit increased by 72 per cent between October 1972 and October 1973, thus far and away surpassing the growth rates of the last three years.

Contrary to the trend of previous years, current account deposits in the banking system increased more than savings and time deposits; this presumably reflects the need to maintain more working capital to meet increases in domestic prices.

PANAMA

1. Recent economic trends

In 1973 the growth of the Panamanian economy lost some of its momentum, with an increase in the gross domestic product of slightly below 6 per cent, compared with the annual rate of approximately 7 per cent over the past 10 years (see table 149 and figure XL).

The factors which did most to slow up the rising economic trend are closely linked with the performance of the main production activities and with the adoption of a series of measures by the authorities which affected the behaviour of the principal macroeconomic variables and production activities in the country.

Fortuitous factors include the unprecedented rise in world prices in 1973, which was transmitted fairly intensely to the Panamanian economy through the increased value of imports. Thus, the import component of the wholesale price index registered a growth of about 12 per cent, compared with 6.7 per cent in 1972.

Exports of goods and services recovered slightly from the previous year's levels, increasing at constant prices by 2.4 per cent. Export prices, however, rose much less than in other countries of the region, i.e., by around 11 per cent compared with 5.7 per cent in 1972.

The economy is currently going through a transition phase, since the authorities are endeavouring to improve on the traditional growth model and to adopt a pattern which will ensure that the benefits of economic and social development in the country are more widely distributed. Thus, the pressures on the economy due to the initiation of economic and social changes and progress give rise to maladjustments which affect the traditional dynamic centres or factors, while others are being created or strengthened to replace them. There seems to be a certain weakening of

Figure XL. Panama
Natural scale

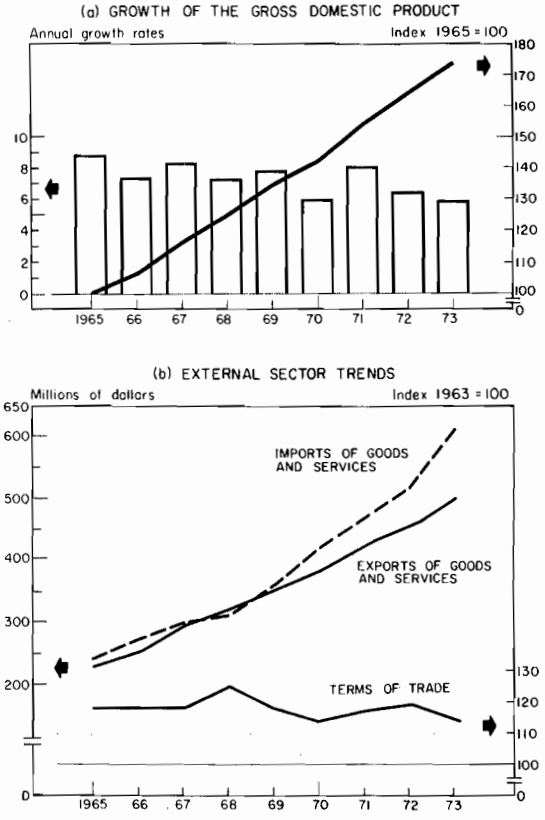


Table 149. Panama: total supply and demand

	Millions of balboas at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*1,294.0*	*1,403.0*	*1,499.9*	*1,572.9*	*140.5*	*144.7*	*143.4*	*8.4*	*8.4*	*6.9*	*4.9*
Gross domestic product	894.5	972.6	1,036.0	1,096.8	100.0	100.0	100.0	7.7[b]	8.7[b]	6.5	5.9
Imports[c]	399.5	430.4	463.9	476.1	40.5	44.7	43.4	9.9	7.7	7.8	2.6
Total demand	*1,294.0*	*1,403.0*	*1,499.9*	*1,572.9*	*140.5*	*144.7*	*143.4*	*8.4*	*8.4*	*6.9*	*4.9*
Exports[c]	344.2	361.5	369.1	377.9	35.8	38.5	34.5	9.1	5.0	2.1	2.4
Gross domestic investment	242.2	276.0	309.8	337.3	18.3	27.1	30.8	16.5	14.0	12.2	8.9
Gross fixed investment	221.9	254.7	287.8	317.3	15.7	24.8	28.9	18.0	14.8	13.0	10.3
Public	59.0	57.7	61.8	68.7	3.5	6.6	6.3	22.0	−2.2	7.1	11.2
Private	162.9	197.0	226.0	248.6	12.2	18.2	22.6	16.7	20.9	14.7	10.0
Construction	112.5	152.6	...	...	8.3	12.6	...	17.0	35.6	...	...
Machinery and equipment	109.4	102.1	...	...	7.4	12.2	...	19.0	7.1	...	...
Total consumption	707.6	765.5	821.0	857.7	86.4	79.1	78.2	5.8	8.2	7.2	4.5
General government	102.4	113.6	121.6	124.2	10.9	11.4	11.3	8.9	10.9	7.0	2.1
Private	605.2	651.9	699.4	733.5	75.6	67.7	66.9	5.3	7.7	7.3	4.9

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Dirección de Estadística y Censo; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] The discrepancy between these growth rates and those shown in table 151 is due to the fact that they each measure a different concept of products (in the one case at market prices and in the other at factor cost).

[c] Goods and services, excluding factor payments.

the role traditionally played by private investment as one of the basic factors of the country's growth, since from increases of over 13 per cent in previous years, the rate dropped to 10 per cent in 1973.

In contrast, the past two years marked a more accelerated growth of public investment–7 per cent in 1972 and 11 per cent in 1973–which has partly offset the slower growth of private investment. However, public investment expenditure still accounts for a relatively small proportion of total capital expenditure (just over 20 per cent). The increase in public investment may well have influenced the rise in prices, since although a substantial part of public expenditure affects the production of goods and services only after a certain time, it rapidly generates greater demand.

The growth of total consumption expenditure slowed down (4.5 per cent as against 7.2 per cent in 1972). This was particularly noticeable in general government expenditure, the rate of increase being only 2.1 per cent, in contrast with 7 per cent the previous year. Private consumption reduced its rate of growth to about 5 per cent.

Inflationary pressures also affected Panama's economic development. In 1973 the wholesale price index rose by 10.5 per cent compared with an average of 5.7 per cent over the last three years, mainly because of increases in the prices of imported products (11.6 per cent), of manufactures (10.1 per cent) and, to a lesser extent, of agricultural commodities (9.1 per cent). In the industrial sector the shortage of raw materials and higher costs resulting from the increased price of imported inputs and labour were responsible for the above increase, in spite of the programmes established to regulate prices. On the other hand the rise in agricultural prices was due to the government policy of raising support prices with a view to maintaining the income of the rural workers. This measure only partly protected farmers, since inflation continued to raise the prices of manufactured products and imported goods at a more rapid rate. Thus relative prices remained more favourable for non-agricultural items, and transfers of funds from agricultural activites to other sectors continued.

Lastly, the evolution of the main sectors of production reflects a recovery in agriculture–after suffering the effects of a severe drought in 1972–and a rapid increase in basic services, together with a slow growth in manufacturing production and a relative loss of impetus in construction and the majority of private services.

2. The external sector

The balance-of-payments deficit on current account continued to increase during 1973, reaching a level of 161 million dollars. This figure is 53 per cent higher than that of the previous year and represents one-third of current income. Although this is a fairly high proportion, its importance and impact on the Panamanian economy are different from those in other developing countries because of the special nature of its monetary system and its notably outward-directed economy (see table 150).

The increase in the deficit on current account was associated with the higher value of imports, largely as a result of the rise in world prices, the growth rate of which (18 per cent) continued to exceed the momentum of exports (11 per cent). Added to this situation was the steady increase in payments on foreign capital–41 million dollars in 1973–which reflects the country's growing indebtedness in recent years (see table 150).

The increase in the value of exports was basically associated with the growth rate of services, which was 16.6 per cent while that of exports of goods was only 8.3 per cent. Because of the composition of exports of goods which is different from that observed in other developing countries, no advantage was taken of the favourable prices of traditional commodities.

In the case of bananas, the main export item, there was little change in price with respect to 1972 and the volume exported declined by around 5.5 per cent, so that foreign exchange earnings dropped by about the same proportion.

The value of shrimp exports, in contrast, rose by around 5 per cent, owing to the higher prices paid, since the volume of the catch and of exports declined during the year. As regards sugar, the expansion of Panama's production capacity enabled it to increase the volume exported–thanks to the larger quota granted by the United States–and to absorb the appreciable rise in prices. A similar though more accentuated trend was observable in the case of fish meal sales, the income from which was more than twice the figure reached in 1972.

In 1973 Panama received about 31 million dollars–nearly 50 per cent more than in 1972–as a result of the higher world prices of petroleum and petroleum products towards the end of the year. Lastly, sales of goods to the Canal Zone maintained the slow rate of growth of previous years.

As mentioned above, foreign exchange earnings from the sale of services increased more rapidly. Those obtained from transport increased by 15 per cent owing to the higher value of the sales of fuel to vessels passing through the Canal. Income from tourism also showed renewed impetus (a growth of 11 per cent), due partly to the continued expan-

Table 150. Panama: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	381.9	421.3	454.7	503.8
Goods FOB	130.3	137.8	146.3	158.4
Services	251.6	283.5	308.4	345.4
Transport	36.0	49.9	60.8	70.2
Travel	78.2	80.8	82.9	92.0
Imports of goods and services	421.2	466.3	520.4	614.3
Goods FOB	331.0	363.9	406.9	480.1
Services	90.2	102.4	113.5	134.2
Transport	45.8	54.1	57.5	67.5
Travel	22.7	24.0	26.4	30.5
Net external investment income	−26.5	−31.4	−32.0	−40.9
Profits	−15.9	−14.5	−10.2	−17.5
Interest	−10.6	−16.9	−21.8	−23.4
Net Private transfer payments	−3.6	−3.5	−7.4	−9.6
Balance on current account	−69.4	−79.9	−105.1	−161.0
Capital account				
Net external financing ($a + b + c + d + e$)	69.4	79.9	105.1	161.0
(a) Net external non-compensatory capital	271.2	280.6	639.6	
Direct investment	33.4	15.7	13.6	
Long- and medium-term loans	109.2	93.0	117.0	
Amortization payments	−25.4	−30.5	−33.3	160.8
Short-term liabilities	146.6	195.2	534.0	
Official transfer payments	7.4	7.2	8.3	
(b) Domestic non-compensatory capital or assets	−129.4	−178.8	−493.1	
(c) Errors and omissions	−70.2	−23.0	−41.6	
(d) Allocation of SDRs	4.7	3.9	4.2	–
(e) Net compensatory financing (increase −)	−6.9	−2.8	−4.0	−0.2
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	–	–	–
Amortization payments	−1.7	–	–	–
Movements of foreign exchange reserves (increase −)	–	–	–	–
Movements of gold reserves (increase −)	−2.0	−3.4	−3.9	–
SDRs (increase −)	−3.2	0.6	−0.1	0.2

SOURCES: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

sion of investment designed to promote tourist activities.

The remaining services also followed a favourable trend. Expenditure of residents of the Canal Zone in Panama grew by 13.6 per cent, the supply of other services to organizations in the Canal Zone by 19.1 per cent, and the wages of Panamanian workers by 7.2 per cent. Lastly, net services transactions with the Colon Free Zone increased by 9.5 per cent, although they did not wholly reflect government investment in expanding the facilities of this commercial centre.

As regards imports of goods, the most significant increases were recorded in purchases of fuels and lubricants (about 38 per cent), which registered the largest price increases. There were also increases on a greater or lesser scale in other items, particularly manufactures, chemical products, and machinery and transport equipment.

Imports of services grew by 18.2 per cent, a rate similar to that of purchases of goods, reflecting the increase in freight rates and insurance and in spending by Panamanian tourists abroad.

Available data indicate that the current account deficit was again covered mainly by bank credit, while Panama continued to consolidate its position as an international financing centre.

3. Major sectors of activity

As regards sectoral production (see table 151), agriculture raised its output by 3.8 per cent,

following a 3 per cent increase in 1972. This modest acceleration is partly explained by the return to normal rainfall and by the technological improvement of farms, particularly those producing for domestic consumption. Thus, crops destined mainly for the home market rose by 13 per cent, while export agriculture declined (13 per cent) and stock-raising more or less stagnated (an increase of only 0.7 per cent). Fishing recovered from the sharp reduction observed in 1972, in particular owing to the amount destined for the domestic market, which grew by 31 per cent. Export fishing continued to decline, as much as a result of the failure to enlarge the shrimp fleet and the delay in the implementation of concrete programmes for expanding production capacity as because of some natural phenomena.

Appreciable increases were obtained in the production of grains, owing mainly to the improvement in productivity associated with various promotional measures adopted in recent years: the organization of rural workers in high-productivity communities,[82] technical assistance, supply of improved inputs, credit support, marketing facilities, etc. Thus, for example, the rice crop (3.4 million tons) increased by nearly 50 per cent over the 1972 level, essentially because of the increase in yields from 25 to nearly 38 quintals per hectare. The maize crop, although far below the figures attained in previous years, grew by about 20 per cent, partly because of the increased area sown.

The provision of proper technical assistance combined with commercial and financial incentives also helped to push up the production of coffee and sugar-cane (by 10.3 and 14 per cent, respectively).

In contrast with agriculture for domestic consumption, the production of bananas declined, mainly owing to excessive rainfall.

As regards stock farming, the production of beef dropped again, this time more sharply (10 per cent as against 4.7 per cent in 1972). This was due to the effects of the 1972 drought, which resulted in a lower yield of meat per head, and the lack of incentives to slaughter cattle, on account of export restrictions aimed at guaranteeing domestic supply at low prices. On the other hand, output of other livestock products, mainly pork, continued to increase rapidly in response to the promotion programmes undertaken to increase domestic supply.

Manufacturing output, which has shown a weakening trend in the last few years, increased at the modest rate of only 4.7 per cent (see table 151). There were still no special incentives to stimulate projects in connexion with import substitution and production for external markets.

In addition, the rise in the prices of raw materials and the shortage of some basic products directly affected several branches of industry, raising costs and discouraging production, although these depressive trends were in some degree counteracted by certain emergency adjustments in the institutional machinery and the industrial incentives policy.

The food industry was less affected by supply problems and the economy's loss of momentum, and was stimulated by the boom in domestic agriculture. The production of paper, fuels, and cement and other construction materials was also able to overcome fortuitous problems. In contrast, there were smaller increases or even outright decreases in the production, *inter alia*, of clothing, chemicals and metal products.

Construction pursued the expanding trend it had followed for several years, although at a slightly lower rate (10.2 per cent). The Government adopted institutional measures to alleviate the shortage of low-cost housing, setting up the Ministry of Housing and a bank to support the implementation of its programmes. Measures were also taken to guarantee the financing of private construction and to curb the rising trend of rents which had been apparent for some years.

Bank loans for production continued their accelerated growth (31.2 per cent). Resources for the promotion of construction, agriculture and trade increased significantly (by about two-thirds, one-third and nearly 30 per cent, respectively). On the other hand, the demand for industrial loans from the banking system declined in view of the slow growth of the manufacturing sector.

4. Public finance

One of the characteristic features of the central government's public finances in 1973 was the change of emphasis in the public expenditure policy to give greater priority to capital expenditure with a view to accelerating the country's economic and social development.

Thus, capital expenditure grew by 22 per cent, and current expenditure by only 4 per cent. Moreover, the increase of about 14 per cent in current income enabled saving on current account to rise appreciably—from 4 million balboas in 1972 to 23 million—and also helped to keep the fiscal deficit at practically the same level as the year before, i.e., a little over 71 million balboas (see table 152).

Basically, the increase in current income was

[82] It is estimated that these communities more than tripled their rice production, providing over 25 per cent of the country's total output on only one-fifth of the cultivated area.

Table 151. Panama: gross domestic product at factor cost, by sector of economic activity

	Millions of balboas at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	159.5	165.4	170.3	176.7	23.1	19.7	17.9	4.0	3.7	3.0	3.8
Mining	2.3	2.6	2.7	2.8	0.3	0.3	0.3	6.2	11.0	3.8	3.7
Manufacturing	139.7	151.1	160.6	168.1	15.6	17.2	17.0	9.6	8.2	6.3	4.7
Construction	53.2	63.1	70.7	77.9	6.1	6.6	7.9	9.1	18.6	12.0	10.2
Subtotal goods	*354.7*	*382.2*	*404.3*	*425.5*	*45.0*	*43.7*	*43.1*	*6.7*	*7.8*	*5.8*	*5.2*
Electricity, gas and water	26.0	30.4	34.2	41.0	2.6	3.2	4.2	12.4	16.9	12.5	19.9
Transport and communications	57.1	65.9	71.1	76.5	5.7	7.0	7.7	12.1	15.4	7.9	7.6
Subtotal basic services	*83.1*	*96.3*	*105.3*	*117.5*	*8.3*	*10.2*	*11.9*	*12.2*	*15.9*	*9.3*	*11.6*
Commerce and finance	109.8	117.1	127.6	137.3	13.0	13.5	13.9	8.3	6.6	9.0	7.6
Government	23.4	25.3	26.8	27.7	2.8	2.9	2.8	8.3	8.1	5.9	3.4
Ownership of dwellings	51.6	56.1	62.2	67.2	6.7	6.4	6.8	6.1	8.7	10.9	8.0
Miscellaneous services	118.1	126.5	136.4	141.0	15.2	14.6	14.3	6.4	7.1	7.8	3.4
Services to the Canal Zone	70.3	73.3	71.3	71.4	9.0	8.7	7.2	6.4	4.3	−2.7	0.1
Subtotal other services	*373.7*	*398.3*	*424.3*	*444.6*	*46.7*	*46.1*	*45.0*	*7.1*	*6.6*	*6.5*	*4.8*
Total	*811.0*	*876.8*	*934.0*	*988.8*	*100.0*	*100.0*	*100.0*	*7.4*	*8.1*	*6.5*	*5.9*

SOURCES: 1965-1972: Dirección de Estadística y Censo, Contraloría General de la República; 1973: ECLA estimates based on data from the same source.

[a] Preliminary figures.

Table 152. Panama: central government finances
(Millions of balboas)

	1970	1971	1972	1973[a]
Saving on current account	*9.3*	*12.8*	*4.2*	*23.0*
Income	160.1	181.2	197.9	225.0
Expenditure	150.8	168.4	193.7	202.0
Capital expenditure	*66.6*	*54.3*	*77.1*	*94.1*
Fixed capital, financial investment and transfers[b]	51.7	37.1	59.7	72.6
Amortization of the debt[c]	14.9	17.2	17.4	21.5
Internal	6.1	6.1	7.3	10.1
External	8.8	11.1	10.1	11.4
Deficit	*57.3*	*41.5*	*72.9*	*71.1*
External financing[d]	34.8	32.3	44.3	69.6
International agencies, governments and external bonds	5.0	10.4	13.6	4.3
Private sources	29.8	21.9	30.7	65.3
Internal financing[d]	22.5	9.2	28.6	1.5
Financial bonds, loans and promissory notes	12.7	1.8	40.6	9.8
Outstanding payments less repayment of debts	2.1	−7.1	3.2	3.5
Reduction in cash reserves	12.3	14.4	15.5	...
Treasury bills (net)	–	–	–	–
Payment of outstanding social security contributions	−5.9	–	−22.0	–
Other sources (net)[e]	1.3	0.1	−8.7	...

SOURCE: Provisional ECLA calculations based on figures supplied by the Dirección de Estadística y Censo, Contraloría General de la República de Panamá.

[a] Estimates.

[b] Including outstanding payment of expenditure pledged during the year.

[c] Excluding amortization of the floating debt.

[d] Excluding debt refinancing operations.

[e] Relates to increase in other short-term liabilities and decrease in short-term assets.

associated with the actual growth of the economy and the bigger profits of State enterprises. Direct tax revenue rose 17.5 per cent, as a result of the increase in income tax collections (19 per cent).

Indirect taxes went up by only 5.7 per cent. While import duties rose by barely 5 per cent, since the main increase in external purchases was centred in public bodies which are exempt from import duties and the purchase of some essential products such as steel and cement were free of duty, taxes on internal transactions grew by 6.2 per cent, particularly those on alcoholic and other beverages, the rate of which was reduced in line with the policy of curtailing illegal purchases. Lastly, non-tax income was the item showing the fastest growth (23 per cent) as a result of the higher profits of government enterprises, especially those connected with tourist services (see table 153).

The main developments in the public investment field include the progress made in electric power projects, particularly the Bayano hydroelectric plant, the installation of a thermoelectric plant which will enter into operation in 1974, programmes for the interconnexion of Panama's electricity systems, and studies for the hydroelectric project at La Fortuna. The most important road project is the Darien Gap sector of the Pan American Highway, and sanitary engineering projects including the new system of aqueducts to meet Panama City's requirements up to 1985. Most important from the financial investment point of view are the credit programmes for the promotion of agriculture and the construction of housing. Lastly, a sizable proportion of the State's resources was absorbed by programmes for the improvement of schools and, on a lesser scale, the promotion of tourism.

Virtually the whole of the Treasury deficit was covered with external funds, particularly from private institutions.

To mitigate the pressures on the State budget exerted by this method of financing the deficit, in recent years the Government has endeavoured to alleviate the servicing of the external debt. Two contracts to consolidate the public debt were concluded in 1973. The first, with a consortium of private banks, consisted of a loan of 65 million dollars, of which 14.6 million were used to re-

Table 153. Panama: regular income of central government[a]
(Millions of balboas)

	1970	1971	1972	1973
Total	*160.1*	*181.2*	*197.9*	*225.0*
Tax revenue	129.0	143.4	155.2	172.4
Direct taxes	62.1	69.6	69.6	81.8
Income tax	54.4	60.0	60.0	71.4
Real state	6.9	8.6	9.0	9.9
Inheritances and donations	0.7	1.0	0.7	0.5
Indirect taxes	66.8	73.8	85.6	90.5
Imports	36.9	40.8	42.0	44.2
Exports	0.7	0.7	0.8	0.7
Production, consumption and transactions	29.2	32.4	42.9	45.6
Non-tax revenue	31.2	37.7	42.7	52.6
Income from assets	2.3	2.4	2.5	3.6
Customs duties and other charges	9.3	10.4	12.4	13.4
Profits of enterprises	16.8	21.4	23.7	30.0
Current transfers	2.7	3.5	4.0	5.6

SOURCE: Dirección de Estadística y Censo, Contraloría General de la República de Panamá.
[a]Because of rounding, totals are not the sum of the parts.

finance immediately maturing loans and the rest to provide capital for the Compañía de Luz y Fuerza and support the investment budget. The second (115 million dollars), also with a private banking consortium, was used partly to pay the 1973 liabilities.

With the object of bringing the administrative structure of the public sector into line with development aims and of making better use of the State's resources, steps were taken to speed up the institutional adjustments initiated some time ago, which consisted in organizing government action by economic and social sectors and by geographic regions. This action included the establishment in 1973 of the Ministry of Housing—through the merging of several institutions linked with housing construction and urban development—and the Banco Hipotecario Nacional. During this period, too, some headway was made in the formulation of a single national health system, in the preparation and implementation of a national transport plan and in the administrative co-ordination and consolidation of policies covering various spheres, such as trade, industry and education. Lastly, greater attention was paid to regional problems by initiating the decentralization of the central government's administrative action and by co-ordinating various sectoral projects in one region.

PARAGUAY

1. RECENT ECONOMIC TRENDS

The most striking feature of Paraguay's economy in 1973 was the very favourable position of the external sector. The propitious conditions for the sale of Paraguayan products on the world markets, which were already apparent in 1972, were accentuated in 1973 with the result that foreign currency earnings from the export of goods rose by 49 per cent, thus permitting an increase of 40 per cent in imports at current prices. Despite the introduction of export promotion programmes that substantially boosted the production of cotton, soya and tobacco, the inelasticity of the supply of other export items prevented sales abroad from rising more swiftly.

An important development in the external sector was the great improvement in the terms of trade; while the unit value of exports went up by 44 per cent, that of imports rose by only 15 per cent. However, the balance of payments once again showed a deficit on current account. The country's foreign currency reserves increased by about 19 million dollars, thanks to the large inflow of non-compensatory capital.

Another important factor in 1973 was rising inflation, which was closely linked to developments in the external sector. The consumer price index went up by 12.8 per cent, mainly because of increases in food prices, which rose by 21.7 per cent.

There was a substantial improvement in the fiscal situation in 1973. The budget deficit dropped to less than a quarter of the previous year's figure and the fiscal monetary expansion was very slight. Money in circulation none the less rose by 27 per cent, mainly as a result of issues connected with external sector operations.

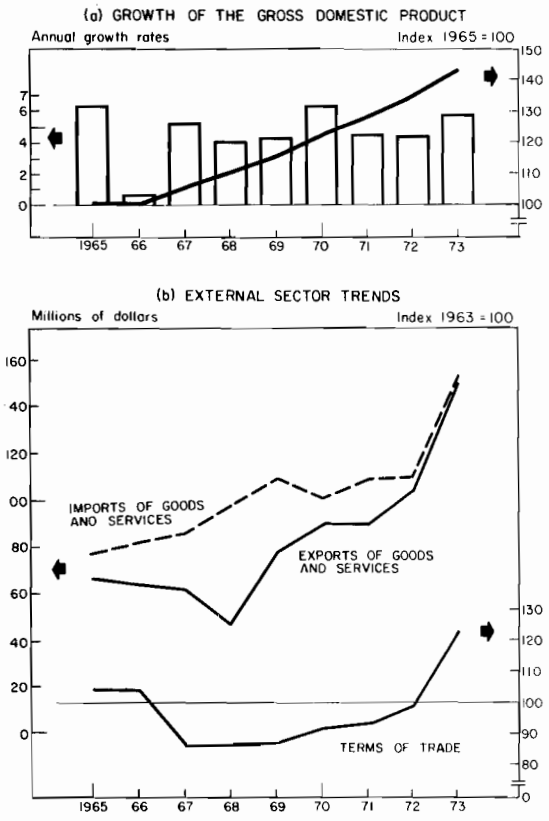
Thanks to large increases in agricultural production, the gross domestic product expanded by 5.8 per cent (see table 154 and figure XLI). Moreover, the highly favourable trend of the terms of trade (which improved by 25 per cent) was a source of additional revenue which led to a 7.9 per cent increase in the national income.

Over-all supply, supported by the substantial expansion of imports, went up by 7.8 per cent. As regards over-all demand the largest increase was in gross domestic investment (12.6 per cent), while consumption rose by 7.6 per cent and exports by 3.5 per cent at 1960 prices.

2. The external sector

With its exports of goods reaching the unprecedented level of 128 million dollars (compared with 86 million dollars the year before) which in turn permitted imports of approximately 116 million dollars, Paraguay had a trade surplus of about 12 million dollars in 1973 (see table 155).

Figure XLI. Paraguay
Natural scale



As mentioned above, world market conditions for the sale of raw materials and food products were even more favourable in 1973. At current prices, the export of goods expanded by 49 per cent, mainly as a result of the rapid increase in unit values, which rose by 44 per cent compared with a rise of only 3.5 per cent in the volume exported. This moderate expansion in the volume of exports was due to the inelasticity of the domestic supply of certain export products, such as beef and other agricultural commodities. Beef was, nevertheless, one of the export products which registered substantial increases in 1973, since owing to the sharp rise in world prices, exports of beef products totalled 40.5 million dollars (36 per cent more than in 1972).

The value of exports of oilseeds rose by 114 per cent, mainly owing to the sales of soya, which were up 170 per cent from 3.8 million dollars in 1972 to 10.4 million dollars in 1973. This figure is accounted for by the exceptional increase in prices, since the volume exported rose by only 29 per cent. The value of tartago exports increased from 1.1 to 1.8 million dollars although the volume exported dropped from 12,578 tons in 1972 to 6,458 tons in 1973. In view of the limited demand for tartago seed in Paraguay, in 1972 and 1973 there were large exportable surpluses (8,000 tons and 18,000 tons, respectively), which do not figure in the export records; given the existing market conditions, their sale was presumably not controlled at the frontier, especially with Brazil. Shipments of cakes, meal and other oilseed products amounted to 11.3 million dollars in 1973 which, compared with the 3.4 million dollars exported in 1972, represented an increase of 236 per cent, deriving once again from a price increase since the volume sold rose by 35 per cent.

Cotton exports increased in volume by 145 per cent and this combined with the increase in price doubled the export value (11.6 million dollars).

There were also increases in the value of exports of sawnwood, vegetable oils, tobacco, cattle hides, fresh and processed fruits and, to a lesser extent, the dry cocoon of silk worms and livestock products.

There was a drop in exports of palmettos, coffee beans, maté, tung, Portland cement and sugar. The decline in sugar sales was due to the cut in the quota allocated to Paraguay by the Government of the United States and left it with a stock of about 10,000 tons that were to have been sold on the world market in the early months of 1974 under sales agreements contracted in 1973.

The value of imports at current prices rose by

Table 154. Paraguay: gross domestic product at factor cost, by sector of economic activity

	Millions of guaraníes at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	17,640.1	18,339.8	19,289.8	20,678.7	38.1	33.7	33.9	1.7	4.0	5.2	7.2
Mining	63.2	145.4	148.0	189.7	0.2	0.1	0.3	-5.8	...	1.8	28.2
Manufacturing	9,840.1	10,166.6	10,807.1	11,239.4	17.6	18.8	18.4	5.6	3.3	6.3	4.0
Construction	1,653.8	1,825.8	1,935.3	2,043.7	2.6	3.2	3.4	8.3	10.4	6.0	5.6
Subtotal goods	*29,197.2*	*30,477.6*	*32,180.2*	*34,151.5*	*58.5*	*55.8*	*56.0*	*3.2*	*4.4*	*5.6*	*6.1*
Electricity, gas and water	653.7	796.3	947.8	1,038.8	0.7	1.3	1.7	16.5	21.8	19.0	9.6
Transport and communications	2,174.1	2,264.0	2,485.9	2,600.3	4.3	4.2	4.3	3.5	4.1	9.8	4.6
Subtotal basic services	*2,827.8*	*3,060.3*	*3,433.7*	*3,639.1*	*5.0*	*5.4*	*6.0*	*5.8*	*8.2*	*12.2*	*6.0*
Commerce and finance	9,515.9	10,026.1	10,477.3	11,095.5	18.2	18.2	18.2	4.2	5.4	4.5	5.9
Government	3,066.2	3,091.4	3,116.1	3,225.2	4.2	5.9	5.3	11.5	0.8	0.8	3.5
Ownership of dwellings	1,842.7	1,903.5	1,968.2	2,084.3	3.7	3.5	3.4	3.1	3.3	3.4	5.9
Miscellaneous services	5,830.3	6,096.2	6,437.6	6,765.9	10.4	11.2	11.1	5.5	4.6	5.6	5.1
Subtotal other services	*20,255.1*	*21,117.2*	*21,999.2*	*23,170.9*	*36.5*	*38.8*	*38.0*	*5.4*	*4.3*	*4.2*	*5.3*
Total	*52,118.3*	*54,503.6*	*57,392.3*	*60,721.1*	*100.0*	*100.0*	*100.0*	*4.1*	*4.5*	*5.3*	*5.8*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Paraguay; 1973: ECLA estimates based on production indexes and other data supplied by the Central Bank of Paraguay.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a]Preliminary figures.

Table 155. Paraguay: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	89.3	89.1	105.7	150.7
Goods FOB	65.3	66.5	86.0	128.0
Services	24.0	22.6	19.7	22.7
Transport	2.5	1.6	2.0	3.6
Travel	14.2	14.7	11.2	11.3
Imports of goods and services	101.1	109.1	110.2	152.5
Goods FOB	76.6	83.0	82.9	115.9
Services	24.5	26.1	27.3	36.6
Transport	9.0	10.6	10.6	16.3
Travel	5.1	5.9	6.6	6.8
Net external investment income	−9.8	−10.0	−11.6	−13.9
Profits	−2.5	−2.3	−2.9	−3.9
Interest	−7.3	−7.7	−8.7	−10.0
Net private transfer payments	1.9	3.8	2.0	2.4
Balance on current account	−19.7	−26.2	−14.1	−13.3
Capital account				
Net external financing ($a+b+c+d+e$)	19.7	26.2	14.1	13.3
(*a*) Net external non-compensatory capital	32.9	31.1	24.6	
Direct investment	3.8	7.1	3.3	
Long- and medium-term loans	22.6	26.3	26.2	
Amortization payments	−6.5	−9.8	−10.3	
Short-term liabilities	9.7	3.7	1.2	32.3
Official transfer payments	3.3	3.8	4.2	
(*b*) Domestic non-compensatory capital or assets	−2.3	−3.3	−5.3	
(*c*) Errors and omissions	−5.0	−0.8	2.6	
(*d*) Allocation of SDRs	2.5	2.0	2.2	–
(*e*) Net compensatory financing (increase −)	−8.4	−2.8	−10.0	−19.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	0.1	–	3.1
Amortization payments	−0.6	−0.1	−0.1	–
Movements of foreign exchange reserves (increase −)	−4.3	−0.8	−7.7	−22.1
Movements of gold reserves (increase −)	−1.0	–	–	–
SDRs (increase −)	−2.5	−2.0	−2.2	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

about 40 per cent, owing to increases of 20 per cent in volume and 15 per cent in the unit value index.

The imports which increased most in value were machinery, appliances and motors (this group includes new imports affected by the National Electricity Administration (ANDE) for the electrification of the country). Their value was 30.8 million dollars, or 96 per cent higher than the year before.

Imports of transport equipment and accessories went up by over 50 per cent, iron and iron manufactures by 77 per cent, agricultural implements and accessories by 120 per cent, chemical and pharmaceutical products by 30 per cent, fuels and lubricants by 14 per cent, textiles and textile manufactures by 32 per cent, and paper and paperboard by 14 per cent. Imports of food, on the other hand, dropped by 5.2 per cent.

The outflow of foreign currency in payment of services rose much faster than revenue (34 and 15 per cent respectively). The biggest increase in the former was for freight and insurance (54 per cent).

Payment of profits and interest on foreign capital went up by 20 per cent to 13.9 million dollars (slightly less than 8 per cent of the total foreign currency earnings from exports of goods and services), 3.9 million dollars of which were profits and 10 million were interest (see table 155).

In spite of the favourable trade flow, the result of the increase in the cost of services and the remittance of profits and interest abroad was a

further end-of-year balance-of-payments deficit on current account of 13.3 million dollars. However, the country's foreign currency reserves increased by 19 million dollars, thanks to an inflow of over 32 million dollars in non-compensatory capital.

3. Prices

The average consumer price index for 1973 was 12.8 per cent higher than that of the year before. The main price rises were in food products, whose contribution to the index rose by 21.7 per cent; the indexes for housing and clothing rose by 6.9 per cent and 5.6 per cent respectively and the "miscellaneous" index by 0.8 per cent.

The external sector had a decisive influence on the upward movement of prices, since world inflation brought a direct or indirect pressure to bear on them. The 15 per cent rise in the unit value of imports, for example, directly affected domestic costs through imported raw materials and the large proportion of consumer goods that the country imports. At the same time, the exceptional world market prices provided a strong incentive to export, and this affected normal internal supply and so pushed up domestic prices.

The most important factor was the rise in the price of beef, which carries considerable weight in Paraguay's cost-of-living index. High world market prices pushed up domestic beef prices by 34 per cent in 1973; this in turn increased the demand for substitute products, which was strengthened by the reduction in the supply of meat for domestic consumption during part of the year. There were also sharp price rises in maize (71 per cent), beans (30 per cent), and other food items.

4. Fiscal and monetary situation

The central government reduced its deficit from 1,494.4 million guaraníes in 1972 to 341.2 million in 1973. This substantial reduction in the budget deficit was made possible by an increase of 24 per cent in current income compared with a more gradual increase in disbursements (10 per cent).

The year's smaller deficit helped to reduce the demand for credit and the need for Treasury advances drawn on the Central Bank; as a result, the increase in the monetary supply from fiscal sources was less pronounced than the year before. The Treasury used 103.7 million guaraníes in agricultural surplus funds and 411.1 million guaraníes in short-term Central Bank advances, this expansion being partly offset by an increase in official deposits and a reduction in Treasury bonds. The fiscal deficit thus had the effect of increasing the monetary issue by about 83 million guaraníes, compared with an increase of 1,198 million guaraníes in 1972.

Money in circulation none the less rose by 27 per cent compared with December 1972, owing mainly to issues deriving from external sector operations, whose expansionary effect was offset by a large increase in legal cash reserves resulting from the considerable increment in public bank deposits.

5. Trend of the gross domestic product and its components

(a) *Total supply and demand*

The gross domestic product rose by 5.8 per cent in 1973, a slight improvement on the previous year. Total supply was up by 7.8 per cent, thanks to the 20 per cent increase in imports at constant prices. Thus the import coefficient of the product rose from 16.1 per cent in 1972 to 18.4 per cent in 1973 (see table 156).

As regards the separate components of total demand, there was a noticeably small increase in exports at constant prices (3.5 per cent). Gross domestic investment went up by 12.6 per cent compared with the 15.4 per cent registered in 1972. Total consumption rose by 7.6 per cent, i.e., faster than the gross domestic product.

(b) *Agricultural production*

In 1973, agricultural production was 10.1 per cent up on the previous year, apparently as a result of the high prices recorded for Paraguayan products on the world market and of the promotional policy pursued by the Government through national programmes in support of, for example, cotton, tobacco and soya.

The production of cotton reached an unprecedented level, i.e., more than twice that of 1972. This was the outcome of increases in the area sown, the high yield of new types of crops, government support and, above all, the highly favourable prices.

Owing to bad weather and disease which affected yields, the production of soya failed to reach the target of 144,000 tons scheduled under the National Soya Plan. The soya harvest nevertheless showed a 20 per cent improvement over 1972 thanks to the 37 per cent extension of the area sown. The sharp rise in soya prices (the prices to the producer were about 150 per cent higher than in 1972 and more than 20 per cent higher than those established by the Government) more than compensated the farmers for the drop in the yield per acre. Tobacco, which is being promoted under the National Tobacco Programme, once again gave satisfactory results, since the harvest was up by 10 per cent over 1972.

Production of tartago also rose sharply (20 per cent) under the influence of an even greater

Table 156. Paraguay: total supply and demand

	Millions of guaranies at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*66,892.4*	*69,856.5*	*72,567.3*	*78,212.5*	*119.1*	*118.0*	*118.4*	*4.4*	*4.4*	*3.9*	*7.8*
Gross domestic product	56,697.6	59,292.5	62,455.9	66,076.4	100.0	100.0	100.0	4.6	4.5	5.3	5.8
Imports[b]	10,194.8	10,564.0	10,111.4	12,136.1	19.1	18.0	18.4	3.3	3.6	−4.3	20.0
Total demand	*66,892.4*	*69,856.5*	*72,567.3*	*78,212.5*	*119.1*	*118.0*	*118.4*	*4.4*	*4.4*	*3.9*	*7.8*
Exports[b]	8,851.3	8,731.2	9,043.4	9,355.7	15.0	15.6	14.2	5.5	−1.4	3.6	3.5
Gross domestic investment	8,261.7	8,661.8	9,992.3	11,248.8	14.7	14.6	17.0	4.4	4.8	15.4	12.6
Gross fixed investment	8,045.9	8,306.8	9,269.3	10,205.6	13.8	14.2	15.4	5.2	3.2	11.6	10.1
Public[c]	2,212.3	2,296.3	...	...	2.1	3.9	...	18.7	3.8	...	...
Private[c]	6,049.4	6,365.5	...	...	12.7	10.7	...	1.1	5.2	...	...
Construction	4,131.0	4,544.7	4,830.5	...	6.2	7.3	...	8.1	10.0	6.3	...
Machinery and equipment	3,914.9	3,762.1	4,438.7	...	7.6	6.9	...	2.6	−3.9	18.0	...
Total consumption	49,779.4	52,463.5	53,531.6	57,608.0	89.3	87.8	87.2	4.2	5.4	2.0	7.6
General government	5,005.5	5,110.7	5,170.0	5,454.3	6.2	8.8	8.3	12.2	2.1	1.2	5.5
Private	44,773.9	47,352.8	48,361.6	52,153.7	83.1	79.0	78.9	3.6	5.8	2.1	7.8

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Paraguay; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

[c] Including changes in stocks.

increase in the prices to the producer (29 per cent).

Other seasonal crops showed substantial increases in production: maize 20 per cent, sugarcane 17.6 per cent, potatoes and onions 10 per cent, beans 5 per cent. There was a substantial increase in demand for these products during 1973, owing to the reduction in the supply of beef for domestic consumption during part of the year. As a result, prices rose considerably (70 per cent for maize and 30 per cent for beans).

There was a serious decline in the production of certain items, such as rice and wheat. The rice crop decreased by 44.5 per cent for lack of rain, which prevented the soil from being prepared at the proper time. Wheat sowings suffered from similar difficulties and the harvest was down by more than 40 per cent.

(c) *Manufacturing*

The manufacturing industry expanded by 4 per cent in 1973 compared with the 6.3 per cent registered in the previous year. Output of cotton fibre increased by 75 per cent thanks to a boom in the production of raw cotton. Edible oil was up by 61 per cent, enough to satisfy normal domestic demand and leave a considerably larger exportable surplus than in 1972. The production of sugar was up by 31 per cent, beer by 29.7 per cent, industrial oils made from coconut kernel and pulp by 19 and 12 per cent respectively, and sawnwood by 13 per cent thanks to the sharp increases in prices.

The substantial increase in output of these products was partly offset by a drop in that of other industrial items. The production of wheat flour was down by 65 per cent owing to the reduction in both the wheat harvest and the supply of imported wheat for milling; as a result, flour had to be imported to meet domestic demand. Tung oil and palmettos were other items whose production dropped considerably in 1973, the former by 46 per cent and the latter by 36 per cent mainly owing to awkward access and the depletion of the plantations. There was also a drop in the production of preserved meat (28 per cent), processed rice (13 per cent), maté (17 per cent) and wine (13 per cent).

PERU

1. Recent economic trends

According to preliminary estimates, in 1973 the gross domestic product of Peru increased by 5.3 per cent. This rate far exceeded the estimated rate for the total population growth (2.7 per cent), but appears less promising if it is compared with the rate for the years immediately preceding 1973 (see table 157 and figure XLII).

If the analysis is confined to the components of the product, it may be observed that agricultural output as usual increased rather slowly (2.5 per cent). Catches for the fish meal industry again declined, with the persistence of adverse ecological conditions, while fishing for human consumption once again recorded a marked increase; since the increase was smaller than the year before, however, it did not prevent fishing activity in general from decreasing by 14.2 per cent compared with 1972.

The growth rate of mining output dropped from 4.2 per cent in 1972 to only 3 per cent in 1973. Manufacturing industry began the year with substantial increases in output, which in the second half of the year became smaller or changed to sharp reductions, since some industrial groups were working considerably below their capacity. Partial data indicate an increase of 7.4 per cent in the manufacturing product in 1973. Construction was another activity whose rate of growth declined during the year (from 18 to 12 per cent). The entry into operation of new electric power stations increased the generation of electricity, which, according to data which are only in part official, appears to have been 11 per cent higher than in 1972.

The deterioration observed in the economic growth rate was due to a combination of factors which in 1973 had temporarily adverse effects on the Peruvian economy. The first of these was the repetition of a traditional pattern of growth which the structural reforms begun five years previously had not yet succeeded in changing. As explained in an earlier ECLA study,[83] it generally happens that great strides are made thanks to the appearance of one or more new export products or to marked increases in the capacity of production for export; then the growth rate slows as the new production capacity is fully utilized. In particular, 1973 marks the end of one of these cycles, since the discoveries of petroleum in the Amazon plains and the investment which has been made in mining

[83] See ECLA, *Tendencias y estructuras de la economía del Perú en el último decenio* (E/CN.12/925), 1972.

Table 157. Peru: total supply and demand

	Millions of soles at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*116,915*	*123,140*	*130,018*	*135,313*	*126.1*	*125.9*	*123.5*	*3.5*	*5.3*	*5.6*	*4.1*
Gross domestic product	92,889	98,347	104,051	109,566	100.0	100.0	100.0	3.6	6.0	5.8	5.3
Imports[b]	24,026	24,793	25,967	25,747	26.1	25.9	23.5	3.4	3.2	4.7	-0.8
Total demand	*116,915*	*123,140*	*130,018*	*135,313*	*126.1*	*125.9*	*123.5*	*3.5*	*5.3*	*5.6*	*4.1*
Exports[b]	19,903	18,432	19,606	18,118	21.8	21.4	16.5	3.2	-7.4	6.4	-7.6
Gross domestic investment	15,390	17,153	16,509	18,325	22.4	16.6	16.7	-2.5	11.5	-3.8	11.0
Gross fixed investment	15,931	17,823	18,877	...	20.1	17.2	...	0.4	11.9	5.9	...
Public	6,110	6,605	7,551	...	6.9	6.6	...	2.6	8.1	14.3	...
Private	9,821	11,218	11,326	...	13.2	10.6	...	-0.9	14.2	1.0	...
Total consumption	81,622	87,555	93,903	98,870	81.9	87.9	90.2	5.0	7.2	7.2	5.3
General government	8,648	9,577	10,578	11,424	9.7	9.3	10.4	2.7	10.7	10.5	8.0
Private	72,974	77,978	83,325	87,446	72.2	78.6	79.8	5.4	6.9	7.0	5.0

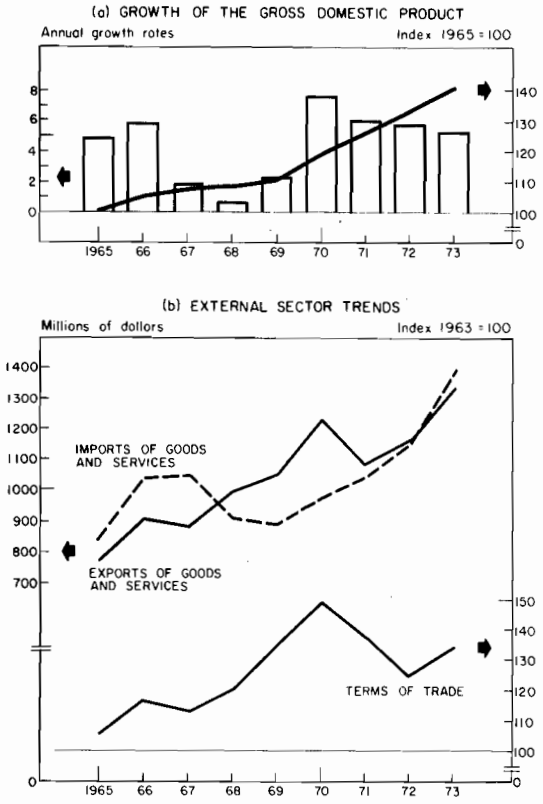
SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco Central de Reserva del Perú; 1973: ECLA estimates based on incomplete data supplied by the Ministry of Economic Affairs.

Note: The figures for imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Figure XLII. Peru
Natural scale



since 1971 will almost certainly give a new impulse to the growth rate around 1975-1976.[84]

The second factor, also long-term, is that in 1973 the majority of the structural reforms undertaken since 1968 were just beginning to give results. Agrarian reform was diversifying agricultural production, encouraging exports of fruit normally considered to be temperate-zone products, and reducing the percentage of small-scale production for home consumption. Marketing was improving, thanks to the new activities of the Empresa Pública de Servicios Agropecuarios (EPSA), whose storage and distribution centres are supplied by the local agricultural co-operatives, and which are aimed at rationalizing supply to the main urban centres of the country. The public industrial enterprises set up to correct the excessive concentration of domestic supplies of manufactured consumer goods were in the building stage (notable among these was SIDERPERU, which with a new steel shop doubled its output to 333,000 tons of steel). Lastly, the public enterprises operating in mining with relatively substantial investment were still recording a comparatively small output.

The third factor, of a fortuitous nature, is the effect of generalized inflation in the industrialized market economies. In 1968 Peru successfully applied a fairly radical anti-inflationary policy, but as from late 1972 its imports of equipment, spare parts, inputs and other manufactures became increasingly expensive. This type of inflationary pressure, which did not respond to the strict control on public expenditure, was intensified by the world food crisis, which considerably raised the prices of the main food items imported by Peru. To these pressures on domestic prices was added in the course of the year the recovery in the prices of those products which are destined mainly for export but which also constitute important raw materials for national industry. The food and beverages, textile and metal manufactures industries thus had to withstand the impact of higher costs, first of imported equipment and inputs, and then of domestic raw materials on which their earlier development had been based.

The increases in international and domestic prices were partly offset in the balance of payments current account, so that the trade balance was less than in previous years but was still a surplus (19 million dollars). They had more effect on the other items of the current account particularly profits on direct investment, which amounted to 131 million dollars. The capital account recorded a total direct investment of 100 million dollars and an increase in the debt of 230 million dollars. The over-all result was an increase in international reserves of 65 million dollars.

2. Major sectors of activity

(a) *Agriculture*

In 1973 agricultural production–excluding fishing–increased by 2.5 per cent which is higher than the rate recorded in 1972 (1 per cent) and on a par with the growth of the total population (see table 158).

An extensive drought, which was extremely serious in some parts of the country, affected the areas producing temperate-zone foodstuffs. The production of potatoes–an essential item in the Peruvian diet which carries considerable weight in the indexes–decreased by approximately 6 per cent. Maize production also dropped by nearly 8 per cent, despite new plantations in the Amazon area. Other grains, however, recorded increases in output, since they were grown in areas not af-

[84] An important factor in Peru is the high proportion of new investment which since 1969 has been directed towards infrastructure and production projects, and whose effect on the product is only being felt three to five years later.

Table 158. Peru: gross domestic product at factor cost, by sector of economic activity

	Millions of soles at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	16,224	16,282	15,607	15,844	20.2	19.1	15.8	2.4	0.4	-4.1	1.5
Crop farming, livestock production and forestry sub-sector	14,225	14,545	14,690	15,057	18.5	16.7	15.0	1.5	2.2	1.0	2.5
Fishing	1,999	1,737	917	787	1.7	2.4	0.8	10.5	-13.1	-47.2	-14.2
Mining	5,561	5,405	5,630	5,799	7.0	6.5	5.8	2.2	-2.8	4.2	3.0
Manufacturing	19,203	20,884	22,346	23,999	20.3	22.6	24.0	5.8	8.8	7.0	7.4
Construction	3,149	3,719	4,277	4,790	4.2	3.7	4.8	0.7	18.1	15.0	12.0
Subtotal goods	*44,137*	*46,290*	*47,860*	*50,432*	*51.7*	*51.9*	*50.3*	*3.6*	*4.9*	*3.4*	*5.4*
Electricity, gas and water	972	1,058	1,164	...	1.0	1.1	...	6.2	8.8	10.0	...
Transport and communications	3,990	4,309	4,662	...	4.8	4.6	...	2.2	8.0	8.2	...
Subtotal basic services	*4,962*	*5,367*	*5,826*	...	*5.8*	*5.8*	...	*3.6*	*8.2*	*8.6*	...
Commerce and finance	12,407	13,396	14,494	...	15.0	14.6	...	3.0	8.0	8.2	...
Government	6,749	7,073	7,781	...	7.9	7.9	...	3.6	4.8	10.0	...
Ownership of dwellings	5,537	5,786	6,050	...	6.6	6.5	...	3.1	4.5	4.6	...
Miscellaneous services	11,253	12,150	13,146	...	13.0	13.2	...	3.9	8.0	8.2	...
Subtotal other services	*35,946*	*38,405*	*41,471*	...	*42.5*	*42.3*	...	*3.4*	*6.8*	*8.0*	...
Subtotal services	*40,908*	*43,772*	*47,297*	*49,757*	*48.3*	*48.1*	*49.7*	*3.4*	*7.0*	*8.0*	*5.2*
Total	*86,245*	*91,313*	*96,609*	*101,729*	*100.0*	*100.0*	*100.0*	*3.6*	*6.0*	*5.8*	*5.3*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Banco Central de Reserva del Perú; 1973: ECLA estimates based on figures supplied by the Ministry of Economic Affairs.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

fected by the drought (rice) or had priority irrigation (malting barley).

Cotton production continued to decline. The Tangui variety is being replaced by other crops and output declined by 15 per cent in 1973; production of the Pima variety, however, which is not facing so much competition, increased by more than 45 per cent, with the result that output of cotton as a whole only dropped by 1 per cent. The displacement of the first variety is not in itself an unfavourable development, since the irrigated land which had previously been cotton fields has been given over to crops which are scarce on the domestic market, or to export crops. Output of the other export crop in the coastal area—sugarcane—increased by 1 per cent.

According to partial data, the livestock sector experienced substantial production increases which fluctuated between 4 per cent for cattle and 9 per cent for pigs; however, the increase in the prices of feed caused the production of pigs to decline by the end of the year and had even more immediate effects on the production of dressed poultry, which dropped by nearly 5 per cent.

The new agricultural marketing machinery, although still in process of organization, has begun to have some impact on domestic supply and agricultural exports. EPSA possesses premises for retail sales, mainly supplied by the new centres for the storage and distribution of products from the agricultural co-operatives. These centres, where agricultural products are stored and classified, have made it possible to start exporting these products to foreign markets. EPSA is thus complementing the work of agrarian reform, since it provides a commercial infrastructure that was lacking in nearly all the areas covered by land reform.

(b) *Fishing*

The fishing industry has been declining since 1971. Supply dropped by 47 per cent in 1972 and 14.2 per cent in 1973, which reflects the serious crisis affecting anchoveta catches for fish meal,[85] the main activity of the Peruvian fishing industry.

To remedy this situation as far as possible, the Peruvian Government bought up the producer enterprises which, because they shared a natural resource that was not demarcated, had tended to become over-capitalized. As the available quantity of anchoveta could not be shared out among the fishing enterprises, each of them tried to catch as much as possible, so that the sum of all their equipment was several times the amount required for the annual output obtained. The public enterprise PESCAPERU has endeavoured to rationalize the fishing and processing industries by as far as possible transferring equipment to other activities and regulating stocks and sales of fish meal in line with the possibilities of the industry as a whole, rather than with the entrepreneurs' expectations.

As part of the development of fisheries activities, fishing for human consumption has been encouraged. In the first nine months of 1973, catches amounted to 180,000 tons, i.e., an increase of 25.8 per cent over the same period in 1972. Of this quantity, 101,000 tons consisted of fresh or frozen fish for direct consumption by the population at a time when the prohibition to consume beef was extending to the whole of the Peruvian coast.

Infrastructure works are under way in the fishing ports of Paita and La Puntilla; the fleet of refrigerated lorries has been increased and there is a new centre for the sale of frozen fish in the interior. Thanks to this investment, the distribution of fisheries products for consumption is being extended inland.

(c) *Mining*

Mining activity in Peru continued to expand in 1973 and, despite sporadic strikes in the main mining centres, output increased by 3 per cent. A decline in the metal content of the ore from Marcona reduced the output of iron ore by around 15 per cent; copper production remained almost stationary, with a probable decline of 1 per cent. In the case of metals, these reductions were offset by the expansion of lead and zinc mining (10 and 5 per cent respectively), most of which is in the hands of small and medium-sized enterprises which reacted favourably to the increase in international prices for both these metals.

As regards investment, rapidly maturing investment in small- and medium-scale mining acquired some importance during the year. Investment continued in the copper deposits of Cuajone, as also in the Marcona iron mines.

The production of hydrocarbons increased by 6.5 per cent, according to preliminary data, but, as in previous years, the exploration and development of recently discovered oil reservoirs were the most important aspects. Exploration activities carried out either by PETROPERU itself or in the form of concessions covered 17 million hectares. The most recent concessions granted were to the Japanese enterprise Andes Oil Development in the department of Madre de Dios in south-east Peru. The company considers this a promising proposition and expects to start drilling exploratory wells in 1974.

In the new oilfields in the north-east, the nine

[85] The exact cause of this phenomenon has not actually been established. However, from observations of the anchoveta population at the beginning of 1974 there is some hope of recovery for this industry.

wells at present in production allow reserves to be estimated at 400 million barrels, 100 of these on land belonging to PETROPERU. Exports to Brazil by river have been initiated, and advance work has been started on the construction of the oil pipeline to the Pacific.

(d) *Manufacturing*

Although SIDERPERU doubled its output of raw steel, 1973 was a difficult year for Peru's industrial sector. The processing of primary commodities for export still carries considerable weight in the relevant index and although for five years attempts have been made to replace these commodities by domestic products, a high proportion of inputs continue to be imported. Most of the new equipment and spare parts are also imported, with the result that, like the inputs, they have been subject to price increases in the supplier countries.

Although it is estimated that the gross domestic product for the sector increased by 7.4 per cent in 1973 compared with 7 per cent the previous year, it is probable that the final estimate will show a lower growth rate.

This would be a result of the decline of possibly more than 11 per cent in fish meal production, the drop of nearly 1 per cent in sugar refining, and the stability in the processing of non-ferrous basic metals. The food industry showed a lower rate of growth, and this situation was repeated in the textile industry, owing to the necessary increase in prices due to the higher unit costs of domestic and imported inputs. Plastic products underwent a sharp decline at the end of the year, as a result of the exceptionally high increase in the prices of inputs obtained from hydrocarbons.

The above-mentioned increase in the output of raw steel was one of the factors of growth of the manufacturing product and allowed a saving of 28 million dollars' worth of foreign exchange. The rapid increase in exports of manufactures during the year at a rate of around 50 per cent was another favourable factor. Cement production continued to increase.

Despite the difficulties indicated, the manufacturing sector began to expand its installed capacity in the second half of the year. A large number of private enterprises arranged for the expansion of their premises, so as to install additional machinery and cope with a larger volume of inputs and products in course of preparation. Investment in this sector continued during the first quarter of 1974.

(e) *Construction*

In the 1970s construction has so far been the most dynamic sector of the Peruvian economy. This was also the case in 1973 despite its growth rate of 12 per cent, which was down on that of the previous year. This decline was mainly due to the fact that fewer private dwellings were built. Mortgage loans have enabled housing needs to be gradually satisfied so that the number of persons requiring their own dwellings has tended to decline. Other factors which contributed to this decline were the increase in the prices of construction materials and a construction workers' strike in Lima.

Therefore, the growth of this sector is accounted for by the continuing increase in the construction work undertaken by the central government (highways and dams, including the Majes-Siguas project in the south) and public enterprises.

3. THE EXTERNAL SECTOR

The generalized increase in prices on the international markets, which mainly affected primary products, was responsible for an increase of 18.4 per cent in the value of Peru's exports of goods, despite the decline of 9 per cent in their volume; although they amounted to 1,119 million dollars, however, this was not much higher than the value reached in 1970 (1,034 million dollars). Imports of goods recorded a growth of 22.5 per cent, also due to higher prices (21 per cent), since at constant prices they showed a slight increase (see figure XLII).

The higher rate at which the unit value of exports rose in 1973 (30 per cent) compared with that of imports (21 per cent) determined an improvement of 7.4 per cent in the terms of trade; the level reached by this index, however, was similar to the 1969 and 1971 levels and considerably lower than that recorded in 1970. These trends may continue in 1974, although it is probable that the rise in import prices may become more pronounced partly owing to the sharp increase since the last few months of 1973 in the price of petroleum, which Peru has to import to cover one-third of its consumption.

Exports of basic metals amounted to around 600 million dollars in 1973, approximately 150 million more than in the previous year. This increase accounts for 86 per cent of the higher value recorded for total exports. The rest may be explained by the rapid increase in non-traditional exports of manufactures, the increased price of sugar and coffee and, to a lesser extent, the prices of agricultural products which for the first time began to be exported on a considerable scale.

The smaller volume of exports was mainly due to the adverse conditions which continued to affect fish meal production. In the first half of the year, exports of fish meal amounted to 137,000

tons–only a fraction of the 1.1 million tons exported over the same period in 1972. Conditions in the second half of the year improved very slightly.

Exports of cotton have also shown a declining trend over the last few years. Domestic consumption is increasing rapidly, but output is not, mainly because of competition from non-exportable varieties.

Imports of goods amounted to 1,029 million dollars in 1973, i.e., an increase of 190 million dollars over 1972. As has already been stated, a large part of this growth was a result of the high prices paid for these imports. According to partial data, the content of capital goods and industrial inputs increased during 1973. Some imports of consumer goods declined (meat and cattle on the hoof), but others, especially wheat, showed an appreciable increase due to the rise in prices in the supplier countries.

As regards the rest of the current account, there were increases during the year of 19 million dollars in net payments for freight, insurance and other transport costs, and of 51 million dollars in remittances of profits and interest. Direct investment payments increased from 77 to 130 million, owing to the improved prices of copper and other exported metals (see table 159).

The trade surplus of 90 million dollars (compared with 105 million dollars in 1972) and the net outflow under the head of services and payments in respect of foreign capital resulted in a

Table 159. Peru: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]
Current account				
Exports of goods and services	1,224.0	1,082.0	1,153.0	1,339.5
Goods FOB	1,034.0	889.0	945.7	1,119.3
Services	190.0	193.0	207.3	220.2
Transport	69.0	66.0	58.6	76.1
Travel	52.0	55.0	59.7	63.2
Imports of goods and services	971.0	1,046.0	1,150.8	1,381.1
Goods FOB	699.0	764.0	840.3	1,029.0
Services	272.0	282.0	310.5	352.1
Transport	131.0	138.0	158.5	195.2
Travel	60.0	59.0	44.5	47.8
Net external investment income	−133.0	−104.0	−123.8	−174.5
Profits	−73.0	−35.0	−77.1	−130.6
Interest	−60.0	−69.0	−46.7	−43.9
Net private transfer payments	26.0	4.0	10.9	5.3
Balance on current account	146.0	−64.0	−110.7	−210.8
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	−146.0	64.0	110.7	210.8
(*a*) Net external non-compensatory capital	−69.0	46.0	100.3	276.2
Direct investment	−70.0	12.0	47.8	
Long- and medium-term loans	219.0	255.0	341.1	
Amortization payments	−194.0	−199.0	−273.6	
Short-term liabilities	−80.0	−57.0	−44.5	
Official transfer payments	56.0	35.0	29.5	
(*b*) Domestic non-compensatory capital or assets	230.0	10.0	−10.9	
(*c*) Errors and omissions	−24.0	−39.0	57.6	
(*d*) Allocation of SDRs	14.0	13.0	14.1	–
(*e*) Net compensatory financing (increase −)	−297.0	34.0	−50.4	−65.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	21.0	16.0	66.7	–
Amortization payments	−27.0	−23.0	−36.9	−20.6
Movements of foreign exchange reserves (increase −)	−253.0	55.0	−74.5	−12.1
Movements of gold reserves (increase −)	−24.0	–	5.3	−37.2
SDRs (increase −)	−14.0	−14.0	−11.0	4.5

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

current account deficit of 211 million dollars, 90 per cent higher than in 1972. During the year, however, there was a net inflow of capital to a value of some 276 million dollars, of which around 100 million was net direct investment destined mainly for the petroleum industry and manufacturing. Official long-term loans were another important feature during the year.

The inflow of non-compensatory capital meant an increase of 65 million dollars in Peru's international reserves, despite the deterioration in current transactions.

4. Structural reforms

Although the need to introduce reforms in Peru's economic structure had often been apparent before, it was not until 1968 that its economic policy was energetically directed at formulating and implementing such reforms. Since then the process of reform has followed a rapid and increasingly wide-ranging course, so that now at the end of the five-year period it is appropriate to review it briefly.

As the process of reform covers a large number of activities and institutions and to describe it as a whole would have to be the object of a special analysis, only some features of agrarian reform and of the nationalization of production capacity, two of the most important changes in the restructuring of the Peruvian economy, are indicated below.

(a) *Agrarian reform*

The progress of agrarian reform is usually evaluated in terms of the area covered and the number of families benefiting from it. This is an objective but incomplete means of evaluation, since, as will be seen below, there are other equally important criteria. If the quantitative data available is used, however, the following progress may be observed up to 30 September 1973:

(i) Expropriations of land of all types comprise around 5.5 million hectares. It is not known with any degree of accuracy what the total area expropriated will be, but the expropriations envisaged for 1974 and 1975, some of which have already been effected, include an area equal to that mentioned above;

(ii) The next step is the allocation of the land; 3.6 million hectares have been allocated—all of which had previously been expropriated—together with 343,000 hectares of State-owned land because, among other reasons, it was situated in future land settlement areas (see table 160);

(iii) The distribution of rural property expropriated under agrarian reform has special features in Peru. In addition to individual farmers there are farmers' co-operatives, peasant communities and Social Agricultural Associations (Sociedades Agrícolas de Interés Social—SAIS). The communities are of pre-European origin and the members own all or part of their assets. The SAIS are more sophisticated organizations which combine various features.

At the end of 1973 there were approximately 1,300 owners of large tracts of land which would not be expropriated because they did not have all the characteristics of a latifundio. The number of farmers whose properties varied between small and medium-sized was estimated at 29,000. Lastly, there are still a large number of communities and

Table 160. Peru: institutional distribution of land allocated

	Individuals	*Co-operatives*	*Communities*	*SAIS*
	Expropriated			
Number	17,000	334	83	29
Thousands of hectares	124	1,518	365	1,549
Number of families (thousands)	17	6	26	33
Hectares per operational unit	7	4,540	4,390	53,300
Hectares per family	7	20	14	47
	Colonized			
Number	11,706	78	–	1
Thousands of hectares	256	60	–	27
Number of families	11,706	2,797	–	11[a]
Hectares per operational unit	22	800	–	27,000
Hectares per family	22	22	–	2,500[a]

SOURCE: ECLA, on the basis of data supplied by the Dirección de Asentamiento Rural.
[a]This is the initial group, which will be expanded in the future.

minifundia, the latter with virtually subsistence production.

The majority of the families benefiting from the allocation of land have done so at the expense of a relatively small number of latifundio owners. In other words, agrarian reform has contributed to the redistribution of personal income, and—in so far as the former owners were foreign enterprises or absentee landlords—of regional income.

It is not, of course, possible to determine accurately how far this redistribution has been achieved. It is, however, a fact, since the enterprises set up under agrarian reform (co-operatives, etc.) appear with increasing frequency as paying their debts in advance to the banking system, or as having financial surpluses to invest outside the actual enterprise. To illustrate this it may be mentioned that the central office of the sugar co-operatives has 6,000 million soles (approximately 155 million dollars) for investment in sugar-cane-based industries, and that the Sociedad Agrícola de Interés Social Tupac Amaru has extended its activities to the eastern area of the country and has been allocated 35,000 hectares in Saispampa, the development of which began with 11 families, and already has 1,400 hectares of pasture land and 900 head of cattle.

(b) *Nationalization of production capacity*

Historically speaking the denationalization of production capacity has seldom meant an actual pumping of real external resources into the Peruvian economy. Foreign enterprises generally made their purchases in periods of crisis, using for the purpose the savings tapped by the domestic financial sector and even having recourse to procedures without any commercial basis.[86] This vigorous trend could not be counteracted only by stimulating domestic capital and enterprises; direct action by the public sector and special legislation were necessary.

Today, the denationalization process has been halted completely in the agricultural, financial and fish meal sectors and partially in the petroleum, basic manufactures and mining industries. The inflow of direct investment, however, has continued, but under a legislation which controls its expansion in accordance with the provisions of the Andean Agreement. In the agricultural sector, agrarian reform has resulted in private enterprises of a size which does not attract foreign capital, and the legislation lays down that the owners must reside on their land or in its immediate vicinity.

As regards trade and financial intermediaries, in 1968 the deposit banks were in the throes of an active process of denationalization; in the same year the law reserved ownership of these enterprises for Peruvian nationals. More important, however, was the action of the public sector, which acquired several of the main banks from their national and foreign shareholders. At present, the Peruvian banking system is represented by public banks, associated banks with the State owning a majority share, and private banks owned by national shareholders. The Peruvian branches of multinational banks can only perform certain operations.

Another sector in which the whole production capacity has become the property of the public sector is the fish meal industry. If this had not been so, the acute crisis in which it was plunged for ecological reasons would have led to the disappearance of the majority of its enterprises. These were all taken over by a State enterprise, PESCAPERU, which was able to take action unhindered to conserve the fishing industry, rectify its excessive capitalization, and alleviate the unemployment resulting from the prolonged decline in production.

New laws on metal mining which prohibited the indefinite holding of concessions without proper investment caused an appreciable number of important concessions to revert to the State. The public enterprise MINEROPERU took charge of these and either in association with foreign enterprises or using its own resources or foreign loans, began the relevant feasibility studies and the work of exploration and development. In December 1973[87] the Government acquired the properties of the Cerro de Pasco Corporation, whose sales were approximately equal to 35 per cent of the total sales of the mining industry. Thus, the public sector now accounts for 50 per cent of total mining output, and this percentage will be maintained in the future through investment by MINEROPERU and by private concession-holders.

With the establishment of PETROPERU, the difficulty as regards the lack of domestic capital for oil exploration and refining activities has been overcome. Following the purchases which were completed in mid-February 1974 (including the purchase of the assets of the Cerro de Pasco Corporation), PETROPERU is operating all the country's refineries, possesses extensive oilfields on the north coast and is developing others in the Amazon region. The foreign private sector, however, continues to play an important role, since it is engaged in active development on the continental shelf and extensive exploration on the

[86] For example, the biggest cattle latifundio in the central sierra was established by a mining enterprise on land which it purchased from members of the community affected by smoke from its foundry.

[87] See Legislative Decree No. 20492 of 24 December 1973.

Amazon plains. The new exploration activities are governed by contracts,[88] in which it is stipulated that 50 per cent of the crude oil produced shall be delivered to MINEROPERU, and that the concessions and oilfields being developed shall become the property of MINEROPERU within the time-limits established.

[88] See *Economic Survey of Latin America, 1971* (United Nations Publication, Sales No. 73.II.G.I), page 218.

DOMINICAN REPUBLIC

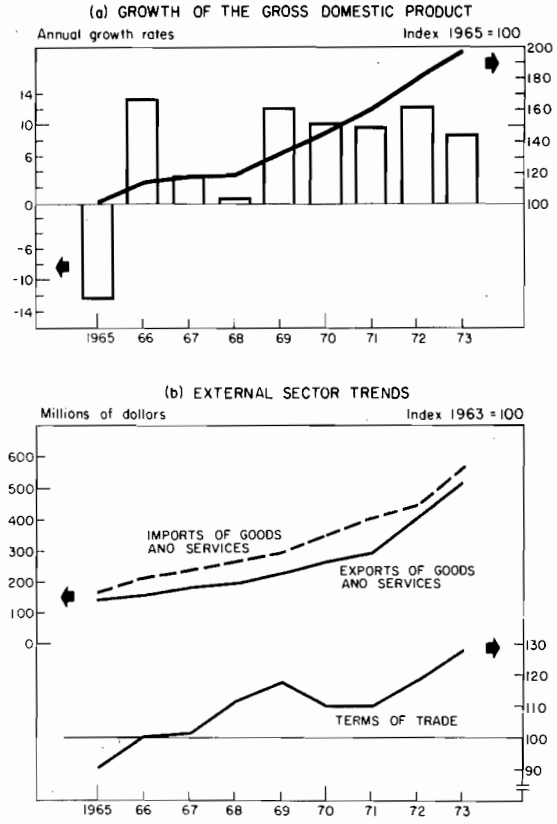
1. Recent economic trends

In 1973, although the growth rate of the products slowed in comparison with the two previous years, the marked economic growth trend which had been recorded since the late 1960s was maintained, and the gross domestic product increased by 8.9 per cent (see figure XLIII).

The factors which most influenced this expansion were the sustained activity of the public sector aimed at improving the social and economic infrastructure, and the efficiency of the agencies and sectors in charge of attracting and using domestic and external resources. Unlike the previous year, when the impulse came basically from the boom in exports in real terms, the 1973 expansion was based on a considerable increase in gross domestic investment even above the high levels achieved in 1972, and on the increase in consumption. The pressure of domestic demand on the available resources, however, together with the increases in the prices of imports, tended to aggravate the inflationary process. As in previous years, the expansion of the productive sectors reflected the greater dynamism of the goods-producing activities. Between 1970 and 1973 the goods-producing sectors expanded by 13.8 per cent annually, while the basic services sector grew by 9.3 per cent and other services by 7.8 cent.

Lastly, as in a number of other countries, the Dominican Republic reflected the unusual conditions in which international trade developed during 1973, since although the quantum of exports of goods and services remained at the same level as in 1972, their value increased by 27 per cent; imports for their part, increased in volume by 8.5 per cent and in value by 28 per cent. Disbursements for services and foreign factor payments also increased, following the increased foreign investment made in recent years. The current account of the balance of payments showed a final deficit of 72 million dollars–23 million more than in the previous year–and this contributed to the reduction in international reserves by around 17 million dollars.

Figure XLIII. Dominican Republic
Natural scale



2. Major sectors of activity

(a) *Total supply and demand*

During 1973, total supply in real terms grew by 8.8 per cent compared with the 10.7 per cent achieved in the previous year. The expansion of domestic production in the last two years has increased its relative share in total supply, and this is reflected in the lower import coefficient (see table 161).

In total demand, it was the domestic element which grew most, unlike the previous year when the impulse came from the 26 per cent increase in exports. In particular, there was a substantial increase of 14 per cent in gross domestic investment, which had already recorded high levels in

Table 161. Dominican Republic: total supply and demand

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*1,519.9*	*1,676.1*	*1,855.6*	*2,019.3*	*118.8*	*126.6*	*124.9*	*9.3*	*10.3*	*10.7*	*8.8*
Gross domestic product	1,200.3	1,319.1	1,484.0	1,616.1	100.0	100.0	100.0	7.8	9.9	12.5	8.9
Imports[b]	319.6	357.0	371.6	403.2	18.8	26.6	24.9	15.6	11.7	4.1	8.5
Total demand	*1,519.9*	*1,676.1*	*1,855.6*	*2,019.3*	*118.8*	*126.6*	*124.9*	*9.3*	*10.3*	*10.7*	*8.8*
Exports[b]	182.1	194.5	245.1	247.9	14.8	15.2	15.3	8.4	6.8	26.0	1.1
Gross domestic investment	269.4	310.8	349.4	398.3	10.9	22.4	24.6	24.0	15.4	12.4	14.0
Gross fixed investment	245.5	306.6	...	...	11.4	20.5	...	21.0	24.9	...	...
Construction	128.4	160.3	...	...	7.5	10.7	...	15.8	24.8	...	...
Machinery and equipment	117.1	146.3	...	...	3.9	9.8	...	29.0	24.9	...	...
Total consumption	1,068.4	1,170.8	1,261.1	1,373.1	93.1	89.0	85.0	6.9	9.6	7.7	8.9
General government	157.4	162.4	142.6	145.5	20.0	13.1	9.2	−0.9	3.2	−12.2	2.0
Private	911.0	1,008.4	1,118.5	1,227.6	73.1	75.9	75.8	8.6	10.7	10.9	9.8

SOURCES: 1965-1972: ECLA calculations based on data supplied by the Central Bank of the Dominican Republic; 1973: ECLA estimates based on preliminary data from the same source.

Note: The figures for imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

the period 1965-1972. Total consumption increased by 8.9 per cent, with private consumption expanding by 9.8 per cent.

(b) *Evolution of the main sectors of production*

During 1973 the gross domestic product grew by nearly 9 per cent, the main factors in this being the notable activity in the mining, construction and electricity generation divisions of the sectors producing basic goods and services. Although manufacturing grew by 7.5 per cent, its rate of growth was rather less than that achieved in previous years. Agricultural activity grew by a smaller amount (4.1 per cent) owing to unfavourable climatic conditions which especially affected crop farming, whose growth rate was only 2.7 per cent (see table 162). This was reflected in the smaller volume of exports of some agricultural commodities (except for coffee exports, which increased by 34 per cent), the decline ranging from −4 per cent for sugar and tobacco to −28 per cent for cocoa beans. The growth rates achieved in livestock farming (4.4 per cent) and especially in forestry and fishing (29.1 per cent) were more satisfactory, however.

Greater efficiency is to be expected from the agricultural sector in the future, if the current irrigation, community development, rural water supply and other projects which culminated in the formulation of the Integrated Agricultural Development Plan are implemented. Some of these projects are already under way, and many of them are receiving financial assistance from EXIMBANK, IDB, IBRD, etc.

The growth of the mining sector continued in 1973, when an increase of 44 per cent was achieved after the extraordinary figure of 234 per cent recorded the previous year as a result of the entry into operation of the installations for producing ferro-nickel. The intensification of the production of this metal was a decisive factor in the sector's expansion, since exports of it almost doubled in volume, while exports of bauxite increased by only 15.4 per cent.

The manufacturing sector has developed considerably since 1965, partly because of its ability to take advantage of favourable economic situations: in recent years its expansion has been stimulated by credit facilities, the expansion of domestic consumption, and export incentives. In 1973, the industrial product increased by 7.5 per cent, although this was less than the notably high rates recorded in previous years: 13.6 per cent annually in the period 1965-1970, 17 per cent in 1971 and 12.9 per cent in 1972.

The 9.1 per cent growth achieved by the sugar industry during the year was noteworthy, the figure for the rest of the sector being 7.1 per cent. The expectations created by the sustained expansion of manufacturing stimulated investment in this activity, and there are a number of concrete projects for the expansion of installed capacity, several of which have already secured financial backing from abroad. Thus, in 1973 EXIMBANK agreed to finance the importation of machinery for the 12 sugar factories of the State sugar corporation and the establishment in San Pedro de Macoris of a new cement works, while industrial parks are being set up in the industrial area of Herrera (for heavy industry) and in San Pedro de Macoris. In addition, preliminary studies have been made for the setting up in 1974 of a technological development institute aimed at improving the efficiency of industrial enterprises and promoting or designing more labour-intensive technologies.

The boom in the construction sector continued in 1973, and as a result of the dynamism of both the public and private sectors the product increased by 17 per cent after the high rate of 22.3 per cent already achieved the previous year. The main public construction works were those carried out for the Twelfth Central American and Caribbean Games, the remodelling of hotels in Santo Domingo, the setting up of tourist centres such as that in Samana, and the restoration of colonial buildings. Among the projects which have yet to be begun, the most important are the highway network extension programmes, providing for the construction of 2,000 km of highways and 300 km of secondary roads over the next two years, port construction (Puerto de Haina), and other projects connected with the development of the tourism infrastructure, such as the Puerto Plata and Boca Chica projects.

Private construction was stimulated by the tourist boom, the sharp increases in rents and the prospects for speculation in property in an inflationary situation. During 1973, two new hotels with a total of 175 rooms were opened in Santo Domingo, while work was in progress to add another 550 rooms to the hotel capacity of the capital.

The energy and transport sectors increased the high growth rates achieved in recent years to 16.3 per cent and 8.6 per cent respectively. It is expected that this upward trend will be maintained with the initiation in the near future of several projects which have already secured financing from abroad. These include the importation of new equipment for a thermoelectric power station with credits from EXIMBANK and the expansion of the water supply to the capital with financing by IDB.

Lastly, the 7 per cent growth of the tertiary sector—especially in commercial, financial and personal services—reflects the tourist boom and the expansion of demand.

Table 162. Dominican Republic: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	231.1	243.9	257.6	268.2	24.8	21.8	18.7	4.8	5.5	5.6	4.1
Mining	18.2	18.6	62.2	89.6	1.7	1.7	6.3	8.3	2.2	234.4	44.0
Manufacturing	159.7	186.8	210.9	226.7	11.5	15.1	15.8	13.6	17.0	12.9	7.5
Construction	58.8	73.5	89.9	105.2	3.6	5.6	7.3	17.0	25.0	22.3	17.0
Subtotal goods	*467.8*	*522.8*	*620.6*	*689.7*	*41.6*	*44.2*	*48.1*	*8.9*	*11.8*	*18.7*	*11.1*
Electricity, gas and water	16.5	18.6	20.9	24.3	1.2	1.6	1.7	13.7	12.7	12.4	16.3
Transport and communications	68.1	74.1	79.3	86.1	5.9	6.4	6.0	9.5	8.8	7.0	8.6
Subtotal basic services	*84.6*	*92.7*	*100.2*	*110.4*	*7.1*	*8.0*	*7.7*	*10.2*	*9.6*	*8.1*	*10.2*
Commerce and finance	180.7	203.2	227.9	250.5	15.1	17.1	17.5	10.2	12.5	12.2	9.9
Government	139.1	144.9	154.9	163.4	18.7	13.2	11.4	0.2	4.2	6.9	5.5
Ownership of dwellings	86.5	92.2	97.7	...	8.5	8.2	...	6.6	6.6	6.0	...
Miscellaneous services	98.8	104.0	111.3	...	9.0	9.3	...	8.4	5.3	7.0	...
Subtotal other services	*505.1*	*544.3*	*591.8*	*633.3*	*51.3*	*47.8*	*44.2*	*6.0*	*7.8*	*8.7*	*7.0*
Total	*1,041.1*	*1,144.1*	*1,287.6*	*1,402.2*	*100.0*	*100.0*	*100.0*	*7.8*	*9.9*	*12.5*	*8.9*

SOURCES: 1965-1972: ECLA calculations based on data supplied by the Central Bank of the Dominican Republic; 1973: ECLA estimates based on preliminary data from the same source.

Note: Because the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

3. THE EXTERNAL SECTOR

During 1973, owing to the extraordinary increase in prices, there was a substantial increase in the value of exports from the Dominican Republic, although the quantum exported remained virtually unchanged. According to provisional estimates, the value of exports in dollars at current prices increased by 27 per cent, following the extraordinary increase of 41 per cent achieved in 1972 (see table 163 and figure XLIII).

There were three main factors in the 1973 increase: the favourable international prices of the main traditional export products (sugar, coffee and cocoa); the activities of the Centro Dominicano de Promoción de Exportaciones (CEDOPEX), which assisted in the sale of increasing quantities of non-traditional products abroad; and the continuation of the tourist boom. Partial data on the current value of the country's exports during the first nine months of 1973, compared with the same period of the previous year, indicate an increase of 15 per cent for traditional products, 66.7 per cent for non-traditional products, and 97 per cent for re-exports. A comparison of the global results for both years indicates significant increases in earnings from the export of sugar and sugar products (17 per cent), coffee and coffee products (56 per cent), cocoa and cocoa products (32 per cent), and tobacco (5.1 per cent). Earnings from exports of certain non-traditional products such as beef (up 50 per cent) and particularly ferro-nickel (up 78 per cent) also increased substantially in the two years in question. These favourable performances more than offset the drop in earnings from other exports such as bauxite.

The value of imports, in dollars at current

Table 163. Dominican Republic: balance of payments
(Millions of dollars)

	1970	*1971*	*1972*	*1973*[a]	
Current account					
Exports of goods and services	261.6	292.2	410.8	519.8	
Goods FOB	213.5	243.0	347.6	440.0	
Services	48.1	49.2	63.2	79.8	
Transport	9.4	10.5	12.3	15.0	
Travel	21.7	21.4	32.9	43.4	
Imports of goods and services	351.5	406.9	442.2	564.5	
Goods FOB	266.8	311.1	337.7	434.3	
Services	84.7	95.8	104.5	130.2	
Transport	39.0	47.5	54.6	70.1	
Travel	36.7	36.5	37.5	45.7	
Net external investment income	−26.0	−28.8	−46.8	−59.9	
Profits	−18.4	−19.5	−34.1	−42.6	
Interest	−7.6	−9.3	−12.7	−17.3	
Net private transfer payments	8.7	16.3	29.0	32.6	
Balance on current account	−107.2	−127.2	−49.2	−72.0	
Capital account					
Net external financing ($a + b + c + d + e$)	107.2	127.2	49.2	72.0	
(a) Net external non-compensatory capital	93.2	118.2	109.1		
Direct investment	69.0	50.0	48.6		
Long- and medium-term loans	42.1	73.5	66.0		
Amortization payments	−20.5	−24.0	−28.2		54.8
Short-term liabilities	1.8	17.6	21.1		
Official transfer payments	0.8	1.1	1.6		
(b) Domestic non-compensatory capital or assets	19.6	20.2	−33.4		
(c) Errors and omissions	−14.5	−1.0	−11.3		
(d) Allocation of SDRs	5.4	4.6	5.0		
(e) Net compensatory financing (increase −)	3.5	−14.8	−20.2	17.2	
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	22.7	39.3	–	15.6	
Amortization payments	−23.5	−34.6	−17.5	−4.6	
Movements of foreign exchange reserves (increase −)	7.1	−19.5	4.8	19.1	
Movements of gold reserves (increase −)	−2.8	–	–	−12.9	
SDRs (increase −)	–	–	−7.5	–	

SOURCES: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

prices, increased by 28 per cent, which corresponds, in view of the increase in prices, to an increase of 8.5 per cent in real terms. The growing needs for goods and services were thus met by taking advantage of the relative liberalizaton of import policy.

As in the previous year, the trade in goods showed a small surplus of 6 million dollars, but if freight, insurance and travel are included, this surplus is turned into a deficit of around 45 million dollars. Income from tourism, in particular was almost entirely counterbalanced by the travel flows in the opposite direction, mainly towards the United States. When private transfer payments and net foreign factor payments which amounted to 60 million dollars are added, the result is a current account deficit of 72 million dollars (49 million in 1972).

It is estimated that the net inflow of non-compensatory capital amounted to around 55 million dollars, so that it was necessary to make use of 17 million dollars of international reserves to cover the current account deficit (see table 163). The number of loans granted during 1973 to the Dominican Republic by four agencies (AID, EXIMBANK, IBRD and IDB) was the highest in the country's history (nine official loans totalling slightly over 78 million dollars), but disbursements were less than in the previous year. Direct foreign investment also declined with the completion in 1972 of two of the biggest projects (the Falconbridge ferro-nickel facilities and the Shell refinery).

4. The public sector

According to preliminary estimates, fiscal revenue rose by 16 per cent, the increases in income tax and export duties in 1973 being 17 per cent and 54 per cent respectively compared with the previous year. The greater use of gross external and bank finance enabled the central government to increase both its current and its capital expenditure. As regards the former, the policy of austerity was maintained, generally speaking, for expenditure on personnel, but it was apparently relaxed for the social items, for according to the budget forecast personnel expenditure seems to have increased by only 10 per cent, i.e., at a slower rate than the increases in retail prices, while social expenditure appears to have increased by around 30 per cent, especially in the case of education (32 per cent) and health and social assistance (96 per cent). This would explain why there was a real increase of 2 per cent in Government consumption following the decline of 12.2 per cent the previous year.

5. The evolution of prices

The expansion of domestic demand was accompanied by the speeding up of the inflationary process. Thus, the consumer price index in the capital rose by 16 per cent in 1973, compared with 7.8 per cent the year before.

The biggest increases between 1972 and 1973 were in food-stuffs (18.4 per cent) and housing (16.4 per cent). Over the same period, the prices of consumer durables increased by 44 per cent while the prices of non-durable consumer goods increased by 16.2 per cent.

Among the factors of domestic origin which influenced the speeding up of the inflation process was the scarcity of some food products and cement, which led the Government to liberalize imports to some extent, to restrict the export of certain products such as meat, and to intensify the control of prices. In view of the open nature of the country's economy, external factors connected with the devaluation of the dollar and with price increases for imported goods and services also played their part in speeding up the inflationary process. Suffice it to point out, for example, that between September 1972 and September 1973, the increase in the prices of goods purchased from the United States, which supplies nearly half of all imports, was estimated at 12.5 per cent.

TRINIDAD AND TOBAGO

1. Recent economic trends

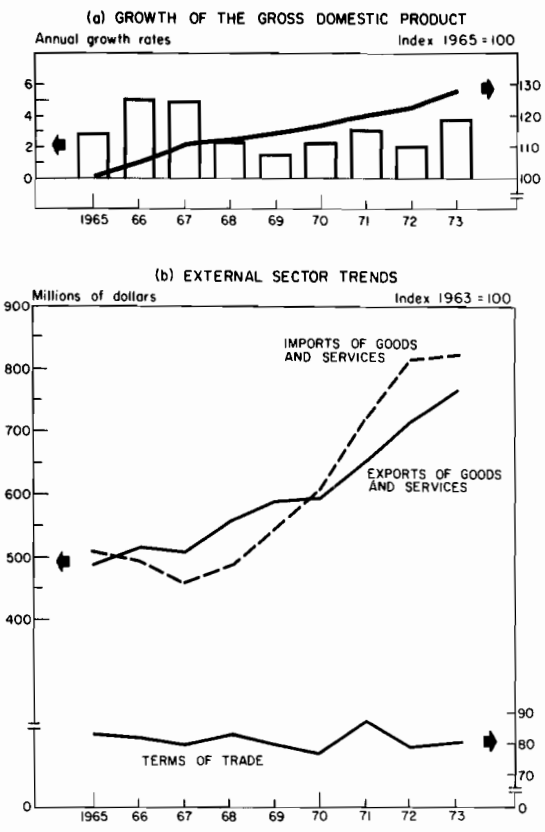
Developments in the Trinidad and Tobago economy during 1973 were profoundly influenced by the unsettled nature of the international economy. The uncertain world monetary situation, the inflationary tendencies and the sharply rising interest rates in the advanced countries, along with shortages of some basic commodities, have seriously undermined the over-all economic expansion noted in previous years.

The outstanding feature during 1973 was the performance of the petroleum sector, which increased its production significantly and benefited from the rising prices generated by the world energy crisis towards the end of the year. Production of crude petroleum increased by about 21 per cent, and this was wholly responsible for the growth in the over-all economy. In real terms, the country's gross domestic product increased by about 3.5 per cent during the year (see figure

XLIV). All the other production sectors, except construction, showed major decreases in real output. Apart from increasing prices and shortages of imported inputs, the manufacturing sector was adversely affected by a tightening of domestic liquidity. Agriculture also experienced severe drought conditions, with the result that there were periodic shortages in domestic food supplies and serious shortfalls in production of the major export crops.

At the same time, the country continued to be plagued by the traditional high levels of unemployment, the recent phenomena of rising prices, and falling foreign exchange reserves.

Figure XLIV. Trinidad and Tobago
Natural scale



2. Major sectors of activity

The slight upward trend noted in the agricultural sector during 1971 and 1972 was not sustained in 1973. In fact, the economic performance of the sector was extremely disappointing, mainly because of the high cost of some imported inputs and a protracted period of drought. The gross domestic product of the sector at current factor cost declined by 11.9 per cent, and indeed by considerably more in real terms (see table 164). Its share in the total gross product therefore fell to 5 per cent compared with 6.7 per cent in the previous year.

Available data indicate a substantial drop in production in both the export and domestic subsectors. Of the main export crops, production of sugar-cane fell by 22 per cent because of the

Table 164. Trinidad and Tobago: gross domestic product at factor cost, by sector of economic activity

	Millions of TT dollars at current prices				*Annual growth rate (percentages)*		
	1970[a]	*1971*[a]	*1972*[a]	*1973*[a]	*1971*	*1972*	*1973*
Agriculture, forestry and fishing[b]	128.5	130.0	134.5	118.5	1.2	3.4	−11.9
Extraction and refining of petroleum	350.6	349.0	386.0	530.0	−0.5	10.6	37.3
Manufacturing	313.8	333.0	369.0	419.0	6.1	10.8	13.6
Construction	73.5	89.0	106.0	124.5	21.1	19.1	17.5
Commerce and transport	304.8	321.0	347.0	408.0	5.3	8.1	17.6
Public utilities	87.2	93.5	102.5	115.0	7.2	9.6	12.2
Government	188.2	218.0	251.8	294.0	15.8	15.5	16.8
Ownership of dwellings	60.5	64.5	72.0		6.6	11.6	
Banking and finance	56.2	67.0	82.0	349.0	19.2	22.4	22.9
Other services	98.5	111.5	130.0		13.2	16.6	
Total	*1,661.8*	*1,776.5*	*1,980.8*	*2,358.0*	*6.9*	*11.5*	*19.0*

SOURCES: Draft Third Five-Year Plan 1969-1973 of the Government of Trinidad and Tobago, and ECLA estimates.

[a] Provisional ECLA estimates.

[b] Including quarrying.

drought and widespread damage by cane fires, cocoa beans by 36 per cent and coffee by 15 per cent, while the production of citrus fruit during the year was the lowest on record (see table 165). The fundamental difficulties faced by export agriculture in recent years seem to have been accentuated by labour problems and poor managerial practices during 1973.

Domestic agriculture was severely affected by the drought, and the high cost of imported inputs, particularly animal feeds, adversely affected progress in diversification during 1973. Beef, poultry and vegetable production increased marginally, and pork output showed a substantial increase of 43 per cent, but output of milk and eggs fell sharply. Moreover, the high cost of imported inputs meant that the over-all gross domestic product of the sub-sector was lower than the general level of production would indicate.

The resurgence of the mining and refining sector that was noted during 1972 continued with renewed momentum during 1973, principally because of increased activity in the extraction of petroleum. The gross domestic product of the sector increased 37 per cent at current prices, and its share in the total economy is therefore estimated at about 22.5 per cent compared with 19.5 per cent in 1972.

Production of crude petroleum increased by almost 21 per cent during the year to about 61.7 million barrels, primarily because the extensive exploration carried out in marine areas during the past five-year period has begun to yield benefits. The solution of some of the technical difficulties associated with east coast drilling meant that production from this source increased substantially, but production on land and in other marine areas declined.

On the other hand, refining throughput—of which imported crude has traditionally comprised a high proportion—fell by 2 per cent in 1973. This trend has been apparent since 1970, and was accentuated by the world shortages of crude petroleum during the last quarter of 1973.

The manufacturing sector, which is highly dependent on imported raw materials, intermediate inputs and components, was vulnerable to international shortages and rising prices during 1973. On the domestic scene, low liquidity in the banking sector not only limited the availability of credit but also resulted in high interest rates. These factors restricted real growth in the sector, despite the efforts made in previous years to diversify and improve manufacturing processes, and while the value added in the sector increased by about 14 per cent in current prices, it declined in real terms, in view of the scale of the increase in domestic prices.

Most seriously affected were the assembly and durable consumer goods industries which have a high import content. Data for the period January to October 1973 show that production of motor vehicles and durable household goods fell sharply, while sales of all locally assembled durable goods

Table 165. Trinidad and Tobago: production of selected agricultural commodities

	Unit	*1970*	*1971*	*1972*	*1973*[a]
Sugar-cane	Thousands of tons	2,568.9	2,312.1	2,535.4	1,974.5
Cocoa beans	Thousands of pounds	13,607.0[b]	8,483.0[b]	11,052.0	7,071.0
Coffee beans	Thousands of pounds	5,935.0	9,351.0	6,913.0	5,858.0[c]
Citrus fruit (whole fruit)					
Oranges	Thousands of pounds	26,062.0	16,324.0	24,954.7	1,554.1
Grapefruit	Thousands of pounds	40,131.0	27,112.0	40,607.0	9,768.2
Citrus fruit (juices)	Thousands of gallons	2,062.4	1,664.7	2,342.1	313.3
Meat					
Beef and veal	Thousands of pounds	3,343.0	3,503.7	3,245.5	3,437.3
Pork	Thousands of pounds	4,614.3	3,604.1	3,704.5	5,295.1
Mutton	Thousands of pounds	81.1	50.0	98.8	106.1
Poultry	Thousands of pounds	32,358.6	39,720.1	42,843.9	44,200.9
Eggs[d]	Thousands of dozens	4,505.7	4,902.7	4,353.8	2,677.4[c]
Fish[e]	Thousands of pounds	8,760.0	9,658.0	8,767.0	8,524.0
Milk[f]	Thousands of gallons	1,596.5[b]	1,838.8[b]	2,266.3	1,586.3
Tobacco	Thousands of pounds	540.0	474.0	553.0	731.0
Copra	Tons	11,015.0	12,253.0	12,346.0	11,616.0

SOURCES: Central Statistical Office, *Quarterly Economic Report;* Central Bank of Trinidad and Tobago, *Statistical Digest;* Co-operative Citrus Growers' Association of Trinidad and Tobago Limited.

[a] Provisional figures.

[b] Revised figures.

[c] Data are for January-September.

[d] Data shown represent commercial production.

[e] Fish delivered to principal markets.

[f] Principal producers only.

declined very markedly. There was a continued decline in the output of textiles, knitwear and garments, mainly because of high import prices, international shortages, inefficient managerial practices and industrial unrest. Most disappointing, however, was the production of petrochemicals, including fertilizers, which fell by over 30 per cent.

The reduced level of activity of the construction sector had its feedback on the building materials sub-sector. Production of bricks and blocks and cement fell by about 4 per cent and 7 per cent respectively, to which labour unrest in the cement plant also contributed.

Available data on the production of other significant manufactured items such as alcoholic beverages, tobacco products, soap, margarine and lard show increases, but edible oil production fell substantially.

The need for broadening the base of the manufacturing sector is increasingly recognized, not only in order to enable the sector to withstand adverse external influences but also to establish backward and forward linkages and create employment opportunities. To this end, government policies aim to encourage indigenous industry with loans and incentives, and the State participates directly in major resource-based enterprises. In this latter connexion, the public sector is participating jointly with private enterprise in the establishment of a new fertilizer plant.

The high level of economic activity observed in the construction sector since 1968 was not sustained during 1973, when there were noticeable signs that the sector was tapering off. This may be attributable to a shortage of building materials, particularly cement, and to the rising cost of some imported inputs and of local credit. Even so, this sector remained one of the growth points during the year with an increase of over 17 per cent at current prices.

It is worth noting that the construction of dwellings has been the main area of activity in this sector, with both the number of building plans approved and the area of floor space actually constructed showing significant increases. The public sector's contribution to construction activities continued at a high level during 1973, principally because of the efforts of the National Housing Authority to alleviate the housing shortage, with priority being given to the needs of the low income groups.

In the other sectors, the government sub-sector and tourism appear to have achieved some measure of real growth during the year. Available data for tourism in 1973 indicate that this sector, although small in terms of the over-all economy, recovered from the serious setbacks in previous years, while the product contributed by the government grew by about 1.5 per cent in real terms.

Until the mid-1960s, the public sector was principally concerned with services, but its increasing participation in various productive enterprises placed it in a more favourable position to set the pace of over-all economic activity. Two important developments during 1973 were the acquisition of estates for agricultural and housing development and the establishment of a lime processing company which is essential to the continued existence of the entire lime industry.

Among the remaining sectors, the commerce and transport sectors showed a significant improvement in 1973, with an estimated real increase in their gross domestic product of just over 2 per cent. Banking and finance activities and other services, however, showed little or no real increase during the year. These sectors appear to have suffered severely from high interest rates and spiralling inflation in the industrialized countries, the instability of the international monetary situation, and the domestic credit squeeze.

3. The external sector

Preliminary estimates indicate that for the first time in the present decade, the value of exports increased at a faster rate than imports, with the latter showing a decrease in absolute terms. Total exports are estimated to have increased from 580 million U.S. dollars in 1972 to 617 million in 1973 (6.4 per cent), while total imports fell from 660 million U.S. dollars to 655 million, a decrease of almost 1 per cent. The total deficit on visible trade during 1973 is therefore expected to be about 38 million U.S. dollars, which is considerably lower than the deficit of 80 million recorded in 1972 (see table 166 and figure XLIV).

These developments are attributed to international shortages of certain major commodities and rising prices of imports which not only curtailed the volume of imports but shifted consumption to domestically produced goods. A major consideration, however, is the impact of the energy crisis, which significantly reduced the imports of crude petroleum towards the end of the year. In this context it may be noted that the value of petroleum accounts for about 48-50 per cent of total imports and 50-52 per cent of total exports, so that any factor affecting this trade has a major influence on total trade.

Available data for the period January-September 1973 show that there were significant changes in the composition of imports. Major decreases were noted in imports of machinery and transport equipment (-19 per cent), miscellaneous manufactured goods (-14 per cent), and animal

Table 166. Trinidad and Tobago: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	591.3	652.7	714.8	762.4
Goods FOB	502.0	529.7	580.0	617.0
Services	89.3	123.0	134.8	145.4
Transport	57.7	79.1	84.7	86.9
Travel	21.6	32.9	37.6	44.0
Imports of goods and services	606.9	726.6	815.9	821.8
Goods FOB	486.9	589.0	660.1	654.6
Services	120.0	137.6	155.8	167.2
Transport	74.0	88.8	101.6	105.0
Travel	22.9	24.3	27.1	31.4
Net external investment income	−75.5	−61.1	−67.5	−74.0
Profits	−76.7	−62.5	−67.0	−71.2
Interest	1.2	1.4	−0.5	−2.8
Net private transfer payments	2.3	2.1	2.2	2.4
Balance on current account	−88.8	−132.9	−166.4	−131.0
Capital account				
Net external financing ($a + b + c + d + e$)	88.8	132.9	166.4	131.0
(a) Net external non-compensatory capital	60.2	90.5	114.1	
Direct investment	75.0	80.1	86.1	
Long- and medium-term loans	3.8	19.6	28.2	
Amortization payments	−9.8	−5.6	−5.0	115.0
Short-term liabilities	−4.6	2.8	10.4	
Official transfer payments	−4.2	−6.4	−5.6	
(b) Domestic non-compensatory capital or assets	−2.3	5.1	9.8	
(c) Errors and omissions	12.2	52.4	24.1	
(d) Allocation of SDRs	7.4	6.7	7.2	–
(e) Net compensatory financing (increase −)	11.3	−21.8	11.2	16.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	–	–	–
Amortization payments	–	–	–	–
Movements of foreign exchange reserves (increase −)	15.6	−15.1	11.2	8.0
Movements of gold reserves (increase −)	−3.8	–	–	8.0
SDRs (increase −)	−0.5	−6.7	–	–

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

and vegetable oils and fats (−10 per cent). On the other hand, imports of food increased by almost 15 per cent, beverages and tobacco by 21 per cent, and chemicals by 33 per cent. There is no firm evidence to indicate that the major changes noted above are likely to become a permanent feature of import trade, however.

The pattern of exports does not reveal major changes. Appreciable increases were registered by beverages and tobacco (147 per cent), mineral fuels (almost 13 per cent) manufactured goods (13 per cent) and machinery and transport equipment (almost 41 per cent). However, food exports fell by 6 per cent, mainly due to the poor export performance of sugar and citrus fruit, and chemicals fell by just over 2 per cent.

According to the movement of imports and exports, the current account of the balance of payments is estimated to have recorded a deficit for 1973 of 131 million U.S. dollars.

4. Economic and social policies and problems

The year 1973 was too unsettled to permit the implementation of any preconceived set of socio-economic policies. In fact, considerable emphasis was placed on reacting effectively and efficiently in order to bring under control a series of externally induced crises. The early part of the year was dominated by extensive research and negotiations to ensure the preservation of the markets for major commodities after the United Kingdom's

entry into the enlarged EEC. In addition, rising prices and commodity shortages, including shortages of basic inputs for key industries, necessitated emergency measures to alleviate their adverse impact. On the domestic scene, there was some labour unrest which aggravated the problems induced by the uncertainty in the international economy. And always in the background was the unstable world monetary situation, which probably influenced the monetary authorities to continue floating the Trinidad and Tobago dollar with the pound sterling.

The international crisis has brought into sharp focus the need for further strengthening inward-directed growth not only in order to lessen the impact of external shocks but also to facilitate some measure of self-sustaining growth. World shortage of some major commodities will necessitate new approaches to agricultural and industrial development. Sharply rising prices (the annual average rate of increase of the Index of Retail Prices was 9.3 per cent in 1972 and 14.8 per cent in 1973) make it essential to adopt effective measures to control inflation, and increased production costs will require the reorientation of production structures and a search for new markets. Meanwhile the perennial problem, unemployment, has so far remained intractable.

There is, however, one major bright prospect, and that is the petroleum sector. The world energy crisis has increased petroleum prices threefold, and as long as these higher prices prevail there will be substantial revenue deriving from this industry. This would make available considerable financial resources for restructuring and developing the economy.

URUGUAY

1. Recent economic trends

After declining for two years—1 per cent in 1971 and 1.3 per cent in 1972—the gross domestic product grew by approximately 1 per cent in 1973. This performance of the total product was due to a moderate increase in the agricultural sector although there was a slight fall in the manufacturing and building industries (see table 167). The volume of imports, however, increased by 12.3 per cent. On the total demand side there were drops in terms of current prices in exports and investment, whereas consumption increased moderately (see table 168).

Foreign trade showed similar growth patterns to those experienced by the other countries of the region. Although there was a drop of 6 per cent in the volume of exports of goods, their value increased by 32 per cent; imports of goods increased both in volume (16 per cent) and in value (39 per cent) (see figure XLV). One of the most alarming signs in the present situation is the further reduction in investment (4.6 per cent), following the drop of 18 per cent which occurred in 1972.

The pace of inflation slackened, although the rate continued to be high, for the consumer price index rose by 77.5 per cent between December 1972 and December 1973, compared with an increase of 94.7 per cent in the previous period. In turn, real wages increased between the months of December of each year by 8.1 per cent, but fell if annual averages are used by 1.7 per cent.

Taking another approach, it would seem that the stagnation being experienced by the Uruguayan economy, and the resulting shortage of urban employment opportunities have—to a degree which is yet to be determined—speeded up the outflow of emigrants to neighbouring countries.

2. Major sectors of activity

The agricultural sector grew by 3.1 per cent as a result of an increase of 7 per cent in crop farming and 1 per cent in stock-raising. Underlying the recovery of the crop farming sector were the

Figure XLV. Uruguay
Natural scale

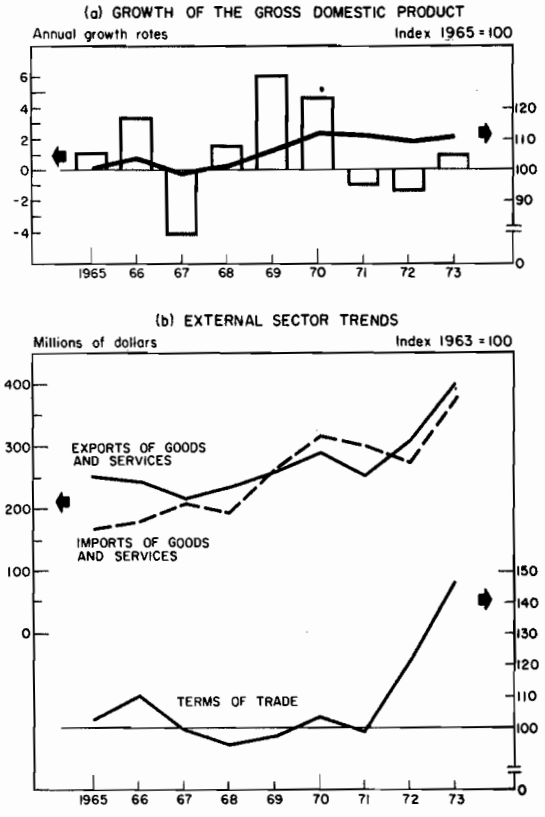


Table 167. Uruguay: gross domestic product at factor cost, by sector of economic activity

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	3,259	3,220	3,110	3,206	21.5	22.1	22.1	2.8	-1.2	-3.4	3.1
Mining Manufacturing	3,099	3,042	3,032	3,020	20.8	21.0	20.8	2.4	-1.8	-0.3	-0.4
Construction	533	564	595	583	3.3	3.6	4.0	–	5.8	5.5	-2.0
Subtotal goods	*6,891*	*6,826*	*6,737*	*6,809*	*45.6*	*46.7*	*46.9*	*2.7*	*-0.9*	*-1.3*	*1.1*
Electricity, gas and water	296	311	324	341	1.8	2.0	2.3	5.0	5.1	4.2	5.1
Transport and communications	978	1,007	944	950	7.4	6.6	6.5	0.1	3.0	-6.7	0.6
Subtotal basic services	*1,274*	*1,318*	*1,268*	*1,291*	*9.2*	*8.6*	*8.9*	*1.1*	*3.5*	*-3.8*	*1.8*
Commerce and finance	2,851	2,734	2,612	2,644	20.6	19.3	18.2	0.9	-4.1	-4.5	1.2
Government	1,384	1,354	1,354		8.5	9.4		4.3	-2.2	–	
Ownership of dwellings	918	932	946	3,781	6.3	6.2	26.0	1.9	1.5	1.5	0.7
Miscellaneous services	1,452	1,438	1,455		9.8	9.8		2.3	-1.0	1.1	
Subtotal other services	*6,605*	*6,458*	*6,367*	*6,425*	*45.2*	*44.7*	*44.2*	*2.0*	*-2.2*	*-1.4*	*0.9*
Total	*14,656*	*14,513*	*14,319*	*14,462*	*100.0*	*100.0*	*100.0*	*2.3*	*-1.0*	*-1.3*	*1.0*

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Uruguay; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

Table 168. Uruguay: total supply and demand

	Millions of pesos at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*19,130*	*18,593*	*18,011*	*18,477*	*112.8*	*120.8*	*118.2*	*3.7*	*-2.8*	*-3.1*	*2.6*
Gross domestic product	15,840	15,686	15,477	15,632	100.0	100.0	100.0	2.3	-1.0	-1.3	1.0
Imports[b]	3,290	2,907	2,534	2,845	12.8	20.8	18.2	12.6	-11.6	-12.8	12.3
Total demand	*19,130*	*18,593*	*18,011*	*18,477*	*112.8*	*120.8*	*118.2*	*3.7*	*-2.8*	*-3.1*	*2.6*
Exports[b]	2,846	2,390	2,450[c]	2,259	21.7	18.0	14.5	-1.5	-16.0	2.5[c]	-7.8
Gross domestic investment	2,385	2,568	2,260	...	11.9	15.1	...	7.2	7.7	-12.0	...
Gross fixed investment	2,256	2,315	1,900	1,812	11.3	14.2	11.6	7.1	2.6	-17.9	-4.6
Construction	1,124	1,353	1,428	...	6.6	7.1	...	3.7	20.4	5.5	...
Machinery and equipment	1,132	962	472	...	4.7	7.1	...	11.2	-15.0	-50.9	...
Total consumption	13,899	13,635	13,301	...	79.2	87.7	...	4.4	-1.9	-2.4	...
General government	1,905	1,776	1,669	1,726	10.2	12.0	11.0	5.7	-6.8	-6.0	3.4
Private	11,994	11,859	11,632	...	69.0	75.7	...	4.2	-1.1	-1.9	...

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Uruguay; 1973: ECLA estimates based on data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

[c] Excluding an exceptional sale of non-monetary gold.

Table 169. Uruguay: area sown, production and yield of main agricultural crops

	1967/1968	*1968/1969*	*1969/1970*[a]	*1970/1971*	*1971/1972*	*1972/1973*	*Percentage variation between 1972/1973 and 1971/1972*
Wheat							
Area sown	222.1	535.2	450.5	336.7	339.6	185.0	−45.5
Production	143.8	469.8	446.9	388.3	301.6	186.5	−38.2
Yield	647.0	878.0	992.0	1,153.0	888.0	1,008.0	13.5
Oats							
Area sown	54.1	89.2	74.8	83.0	69.1	65.1	−5.8
Production	32.9	73.2	59.7	78.0	60.0	58.5	−2.5
Yield	609.0	820.0	799.0	941.0	869.0	899.0	3.5
Linseed							
Area sown	51.2	81.7	144.3	91.6	73.6	47.9	−34.9
Production	26.8	56.5	89.6	41.9	42.5	29.5	−30.6
Yield	524.0	691.0	620.0	458.0	577.0	616.0	6.8
Maize							
Area sown	161.7	175.8	227.0	180.2	181.0	225.8	24.8
Production	69.2	128.8	189.4	156.0	141.2	228.6	61.9
Yield	428.0	733.0	834.0	921.0	780.0	1,012.0	29.7
Rice							
Area sown	30.7	34.3	35.7	31.4	31.3	34.5	10.9
Production	104.5	134.5	138.6	122.2	128.0	136.9	7.0
Yield	3,397.0	3,917.0	3,884.0	3,889.0	4,110.0	3,964.0	−3.6
Sunflower seed							
Area sown	109.0	90.7	123.7	71.5	103.0	108.6	5.4
Production	48.6	62.5	52.4	48.9	59.8	71.1	18.9
Yield	446.0	639.0	424.0	682.0	581.0	654.0	12.6
Sorghum[b]							
Area sown	38.1	40.7	43.8	54.0	62.3	134.3	115.6
Production	29.6	50.6	35.0	72.2	56.9	225.0	295.4
Yield	776.0	1,245.0	800.0	1,336.0	913.0	1,675.0	83.5

SOURCE: Dirección de Economía Agraria.

[a]Census date.

[b]The area sown comprises the total area reserved for pasture—the area used for growing grain, and fodder crops, as well as grazing land is included.

Table 170. Uruguay: manufacturing production index
(1961 = 100)

Industry	*1970*	*1971*	*1972*	*1973*	*Rate of growth 1973*
Food	136.8	121.5	120.5	122.3	1.5
Beverages	153.3	155.4	144.7	133.7	−7.6
Tobacco	132.7	151.3	148.9	147.3	−1.1
Textiles	91.9	84.4	96.1	87.3	−9.2
Clothing	114.3	107.9	95.7	88.6	−7.4
Paper	172.2	198.5	189.0	215.8	14.2
Printing and publishing	113.7	106.4	106.5	122.3	14.8
Rubber	76.8	69.8	78.6	85.5	8.8
Chemicals	122.6	134.9	124.8	138.5	11.0
Petroleum products	114.7	116.9	118.5	113.0	−4.6
Construction materials	150.2	158.9	159.5	174.2	9.2
Metal products	72.5	74.4	71.6	69.0	−3.6
Electricity machinery	58.6	63.0	57.1	51.6	−9.6
Total	*118.3*	*115.8*	*114.4*	*113.9*	−0.4

SOURCE: Central Bank of Uruguay.

excellent maize, sorghum and potato harvests which more than made up for the shortfalls in the winter crops, particularly wheat and linseed (see table 169). In the stock-raising sector there was an increase of 5.8 per cent in refrigerated meat; there was also a slight increase in the production of wool, prices being one-third higher than those of the previous wool clip. On the other hand, the production of milk fell by approximately 8 per cent.

Manufacturing output declined by less than 1 per cent, a result which seems to be linked with a contraction in demand. The increases in the production of paper, printing and publishing, rubber, chemicals and construction materials failed to offset the substantial reductions in output of beverages, textiles, clothing and electrical machinery (see table 170).

The level of activity in the construction sector fell by approximately 2 per cent. Sales of cement dropped by about 6 per cent, with a reduction of 2 per cent in private contracts and 25 per cent in public contracts.

Electricity, gas and water showed an improvement of 5 per cent owing mainly to the expansion of electrical services.

In the transport and storage sector, rail transport recorded the largest increase. Activity in the commercial sector increased by little more than 1 per cent, and this was due mainly to the rise in imports of some items.

3. The external sector

The value of exports of goods and services was 400 million dollars, exceeding the total for the previous year by 29 per cent; of this total, almost 320 million represented goods (31.9 per cent more than in 1972). The sole reason for these increases was higher prices, for at constant prices the total value of exports fell by 8 per cent and that of goods by 6 per cent. Non-traditional exports showed the biggest increase, doubling in value although this sector continued to account for less than 10 per cent of the total. Among traditional exports, wool, second in importance, increased by 81 per cent in value, but the volume fell by 10 per cent, mainly because of a decline in exports of greasy wool. The value of exported meat increased by 23 per cent, also because of higher prices, for the volume increased by only 6 per cent owing to the sharp cutback in supplies by some stock farmers (see table 171).

Imports of goods and services amounted to 377 million dollars, an increase of 35 per cent over 1972, although at constant prices the increase was 12 per cent. The highest increase was recorded in raw materials (65 per cent), which thus accounted for 53 per cent of total imports, followed by fuel (18 per cent), machinery and equipment (15 per cent) and other items (14 per cent).

The trend in external trade resulted in a positive balance of 24 million dollars, but when set against the performance of the other items in the

Table 171. Uruguay: composition and growth of trade
(Percentages)

	1972	*1973*	*Variation 1973*
Exports	*100.0*	*100.0*	*31.9*
Wool and wool products	28.1	34.1	81.1
Greasy wool	13.0	11.4	31.4
Washed wool	2.4	6.4	300.1
Wool tops	10.1	12.7	87.1
Other products of the spinning and weaving industry	2.6	3.6	103.0
Meat and meat products	48.1	39.7	23.2
Beef	45.7	37.3	21.7
Mutton	0.5	0.3	19.0
Other exports	1.9	2.1	59.6
Hides and bristles	10.7	7.9	9.9
Natural and processed agricultural products	5.8	9.9	156.0
Other exports	7.3	8.3	69.2
Imports	*100.0*	*100.0*	*39.4*
Raw materials and construction materials	45.1	53.2	64.6
Fuels and lubricants	20.3	17.8	21.7
Motor vehicles, sets of motor-vehicle parts and machinery	17.9	14.6	13.8
Other imports	16.7	14.4	20.4

SOURCE: Central Bank of Uruguay.

Table 172. Uruguay: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	290.0	252.7	310.9	400.6
Goods FOB	224.1	196.8	242.0	319.1
Services	65.9	55.9	68.9	81.5
Transport	8.0	5.1	8.8	12.1
Travel	42.6	39.9	44.9	51.9
Imports of goods and services	319.6	302.9	279.6	376.7
Goods FOB	203.1	203.0	178.7	249.1
Services	116.5	99.9	100.9	127.6
Transport	50.2	46.6	41.8	58.3
Travel	45.0	34.8	40.4	47.0
Net external investment income	−24.8	−21.6	−23.6	−28.3
Profits	−1.7	–	–	–
Interest	−23.1	−21.6	−23.6	−28.3
Net private transfer payments	−0.9	−0.6	−0.2	−0.1
Balance on current account	−55.3	−72.4	7.5	−4.5
Capital account				
Net external financing (*a* + *b* + *c* + *d* + *e*)	55.3	72.4	−7.5	4.5
(*a*) Net external non-compensatory capital	23.7	82.5	69.3	
Direct investment	–	–	–	
Long- and medium-term loans	26.0	55.4	71.9	
Amortization payments	−17.1	−18.5	−26.4	59.9
Short-term liabilities	4.6	36.7	12.3	
Official transfer payments	10.2	8.9	11.5	
(*b*) Domestic non-compensatory capital or assets	17.9	−0.2	1.6	
(*c*) Errors and omissions	−27.5	−50.9	−61.1	
(*d*) Allocation of SDRs	9.2	7.4	8.0	–
(*e*) Net compensatory financing (increase −)	32.0	33.6	−25.3	−55.4
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	62.0	40.7	68.6	19.8
Amortization payments	−42.9	−14.7	−13.8	−118.1
Movements of foreign exchange reserves (increase −)	13.1	−6.1	−97.6	47.2
Movements of gold reserves (increase −)	−0.1	13.6	25.9	−0.2
SDRs (increase −)	−0.1	0.1	−8.4	−4.1

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a]Estimates based on official statistics.

current account, which did not show any significant change compared with the previous year, there was a slight imbalance of 4.5 million dollars in the current account of the balance of payments. Further, during the year there was a net inflow of non-compensatory capital of approximately 60 million dollars which helped to improve the net position of the monetary authorities by 55 million dollars (see table 172).

4. PUBLIC FINANCE

During 1973 the deficit of the central government with respect to cash expenditure was 5 per cent, compared with 15 per cent in 1972 and 29 per cent in 1971. If the two major income and expenditure groupings are considered–the Operational and Subsidy Fund and the National Investment Fund–it will be seen that in both 1971 and 1972 the former accounted for almost 90 per cent of the deficit, whereas in 1973 it accounted for less than half.

The ratio of central government income to the gross domestic product would probably be about 15 per cent (the highest of the last decade), whereas the ratio of cash expenditure remained at a level similar to that of the previous year (16 per cent of the product).

Central government income increased by 121 per cent, which–given the increase of 77.5 per cent in consumer prices–implies a significant improvement in real terms. The breakdown of income shows that increases of more than 140 per cent were registered in income, excise and trade taxes, whereas income from other taxes only

increased by 50 per cent. The cash deficit was financed by central bank credits and the sale of Treasury bonds.

5. Money and credit

During 1973, the means of payment increased by 142,200 million pesos (75 per cent), the last quarter of the year showing the highest rate of increase. Bank-notes and coin in particular increased by 64 per cent and demand deposits by 94 per cent. The index of liquidity, the base of which is December 1970 = 100, fell from 92 in December 1972 to 84 in May and June 1973, then to 71 in September and rose again to 91 in December. The decrease in liquidity during the third quarter was offset in part by the speed of circulation of money. The lack of liquidity may be ascribed to factors connected with the demand for money, rather than to changes in its supply.

According to provisional estimates, international reserves of the banking system increased by 58,200 million pesos during the year, which if compared with the target of 22,500 million, meant a surplus in the expansion of the means of payment of 159 per cent as a result of external sector inflows.

With respect to trends in bank lending to the public sector, the Central Bank provided 31,900 million pesos and the private banking sector 3,400 million, whereas the Banco de la República received 24,600 million from the central government and 3,200 million from the rest of the public sector.

Lending to the private sector increased by 160,000 million pesos; credit provided in national currency increased still more, but there was a drop of 3,900 million pesos in loans granted in foreign currency. The remaining financial institutions—Banco Hipotecario and Caja Nacional de Ahorro Postal—increased their deposits by 5,500 million pesos.

6. Prices and wages

Between December 1972 and December 1973 domestic consumer prices increased by 77.5 per cent and wholesale prices by 92.8 per cent; if annual averages are taken, these increases were 97 and 115·4 per cent respectively. Among the factors which exercised upward pressure on prices were higher prices for imported raw materials and the principal agricultural export products (particularly meat, wool and rice); increases in the rates of public enterprises, particularly the Administración Nacional de Combustibles, Alcohol y Portland and of Usinas y Teléfonos del Estado; the introduction of a sales and services tax in place of the value added tax, with a basic rate of 14 per cent and a special rate of 5 per cent for certain essential goods; the legal increases in prices to stimulate the production of some agricultural products; the successive devaluations, which during the year raised the exchange rate from 732 to 937 pesos to the dollar; and the increases in wages granted at the beginning of January and July.

Table 173. Uruguay: increases in the consumer price index
(Percentages)

	1972	*1973*
General index	*94.7*	*77.5*
Foodstuffs	108.3	77.2
Clothing	86.1	70.1
Housing	47.8	92.2
Miscellaneous	84.8	91.2

SOURCE: Central Bank of Uruguay.

Table 173 shows consumer price trends in 1972 and 1973 for groups of goods. It will be seen that during the past year the foodstuffs group registered an increase which was lower than that of the general index mainly due to the fall in the prices of fruit and vegetables in the closing months of the year which offset the price increases in other articles, particularly beef. The high housing index reflects the sharp increases in the rates charged by Usinas y Teléfonos del Estado, to a greater extent than the increase in rents, which was moderate. In the "miscellaneous" group the increase was higher than the average because of the rise in fuel and urban transport costs and health insurance charges.

Among wholesale prices, the highest increases were recorded in manufactured products, which went up by 95 per cent, while agricultural products rose by 88.6 per cent (104 per cent for crops and 81 per cent for livestock). The price increases of greatest significance, because of their importance in the general index, are the following: (a) cattle prices rose by 75 per cent because domestic prices were adjusted in line with international prices; (b) greasy wool increased by 50 per cent, also because of the influence of international prices; (c) as a result of the official incentives policy, there were increases in the prices of wheat (200 per cent) rice (160 per cent) and linseed (200 per cent); and (d) fuel prices doubled in January and increased again by 16 per cent in July. Nominal wages and salaries were increased during the year by 98 per cent in the public sector and 87 per cent in the private sector. As a result, between December 1972 and December 1973 real wages and salaries increased by 11 per cent in the public sector and 5 per cent in the private sector, but if annual averages are taken, there was a decrease in both sectors of 1 and 2 per cent respectively.

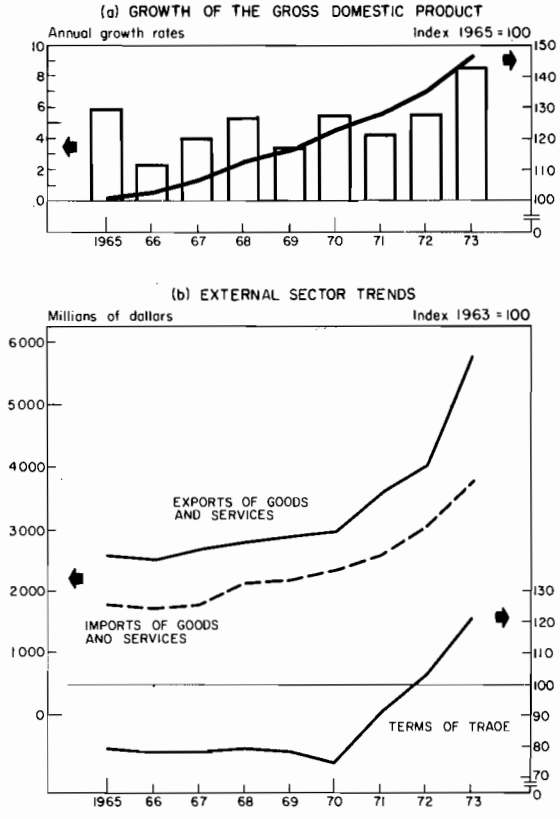
VENEZUELA

1. Recent economic trends

During 1973, the Venezuelan economy underwent a phase of vigorous expansion which was reflected in the main economic and social variables (international trade, production, investment, finance and employment). This reversed the trend recorded in the second half of the 1960s and the first two years of the present decade when the economy lost some of its momentum (see table 174 and figure XLVI).

The external sector, with the increase in demand and the higher prices in the international petroleum and, to a lesser extent, iron markets, had a strong influence on the growth of the Venezuelan economy as a source of increased financial resources which made for a substantial improvement in the balance of payments, represented additional fiscal revenue and led to an increase in domestic demand. A vigorous contribution to this expansion was also made by the notable growth of manufacturing, construction and basic services (energy, gas, water, transport and communications). Thus, 1973 reaffirmed a process of domestic growth which was less dependent on the stimuli that the economy normally received from the petroleum exporting sector.

Figure XLVI. Venezuela
Natural scale



The development strategy has consisted in using the economic surpluses generated by petroleum to progress from a petroleum economy to a modern industrial and agricultural economy. The new administration will certainly intensify this strategy, especially now that the country will have substantial earnings from petroleum to finance the growing investment requirements arising from the transformation of the Venezuelan economy.

Up to the 1930s, the Venezuelan economy was essentially agricultural, its productivity was low and its relations with the exterior were tenuous. After this period petroleum began to be produced on a large scale, and this originated deep-rooted changes and the opening up of the economy. The petroleum sector became the dynamic factor of development but at the same time made it vulnerable to the constant fluctuations in demand and in petroleum prices on the international markets.

The stimulus from the continuous increase in the productivity of the petroleum sector was manifested through the fiscal machinery. The income, coming mainly from the collection of royalties and taxes on the income of foreign enterprises, was transferred to the rest of the economy through public expenditure and only to a small extent through the income directly generated by the enterprises. The profits from the increase in productivity generally went to swell capital and for the most part were taken out of the country.

From the 1930s to the end of the 1950s there was a close relationship between the growth rate of petroleum output and the gross domestic product. In the 1960s, and more especially at the beginning of the 1970s, this relationship became weaker, which indicates that the importance of petroleum in over-all economic growth was declining.

Important structural changes have taken place in the Venezuelan economy. The contribution of the secondary sector (manufacturing, construction and basic services) to the gross domestic product increased from 18.4 per cent in 1950 to 20.3 per cent in 1973 (see table 175). In contrast, that of the primary sector (agriculture, petroleum and mining), declined from 31.2 per cent to 23.2 per cent over the same period.

Between 1950 and 1971, employment in the secondary sector increased from 16.8 per cent of total employment to 20 per cent, while in the primary sector it dropped from 46.9 per cent to 22.7 per cent (see table 176).

In addition to the structural changes noted in production and employment, others have taken

Table 174. Venezuela: total supply and demand

	Millions of bolívares at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Total supply	*50,725.1*	*52,996.4*	*56,221.4*	*60,760.8*	*113.6*	*113.5*	*113.9*	*4.1*	*4.5*	*6.1*	*8.1*
Gross domestic product	44,681.8	46,591.4	49,138.1	53,364.0	100.0	100.0	100.0	4.1	4.3	5.5	8.6
Imports[b]	6,043.3	6,405.0	7,083.3	7,396.8	13.6	13.5	13.9	4.0	6.0	10.6	4.4
Total demand	*50,725.1*	*52,996.4*	*56,221.4*	*60,760.8*	*113.6*	*113.5*	*113.9*	*4.1*	*4.5*	*6.1*	*8.1*
Exports[b]	11,458.4	10,758.8	10,302.6	10,823.4	27.5	25.6	20.3	2.7	-6.1	-4.2	5.1
Gross domestic investment	7,417.2	8,322.6	9,838.3	11,343.6	17.5	16.5	21.3	3.1	12.2	18.2	15.2
Gross fixed investment	6,720.7	7,702.2	9,013.9	...	14.9	15.0	...	4.3	14.6	17.0	...
Public	2,394.5	3,130.3	3,722.1	...	4.4	5.4	...	8.2	30.7	18.9	...
Private	4,326.2	4,571.9	5,291.8	...	10.4	9.6	...	2.5	5.7	15.7	...
Construction	4,783.0	5,421.6	6,384.3	...	10.0	10.7	...	5.5	13.4	17.8	...
Machinery and equipment	1,937.7	2,280.6	2,629.6	...	4.9	4.3	...	1.8	17.7	15.3	...
Total consumption	31,849.5	33,915.0	36,080.5	38,593.8	68.6	71.4	72.3	4.9	6.5	6.4	7.0
General government	6,593.2	7,315.1	7,357.9	8,483.7	12.5	14.8	15.9	7.6	10.9	0.6	15.3
Private	25,256.3	26,599.9	28,722.6	30,110.1	56.1	56.5	56.4	4.2	5.3	8.0	4.8

SOURCES: 1965-1972: ECLA calculations based on figures supplied by the Central Bank of Venezuela; 1973: ECLA estimates based on incomplete data from the same source.

Note: The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1960 values by deflation, using price indexes calculated by ECLA for the purpose.

[a] Preliminary figures.

[b] Goods and services, excluding factor payments.

Table 175. Venezuela: structure of the gross domestic product
(*Percentages of total*)

	1950	1960	1970	1973
Primary sector	*31.2*	*29.7*	*26.7*	*23.2*
Agriculture	8.1	6.4	6.9	6.2
Petroleum and gas	22.9	21.6	18.7	16.0
Mining	0.2	1.7	1.1	1.0
Secondary sector	*18.4*	*22.3*	*17.6*	*20.3*
Manufacturing	10.8	15.0	12.2	13.1
Construction	7.1	6.0	2.5	4.2
Electricity, gas and water	0.5	1.3	2.9	3.0
Tertiary sector	*50.5*	*48.0*	*55.7*	*56.5*
Transport and communications	5.8	4.1	4.0	4.5
Commerce	14.2	15.2	13.4	13.5
Services	30.5	28.7	38.3	38.5

SOURCES: 1950 and 1960: CORDIPLAN; 1970 and 1973: ECLA, on the basis of data supplied by the Central Bank of Venezuela.

Table 176. Venezuela: labour force
(*Thousands of persons and percentage structure*)

	February 1950		November 1961		November 1971	
	Thousands of persons	*Percentages*	*Thousands of persons*	*Percentages*	*Thousands of persons*	*Percentages*
Primary sector	*750*	*46.9*	*767*	*37.5*	*641*	*22.7*
Agriculture	705	44.1	721	35.3	605	21.4
Mines and hydrocarbons	45	2.8	46	2.2	36	1.3
Secondary sector	*268*	*16.8*	*350*	*17.1*	*564*	*20.0*
Manufacturing	172	10.8	247	12.1	386	13.7
Construction	91	5.7	82	4.0	146	5.2
Electricity, gas and water	5	0.3	21	1.0	32	1.1
Tertiary sector	*581*	*36.3*	*925*	*45.4*	*1,619*	*57.3*
Commerce	150	9.3	266	13.0	366	13.0
Transport and communications	52	3.3	96	4.7	120	4.2
Services	342	21.4	505	24.8	755	26.7
Activities not adequately specified	37	2.3	58	2.9	378	13.4
Total employment	*1,599*	*100.0*	*2,042*	*100.0*	*2,824*	*100.0*
Unemployment	107		309		186	
Total labour force	*1,706*		*2,351*		*3,010*	

SOURCE: Population censuses.

place in agriculture (agrarian reform), in public administration, in the social sectors and in finance and external trade, and these have changed the face of the economy and of society in Venezuela.

Thanks to its vigorous growth and to the exceptional supply of natural resources which the country possesses, as well as its particularly favourable geographical situation, Venezuela will probably, in the not too distant future, join the group of the most developed countries of the region, made up of Argentina, Brazil and Mexico. To achieve this, however, it will have to overcome a number of economic and social problems, including those connected with unemployment and underemployment, the regressive distribution of income, the diversification of exports and the regionalization of development.

2. THE EXTERNAL SECTOR

The situation of 1973 was extraordinarily favourable for Venezuela (see table 177 and figure XLVI). To the spectacular rise in petroleum prices on the international markets was added the increased output of this commodity, which meant an increase in earnings from petroleum exports of

Table 177. Venezuela: balance of payments
(Millions of dollars)

	1970	1971	1972	1973[a]
Current account				
Exports of goods and services	2,943.0	3,572.0	4,020.4	5,795.1
Goods FOB	2,756.0	3,372.0	3,797.8	5,520.0
Services	187.0	200.0	222.6	275.1
Transport	59.0	55.0	56.5	76.0
Travel	50.0	61.0	72.7	88.1
Imports of goods and services	2,318.0	2,588.0	3,007.4	3,725.2
Goods FOB	1,793.0	1,994.0	2,342.9	2,898.9
Services	525.0	594.0	664.5	826.3
Transport	238.0	283.0	317.0	392.1
Travel	140.0	138.0	178.1	235.2
Net external investment income	−669.0	−874.0	−1,042.3	−1,509.2
Profits	−657.0	−858.0	−1,023.9	−1,495.9
Interests	−12.0	−16.0	−18.4	−13.3
Net private transfer payments	−86.0	−79.0	−89.0	−103.8
Balance on current account	−130.0	31.0	−118.3	456.9
Capital account				
Net external financing ($a + b + c + d + e$)	130.0	−31.0	118.3	−456.9
(a) Net external non-compensatory capital	153.0	425.0	398.4	
Direct investment	−25.0	215.0	57.5	
Long- and medium-term loans	168.0	260.0	362.6	
Amortization payments	−34.0	−82.0	−122.7	
Short-term liabilities	50.0	36.0	106.4	217.1
Official transfer payments	−6.0	−4.0	−5.4	
(b) Domestic non-compensatory capital or assets	−69.0	71.0	−118.3	
(c) Errors and omissions	94.0	−117.0	−2.2	
(d) Allocation of SDRs	42.0	35.0	38.0	–
(e) Net compensatory financing (increase −)	−90.0	−445.0	−197.6	−674.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	2.0	7.0	10.9	12.0
Amortization payments	−5.0	–	–	–
Movements of foreign exchange reserves (increase −)	−30.0	−416.0	−170.5	−611.0
Movements of gold reserves (increase −)	−9.0	−1.0	–	−60.0
SDRs (increase −)	−48.0	−35.0	−38.0	−15.0

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 25.
[a] Estimates based on official statistics.

1,400 million dollars. Exports of iron increased by 28 per cent, while exports of other products also showed a favourable trend although not as pronounced as in the above cases.

The favourable external situation meant a flow of over 1,000 million dollars into the Treasury, an increase of about 690 million dollars in international reserves and the expansion of monetary liquidity and domestic demand.

In 1973 exports of goods amounted to 5,520 million dollars at current prices, compared with 3,798 million in 1972, i.e., an increase of 45.4 per cent. This increase was basically determined by the sharp rise in the value of exports of petroleum, and to a lesser extent of iron ore. The volume of exports increased by 4.3 per cent and prices by 39.4 per cent.

During 1973 the upward trend in world petroleum prices continued, after a slow start in the second half of the 1970s following a long period of deterioration since 1957 (see table 178).

In the third quarter, prices reached an unprecedented level; Venezuela was selling its petroleum at the end of December at 14.08 dollars per barrel, while the average price in January of the same year had been 3.15 dollars (four and a half times lower).

The unit value of Venezuela's petroleum exports rose by 27 per cent in 1971 over the previous year, basically owing to the resolutions of the Ministry of Finance and the Ministry of Mines and Hydrocarbons, which fixed export prices for 1971 with the aim of compensating for the reduction in the output of petroleum. In 1972 prices

recorded an increase of 11.1 per cent, and in 1973 of 37.5 per cent.

The increase in petroleum prices went hand in hand with an increase of 4.3 per cent in the volume of output, which rose from 187.36 million cubic metres to 195.33 million. The figure reached in 1973, however, was 6.8 per cent below the 1970 level, and was similar to that recorded for 1966 (see table 179). The volume of exports of crude dropped by 0.68 per cent, while that of refined products increased by 11.4 per cent.

The favourable international situation as regards petroleum meant an increase of 47.6 per cent in the value of petroleum exports,[89] which rose from 2,923 million dollars in 1972 to 4,315 million in 1973. This resulted in a surplus of 674 million dollars in Venezuela's balance of payments and pushed up the international reserves of the Central Bank from 1,732 million dollars at the end of 1972 to 2,420 million[90] on 31 December 1973 (an increase of 39.6 per cent).

As a result of the expansion of the petroleum industry, the Treasury received a considerable amount in the form of increased revenue from royalties and from income tax (see table 180). This increase in fiscal revenue produced an expansion in monetary liquidity and in domestic demand.

The share of the Treasury in the petroleum industry increased five-fold, from 1.62 dollars per barrel at the beginning of 1973 to 8.50 dollars at the end of December. The petroleum sector's contribution to current public revenue increased from 62 per cent in 1972 to 67 per cent in 1973.

The net profits of the petroleum companies recorded a relatively bigger increase in 1973, amounting to 654 million dollars as compared with 320 million the previous year, i.e., a rise of 104.4 per cent. In terms of the distribution of profits from the petroleum sector, the ratio in 1973 was more favourable to the oil companies: whereas in 1972 the State received 86.9 per cent of the profits and the oil companies the remaining 13.1 per cent, in 1973 the percentages were 81.5 and 18.5 respectively.

If petroleum prices remain at the levels of the last quarter of 1973, it is estimated that the value of exports in 1974 could reach the extraordinarily high figure of around 10,000 million dollars.

[89] Approximately one third of the petroleum exports are refined products.

[90] Preliminary estimate of the Central Office for Planning and Co-ordination (CORDIPLAN).

Table 178. Venezuela: prices of petroleum exports[a]
(Dollars per barrel)

Year	Price	Index
1950	2.11	99.5
1955	2.34	110.4
1957	2.65	125.0
1960	2.12	100.0
1965	1.89	89.2
1969	1.81	84.9
1970	1.85	87.3
1971	2.35	110.8
1972	2.52	118.9
1973	3.66	172.4

SOURCE: Ministry of Mines and Hydrocarbons.
[a] Crude oil and petroleum products.

Table 179. Venezuela: indicators of the petroleum industry
(Millions of cubic metres)

Year	Petroleum production		Petroleum exports		Domestic consumption of refined petroleum
	Crude	Refined	Crude	Refined	
1962	185.7	59.5	128.9	46.3	8.8
1963	188.5	60.5	130.1	48.3	9.1
1964	197.4	63.5	136.8	50.1	9.6
1965	201.5	68.2	135.3	53.4	10.2
1966	195.6	68.1	131.3	53.3	10.4
1967	205.6	67.6	141.0	54.1	10.6
1968	209.8	69.0	142.9	53.2	11.3
1969	208.6	67.1	143.7	54.2	11.2
1970	215.2	75.0	141.3	60.1	11.6
1971	205.9	72.3	134.3	56.2	12.2
1972	187.4	65.5	124.1	56.0	11.6
1973[a]	195.3	75.4	123.2	62.3	12.9

SOURCES: Ministry of Mines and Hydrocarbons, Office of Petroleum Economics; CORDIPLAN, Economic Planning Department.
[a] Provisional figures.

Table 180. Venezuela: financial results of the operations of the petroleum industry
(Millions of bolívares at current prices)

	1970	1971	1972	1973[a]
Income	*11,384*	*13,720*	*13,566*	*19,176*
Exports[b]	10,549	12,815	12,573	18,122
Petroleum	6,931	8,403	8,132	11,965
Refined products	3,531	4,272	4,219	5,935
Liquefied gas	87	140	222	222
Sales within the country	835	905	993	1,053
Petroleum	1	4	9	10
Refined products	706	756	826	876
Gas	128	145	158	167
Costs and expenditure	*6,375*	*6,820*	*6,742*	*7,508*
Wages and salaries	1,084	1,100	1,153	1,153
Depreciation, amortization and depletion	1,044	1,160	1,104	1,104
Losses resulting from withdrawal of assets[c]	26	51	36	59
Other operational expenditure	1,318	1,644	1,668	1,668
Royalties	2,869	2,828	2,752	3,495
Various taxes[d]	34	37	29	29
Pre-tax[e] profit	*5,009*	*6,900*	*6,824*	*11,668*
Income tax[f]	3,270	4,653	5,558	8,856
Net profit	1,739	2,247	1,266	2,812

SOURCE: Ministry of Mines and Hydrocarbons.
[a] Preliminary figures.
[b] Income based on actual prices.
[c] Comprise losses resulting from withdrawal of assets (obsolescence, poor condition, etc.) and renunciation of concessions.
[d] Including municipal and national taxes, except income tax.
[e] Income tax.
[f] In 1970, at reference prices; from 1971 onwards, at export values.

Table 181. Venezuela: indicators of iron ore production
(Millions of metric tons)

Year	Production	Exports	Reserves
1962	13.3	13.3	1,420
1963	12.0	12.4	1,513
1964	15.7	14.9	1,497
1965	17.5	17.0	1,680
1966	17.8	17.0	1,662
1967	17.1	16.5	1,645
1968	15.5	15.0	1,883
1969	19.7	19.0	1,942
1970	22.1	21.1	1,923
1971	20.2	19.1	1,901
1972	18.5	16.5	1,882
1973[a]	23.0	21.5	1,859

SOURCE: Ministry of Mines and Hydrocarbons, Office of Mining Economics.
[a] Provisional figures.

Iron ore is the second most important of Venezuela's export commodities. Between 1972 and 1973 a notable expansion of 28 per cent was recorded in the value of exports of this ore: from 132 million dollars to around 169 million; the volume of domestic output increased from 18.5 million metric tons to 23 million (see table 181).

The United States is the main purchaser of iron ore from Venezuela. In 1973 it absorbed nearly two thirds of the total exports of this product and the rest went to various European countries. Five countries—the United States, the Federal Republic of Germany, the United Kingdom, Italy and Belgium—accounted for more than 95 per cent of Venezuela's iron ore exports. Price increases of 0.61 dollars per ton were recorded in exports to the United States, and of an average of 0.90 dollars in sales to European countries.

Among Venezuela's agricultural exports, cocoa showed a favourable trend during the year as regards price and volume, while coffee exports suffered a fairly considerable contraction. Exports of steel products declined, while aluminium in the form of ingots recorded a slight growth.

In July 1973 the experimental Industrial Centre for Export (Centro Industrial Experimental para la Exportación—CIEPE) was inaugurated, with the basic aim of carrying out research on developing and improving products obtainable from agricultural raw materials destined for export, and of supplying advisory services to the food and raw materials processing industry.

On 1 May 1973 a new customs tariff based on the Brussels Tariff Nomenclature (BTN) came into

force; it establishes a system of *ad valorem* import tariffs and eliminates the majority of the quantitative restrictions.

With the aim of diversifying exports, legislation was passed providing incentives to exports and setting up the Export Financing Fund.

In 1973 total imports of goods amounted to 2,899 million dollars FOB—an increase of 23.7 per cent over the previous year when the value of imports was 2,343 million dollars.

The value of imports of raw materials and inputs for industry, mining and the production of hydrocarbons, as well as for agriculture and livestock, increased from 727 million dollars in 1972 to 1,008 million in 1973, as a result of the increased economic activity recorded in these activities, especially manufacturing.

The value of imports of equipment and machinery increased by 21 million dollars, owing to the needs of the major projects in which Venezuela is engaged, mainly in the steel and petrochemical sectors. Imports of construction materials also increased sharply (from 334 to 410 million dollars) to satisfy the growing requirements of the construction industry, which in 1973 recorded a notable growth.

The value of imports of foodstuffs doubled: from 73 million dollars in 1972 it rose to 167 million in 1973.

In February 1973 there was a revaluation of the bolívar, whereby the value of the dollar for all purchase and sales operations effected by the Central Bank was reduced by 10 bolívar cents. An earlier revaluation from 4.48 to 4.40 bolívares to the dollar had taken place in December 1971. Both these measures were adopted so as to soften to some extent the impact of the devaluation of the dollar and other currencies on imports and, consequently, on the price index and the cost of living.

Since the index of the unit value of imports of goods rose by 5.1 per cent in 1972 and by 18.6 per cent in 1973, it may be concluded that the above-mentioned revaluations were not sufficient to offset the increase in prices of the commodities which the country has had to import over the last two years.

3. Major sectors of activity

In 1973 the Venezuelan economy recorded a high growth rate in real terms (8.6 per cent), thus reversing the trend which had been manifest in the second half of the 1960s and in the first two years of the 1970s when the economy lost some of its momentum (see table 182). The gross domestic product measured at current prices increased by 20.4 per cent.[91]

The favourable international situation as regards petroleum influenced this growth rate, but the growth of some sectors of production and basic services was also considerable, which shows that development is now less dependent on fluctuations in external demand.

The sectors of production which recorded the most significant increases during the year were the construction industry, mining, manufacturing, and transport and communications.

The product of the hydrocarbons sector, including refining, increased by 8 per cent over the previous year. In 1972 there had been a sharp contraction of 9 per cent in the volume of petroleum production (crude and petroleum products) which the increase of 4.5 per cent in 1973 was not sufficient to offset. In fact, this may be considered a meagre increase in the face of the vigorous expansion of world demand. The explanation should therefore be sought in the decision of the Venezuelan Government to implement a policy of conserving its main natural resource so as to safeguard the long-term national interest.

Output of crude oil increased from 187.4 million cubic metres in 1972 to 195.3 million in 1973. The average daily production was 3,366,011 barrels, with is 4.5 per cent up on the 3,219,909 barrels recorded the previous year. The production of natural gas increased by 7.4 per cent and sales by 18.4 per cent in 1973.

Compared with the year before, proven oil reserves showed an increase of 24 million barrels, reaching a total of 13,945 million barrels, mainly on account of improvements in supplementary recovery techniques and the continuing process of appraisal of oil reservoirs in which the Ministry of Mines and Hydrocarbons is engaged (see table 183).

The Orinoco oil belt opens up new prospects for petroleum production in Venezuela. A very preliminary estimate of on-the-spot reserves gives a figure of 700,000 million barrels of petroleum. However, the latest results of the exploration activities which the Venezuelan Petroleum Corporation—a State enterprise—is carrying out in this area indicate that the figure may be much higher, so that this oilfield would be the largest and richest in the Western hemisphere.

The mining product rose in 1973 by 22.1 per cent, mainly as a result of the 25 per cent increase in the production of iron ore, which rose from 18.5 million metric tons in 1972 to 23.1 million in 1973. The value of mining output reached the highest level in its history, i.e., 215 million dollars; 93.3 per cent of this figure was accounted for by the production of iron ore.

[91] Preliminary estimate of CORDIPLAN.

Table 182. Venezuela: gross domestic product at factor cost, by sector of economic activity

	Millions of bolívares at 1960 prices				*Structure (percentages)*			*Annual growth rate (percentages)*			
	1970	*1971*	*1972*	*1973*[a]	*1965*	*1970*	*1973*[a]	*1965-1970*	*1971*	*1972*	*1973*[a]
Agriculture	2,830	2,847	2,922	3,039	6.5	6.9	6.2	5.4	0.6	2.6	4.0
Mining (excluding petroleum)	463	434	396	484	1.3	1.1	1.0	1.4	−6.3	−8.8	22.1
Petroleum[b]	7,794	7,692	7,234	7,813	22.0	18.7	16.0	1.0	−1.3	−6.0	8.0
Manufacturing	5,102	5,439	5,916	6,407	11.5	12.2	13.1	5.6	6.6	8.8	8.3
Construction	1,031	1,285	1,631	2,058	2.5	2.5	4.2	3.7	24.6	26.9	26.2
Subtotal goods	*17,220*	*17,697*	*18,099*	*19,801*	*43.8*	*41.4*	*40.5*	*3.1*	*2.8*	*2.3*	*9.4*
Electricity, gas and water	1,204	1,336	1,420	1,502	2.0	2.9	3.0	12.0	11.0	6.3	5.8
Transport and communications	1,654	1,769	1,953	2,181	3.5	4.0	4.5	6.8	7.0	10.4	11.7
Subtotal basic services	*2,858*	*3,105*	*3,373*	*3,683*	*5.5*	*6.9*	*7.5*	*8.9*	*8.6*	*8.6*	*9.2*
Commerce and finance	5,583	5,993	6,256	6,613	13.4	13.4	13.5	4.4	7.3	4.4	5.7
Government	3,690	3,954	4,330	4,992	8.5	8.9	10.2	5.2	7.2	9.5	15.3
Ownership of dwellings	3,191	3,212	3,610	3,603	7.1	7.7	7.4	6.0	0.7	12.4	−0.2
Miscellaneous services	9,020	9,320	9,406	10,196	21.7	21.7	20.9	4.3	3.3	0.9	8.4
Subtotal other services	*21,484*	*22,479*	*23,602*	*25,404*	*50.7*	*51.7*	*52.0*	*4.7*	*4.6*	*4.5*	*7.6*
Total	*41,584*	*43,361*	*45,731*	*49,664*	*100.0*	*100.0*	*100.0*	*4.1*	*4.3*	*5.5*	*8.6*

SOURCES: 1965–1972: ECLA calculations based on figures supplied by the Central Bank of Venezuela; 1973: ECLA estimates based on data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Including all petroleum activities.

Table 183. Venezuela: proven crude oil reserves

Year	Petroleum reserves		Theoretical duration of reserves (years)
	Millions of cubic metres	Millions of barrels	
1962	2,672	16,806.3	14.4
1963	2,705	17,013.9	14.3
1964	2,734	17,196.3	13.8
1965	2,742	17,246.6	13.6
1966	2,682	16,869.2	13.7
1967	2,537	15,957.2	12.3
1968	2,491	15,667.9	11.9
1969	2,367	14,889.5	11.4
1970	2,232	14,039.0	10.4
1971	2,188	13,761.0	10.6
1972	2,213	13,921.2	11.6
1973[a]	2,217	13,945.3	11.3

SOURCES: Ministry of Mines and Hydrocarbons, Hydrocarbons Department; CORDIPLAN, Economic Planning Department.
[a]Provisional figures.

The production of diamonds increased by 71 per cent and its value by 106 per cent. Gold production, however, underwent a slight decline, but its value increased by 50.6 per cent over the previous year, with the substantial rise in the price of gold on the international market.

Coal production recorded an increase of nearly 30 per cent over the 1972 level.

The agricultural sector increased its product by 4 per cent, although it has to face various difficulties, especially from the point of view of weather. This rate compares favourably with those of 1971 (0.6 per cent) and 1972 (2.6 per cent). The commodities which showed the most successful results were rice, sorghum, cocoa and sesame. Rice production reached the unprecedented level of approximately 280,000 tons. Fishing activity grew by 15.6 per cent and forestry output by 4.9 per cent.

The manufacturing product increased by 10.7 per cent over the previous year. If the oil refining sector which expanded considerably in 1973 (23.2 per cent) is excluded, the growth of the manufacturing sector was 8.3 per cent.

The engineering industries made especially good progress, with an expansion of 11 per cent. Within this group the highest increases were achieved by metal products (15.4 per cent) and transport material (14.3 per cent).

The intermediate products industries grew by 14.3 per cent, the highest rates being recorded for pulp and paper (22.3 per cent), petroleum and coal products (22.3 per cent), non-metallic minerals (8.6 per cent), and basic metals (8.5 per cent), thanks to the stimulus provided by the construction sector.

The traditional industries also showed a high growth rate (7.2 per cent), particularly beverages (15.7 per cent), furniture and accessories (13.7 per cent) and textiles (12.1 per cent). Only hides and

Table 184. Venezuela: supply of locally produced manufactures
(Millions of bolívares at 1968 prices)

	1968	1969	1970	1971	1972	1973[a]
Domestic production	21,820	22,787	24,778	26,146	27,584	29,410
Imports	6,215	6,269	6,614	7,048	7,756	9,083
Total supply	*23,035*	*29,056*	*31,392*	*33,194*	*35,340*	*38,493*
Exports	3,048	3,205	3,596	3,332	3,400	3,462
Domestic supply	*24,987*	*25,851*	*27,796*	*29,862*	*31,940*	*35,031*
Domestic output as a percentage of total supply	77.8	78.4	78.9	78.8	78.1	76.4
Imported component as a percentage of domestic supply	24.9	24.3	23.8	23.6	24.3	25.9

SOURCE: CORDIPLAN, Economic Planning Department. [a]Provisional figures.

skins recorded a decline of 4.9 per cent. The remaining industries–graphic arts and others–recorded a moderate growth (6.8 per cent).

Locally produced manufactures accounted for a smaller share of total supply as a result of the increase in imports (see table 184).

During 1973 significant progress was made in important industrial projects which will lead to large-scale increases in production. These include the expansion of the ALCASA aluminium plant[92] situated in the industrial complex of Guayana, which doubled its production capacity to 45,000 tons annually; the automatic tinning and chromium-plating industry, with a production capacity of 150,000 tons annually; and the manufacture of flat rolled steel products, with a production capacity of 1.5 million tons annually. The last two projects belong to the steel industry SIDOR and are also situated in the Guayana complex. The briquette plant of the Orinoco Mining Company also entered into operation, with an annual production capacity of 1 million tons in its first stage.

While the installed capacity of Venezuela's electric power system increased by 6.5 per cent in 1973, generation increased by 13.7 per cent and consumption by 14.1 per cent, which indicates that the system was better utilized. The public sector increased its installed capacity, and in 1973 it came to absorb 56.8 per cent of the country's total capacity, in accordance with a well-defined policy of State participation in operation since 1960. (The public enterprise Compañía Anónima de Administración y Fomento Eléctrico (CADAFE) increased its capacity by 84,000 kW.)

In 1973 the installation of the fourth generating unit of the Guri dam was completed, increasing the installed capacity to 745,000 kW. The General en Jefe José Antonio Páez hydroelectric complex in the states of Mérida and Barinco also entered into operation.

4. Prices and other financial variables

Owing to the increase in international reserves and sales of securities by the commercial banks, monetary liquidity increased by approximately 18 per cent. The largest increase was in quasi-money, especially in savings and time deposits, which meant less pressure on prices than if liquidity had been mainly in the form of money in the hands of the public and demand deposits.

Mortgage banks continued to expand with the increase in mortgage loans and in the mortgage bonds issued by these institutions. The value of mortgage loans at the end of the year was 31 per cent up on the previous year. The value of the mortgage bonds in circulation increased to a slightly lesser extent. This increase in the activity of the mortgage banks constituted a powerful stimulus to housing construction.

During 1973 four new finance associations began operations, raising the number of existing associations to 22.

Another important development in the financial field was the implementation of the Capital Market Law, the promotion and control of which is the responsibility of the National Securities Commission. The authorities are confident that this new instrument will promote the activities of the finance associations.

The savings and loan system also continued to expand. The operational norms were modified with a view to strengthening the institutions operating in this area.[93] The number of persons possessing savings accounts increased by around 100,000, i.e., by 30 per cent, and totalled about 430,000 persons at the end of 1973.

The tapping of savings increased by 450 million bolívares, which represents an increase of 33.5 per cent over the 1972 figure. Loans granted by savings and loan institutions rose by 22 per cent over the previous year's level.

The inflationary pressures caused by monetary expansion and by the sharp increase in the prices of imported foodstuffs and manufactures were reflected in a rise of approximately 4 per cent in the consumer price index. The revaluation of the bolívar, the sharp increase in savings and the expansion of output in most sectors helped to soften the impact of these pressures.

The 1973 fiscal year was characterized by a budget surplus and a significant increase in the liquid assets of the National Treasury, basically owing to the considerable increase in revenue obtained from petroleum. There was also an increase in income from sales of iron and other locally produced goods, as a result of the country's general economic expansion, the use of new instruments and procedures and a stricter tax control. The surplus amounted to 1,547 million bolívares.

On 31 December 1973 the public debt authorized by the Venezuelan Congress amounted to 7,136 million bolívares, of which 3,913 million (55 per cent) comprised the external debt and 3,223 million (45 per cent) the domestic debt. The public debt increased by 359 million bolívares over the 1972 figure, as the result of an increase of 365 million bolívares in the domestic debt and a drop of 6 million bolívares in the external debt.

[92] In 1974 work began on the expansion of this plant's capacity to 115,000 tons, with an investment of 340 million bolívares.

[93] Ministry of Finance resolution 199, October 1973.

5. Hydrocarbons policy

Venezuela is extraordinarily well endowed with natural resources, its main wealth consisting of petroleum and gas. A petroleum policy has gradually been evolved with the aim of controlling the development of these resources so as to increase their value in the international markets and obtain the maximum results for their development. The objectives of the policy are to achieve an increasing share for Venezuela in the management of the oil industry and a higher degree of processing of the raw material through refining and the setting up of large-scale petrochemical complexes for export purposes, and to apply a policy of conservation for the protection of oil reservoirs.

The petroleum policy had already led to two important developments at the end of the 1950s. In 1959 a resolution of the Ministry of Mines and Hydrocarbons[94] set up the Co-ordinating Hydrocarbon Conservation and Trade Commission and the following year the Venezuelan Petroleum Corporation (CVP) was established.[95] The first steps were taken during those years to group the main petroleum producing and exporting countries, and this initiative materialized with the setting up of the Organization of Petroleum Exporting Countries (OPEC).[96]

Recent Governments have reaffirmed their intention of granting no further oil concessions, and of recovering as far as possible part of those previously granted. Over 80 per cent of the concessions will expire between 1983 and 1985.[97] Of the total concessions, 78.4 per cent are in the hands of five major international enterprises– Mene Grande, Creole, Shell, Mobil Oil and Texas– and more than half of these are held by the first two companies. When the concessions run out, all the fixed assets of the foreign enterprises will automatically pass into the possession of the State without any indemnification.

In 1973 discussions began in Venezuela on the need to speed up the process of reversion to the State in order to maintain appropriate levels of investment, improve operational methods in the petroleum industry and train suitable personnel to manage it.[98]

Throughout the 1960s and during the present decade, some petroleum policy measures have been adopted to guarantee State control of and participation in the oil industry. These include the strengthening of the Venezuelan Petroleum Corporation (CVP), an agency which has gradually been acquiring increased importance in the sector; the exploration of new areas, which had declined considerably in recent years; increased State participation in the oil companies' profits[99] and in fixing the prices of hydrocarbons for export and domestic consumption;[100] implementation of the domestic market law with the aim of transferring the distribution of hydrocarbons to the State;[101] adoption of legislation and the appropriate regulations governing assets subject to reversion in the hydrocarbons concessions;[102] and the promulgation of a law reserving the control of the natural gas industry for the State.[103]

As regards other aspects of its petroleum policy, the Government of Venezuela has earmarked the resources of the Guarantee Fund Established under the Law on Assets Subject to Reversion for financing activities in areas affected by the process of petroleum disinvestment; it has continued its active participation in the international defence machinery of the producer countries; and, at a regional level, it has worked actively in the establishment and operation of the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL) and promoted the First Informal Consultative Meeting of Ministers of Energy and Petroleum held in Caracas in August 1972, which led to the setting up of the Latin American Energy Organization (OLADE).

Venezuela also firmly encouraged the setting up of a Financial Institute in OPEC, which could lead to the establishment of the OPEC Bank with an initial capital of 2,000 million dollars.

The new Government has announced that a substantial part of petroleum surpluses (mention is made of around 1,000 million dollars) will be channelled through international and regional agencies to assist in financing development projects in the countries of Latin America.

6. Industrial policy

Manufacturing industry achieved high growth rates in the 1960s and the early 1970s. There are various reasons for this. Venezuela is exceptionally

[94] Resolution 557 of 9 April 1959.

[95] 19 April 1960.

[96] The agreement was signed in Baghdad on 14 September 1960.

[97] 8 per cent in 1983, approximately two thirds in 1984, and 10 per cent in 1985.

[98] At the beginning of 1974 two bills aimed at speeding up the reversion process were submitted to Congress.

[99] The progressive taxes on the sales of the petroleum companies up to a maximum rate of 52 per cent were abolished and a single rate of 60 per cent was established.

[100] In March 1971 the reference prices for petroleum and petroleum products for that year were fixed by law; in December 1971 and December 1972, prices were fixed for the following years. In August 1973, it was decided that these values should be fixed on a monthly basis.

[101] The volume handled by the CVP at the end of 1973 represented 42 per cent of domestic consumption.

[102] Law of 19 July 1971, and Decrees 886 (26 January 1972) and 900 (1 March 1972).

[103] Law of 12 August 1971.

rich in natural resources for industrialization (cheap energy resources such as petroleum, gas and hydroelectric energy, and rich and abundant deposits of iron ore and salt); it processes aluminium and in addition is in an excellent geographical situation which facilitates trade with the main industrial centres.

Recent Governments have vigorously promoted industrialization through a wide range of development policies. In 1972 and 1973 a customs tariff reform was carried out and the Treaty on Trade Reciprocity with the United States was terminated, thus opening up a new stage in industrial development. Measures have also been adopted although with some caution, to promote the diversification of exports.

With due regard to the special conditions of the Venezuelan economy, the industrial development strategy provides for the setting up of big steel and petrochemical complexes. During 1973 notable progress was made in these projects, which will lead to significant production increases in the future. In the area of the basic metals industries, the aluminium ingot plant (ALCASA) doubled its production capacity to reach 45,000 tons annually; the iron briquette plant of the Orinoco Mining Company entered into operation with an initial production capacity of 1 million tons annually; other important projects include the electrolytic tinning and chromium-plating industry of SIDOR, with a production capacity of 150,000 tons, and the manufacture of flat rolled steel products by the same enterprise, with a production capacity of 1.5 million tons annually.

In the petrochemical sector, production of ammonia and urea in the Tablazo complex was begun, and work started on the expansion of the Moron complex in order to increase output of phosphatic fertilizers to around 600,000 tons annually.

The accession of Venezuela to the Cartagena Agreement on 13 February 1973, after lengthy negotiations which led to the signing of the Lima Consensus, gave new impetus to industrial development in Venezuela. Although Venezuela's trade with the rest of the countries of the Andean Group has hitherto been of little significance, it is expected to expand substantially in the future. Furthermore, in the joint industrial programming of the Andean countries, Venezuela will certainly have an important role to play in the area of the basic metals and petrochemical industries, as also in these industries which are highly capital-intensive.

Part Three

SOCIAL CHANGE IN LATIN AMERICA IN THE EARLY 1970s[1]

1. THE ECONOMIC CONTEXT, THE INTERNATIONAL CONJUNCTURE, AND THEIR IMPLICATIONS FOR NATIONAL STYLES OF DEVELOPMENT

Explorations of the patterns of growth and change in Latin America have long focused on the gap between what is really happening and what should be happening according to the values and theoretical preconceptions of the explorers. They have generally concluded, for many different combinations of reasons, that the identifiable real trends are neither acceptable nor viable over the long term, but they have managed to find grounds for expecting major positive changes in those trends, whether by means of enlightened policies to be embarked on by the dominant forces in the societies or by means of a transformation of these forces emerging from the trends themselves.[2] Variations on these themes, in fact, predominate in the series of chapters on Latin America in the Reports on the World Social Situation published by the United Nations.

Nevertheless, the patterns of growth and change that have so often been described and deplored have persisted, changing quantitatively and in the relative prominence of certain features rather than qualitatively, and showing a great deal of resilience and adaptability beneath apparent instability and precariousness. They have brought Latin America, or at least the larger countries comprising most of its population, to situations that can be labelled "semi-development" accompanied by pronounced and persistent structural heterogeneity.[3] That is, per capita income levels are now midway between those characteristic of Europe and those characteristic of Africa and Asia, with a few countries within the lower part of the European income range. Sizable and growing proportions of the national populations, except in a few of the smaller and more predominantly rural countries, are participating in "modern" productive and service activities and "modern" patterns of consumption. By 1972 the share of agriculture in the gross domestic product, for the region as a whole, had fallen to 15.4 per cent and the share of manufacturing had risen to 25.4 per cent.[4] The State, in most of the countries, manages to support an increasingly varied range of "modern" public services and infrastructural investments that are important to the livelihood and the expectations of the greater part of the population. At the same time, however, the majority in almost all the countries continues to engage in activities of relatively low productivity and low bargaining power, ranging from technologically intermediate labour-intensive activities fully integrated, however disadvantageously, with the more highly capitalized "modern" activities, down to the manifold forms of ill-paid personal services, subsistence activities, and concealed or open unemployment. The groups at the lowest levels of productivity, bargaining power and incomes continue to be concentrated in agriculture, as the contrast between its share of employment—still over 40 per cent for the region as a whole—and its share of the product demonstrates, but similarly disadvantaged groups persist or even

[1] See ECLA, *Social Change and Social Development Policy in Latin America* (United Nations Publication, Sales No. E.70.II.G.3), and "Human development and social change in Latin America", chapter I of *Latin America and the International Development Strategy: First Regional Appraisal* (E/CN.12/947/Rev.1), 10 June 1973.

[2] Gunnar Myrdal, however, has combined a negative evaluation, in terms of human values, with a conclusion that "perhaps the most likely possibility would be the continuation of the present trends", with "neither evolution nor revolution". ("The Latin American powder keg", Appendix to *The Challenge of World Poverty: A World Anti-Poverty Programme in Outline*, Allen Lane, The Penguin Press, 1970.)

[3] The term "structural heterogeneity" refers to situations of wide differences in productivity or "modernity" between as well as within sectors of economic activity, but accompanied by complex ties of interchanges, dominance and dependence within a national socio-economic "structure", as opposed to presumed "dualistic" situations in which two socio-economic structures—"modern" and "traditional" or "primitive"—co-exist in a national territory with only limited interchanges and little influence on each other.

[4] See tables 4 and 5 in chapter II, "Economic growth", in E/CN.12/947/Rev.1, op cit. Details concerning recent economic trends summarized later in this section can be found in the same chapter.

grow in size in the urban activities, most obviously in the services sector, but also in manufacturing and construction.

The differential expansion in their present form of the more "modern", relatively high-productivity activities, at the foreseeable rates of growth and with the foreseeable technological and capital inputs, does not hold out much hope that they will help to overcome structural heterogeneity by absorbing the greater part of the population now subsisting outside them. In fact, structural heterogeneity seems to be self-reinforcing both economically and politically. The further growth of "modern" consumer goods industries, housing construction and services depends on the size and purchasing power of the upper-income minorities rather than on the scanty purchasing power of the rest of the population. The structure of production is rooted in and draws its sustenance from a highly uneven income distribution, but this income concentration, by the logic of the system, cannot generate a high rate of capital accumulation. Price policies (particularly for domestically-produced foods), the functioning of the tax system (if not its intention) and weak bargaining power aggravate the disadvantages of the groups in the lower reaches of the economic structure and compel them to subsidize the consumption levels of the "modern" groups, so that their incomes may be even lower than their productivity would justify—although the urban low-income groups can counteract this to some extent by securing compensatory subsidies and services from the State. Moreover, once the industrial sector becomes important enough for national policy to set out to promote exports of manufactures, an additional reason for income concentration appears, since labour costs must be kept competitively low.

Arguments such as the above, here presented in a very simplified fashion, are by now well known. The reality of structural heterogeneity is clear enough. Some diagnoses continue to place their main emphasis on insufficient dynamism of economic growth and insufficient accumulation; others on over-rapid population growth and insufficient investment in raising of the quality of "human resources"; still others on the pervasive dependency of Latin American development patterns on controls and stimuli from the world centres. The following questions have come to the fore:

First, does economic growth with structural heterogeneity lead inevitably to a developmental impasse or societal breakdown because of increasing polarization of incomes and life-styles, increasing impoverishment of large masses of the population, inability to offer productive employment to an increasing part of the labour force or vulnerability to changes in the international conjuncture? In other terms, is it non-viable over the long term as well as unacceptable in terms of values?

Second, can structural heterogeneity be overcome or kept within manageable dimensions without the achievement of radically different styles of development, supported by different distributions of power and participation in the societies and incorporating new priorities and mechanisms for production, distribution and consumption?[5]

Third, are styles of development capable of overcoming structural heterogeneity achievable at the national level (except at prohibitive costs), in view of the places of the Latin American countries in the world order, national endowments of human and natural resources, and internal structures of power and consumer demand?

Fourth, if alternative styles of development are not within reach and if the non-viability of economic growth with structural heterogeneity cannot be conclusively demonstrated, can one realistically envisage policies within the confines of prevailing styles of development that will gradually reduce the dimensions of structural heterogeneity and alleviate the extremes of poverty and misuse of the human potential associated with it?

During the late 1960s and early 1970s, more national régimes than previously moved toward endorsement of the diagnoses that have answered the first of the above questions in the affirmative and the second in the negative. At the regional level, this trend found expression in intergovernmental declarations that judged the record of the 1960s with considerable harshness, despite the undoubted gains in the per capita product, and called for a bold rethinking of the meaning of development and how it might be achieved.[6] Recent experience, however, has not provided encouraging answers to the third question. Despite the declarations made, public action continued along conventional lines in most countries, with

[5] Problems of identification of "real" and "preferred" styles of development and of establishing criteria for viable and acceptable styles are discussed in "Report on a Unified Approach to Development Analysis and Planning" (E/CN.5/477), 25 October 1972, and an ECLA research project is now exploring the implications of alternative styles of development for the Latin American countries. See also Oscar Varsavski, *Proyectos nacionales: Planteo y estudios de viabilidad* (Buenos Aires, Ediciones Periferia S.R.L., 1971); and Marshall Wolfe, "Development: Images, concepts, criteria, agents, choices", ECLA, *Economic Bulletin for Latin America*, XVIII, 1 and 2, 1973.

[6] See, in particular, *The Quito Appraisal: A review, adopted at the fifteenth session of ECLA as resolution 320 (XV), of the progress made in the first two years of the International Development Strategy* (United Nations/ECLA, 1973).

the expansion of certain social services responding more to the momentum of what had previously been done than to any over-all development strategy. Certain régimes formally endorsed innovatory attacks on structural heterogeneity through a broad combination of employment policies, but did not act decisively to apply the combination as envisaged. A few national attempts at more radical changes in the styles of development failed to cope with the contradictory pressures and resistances thus generated, while other attempts continue to tackle the problems with a reasonable degree of success, but without achieving an incontrovertible breakthrough to the human-oriented development aimed at.

In the very recent past, while the debate has continued and a good deal of ambivalence or vacillation can be detected in national objectives as well as actions, the predominant trend in governing circles has seemed to be towards renewed confidence in the viability of the prevailing style of development, or resignation to the absence of a politically and economically viable alternative. This trend leads logically, on the one hand, to a preoccupation with means of bringing the whole range of economic and social policies into closer correspondence with the efficient functioning of the style and of repressing or diverting incompatible demands from within the societies, and, on the other, to a secondary preoccupation with initiatives aimed at finding an affirmative answer to the fourth question posed above, through compensatory social services and redistributory mechanisms compatible with the style.

The achievement of relatively favourable economic growth rates, which have been over 6 per cent annually for the region as a whole since the late 1960s has provided an objective basis for the trend towards greater confidence, and the achievement of remarkably high rates of growth in the value of exports since 1971 further bolstered this trend. Previously unfavourable terms of trade for raw material exports–agricultural products as well as minerals–were reversed, and some countries also made appreciable gains in exports of manufactures. The "internationalization" of the economies came to be looked on with more complacency than previously, and the previous emphasis on import substitution and economic nationalism began to fall into disfavour. National experiences, of course, have continued to differ widely, since not all countries have shared in the favourable growth rates, and the regional average is heavily influenced by the exceptionally rapid growth of the largest country, Brazil, where confidence in the viability of a renovated and dynamic version of the prevailing style has been strongest. (Rates of growth in the English-speaking Caribbean countries deteriorated during the early 1970s, so that per capita incomes have stagnated or even declined.)

The partial renewal of confidence in the viability of continued economic growth with structural heterogeneity and greater international openness faces a formidable array of external and internal reasons for insecurity, quite apart from the phenomena of social polarization and poverty, but up to late 1973 it was arguable that these factors really affected the acceptability of the prevailing style, in terms of national autonomy and the quality of life, more than its viability. Then a new challenge, the energy crisis, appeared quite suddenly to join these factors in a manner calculated to upset previous expectations, by enhancing the potentialities of a few countries while bringing the viability of the prevailing style once more accutely into question for many others. The shock has been worldwide, but the Latin American situation of "semi-development" means that the implications of the crisis differ in important respects from those in the high-income industrialized countries as well as from those in the poorer, predominantly rural, parts of the third world. The factors of somewhat longer duration can be summed up thus:

(*a*) The squeeze between the inflow of external resources (loans and grants to Governments, private investments) and the outflow of debt amortization payments and remittance of profits, with the associated balance-of-payments difficulties, has chronically threatened to bring economic growth to a halt. The Latin American countries have contracted public debts on relatively unfavourable terms; in 1970 the coefficient of debt servicing to total indebtedness was around 15 per cent for Latin America as a whole, compared with slightly over 6 per cent for the remainder of the third world. In 12 countries of the region external public debt servicing in 1970 amounted to more than 10 per cent of the value of exports, and in 3 countries (Argentina, Mexico, Uruguay) it was over 20 per cent.[7] At the same time, withdrawals of profits from private investments produced a rising negative balance on private capital flows throughout the 1960s:–4,100 million U.S. dollars in 1960-64 and –5,264 million in 1965-69. This squeeze, however, has affected the individual countries to quite different degrees, being most severe in those with sluggish export expansion. Some of the most dynamically growing countries–Brazil, in particular–have sharply reduced the ratio of debt servicing to total exports, while others, such as Mexico, have reconciled a

[7] See chapter VI, "External Financing", in E/CN.12/947/Rev.1, op. cit.

consistently high ratio with a creditable rate of economic growth over a long period. In a few countries–notably Venezuela–the ratio is much too low to amount to a serious problem.

(*b*) The trends of external private investment, dominated by multinational corporations and now containing a relatively small component of resource transfer from abroad, have set in motion a well-known process of denationalization of national industries. (Only 17 per cent of total private investment by the United States in Latin America in the period 1957-65 was financed out of resources originating in the United States.) This process, however, is not radically incompatible with the prevailing style, as long as national economic autonomy is not an over-riding objective, and in most of the larger countries the State has deliberately exerted a countervailing power, assuming control of key industries, sources of energy, and transport.[8]

(*c*) The series of world monetary crises and the tactics of the world centres in trying to protect their currencies and improve their balance of payments have naturally been prominent among the motives for alarm concerning the future, but in view of the favourable export trends they do not seem to have interfered seriously with the prevailing style of development through 1973. The industrialized countries have presumably exported inflationary pressures to Latin America along with the rest of the world, but although the countries experiencing relatively rapid inflation since the early 1960s or before have continued to suffer from this problem, the deceleration in Brazil and acceleration in Argentina, Chile, and Uruguay have derived more from domestic policies and problems than from the international conjuncture. In most other countries, while price rises have accelerated and this has exacerbated internal social tensions, rates of inflation continue much lower than in the countries mentioned above, and have not demonstrably interfered with economic growth.

(*d*) Rapid population growth and urban concentration, combined with the spatial concentration of industrial growth and urban "modernization" under the increasing dominance of the automobile have enormously increased the scale of certain problems that have been repeatedly described during the past two decades: the high costs and insufficiencies of urban infrastructure, the growth of "marginal" settlements, crime and delinquency, and pollution of air and water. However, these trends have not had the catastrophic consequences sometimes predicted. The huge urban agglomerations of today function badly, with manifold tensions, crises and assaults on the well-being of their people, but it is not demonstrable that they function worse or have more unmanageable crises than did the smaller agglomerations of twenty or thirty years ago. The costs of concentrated urban growth to the State are undoubtedly very heavy, but it is not clear whether such costs would be more bearable with different patterns of distribution of population and economic activities. As will be discussed below, present evidence casts doubt on the forecasts of differentially rapid growth of low-income under-employed "marginal" strata overwhelming the cities, although the proportion of urban population living in the various types of ecologically "marginal" sub-standard shelter is certainly growing. It remains an open question how far present urban growth trends can continue, or whether they can continue indefinitely without becoming non-viable for economic, political and environmental reasons. The rate of growth of localities with 20,000 or more inhabitants was 65 per cent greater in the 1960s than in the 1950s, will be at least 65 per cent greater in the 1970s than in the 1960s, and will continue on an ever-larger scale during the 1980s as the population base expands, even if the rate changes and urban growth is distributed over a wider network of cities. During the 1970s the cities will grow by about 75 million inhabitants, 40 million of whom will be absorbed by cities that will have passed the one million mark by 1980. In any case, the patterns of concentrated urban growth seem to be compatible with or even favourable to indefinite continuation of the prevailing style of development. Their negative aspects could be considered as costs which can be kept within bearable limits by planning but cannot be evaded. A readiness to accept still higher costs of this kind in the interest of economic growth has been evident in the receptivity of governing circles to the potential transfer of highly polluting industries from countries unable to tolerate their further growth.

[8] ". . . at least half of Brazil's major industrial enterprises using advanced technology and attaining high rates of productivity in such fields as electric power, the extraction and refining of petroleum, iron and steel production, petrochemicals, etc. are dominated by State capital, and the tendency is for these enterprises to expand at least as fast as the other half of the country's leading industries, where foreign capital is dominant. Thus, in at least one of the major countries of Latin America, 'modern' activities are not synonymous with dominance by foreign capital, and the same is probably also true at least in Mexico, Argentina and Peru (since 1968). Furthermore, the presence of State capital in the 'leading sector' is no accident, but the result of a policy put into practice by many Latin American countries with the aim of not allowing foreign capital to take over the exclusive conduct of the industrialization process". (Paul Singer, "Urbanización, dependencia y marginalidad en América Latina", Martha Schteingart, Comp., *Urbanización y dependencia en América Latina*, Buenos Aires, Ediciones SIAP, 1973.)

(*e*) While it is too early to assess the eventual impact of the energy crisis with any confidence, it promises to bring about a radical change in the conditions for continuation of the prevailing style of development, both through its consequences for the world economic order and through its direct repercussions within the countries. A few countries with an export surplus of petroleum (including some of the poorer "relatively less-developed" countries) should find themselves in a better position than before, with a choice of continuing along the path of economic growth with structural heterogeneity or mobilizing resources for innovative value-oriented styles of development without unmanageable conflicts or unenforceable austerity. Other countries in which production and consumption can be brought into balance with a reasonable effort will have to give more attention than hitherto to priorities for energy use and exploitation of additional sources, but need not confront drastic immediate changes in the combination of factors affecting their style of development, other than the changes in the world economic order. Still, other countries with dynamic industrial growth and a wide gap between domestic production and consumption may find drastic changes in the style of development unavoidable, in a context of stubborn societal resistance to such changes and declining capacity to finance compensatory measures. Many of the smaller countries of the region, producing little or no petroleum, face a more difficult future even if prices for their main agricultural exports remain favourable.

The present chapter cannot go further into this complex question with its many unknown quantities, but one aspect must be singled out because of its multiple repercussions on the patterns of social change. In the larger countries in which structural heterogeneity is most pronounced and the "modern" urban sectors most important, the automobile has become increasingly dominant as the most dynamic sector of industry, as the supporter of a wide range of ancillary economic activities, as the focus of the consumption aspirations of the growing middle- and upper-income strata, and as the main determinant of spatial patterns of city growth and infrastructural investment.[9] It is symptomatic that the very rapid population growth of the largest cities has not been accompanied by any general increase in the density of human occupation of space; in a good many cities density has diminished.[10] The automobile, along with urban land speculation and other factors, has encouraged the cities to sprawl over the countryside, transforming within a few years their previously compact and centralized settlement patterns, changing upper-class residential preferences from central locations to suburbia. Any serious threat to continuing increase in automobile ownership and use thus not only affects the livelihood of an important part of the urban labour force and the consumption aspirations of the strata in which purchasing power is concentrated, but also places a major additional strain on the capacity of the cities to continue to function and grow.

2. The political context and the role of the State

The gap between the prevailing real styles of development and the value-oriented images of what development should provide have accentuated two political contradictions that have long been present in the region: (*a*) The contradiction between the imposing roles assigned to the State as defender of national sovereignty, definer of the national purpose, arbiter between interest-groups and dispenser of services, and the frequently deficient policy-making, planning, administrative and financial capacities of the State; (*b*) The contradiction between political forms emphasizing equal rights and democratic procedures, and the very uneven distribution of opportunities for political participation.

In most Latin American countries, reliance on the State to "solve problems" of whatever nature

[9] Average monthly production (including assembly) of automobiles between 1966 and 1972 increased from 11,000 to nearly 17,000 in Argentina; from 11,000 to more than 36,000 in Brazil; and from 7,000 to 14,000 in Mexico. (Table 45 in United Nations *Monthly Bulletin of Statistics*, January 1974.)

[10] According to a recent study, four national capitals for which data are available have grown as follows:

	Bogotá	*Lima*	*Mexico City*	*Santiago*
Area in km²				
1950 . . .	42.1	108.7 (1954)	175.7	155.7
1960 . . .	73.6	142.1 (1959)	411.7	288.8
1970 . . .	136.1	254.8	742.2	294.5
Density (population per km²)				
1950 . . .	14,737	10,899 (1954)	16,080	8,692
1960 . . .	17,278	10,366 (1959)	12,104	8,336
1970 . . .	18,560	9,963	11,768	9,438

SOURCE: Ligia Harrera, "Los sitios de ubicación y el crecimiento de las ciudades", *Notas de Población*, CELADE, 1, April 1973.

is more widely diffused throughout the population than in most other parts of the third world, and is much more pronounced than it was at the earlier stages of development of the countries which are now industrialized.[11] This leading role of the State derives from historical traditions going back to the colonial period, and is paradoxically associated with chronic distrust or condemnation of the real State for its inability to accomplish what is expected of the ideal State. In practice, the State has generally represented an unstable compromise or implicit pact between interest-groups or social classes able to exert a claim to a share of power, circumscribed in varying ways by relationships to the world centres. With urbanization, the formation of national markets, societal differentiation, the introduction of modern mass communications media, and the expansion of education, the size and diversity of the groups able to exert such a claim has increased, without however embracing the whole population. In the course of trying to reconcile dynamic national development within the bounds of the prevailing style with the more particularistic claims of the groups on whose support it has depended, the State has managed, to varying degrees in different countries, to modernize some elements of its administrative apparatus, to capture an increasing share of the national income, to give employment to a large part of the urban labour force, and to create or take under its control a wide range of productive and infrastructural activities. The quantitative growth and uneven modernization of State activities have probably proceeded more rapidly than the societal processes of growth and change with which they are associated. At the same time, the State has found itself inextricably enmeshed in the incompatibility of the demands made on it (with each other as well as with its over-all resources for satisfying them); in the unavoidability of continual bargaining for support, evasion of issues endangering the political compromise, and adjustments to the changing conditions of trade, aid, and investment; in the complications of legislation expected simultaneously to safeguard the interests of the different groups and to commit the State to assume new responsibilities; and in many other difficulties. The persistent hope of rationalizing these struggles and applying clear priorities for allocation of resources has to a great extent been disappointed, although planning initiatives have helped to clarify the issues.

Under these conditions, the political compromises between groups and the systems of parties and electoral-legislative procedures through which the groups have tested their relative strength and conducted bargaining have periodically run into impasses which have brought about their replacement by systems of a different kind, frequently with the direct participation or support of the armed forces. Such changes have in the past been largely cyclical, with the latter systems in some cases giving way to political alternatives and compromises, whether because of the difficulty of resolving the complexities of the societies and economies or because of the accomplishment of specific objectives. At present, strains between the prevailing style of development and the changing social structures (to be discussed below) and the aspiration to original value-oriented styles (placing still heavier responsibilities on the State and generating formidable resistances) simultaneously encourage the assertion of claims by the State (or rather the institutions or groups controlling it) to an autonomous role, adducing the interest of the nation as a whole and assuming the right and duty to determine a strategy of development and to exclude interests incompatible with that strategy.

Questions of channels and objectives of participation by the masses of the population are perplexing but inescapable for régimes that have assumed such an autonomous role as well as for régimes based on bargaining and compromise. A style of development featuring economic growth with structural heterogeneity combined with open political processes does not achieve general mobilization of the masses in its support, since it cannot incorporate most of them in satisfactorily productive activities nor offer them major improvements in their levels of living, but it does permit—at least for the urban masses, though rarely for the rural—a limited participation in the political struggle for resources focused on the State, through the vote and other means. The resulting concessions, small though they may be, place a strain on the existing distribution of power and the patterns of production, distribution, and consumption, commonly with inflationary consequences. The régimes claiming an autonomous role for the State can exclude this kind of participation, but since they justify themselves in terms of the need for greater national dynamism and unity, their aim is that the masses shall not vegetate in apathetic poverty until economic growth permits their incorporation.[12] Moreover,

[11] One observer, emphasizing the differences between the evolution of the "patrimonialist State" in Latin America and the legitimation in Europe of the State as a necessary evil to regulate relationships between individuals has summed up: "En América Latina se le exigen al individuo credenciales para existir, no al Estado" ("In Latin America the individual must show his credentials to warrant his existence, but not the State"). (Fernando Henrique Cardoso, "La ciudad y la política", in Martha Schteingart, Comp., op. cit.)

[12] See Fernando Henrique Cardoso, "La ciudad y l política", op. cit.

all kinds of régimes recognize their inability to manage through central controls and finance from public revenues the cumulative responsibilities that the State has assumed. All of them aspire to decentralize and de-bureaucratize. Thus, the régimes that take a dim view of "politics" also seek "positive" participation featuring organized local initiatives to solve local problems and raise productivity and levels of living. Interest in the techniques of community development, co-operativism and workers' self-management continually reappears in spite of the many disappointing experiences recorded over the past two decades in connexion with most programmes claiming to apply these principles. It can be concluded that such initiatives are directed to problems so persistent and so insoluble by other means that most régimes will continue to experiment with them whatever their over-all strategy. The experiences of the resulting programmes in their confrontations with national realities have been discussed many times, and only a few points need to be made here.

First, in recent years principles and techniques for awakening the consciousness of the disadvantaged strata of the populations as regards the nature of their problems within the social order and stimulating them to think and act autonomously have gained currency within the more open national societies, in contrast with the previous "community development" supposition concerning the feasibility of incorporating the disadvantaged strata into the social order through aided self-help and appeals to community consensus.[13] These consciousness-arousing principles gained appreciable influence among teachers, social workers, and members of religious bodies. However, the combined dependence of this approach on prolonged educational dialogues guided by persons imbued with these principles and on the tolerance of the power structures they call into question have, in most national settings, rendered attempts to apply them narrow in scope and quite vulnerable to defeat. The organized initiatives and the persons engaged in them have fared badly in the trend towards the assumption of more autonomous roles by the State.

Second, the nature of the "modern" State as it has emerged in Latin America–a complex of administrative and legal systems geared to standardized procedures, controls, and channels for provision of services–means that attempts to decentralize and leave local problems to local initiative run counter to its inherent spirit. The State cannot avoid seeking to enhance its own power and formulating development problems in terms that are compatible with generic, routinized solutions. The objectives of economic efficiency, administrative consistency and social equity all seem to demand this. Such a predisposition encounters, on the part of the groups that are capable of organized action, an equally strong predisposition to focus such action on the obtaining of differential services, subsidies, and protection from the State, combined with a predisposition to use any gains to respond to "modern" consumption appeals rather than investment. It has often been pointed out that local power structures are even less likely than the central authorities to rest on consensus or to welcome the participation of the disadvantaged strata. The attempt to promote decentralization and local initiative are thus very likely to terminate in new forms of bureaucratized relationships between the centre and the local group.

Systematic rejection of the prevailing style of economic growth with structural heterogeneity has been most pronounced in intellectual and academic circles and in part of the educated youth. Groups of intellectuals and academic researchers, particularly sociologists, have been prone to assess the prevailing style as neither acceptable nor viable. An extensive literature has accumulated, mainly within the past decade, analysing the interrelations of external dependency and internal power structures in generating the prevailing style, and examining the potentialities of different social classes, interest-groups, and institutions as destroyers of this style and architects of a different future. The theoretical and value-based premises for rejection of the prevailing style have, of course been extremely varied, and the proposals for action have included predominantly technocratic and nationalistic approaches as well as revolutionary ones. For the present purposes, some attitudes of important social groups in Latin America are identified below:

First, the dependence of some social scientists and educated youth on employment in the State administration has resulted in a certain ambivalence in their rejection of the prevailing style and a certain predisposition to seek means of changing it through their own powers of persuasion with groups controlling the State and their influence in the formulation of policy. The failure of the social classes left behind by the prevailing style to challenge it so vigorously as to constitute a serious threat, and the apparent capacity of the style in the larger countries to maintain itself and support continuing economic growth, has presumably strengthened the inclination to work for gradual changes from within the system.[14]

[13] For a presentation of these principles by their main originator, see Paulo Freire, *The Pedagogy of the Oppressed* (New York, Herder and Herder, 1972).

[14] See Alfredo Eric Calcagno, Pedro Sáinz and Juan de Barbieri, *Estilos políticos latinoamericanos* (Santiago, Chile–Buenos Aires, Ediciones FLACSO, 1972).

Secondly, the strongly critical tone predominating in some academic research and teaching circles in regard to the prevailing style and its supporters, combined with student militancy, has placed many social research institutions in a precarious or even worse position.

Thirdly, the critics–particularly among the youth–who have continued to find the prevailing style radically unacceptable have hardened their intransigence and have demonstrated a disposition to resort to any tactics, including violence, likely to cripple the ability of the style to function, even in circumstances in which they have no apparent likelihood of being able to replace it by an alternative order.

3. The demographic context

The main features of demographic change in Latin America are well known and have been more reliably documented than most other questions with which this chapter is concerned.[15] A glance at table 185 confirms that they are persisting and becoming increasingly marked. They can be summed up as follows:

(*a*) The over-all population growth rate rose slowly during the 1960s to reach a peak of about 2.8 per cent annually. This rate will probably persist through the 1970s, with a slight decline by the end of the decade; a steeper decline during the later 1970s is at least possible. The growth rate is determined by high fertility, beginning to fall slightly in a good many countries but significantly in only a few, and by mortality that has reached

[15] See César Peláez and George Martine, "Population trends in the 1960s and their implications for development", ECLA, *Economic Bulletin for Latin America*, XVIII, 1 and 2, 1973.

Table 185. Latin America:

Country	*Total population (thousands)*			*Density (per km²)*	*Annual average growth rate (%)*	*Birth rate (per thousand inhabitants)*	
	1970	*1975*	*1980*	*1975*	*1970-1975*	*1965-1970*	*1970-1975*
Argentina	23,748	25,384	27,064	9.1	1.33	21.95	21.80
Bolivia	4,780	5,410	6,162	4.9	2.47	43.88	43.72
Brazil	95,204	109,730	126,389	12.8	2.84	38.01	37.12
Colombia	22,075	25,890	30,215	22.8	3.18	43.53	40.61
Costa Rica	1,737	1,994	2,286	39.3	2.76	37.29	33.44
Cuba	8,585	9,528	10,626	83.2	2.08	31.14	28.95
Chile	9,717	10,621	11,547	14.0	1.78	31.83	25.88
Ecuador	6,031	7,090	8,303	25.1	3.23	44.62	41.76
El Salvador	3,516	4,108	4,813	192.0	3.11	44.23	42.17
Guatemala	5,298	6,129	7,100	56.3	2.91	44.64	42.82
Haiti	5,201	5,888	6,665	211.8	2.48	44.56	41.98
Honduras	2,553	3,037	3,595	27.2	3.47	51.11	49.26
Mexico	50,313	59,204	69,965	30.0	3.25	42.80	42.00
Nicaragua	1,970	2,318	2,733	17.9	3.25	48.56	48.32
Panama	1,458	1,676	1,927	22.2	2.79	38.33	36.08
Paraguay	2,247	2,628	3,085	6.4	3.13	43.67	42.25
Peru	13,248	15,326	17,711	11.8	2.91	42.98	41.02
Dominican Republic	4,343	5,118	6,053	105.0	3.28	46.77	45.84
Uruguay	2,887	3,060	3,244	16.4	1.16	21.21	20.83
Venezuela	10,559	12,213	14,134	13.4	2.91	39.55	36.06
Total (20 countries)	*275,470*	*316,352*	*363,617*	*15.8*	*2.76*	*38.51*	*37.21*
Other countries of the region							
Barbados	254	265	263	662.5			20.6[b]
Guyana	745	857	995	4.0			38.1*[d]
Jamaica	1,996	2,201	2,382	200.0			34.4*[b]
Trinidad and Tobago	1,067	1,162	1,255	227.8			24.5[b]
Total other countries	*4,062*	*4,485*	*4,895*	*19.3*			

SOURCE: CELADE, *Boletín Demográfico* No. 13 (January 1974) and ECLA estimates based on official statistics.
[a] Urban population defined as that living in cities of over 20,000 inhabitants.
[b] 1970.

quite low levels—partly because of the youthfulness of the population—but that also continues to decline slowly. For the region as a whole, the crude birth rate declined from 40 per 1,000 population in 1960 to about 38 in 1970, while the crude death rate fell from 11 to 9. Migration across national boundaries now makes practically no net contribution to population growth in the region as a whole, although migration between some Latin American countries is gaining in importance,[16] and the outward migration from the region of persons possessing skills amounts to a significant qualitative loss. In absolute terms, the population of Latin America increased by 50 million during the 1950s, by 69 million during the 1960s, and it will increase by more than 90 million during the 1970s, giving a regional population of 210 million in 1960, 279 million in 1970, and more than 368 million in 1980.

(*b*) The predominant youthfulness of the population has become even more accentuated. More than 42 per cent of the regional population in 1970 was in the "dependent" group 0-14 years of age; in 13 countries the percentage was 45 or

[16] Migration across national boundaries within the region has until recently consisted mainly of persons from the poorer rural zones of certain countries seeking a better livelihood in countries with more favourable labour markets or empty land near the frontiers. Such migrations seem to be increasing in scale, but their partly temporary and partly clandestine character prevents reliable estimates of their importance. In the last few years, exoduses of members of the middle and upper strata, including professionals, entrepreneurs, and students, originating in various political and economic conjunctures, have become quantitatively important for a few countries.

demographic indicators

Death rate (per thousand inhabitants)		*Life expectancy at birth*		*Percentage of urban population*[a]		*Percentage of urban population*[a] *in cities of more than 100,000 inhabitants*		*Percentage of total population by age group in 1975*		
1965-1970	*1970-1975*	*1965-1970*	*1970-1975*	*1960*	*1970*	*1960*	*1970*	*0-14*	*15-64*	*65 and over*
8.59	8.76	67.36	68.19	58.2	66.4	85.6	81.9	28.5	63.6	7.9
19.04	17.96	45.25	46.75	20.1	22.7	48.9	73.5	43.0	54.1	2.9
9.51	8.77	59.66	61.39	28.5	38.5	75.1	75.9	42.0	54.8	3.2
10.33	8.79	58.51	60.91	29.9	43.1	70.8	78.8	45.7	51.5	2.8
7.31	5.89	65.41	68.18	22.3	32.2	100.0	78.6	42.2	54.5	3.3
6.37	5.92	71.01	72.30	40.3	46.2	71.7	68.5	38.0	55.6	6.4
9.77	8.10	61.50	64.35	50.1	54.6	69.5	71.0	36.3	59.0	4.7
10.99	9.47	57.18	59.63	25.5	32.9	70.4	65.3	46.0	51.2	2.8
13.00	11.09	54.87	57.83	16.9	18.1	57.5	51.6	46.5	50.3	3.2
15.69	13.72	50.12	52.93	13.1	17.7	88.7	82.4	44.2	53.0	2.8
19.72	17.18	44.46	47.46	6.1	7.0	78.0	78.2	42.9	54.1	3.0
17.54	14.57	49.38	53.49	10.9	15.6	62.2	85.6	46.9	50.3	2.8
9.73	8.62	60.98	63.22	32.0	35.3	72.8	75.4	45.9	50.6	3.5
15.65	13.87	50.43	52.86	19.3	25.3	68.8	70.9	48.4	49.2	2.4
8.08	7.14	64.90	66.53	32.9	37.5	76.8	76.3	42.8	53.4	3.8
10.10	8.62	59.41	61.55	16.5	22.5	100.0	91.6	47.3	50.0	2.7
13.69	11.92	53.38	55.65	26.1	33.4	69.8	76.4	44.1	53.0	2.9
12.33	10.96	55.68	57.76	18.0	27.7	65.1	68.8	48.0	49.4	2.6
9.36	9.22	69.28	70.08	56.1	70.2	79.2	74.5	27.9	63.1	9.0
7.94	7.01	63.00	64.74	43.0	56.7	64.6	71.9	44.4	52.5	3.1
10.28	*9.28*	*59.51*	*61.46*	*32.5*	*40.0*	*74.9*	*75.9*	*42.2*	*54.1*	*3.7*
	8.7[b]						–	36.3[c]	56.3[c]	7.4[c]
	6.8*[b]				13.9		–	–	–	–
7.3[b]	7.2[e]				32.0		81.0	45.9[b]	48.6[b]	5.6[b]
	6.8				49.0		68.9	37.1	58.4	4.5

[c] 1969.
[d] 1968.
[e] 1972.
*Estimates.

more. Less than 4 per cent of the regional population was 65 years of age or over. The 54 per cent of the population between 15 and 64 years of age, moreover, is heavily concentrated in the younger age groups. This pattern will not change appreciably during the 1970s, with the national exceptions to be noted below.

(*c*) The concentration of population in urban centres continues unabated without, however, being sufficiently rapid to bring rural population growth to a halt except in a few countries. The percentage of total population living in centres with 20,000 or more inhabitants rose from 32.5 in 1960 to 40.0 in 1970, while the percentage of this urban group living in cities with more than 500,000 inhabitants also rose, from 52 per cent to 56 per cent. The remainder of the population is not by any means exclusively rural-agricultural; if one includes the smaller towns, a majority of the population is already urban and by 1980 a majority will be living in centres above the 20,000 mark.

For present purposes, it is unnecessary to enter into further detail on over-all demographic trends that have been often described. The predominant trend is one of enormous increases in the scale of well-known phenomena without, as was noted above, qualitative changes of equal importance. At this point it will be sufficient to distinguish between demographic trends in different types of countries within Latin America, to single out the indications of and potentialities for significant shifts in these trends in some individual countries, and to try to relate national economic and social patterns and public policies to these actual or potential shifts. A grouping of countries by demographic traits coincides, by and large, with groupings based on other societal characteristics:[17]

(*a*) Four countries (Argentina, Chile, Cuba and Uruguay), with about 15 per cent of the regional population, have either completed a demographic transition to moderate rates of population increase based on moderate fertility and low mortality or are in the midst of such a transition. In these countries the youthful "dependent" population is much smaller than the regional average, ranging from 38.0 to 27.9 per cent, while the aged population is larger, ranging from 4.7 to 9.0 per cent. The intermediate "working age" population (55.6 to 63.6 per cent) is also larger. During the 1970s, the youthful proportion will continue to shrink and the aged proportion to grow, with the intermediate group remaining more or less stable. In three of these countries, population growth rates remain a good deal higher than the European norm, but in Uruguay there is reason to believe that in the more recent years out-migration of young adults, stimulated largely by economic stagnation and unemployment of educated youth, although not taken into account in the demographic calculations, has brought real population growth to a halt. In Chile, age distribution is at present closer to the regional average than in the other countries of this group, but the changes during the 1970s will be particularly pronounced, since a steady fall in fertility since the early 1960s is bringing it into closer correspondence with the patterns of the other highly urbanized countries.

In Cuba, the birth rate declined more slowly since 1960, from a level already lower than that of any other Latin American country except Argentina and Uruguay. In Cuba, however, the most significant demographic trend has been the modest rise in the level of urbanization (i.e., the proportion of the population living in centres with 20,000 or more inhabitants) from 40.3 per cent in 1960 to 46.2 per cent in 1970. The rate of urbanization is thus lower than in most other countries of the region except a few small countries in which urbanization is only incipient, and reflects a deliberate policy as well as the whole process of economic and social transformation and the emigration during the 1960s of a part of the urban middle class.[18]

(*b*) Leaving Argentina out of the reckoning, the five other countries (Brazil, Colombia, Mexico, Peru and Venezuela) with the largest national populations in Latin America account for 68 per cent of the regional population, and thus dominate the averages, while their demographic patterns resemble each other more closely than they resemble those of the remaining countries. All of them have rates of population growth at or above the regional average, and while their present official population policies differ, all of them have at least a reasonable expectation that by the end of the 1970s declines in fertility, now incipient, will be pronounced enough to outweigh declining mortality and reduce growth rates to some extent. Growth rates are bound to remain quite high, however, and the predominantly youthful character of their populations will persist. The expectations of significant change in demographic patterns are based mainly on the relatively rapid,

[17] For details of a typology of national situations on which the grouping used here is based, see ECLA, *Social Change and Social Development Policy in Latin America*, op. cit., chapters III and IV, and the chapter on Latin America in the United Nations *Report on the World Social Situation, 1970*.

[18] The growth of the main metropolis, Havana, seems to have been practically brought to a halt, while secondary urban centres have been allowed to grow more rapidly and some new ones have been created. See Maruja Acosta León and Jorge Hardoy, "La urbanización en Cuba", in Martha Schteingart, Comp., op. cit.

although highly uneven, urbanization and modernization of their societies. The urban population in these countries grew at an average annual rate of 6 per cent between 1960 and 1970, and the rate has certainly not slackened since. Urban growth accounted for nearly 70 per cent of total population increase. In four countries, however, the rural population also continued to grow at about 1.5 per cent annually, the population in centres with 20,000 or more inhabitants remaining a minority. Only in Venezuela did urbanization proceed rapidly enough to bring rural population growth to a halt and produce an urban majority of 56.7 per cent in 1970. Venezuela thus now resembles the first group of countries in spatial concentration of population, while differing in the rapidity with which it has attained this concentration and in the continuing high rate of over-all population growth, which has thus far declined only slightly, from 3.6 per cent in 1960 to 3.3 in 1970. Official policy has for some time concerned itself with the problem of concentration, mainly through the formulation of regional development programmes, but has not addressed itself to influencing the rate of growth.

The two most populous countries of Latin America are Brazil and Mexico and their demographic trends are thus of particular interest. The internal regions of Brazil have quite different demographic as well as social and economic traits—traits similar to the first group of countries in the south and south-east, traits similar to the third group to be discussed below in the north and north-east—resulting in an over-all rate of increase somewhat lower than in the other large countries and declining slowly, from just over 3.0 per cent in 1960 to about 2.8 per cent at present. Official opinion has thus far looked on this rate of increase as favourable to development, but expects the course of development eventually to bring it down.[19] In Brazil, the demographic consequences expected of urbanization, modernization and industrialization are in fact beginning to become visible, although partially obscured by the very uneven development of the internal regions. In Mexico, however, they are curiously lacking in spite of processes of economic and social change that have been profound and of long duration. The Mexican birth rate has continued practically unchanged since 1960, at a level exceeded only by a few of the small predominantly rural countries, and the rate of population increase, at 3.5 per cent annually, is now one of the highest in Latin America. This continuing trend has resulted in a sharp reversal of official opinion, which was previously complacent concerning the high rate of growth. In September 1973 the President presented to Congress a General Population Law with the objective of "regulating the phenomena that affect the volume of the population, its structure, dynamics and distribution in the national territory so that it can participate justly and equitably in the benefits of economic and social development".[20] The law provides not only for the promotion of family planning programmes, but also for reforms in settlement patterns, directed against excessive concentration as well as excessive dispersal of population. In view of the relatively high demonstrated capacity of the Mexican State for stimulating and controlling economic growth, its planned intervention in demographic trends deserves close attention.

The Colombian situation is quite similar to that of Mexico. Here too urbanization and economic growth have not appreciably affected high fertility, and the impact of modernization has been more limited and recent than in either Mexico or Brazil. The Government has included criteria and objectives for population policy, including the use of family planning to reduce fertility, in its development plans since 1969.[21]

The fifth country in this group, Peru, is really in an intermediate position, closer to the third group next to be discussed. Accelerated urbanization began somewhat later than in the other large countries, and in 1970 only 33.4 per cent of the population lived in centres with more than 20,000 inhabitants. Since 1960, declining mortality has more than compensated for a slight fall in the birth rate, and population increase, at 2.9 per cent annually, is somewhat faster than the Latin American average, although well below the rates of Colombia and Mexico. As in the case of Brazil, official opinion considers the rate of increase on

[19] "The Brazilian Government does not take any measures that might influence the rate of population growth. It is expected, however, that the increasing process of urbanization and economic development, coupled with constant concern to raise the level of education of the whole population, will inevitably lead to a reduction in the future rate of population growth." (Translated from "Estrategia da Segunda Década para o Desenvolvimento. Informações sobre o Brasil", Ministry of Foreign Relations, Brasilia, 30 October 1972.)

[20] "Su objeto es regular los fenómenos que afectan al volumen de la población, su estructura, dinámica y distribución en el territorio nacional con el fin de lograr que participe justa y equitativamente de los beneficios del desarrollo económico y social". (Iniciativa de Ley General de Población, Artículo 1º.) For the text of the Law and statements introducing it, see *El mercado de valores*, Semanario de Nacional Financiera, S.A., XXXIII, 43, 22 October 1973.

[21] According to a recent interview with the director of the Departamento Administrativo Nacional de Estadística (DANE), the preliminary results of the 1973 census and other sources show a fall in the birth rate from 44 per 1,000 population in 1970 to 38 in 1973, resulting in a drop in the population growth rate from 3.2 to 2.95 per cent (*El Tiempo*, Bogota, 25 January 1974).

the whole positive and is more preoccupied with the finding of means to influence spatial distribution, occupy unexploited parts of the national territory, and counteract concentration in the one metropolitan centre, Lima.

(*c*) The eleven remaining Latin American countries are much smaller in population size than any of the countries in the first two groups except for Uruguay. Altogether, they comprise about 16 per cent of the regional population. Eight of them have population growth rates above the regional average, and in most cases these rates rose during the 1960s. (The Costa Rican rate of increase corresponds to the regional average, and the rates of Bolivia and Haiti (around 2.5 per cent) are well below it, because relatively high mortality has continued to offset high fertility.) All of these countries except three are much more predominantly rural than the countries in the first two groups, and their rates of urbanization have been more modest. (Panama, Ecuador, and Costa Rica, with between 32 and 37.5 per cent of their populations in centres over the 20,000 line are at the lower edge of the range for the countries in the second group.) In 1970, slightly less than a quarter of the combined populations of these countries lived in centres with 20,000 or more inhabitants. Between 1960 and 1970, their combined rate of urban growth was over 5 per cent, but the rest of the population increased at a rate of over 3 per cent, and the urban localities absorbed only 37 per cent of total population growth. During the 1970s the rates of population growth of several of these countries may continue to rise somewhat. In Bolivia and Haiti, the potentialities for acceleration of the rate are quite substantial if the mortality rates, which are still well above the regional average, continue to fall. The continuing predominance of the rural population and the sluggishness of urbanization suggest that a spontaneous demographic transition is unlikely to attain significant momentum in the foreseeable future, and their continuing high rates of population increase and low per capita income levels will accentuate their vulnerability in the international economic conjuncture. Official opinion in these countries has been readier than in the larger ones to look to family planning programmes to alleviate their problems, and several of their Governments have defined targets for reductions in birth rates. However, the capacity of their public health services to undertake family planning on the scale called for by such a purpose has not yet been demonstrated.

The probable exceptions among the small countries are Panama, Ecuador, and Costa Rica, for differing reasons. Panama, a relatively urbanized country with a specialized economy, is experiencing a small but significant decline in fertility. Ecuador may be on the brink of a major economic transformation, accompanied by rapid urbanization and the emergence of demographic patterns similar to those of Venezuela.

The case of Costa Rica is particularly interesting. Here the level of urbanization remains relatively low, but the cultural-economic gap between urban and rural population is narrower than elsewhere. The per capita income is close to the regional average, but is probably less unevenly distributed than in most of the other countries, and the level of education has long been far above the regional average. Up to 1960, Costa Rica had rates of fertility and population increase among the highest in the world. Since then, it has been the only Spanish-speaking country aside from Chile—which started from a much lower fertility level—to show a really rapid decline in fertility. The crude birth rate fell from 48.0 in 1960 to 34.5 in 1970 and 31.6 in 1972, and the rate of population increase fell from 3.9 per cent in 1960 to 2.9 per cent in 1970, in spite of a simultaneous steady fall in mortality. The fertility decline derives from consistent changes in the reproductive behaviour of women throughout the childbearing span, in rural as well as urban areas and must be attributed mainly to a spontaneous change in values concerning family size. While family planning activities have received public support since the mid-1960s, the downward trend in fertility gained momentum before these could have had an appreciable impact.[22] Although the Costa Rican population is too small to weigh significantly in the regional averages, the trend supports two important hypotheses: (*a*) that fertility transitions much more rapid than those of the past are quite possible in other parts of Latin America; (*b*) that levels and patterns of consumption, education, and other facets of modernization are more important preconditions for such transitions than urbanization *per se* or public family planning measures, although the latter can no doubt speed up the transition once it is under way.

(*d*) The Caribbean countries and territories (excluding Cuba, the Dominican Republic, Haiti, and Puerto Rico) comprise less than 2 per cent of the regional population, but include a wide range of localized demographic as well as economic, cultural and political patterns. They can be divided into two groups: (*a*) mainland countries with

[22] A recent investigation concludes that "it does not appear that the programme could have played a major role in the decline of fertility between 1959–1969". The same source cites estimates that by 1971 70 per cent of urban women and 25–54 per cent of rural women were using contraceptives; the rural percentage must be higher than in any other Latin American country, reflecting the uniqueness of the Costa Rican rural social structure and the close ties between urban and rural groups. (Jack Reynolds, "Costa Rica: Measuring the demographic impact of family planning programmes", *Studies in Family Planning*, 4, 11, November 1973.)

sparse populations concentrated in a small part of the national territory, with high fertility and rates of population increase similar to the Latin American average (Belize, Guyana and Surinam); (*b*) island units with relatively high population densities, in which emigration was for a time an important safety-valve for population pressures. In the English-speaking Caribbean countries and territories between 1960 and 1970, average annual net emigration amounted to 52 per cent of the natural increase, while emigration of males represented fully 80 per cent of total accessions to the male labour force. This safety-valve was increasingly blocked during the 1960s by restrictive measures in the main receiving countries, United Kingdom, Canada, and United States, while the nature of the restrictions acted as a screen to accentuate the differential outflow of professionals and skilled workers. During the same period, birth rates have declined to levels well below the Latin American average, although the fall has been much more pronounced in some countries (Barbados and Trinidad and Tobago) than in others (Guyana and Jamaica). This trend can be attributed to varying combinations of emigration of women of child-bearing age, cultural change, and family planning programmes, which have been officially supported and have had fertility reduction objectives since the 1960s (in Barbados since 1956). Rates of population increase are now between one and two per cent, except in the mainland countries. Even these rates are commonly judged excessively high, in view of the smallness of the national territories and the inadequate capacity of the economies to absorb a growing labour force. It is arguable, however, that the main problem at present does not lie in population increase *per se*, but in the specialized character of the economies and the widening gap between the urban-oriented aspirations of the labour force and the opportunities offered by the economies. Under these conditions, even the attainment of stationary population might not relieve the difficulties appreciably.[23]

4. Social stratification and income distribution in the context of structural heterogeneity, dependent modernization, population growth and urbanization

Discussions of social stratification and mobility in Latin America have long been dominated by two preoccupations: (*a*) to distinguish classes or key groups comparable to those associated with the development of the countries now industrialized and to define for them roles and strategies within determined conceptions of development; (*b*) to assess the patterns of stratification and mobility that can be deduced from existing information in relation to standards for social justice, for the achievement of political participation and stability, and for the carrying out of essential societal functions.

Both preoccupations have struggled with the fragmentary and ambiguous nature of the relevant information.[24] They have had to depend on occupational and income distribution data, mainly from national censuses and a certain number of sample surveys that were not designed to answer stratification questions, that lump together widely differing phenomena inherent in the situations of structural heterogeneity, that present many problems of comparability between countries and between time periods, and that generally become available only after long delays. At best, such data throw only a dim light on the degree of validity of concepts such as "middle class", "proletariat", "marginal mass", etc. In 1974, information bearing on stratification from the 1970 round of censuses is only beginning to become available.

Plausible generalizations have thus been handed down in the absence of new evidence, or refuted under the same conditions, possibly because of the later analysts' need to demonstrate originality. Behind this unsatisfactory situation, there seems to be a great deal of ambiguity inherent in the trends themselves and stemming also from a diversity of local situations great enough to permit the finding of some evidence to support almost any generalization. For the most part, social classes have not emerged in a clearcut way to play the roles allocated to them in various interpretations, and the transitory character of certain mobilizations suggests that, at least in some national settings, an illusory reality has been conferred on the "classes" by élites or counter-élites seeking mass backing for their own strategies. Changes in social stratification forecast a few years ago must have taken place, at least in part, without having the transforming impact on the economies and societies expected of them.

It is now possible to make certain tentative

[23] These questions were discussed in more detail in the Latin American chapter of the 1970 *Report on the World Social Situation*.

[24] The only large-scale sample surveys focused on social mobility continue to be those carried out in three cities at the "modern" end of the regional spectrum—Buenos Aires, Montevideo and São Paulo—in 1959 and 1960. (See *Social Change and Social Development Policy in Latin America*, op cit., pp.67–68.) Field investigations bearing on questions of social stratification and mobility, after a period of increase during the 1950s and early 1960s have fallen off again, partly because of reactions against the external auspices and methodologies with which they were associated, partly because of the precarious situations of many social research institutions and the political sensitiveness of the questions being explored.

statements concerning recent changes in stratification on the basis of comparative occupational data from censuses and household surveys (carried out by the Atlantida project) made around 1960 and 1970, and the over-all trends shown can be checked against income distribution data. The occupational data usable at present refer to six countries. Two of these (Chile and Uruguay) belong to the first demographic group distinguished above: i.e., the longer-urbanized countries with relatively high educational and income levels. Two (Brazil and Venezuela) belong to the second group of large countries with rapid population growth and urbanization, and with particularly pronounced structural heterogeneity. One (Costa Rica) is a small country with a combination of traits unique in the region: a predominantly rural population with relatively high educational and income levels. The last (Ecuador) is more typical of the predominantly rural small countries. During 1974, comparative data for more countries should become available, and the hypotheses here presented can then be explored more deeply.

Information for the six countries appears in percentage form in table 186. The percentages for Costa Rica and Ecuador cover the urban population alone and those for Uruguay, Montevideo alone, while data for the other three countries are national. It should be kept in mind that because of large increases in the size of the employed population during the 1960s in all countries except Uruguay, declining percentages do not, except in extreme cases, mean declining absolute numbers in an occupational grouping, while rising percentages mean very large increases in absolute numbers.

The character of the information does not permit a distinction between "upper" and "middle" strata, and it is not worthwhile for present purposes to divide these strata between "secondary" and "tertiary" occupations. In the case of employers, for example, the data do not indicate the number of persons employed nor the volume of capital; the category thus includes situations not much different from self-employment as well as the largest entrepreneurs. At the other extreme of the "middle and upper" grouping, the category of "employees, salesmen, and assistants" comprises very heterogeneous situations, and the bulk of its members are classified thus because of the social status of "white-collar" occupations rather than because of any clearcut income differentiation from wage-workers in the second and third main groupings.

In the three countries with nationwide data, the relative importance of the lower strata employed in the primary sector (mainly agriculture) has declined sharply, as might have been expected, with a particularly spectacular drop in Venezuela, from 32.7 per cent to 19.1 per cent of the employed population. In Brazil and Venezuela, rural wage-workers and self-employed small cultivators have declined at similar rates; in Chile the relative stability of the latter group (meaning a growth in absolute terms) reflects the land reform effort. In Costa Rica and Ecuador, the sharp decline in primary occupations in zones classified as urban must mean that the smaller cities are losing a previous semi-rural link with agriculture.

The urban lower strata in secondary and tertiary occupations have remained unexpectedly stable in their relative importance, rising significantly only in Venezuela, with its exceptionally rapid urbanization, and in Uruguay for quite different reasons to be discussed below. It is particularly striking that these strata have lost ground in relative terms in Brazil, in a period of rapid urban growth and even more rapid economic growth in the secondary and tertiary sectors. A significant shift from artisanal self-employment to wage labour in the secondary sector has taken place in most of the countries, but not enough to reduce the absolute size of the artisanal group. Contrary to what might have been expected from previous discussions of under-employment and marginality, there are no significant relative increases of the lower strata in tertiary occupations, and the importance of the self-employed tertiary group, supposed to represent the most precarious low-income occupations, remains quite small. The meaning of the percentages for lower-strata salaried employment in the tertiary sector is not entirely clear, since this category includes relatively stable employment in public services, police, military, etc., as well as poorly paid and precarious personal services, but it can be assumed that the greater part of this category, together with the self-employed in the secondary sector, are in relatively disadvantaged or marginal positions.

The over-all stability of the relative size of the urban lower strata reflects the well-known incapacity of industry, whatever the rate of growth in production, to absorb a significantly larger part of the urban labour force under present technological trends. It must also indicate, however, that the urban societies have more effective mechanisms than was previously believed for upward mobility into the lower reaches of the middle strata, offsetting the continual flow of rural and small-town migration. The result is that neither the "proletariat" (the workers employed in the more "modern" and productive occupations, assumed to be essential to the functioning of the productive system and particularly capable of organized action) nor the "sub-proletariat" or "urban marginal strata" (the groups whose poverty and precarious access to employment seem to make their

Table 186. Occupational strata

	Brazil		*Costa Rica*		*Chile*		*Ecuador*		*Uruguay*		*Venezuela*	
	1960	*1972*	*1963*	*1970*	*1960*	*1970*	*1962*	*1968*	*1963*	*1970*	*1960*	*1973*
I. *Middle and upper strata (other than primary occupations)*	*15.0*	*23.3*	*33.6*	*46.2*	*20.3*	*27.8*	*25.0*	*39.8*	*50.9*	*45.8*	*23.9*	*36.8*
(*a*) Employers	1.9	4.1	3.0	6.0	1.5	2.4	1.7	4.1	8.4	5.6	1.8	3.6
(*b*) Self-employed with own commercial establishment	0.2	1.6	4.4	3.1	3.7	4.9	9.1	12.1	3.0	3.8	5.4	7.0
(*c*) Independent professionals and semi-professionals	0.7	0.5	0.5	0.3	0.6	0.6	0.7	1.3	2.5	1.5	0.4	0.6
(*d*) Dependent professionals	2.6	4.3	9.4	11.0	4.0	6.2	5.3	7.2	7.5	7.3	4.8	8.2
(*e*) Managerial personnel	2.6	12.8	1.9	3.4	1.4	1.2	0.4	1.1	1.3	0.8	1.0	1.3
(*f*) Employees, sales personnel, auxiliaries	7.0		14.4	22.4	9.2	12.5	7.8	14.0	28.2	26.8	10.5	16.1
II. *Lower strata in secondary sector*	*22.7*	*20.1*	*32.4*	*31.3*	*32.4*	*31.9*	*38.2*	*34.7*	*30.1*	*36.1*	*26.0*	*30.2*
(*a*) Wage workers	15.2	14.6	25.1	26.1	26.1	25.2	19.2	22.5	25.0	29.5	19.3	22.5
(*b*) Own-account workers and unpaid family workers	7.5	5.5	7.3	5.2	6.3	6.1	19.0	12.2	5.1	6.6	6.7	7.7
III. *Lower strata in tertiary sector*	*7.1*	*7.9*	*16.5*	*15.7*	*13.4*	*12.0*	*14.8*	*17.7*	*14.9*	*14.3*	*11.4*	*12.6*
(*a*) Wage workers in services	6.7	6.5	15.2	15.0	12.3	10.9	12.4	13.9	13.9	12.7	10.0	10.7
(*b*) Own-account workers and unpaid family workers in services	6.4	1.4	1.3	0.7	1.1	1.1	2.4	3.9	1.0	1.6	1.4	1.9
IV. *Middle and upper strata in primary sector*	*0.0*	*0.1*	*1.3*	*1.1*	*0.5*	*0.8*	*1.2*	*1.0*	*6.3*	*0.6*	*0.9*	*1.0*
(*a*) Employers in agriculture and extractive enterprises	0.0	0.1	1.3	1.1	0.5	0.8	1.2	1.0	6.3	0.6	0.9	1.0
V. *Lower strata in primary sector*	*50.9*	*40.2*	*12.6*	*4.8*	*29.9*	*24.4*	*18.9*	*6.1*	*0.5*	*1.4*	*32.7*	*19.1*
(*a*) Rural wage workers	14.2	11.8	8.3	3.9	21.7	16.5	10.6	3.9	0.4	0.5	11.6	7.1
(*b*) Own-account workers and unpaid family workers	36.7	28.4	4.3	0.9	8.2	7.9	8.3	2.2	0.1	0.9	21.1	12.0
VI. *Other (unclassified residual, probably mainly in primary sector)*	*4.3*	*8.4*	*3.6*	*0.9*	*3.2*	*3.7*	*1.9*	*0.7*	*3.3*	*1.8*	*5.1*	*0.3*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

SOURCES AND COVERAGES: *Brazil:* 1960—Sample from census for whole country; 1972—Sample surveys in 6 regions.
Costa Rica: 1963 and 1970—Sample surveys covering urban zones.
Chile: 1960—Sample from census; 1970—Census. Whole country in both years.
Ecuador: 1962 and 1968—Sample surveys covering urban zones.
Uruguay: 1963—Sample from census; 1970—Sample surveys. Montevideo only in both years.
Venezuela: 1960—Census; 1973—Sample surveys. Whole country in both years.

interests particularly incompatible with the prevailing style of development) are increasing their relative weight within the societies.

The most striking change shown by the occupational statistics is the rise in relative importance of the urban middle and upper strata. Their growth practically compensates for the decline of the lower strata in primary occupations. All the occupational categories within these strata share in the gains except for the independent professionals and semi-professionals. The trend is similar in countries with very diverse economic structures and levels of urbanization, being most pronounced in Venezuela, where the urban middle and upper strata have increased from less than a quarter to more than a third of a very rapidly growing national population.

The only exception is Uruguay, and it is a very significant exception. Here the urban middle strata have for a long time constituted a higher proportion of the population than in any other country, save possibly Argentina, with a particularly important representation of public employees. Prolonged economic stagnation, to which the occupational structure presumably contributed, made continued occupational distribution of this kind increasingly precarious. It is likely that the fall in the middle and upper strata between 1963 and 1970 and the compensatory rise in lower-strata secondary-sector employment derives mainly from differential emigration of professionals, small entrepreneurs, and persons educationally qualified for white-collar employment.

Increases of such magnitude in the relative importance of the urban upper and middle occupational strata during the short space of a decade suggest a number of questions. Can trends of this kind continue much longer, and up to what maxima in the different types of national society in the region? How does this enormous mass of persons, most of whom presumably enjoy above-average incomes and contribute only indirectly, if at all, to production, affect the functioning of the economic systems? What are their preferences or images concerning the future of their societies and how does their political participation influence the prevailing style of development? Does Uruguay foreshadow similar crises in the evolution of the upper and middle strata elsewhere? What have been the causes of such rapid growth?

Available information, limited to internally heterogeneous occupational aggregates, permits only tentative answers to such questions. The growth of the strata under observation has already proceeded farther than might have been thought economically viable a few years ago, and the patterns of economic growth have been shaped to an important extent by their demands as consumers. In the larger countries with rapidly growing and diversifying economies, or with public sectors able to count on expanding oil revenues, considerable increases may still be on the cards. In the smaller countries dependent on agricultural exports or on minerals less in demand than oil, however, the economic limit must be less flexible.

The category of employers in the secondary and tertiary sectors–the group presumably most relevant to the productive capacity of the economies–has increased more rapidly than any of the others, doubling its share of the national active populations, but remains a quite small fraction of the total. Meanwhile, the upper and middle strata in the primary sector, consisting largely of agricultural employers, have remained insignificant in numbers. The data do not demonstrate that broadening of property ownership or the emergence of medium and small entrepreneurs has had more than a minor role in the increase of the upper and middle strata. In spite of declared policies in a good many countries, the concentration of control of productive activities is probably as great as ever.

The burden of the unproductive or dubiously productive parts of these strata on the economies must be considerable. The professionals and semi-professionals dependent on salaries show particularly high rates of growth, from bases considerably larger than the category of employers except in Brazil. Sub-groups in this category have particularly strongly-organized capacities to insist that society make use of their services and remunerate them at their own valuation. The category in Venezuela has nearly doubled its representation and now constitutes one in 12 of the occupied population; in Chile it is one in 16, and in Brazil nearly one in 20. While the category undoubtedly includes essential developmental specializations that are still in short supply, its rate of increase and its internal composition have been determined more by the unbalanced growth of the educational systems, to be discussed below, than by societal needs that might be deduced from the style of development.

The category of white-collar employees, sales personnel, and auxiliaries now comprises one out of six active persons in Venezuela, one out of eight in Chile, and one out of 10 in Brazil. In Costa Rica and Uruguay the same category accounts for a quarter of the urban active population. Such proportions of employees and salesmen in the urban populations presumably indicate both a great deal of low-productivity intermediary activity in urban commerce, and the continuing expansion of the lower levels of the public administration, at a well-known price of self-defeating complexity and make-work procedures.

In brief, the most significant factor among those contributing to the growth in relative importance of the urban upper and middle occupational strata seems to have been the assumption of a special role by the State, capturing considerable resources from the economic system–or from foreign credits–and applying them to the creation of employment for professionals, technicians, and miscellaneous white-collar personnel. The process has functioned with least difficulty in the presence of concentrated high-productivity economic activities from which a surplus could be extracted without affecting production. This process, with the associated expansion in public social services, has been a fairly effective safety-valve for the pressures and discontents associated with urbanization, and has also stimulated consumer-goods industrialization and urban private service activities through the broadening of consumer demand. At some point, however, the combination of rising consumption aspirations and rising numbers trying to enter the privileged strata through the channels of education and political participation must endanger the capacity of the economic system to maintain a minimum level of capitalization, and threaten the capacity of the economically and politically dominant groups (internal or external) to control it. At that point, a reversal of the process can be expected, under conditions of extreme tension, and probably with the lower strata forced to pay the greater part of the cost through compression of wage levels and job opportunities. It has been suggested that the expansion of the middle strata up to the limits of economic capacity, followed by a painful reversal and then by a resumption of the trend under improved economic conditions, can be cyclical, and that something of the kind occurred in the 1930s, when the economies were more specialized and export-oriented and the proportions of national population affected were much smaller.

Income distribution data throw a somewhat different light on the trends, suggesting a higher degree of concentration of the fruits of economic growth than do the occupational data, but confirming a significant broadening of the strata that benefit. National inquiries into income distribution have become more abundant in recent years, although they leave a good deal to be desired in regard to comparability and coverage.[25] Even the most systematic inquiries suffer from inherent drawbacks in obtaining reliable data on incomes at the top and bottom of the scale, since the upper strata in typical national situations have good reasons for concealing part of their incomes, while the strata at the bottom, dependent on various intermittent sources of livelihood and on income in kind, are unable to give precise information on theirs. The available data have been tabulated by deciles, which may obscure the real dividing lines between groups with different levels and rates of increase, and cannot be related directly to the occupational categories. It can be assumed that the incomes of the lower categories of the "middle" occupational strata overlap to an important extent with those of the "lower" (manually-employed) workers in the secondary sector; the gains of the former have been in social status more than in income.

The proposition that incomes and consumption in most Latin American countries are more unevenly distributed than in most other parts of the world has been generally accepted for some time, and can be confirmed by casual observation.[26] This does not mean that the gap between the highest and the lowest incomes is necessarily wider than elsewhere. The striking feature is the juxtaposition of majorities at very low income levels with sizable minorities at income levels enabling them to participate in "modern" consumption patterns–although this participatory capacity may not correspond to their aspirations. The percentage of personal income received by the lowest 20 per cent of the population is not very different from that found in France and the United States, although the absolute level of this poorest group is naturally much lower. In France and the United States, however, incomes climb steadily in succeeding deciles. In typical Latin American countries the rise is much slower up to the eighth or ninth decile. The 30 per cent of income receivers immediately below the median and the 20 or 30 per cent immediately above (depending on the country) thus receive much smaller proportions of total personal income than their counterparts in

[25] The ECLA secretariat has been engaged in studies of income distribution for several years. For earlier findings and methodological explanations see *Economic Survey of Latin America 1969* and "Comparative distribution of incomes in some cities of Latin America and in the respective countries", *Economic Bulletin for Latin America*, XVIII, 1 and 2, 1973. The present section summarizes some recent findings of this continuing research programme. Some of the questions dealt with here are discussed in more detail in chapter 1 of E/CN.12/947/Rev.1, op. cit.

[26] A recent classification of countries by income level and inequality of distribution prepared by the Development Research Center, World Bank, distinguishes three per capita income levels (low–up to U.S. $300; middle–U.S. $300–750; and high–over U.S. $750) and three groupings by degree of inequality (high, medium and low). Out of 15 Latin American and Caribbean countries listed, 7 are in the low-income group, 8 in the middle-income group. Nine of these countries have high inequality (5 in the low-income, 4 in the middle-income group); 6 have moderate inequality; none has low inequality. Among the low-income countries listed for the rest of the world, 5 have high inequality, 8 moderate, 10 low. Among the middle-income countries, the numbers are 2, 0, and 7; among high-income countries 8, 6, and 9.

the high-income countries. In the next highest 15 to 25 per cent—the group immediately below the top—income levels rise rapidly; the share received by this group is quite similar in Latin America, France and the United States. Finally the top 5 per cent of income receivers get a much larger share of the total than do their counterparts elsewhere. This means that the income level of the majority is far below the national average per capita. According to a calculation based on data from 11 countries for years ranging between 1967 and 1970, the bottom 20 per cent received only 2.5 per cent of personal income, and the next 50 per cent (3rd to 7th deciles) only 25.3 per cent. Between the 7th and 8th decile a sharp break appears. The 8th decile is the first that receives a share of income greater than its share of population (11.2 per cent). The 9th decile receives 16.8 per cent of income, the lower half of the 10th decile 14.3 per cent, and the upper half (top 5 per cent of income receivers) 29.9 per cent. The break between the 7th and 8th deciles appears in most of the individual countries, although in three (Brazil, Chile, and Ecuador) the first decile to receive more than its proportional share of income is the 9th. Since several of the national inquiries on which these averages are based cover earned incomes only, excluding profits, rents, and interest, the degree of concentration at the top must be considerably understated.

Comparisons between 1960 and 1970 data can be made for three of the largest countries (Brazil, Colombia and Mexico). While their comparability is too questionable to justify reproduction here of the calculations, they support the hypothesis that the upper-middle income receivers improved their relative position substantially. In two of the countries, the income share of the top decile declined to some extent, while still remaining in all cases above 40 per cent of total income. The absolute per capita income increases in this decile, of course, are much larger than in those below it. In all three countries, the 20 per cent of income receivers just below the top decile, starting with shares of 21-25 per cent of total income, gained from 2 to 3 percentage points. Their income levels (at constant prices) rose by 56, 32, and 60 per cent during the decade. The following 20 per cent of income receivers (the two deciles just above the median) kept their relative positions in two countries and lost ground in the third. The 50 per cent below the median lost ground in two countries and gained slightly in the thrid. The poorest 20 per cent dropped sharply in share of income in two countries and held their own in the third.

Altogether, the data indicate that inequality has increased in terms of the spread between the highest 20 to 30 per cent and the groups below the median, although concentration at the top has decreased somewhat. In some of the larger countries with relatively high over-all growth rates all groups have gained in absolute terms, but the gains become scantier as one moves down the income ladder and become insignificant in the bottom 20 per cent. It is probable that the poorest groups have lost ground absolutely in some of the countries with slower growth rates, but this cannot be demonstrated statistically.

Such distribution trends, as far as the shaky evidence goes, might be expected to give the prevailing style of development a reasonable degree of political stability. The groups that have gained something greatly out-number those that have not, and the highest gains are naturally found among the better educated and better organized upper-middle groups whose support should be particularly essential. It can be assumed that the 20-25 per cent just below the top coincides very largely with the middle occupational strata discussed above, with the majority of employers[27] and many of the professionals and managers in the top decile, with the employees and sales personnel spread widely over the deciles between the top and the median, and with some skilled or strongly organized workers classified in the "lower" strata of the secondary sector fairly high in the income scale.

The processes of urbanization, dependent modernization, and monetarization of consumption affect the meaning of the income gains for the income receivers at all levels, however. In the upper-middle strata consumption aspirations have undoubtedly risen faster than incomes, in particular through the manifold repercussions of the automobile and television on ways of life. For the most part, the upper-middle strata and the groups hoping to enter them do not seem to have co-

[27] Calculations of income distribution by socio-economic category indicate that employers receive from 1.7 to 3.5 times the national average personal income in different countries; that the incomes of salaried employees are 20 to 65 per cent above the national average; and that wage workers and self-employed or own-account workers have incomes as low as two-thirds the national average. At first glance it seems surprising that the discrepancies are not wider. The internal heterogeneity of the Latin American economies, combined with the vagaries of statistical classification, however, means that all of these broad categories are internally very varied, so that their members are represented at all income levels and the national average has little meaning. The patterns differ markedly between countries, depending on such factors as the relative importance of modern industry and small-scale artisanal industry, the relative importance of low-wage workers in agriculture and small industries, and in high-wage enclave enterprises such as copper and petroleum production, the relative importance of well-paid professionals and under-employed marginal workers among the self-employed, salary scales in the civil service, etc.

herent positions regarding national needs and future lines of development so much as strong defensive reactions focused on the income and consumption levels to which they feel themselves entitled and the educational means of access to these levels.

In the lower-middle strata, and to some extent down to the lowest strata, aspirations for "modern" consumer goods and other expenditure needs deriving from the complications of urban life exert pressures on incomes that divert resources from the satisfaction of the needs that are generally assumed to be basic, even the need for an adequate diet.[28] Their modest gains in absolute incomes thus do not necessarily mean higher levels of well-being, either objectively or subjectively.

It is clear that large minorities at the bottom of the income ladder have gained little or nothing since 1960. In some countries these minorities are presumably a good deal smaller than the 20 per cent distinguished statistically, but in the countries with low economic growth rates and in the predominantly rural countries with low per capita income levels they must be much larger. Since the statistical groupings lump together different situations, some groups at the bottom must have gained a little, while others must be worse off even in absolute terms. Who are the poor and how does their poverty affect the prevailing style of development? In trying to answer this question the difference between acute physiological deprivation and relative poverty, in the sense of inability to maintain a minimum level of living according to prevailing social norms, must be kept in mind. In most Latin American settings different types of poverty intermingle within the patterns of urbanization and dependent modernization. Acute deprivation undoubtedly still looms very large, but except in a few of the poorest countries it is a smaller part of the problem than in much of Africa and Asia. Various recent studies have asserted plausibly that the larger, more dynamic countries, along with the longer-urbanized countries, now have the material capacity to eliminate extreme poverty, providing all members of the population with diet and shelter meeting minimum physiological needs, plus a minimum of educational and health services and an upgrading of productive capacities, without an unmanageable diversion of resources or radical transformation in the style of development. If they do not do so, the following factors can share the blame: First, the resistance of the upper and middle strata to any subtraction from their own incomes and their capacity to direct the lion's share of public resources to services and employment creation meeting their own needs; second, the inability of the very poor to express their needs in an organized way; third, the low capacity of the relevant public agencies to interpret the situations of the most deprived groups and get resources into their hands without excessive proportions going to intermediaries. The great reservoir of extreme poverty continues to be in rural zones which are in the grip of traditional power structures and are drained of capacity for constructive change by out-migration of the youth. In the towns, and particularly in the metropolitan centres, in spite of the greater visibility of poverty, the extremes of deprivation are less characteristic and more concentrated in groups with special disadvantages, such as families without a male breadwinner, while compensatory public services, doles of food, etc. do reach fairly high proportions of the very poor.[29]

In terms of professed values as well as of the disastrous future implications of child malnutrition and ill-health, the elimination of acute physiological deprivation deserves a very high priority, but it would still leave intact the wider problem of poverty as a relative phenomenon within the context of widening income gaps between the upper-middle and the lower strata, changing consumption standards, and changing opportunities for livelihood. In the urban population and increasingly in the rural population too, even if the statistics indicate income gains, these gains are accompanied by pervasive insecurity, continual struggles of different groups to keep incomes in line with rising prices, a widening gap between qualifications and the labour market, and diffi-

[28] Certain durable consumer goods are now subjective necessities even in the lowest income strata and many families acquire more costly goods even at the price of deprivation in other areas of consumption. Inquiries carried out in 1969 among families, mainly at very low income levels and experiencing considerable underemployment, living in slums and shantytowns in the cities of Guayaquil and Santiago, revealed that 64.4 per cent of the sample families in Guayaquil and 81.4 per cent in Santiago possessed radios while 19.6 per cent and 10.1 per cent had television receivers. (Junta Nacional de Planificación y Coordinación Económica, *El estrato popular Urbano: Informe de investigación sobre Guayaquil* (Quito, 1973); and ECLA, *El estrato popular urbano: Informe de investigación sobre Santiago (Chile)* (Draft, July 1973).

[29] Calculations for the metropolitan areas of five Latin American countries for various years during the 1960s show that the poorest 20 per cent of their populations received 5 per cent of personal income against 3.1 per cent for the equivalent group in the country as a whole. Per capita income levels for the bottom 20 per cent in the metropolitan areas ranged between U.S. $130 and 300, against incomes between U.S. $50 and 110 for the same group in the whole country. In some countries the average income for the poorest group in the metropolitan areas was equal to the median income for the country as a whole. ("Comparative distribution of incomes in some cities of Latin America and in the respective countries", op. cit.)

culties of shelter and transport in continually expanding cities.

Almost by definition, the combatting of *relative* poverty would require measures affecting the upper and middle strata more drastically than would the financing of programmes for relief of extreme deprivation. Such an objective implies far-reaching changes in patterns of production and consumption and in the whole web of urban and rural social relationships—in other words, the achievement of a different style of development.

Diagnoses of the characteristics and causes of poverty in Latin America have commonly focused on conceptions of marginality and have tried to weigh the relative importance of exclusion from productive activity (open and concealed unemployment) and of low productive capacity in the fully employed poor. The reality of a phenomenon labelled "marginality" was deduced from two different kinds of observations: (*a*) The emergence and differentially rapid growth during the 1950s and 1960s of irregular settlements, not conforming to "modern" norms of urban housing and infrastructure, on the periphery of practically all the larger cities and many smaller towns; (*b*) The statistical evidence that industry and basic services were not absorbing more than a small fraction of the increase in the labour force, that rural-agricultural occupations were absorbing a declining proportion, and that the urban tertiary sector was growing rapidly. It was plausibly deduced that large increases in various forms of low-productivity employment and open and concealed unemployment were being concentrated in the ecologically peripheral settlements.

Field investigations aimed at the urban marginal population have been fairly numerous in relation to the over-all paucity of data on stratification, but proof of the real existence of a "marginal mass" remains elusive. The population of the ecologically "marginal" settlements, as well as the older slums, turns out to be quite heterogeneous, determined more by the incapacity of the cities to offer "normal" housing within the reach of the low-income strata than by generalized "marginalization" from urban norms of employment and consumption.[30]

The inadequate absorptive capacity of the labour market in the "modern" branches of production, under conditions of rapid growth of the urban labour force and labour-saving technological changes in agriculture, obviously has a great deal to do with the dimensions of poverty, but the central features of the "employment problem" in Latin America are still far from clear. As was indicated above, comparative occupational statistics do not support the hypothesis of a disproportionate relative increase in the forms of self-employment and tertiary-sector wage labour most likely to combine disguised unemployment and poverty, although they do suggest a considerable relative increase in middle-stratum employment of dubious productivity. Attempts to assess the employment situation statistically against requirements for healthy development have commonly lumped together quite different phenomena—open unemployment, underemployment, employment at "primitive" technological levels, and employment in occupations judged superfluous or unproductive—to reach very high estimates of "unemployment equivalent" in the active population. In most national settings the dimensions of unemployment and underemployment in terms of abnormally short working periods seem to be much smaller than the dimensions of full-time employment at very low remuneration.[31]

The structural heterogeneity described at the beginning of this chapter governs this facet of the employment problem and its consequences for incomes. In practically all the branches of gainful activity enterprises able to combine satisfactory wages and profits coexist with enterprises able to survive only by paying their workers very little. The conclusion that substantial redistribution of income to the lower strata cannot be achieved

[30] The inquiries referred to above in Guayaquil and Santiago, carried out in zones selected for the presumably "marginal" status of their populations, distinguished four broad occupational groupings: industry, construction and transport, "low" services and commerce, and "infra" services, the last constituting the most incontrovertibly "marginal" group. In Guayaquil, 39 per cent of the male active population and 53 per cent of the female fell into the "infra" category, in Santiago 23 and 41 per cent.

[31] Local and national situations differ widely, with recorded open unemployment most prominent in some metropolitan centres and in the Caribbean sub-region. In the latter, it has been chronic, even during periods of satisfactory economic growth, and reached phenomenally high levels during the early 1970s, owing to economic stagnation and restrictions on emigration: In Jamaica long-term open unemployment of 23.4 per cent of the labour force has been recorded, in Barbados, 19.5 per cent, in Trinidad and Tobago 15.6 per cent, with similar rates in the smaller English-speaking island territories. For other recent data see Henry Kirsch, "Employment and Utilization of Human Resources in Latin America", *Economic Bulletin for Latin America,* XVIII, 1 and 2, 1973. While most analyses have concluded that the over-all employment situation is worsening, one observer argues plausibly on the basis of the same fragmentary data that "the increase in open unemployment has been accompanied by an even faster *decrease* in disguised unemployment or underemployment so that the net effect has been a reduction in the abundance of labour in most Latin American countries" and "policy preoccupations should be reoriented from merely creating employment to creating more productive employment". (Joseph Ramos, *A Heterodoxical Interpretation of the Employment Problem in Latin America*, Programa Regional del Empleo para América Latina y el Caribe, ILO, Santiago, August 1973.)

without raising of the productivity of the ways of livelihood now at primitive technological levels and shifting of part of the labour force to higher-productivity occupations is valid up to a point, but needs several important qualifications and lends itself over-easily to justification of the existing distribution. The measurements of relative productivity that back up the arguments over structural heterogeneity are not exclusively technical or neutral, that is, based on the productive processes themselves, but rely on the incomes afforded. Price policies and bargaining power influence the calculations. Thus, the low productivity of the agricultural sector, while real enough, is exaggerated by anti-inflationary measures keeping food prices down, by the high proportion of agricultural proceeds captured by intermediaries, and by the considerable losses of agricultural products due to decay or pests between producer and consumer. The high productivity of "modern" industry, on the other hand, is exaggerated by the impact on prices of tariffs and other industrial incentive measures. The productivity of urban artisanal and service activities can hardly be assessed objectively; their remuneration is kept low by the weak bargaining power of the persons engaged in them, but if labour were to become less abundant and their costs were to rise very much they would be priced out of the middle-income market that now uses them. At all levels, incomes depend as much on ability to monopolize entry to certain occupations, to bargain collectively, and to make use of the regulatory powers of the State as on contributions to production.

Upgrading of productivity and shifts to higher-productivity occupations would have obvious limits as remedies for the deficiencies of employment and income, even assuming a successful reconciliation of productive efficiency with labour-intensive techniques and a strengthening of bargaining power commensurate with increases in productivity. Production, income distribution and consumer demand would have to shift simultaneously in a balanced way so as to provide higher relative incentives for production of food and basic consumer goods. The very few recent attempts to combine these objectives have had discouraging results in terms of accelerated inflation and inability to maintain the changed income distribution. Consumer demand is now so conditioned by the demonstration effect and the mass media that raising of the lower incomes does not automatically bring about more adequate satisfaction of basic needs.[32] Moreover, to the extent that the low productivity of part of the labour force is conditioned by malnutrition, ill-health, lack of education, and inappropriate motivations, the raising of productivity depends on long-term improvements in these factors, affecting the quality of the entrants into the labour force more than the older employed population.

This last consideration points to one of the most crucial but perplexing questions for a survey of social and occupational stratification: the implications of the predominant youthfulness of the populations and the high proportions of new entrants to the labour force at all occupational levels, with the partial exception of countries in the first demographic grouping. How can economic growth with structural heterogeneity incorporate the flood of young people, occupationally and otherwise? To what extent are the youth evolving distinct socio-cultural patterns that affect their readiness to incorporate themselves on the terms that the style of development can offer? In practice, the reactions of youth seem to be no more uniform than those of other population groups, and while the prevailing style of development has not demonstrably been able to win their active allegiance, the predominant youthfulness of the populations has not as yet seriously threatened its viability.

The contradictory situation of the urban youth in the middle and higher levels of the educational systems is fairly well documented. The most radical challenges to the style of development have come from minorities within their ranks, and from time to time these challenges mobilize much wider groups. The educated youth are also particularly exposed to the continually shifting impact of dependent modernization on cultural traits and values. At the same time, they cannot avoid using the educational systems to improve their relative positions within the existing social order and then striving to find room in the existing middle- and upper-status occupations.

The situations and reactions of the more numerous youth of the urban and rural lower strata have been much less studied, and the ques-

[32] ". . . it cannot be assumed from the foregoing considerations that the mere fact of income redistribution will bring about a change in the demand and the productive structure of the country. The fact that so much time and money have been spent on orienting not only the consumption but also a whole set of values of the population could mean that the higher income of the social groups which the redistribution is designed to benefit would simply be used to buy non-essential goods, to the detriment of the consumption of basic goods and services . . . ." ". . . an income redistribution policy which is not complemented with others providing, for example, for the establishment of strict State controls over marketing channels, even possibly including also direct intervention in or control over publicity media, may degenerate into a tendency to copy the consumption patterns of the high-income groups, with the result that the increased demand might not give rise to more jobs but would rather tend to increase external dependency." (José Moncada Sánchez, *El desarrollo económico y la distribución del ingreso en el caso ecuatoriano* (Quito, November 1973).

tion has been posed whether they constitute a generational group with indentifiable problems and attitudes, because their transition from childhood to full adult responsibilities is so brief and early.[33] It must be kept in mind, however, that very high proportions of the young people from rural-agricultural families are shifting to urban settings and occupations. Along with urban youth from the lower as well as middle strata they face prolonged difficulties in obtaining steady employment, whether or not they are able to continue in school. In four countries (Colombia, Mexico, Peru, and Venezuela) out of five for which recent data are available, young people were in the majority among the open unemployed and in the fifth country (Chile, where the relative size of the age group is smaller than in the others) they were nearly half. This is not simply a question of inability of teen-agers to find jobs for some time after entering the labour market, since a majority of the youthful unemployed are in their twenties; nor of exclusion of the most disadvantaged strata from the labour market, since the youthful unemployed are not predominantly uneducated; unemployment rates seem to be highest among youth with four or more years of primary schooling and among those with some secondary schooling; the duration of unemployment is also greater in this latter group.[34]

It would seem that the incorporation of youth into the labour force is becoming more difficult, partly because of the insufficient over-all increase in demand for labour, and partly because the present educational systems, for the primary level upward, promote higher occupational aspirations without imparting specific qualifications. A wide gap persists between the labour market for youth from the middle strata, with at least a complete secondary education, and youth from the lower strata. There is not much mobility from one market to the other, but in both markets supply exceeds demand. The first category of youth may well continue to present the more unmanageable challenges to the style of development, but the generational problem is likely to emerge with increasing clarity in the second group also.

5. Levels of living and sectoral social action

Two apparently contradictory but complexly interrelated consequences for levels of living and the public services which bear on those levels emerge from the demographic and societal trends described above. Like the trends themselves, these consequences can be presented here only schematically, rather than explored in their full complexity and ambiguity. It goes without saying that other interactions between societal trends, levels of living and social services are also identifiable within specific national and local situations, and that the shortcomings of the information justify no more than provisional acceptance of any generalization.

First, while consumption has diversified in most settings and in most social strata, there is no general evidence of significant improvement for the lower-income majority in the two most basic components of the level of living—food and shelter. In both of these areas, the role of public services and subsidies, while increasingly important, remains subordinate to the interplay between family incomes, family decisions on distribution of expenditures, and capacity of the economies to supply the relevant goods at prices matching purchasing power. With regard to both food and housing, low effective demand determined by inadequate incomes, inefficient production and distribution systems, certain well-known consequences of rapid urbanization, certain well-known consequences of the dependent modernization of consumption patterns, and vacillating or self-defeating public policies add up to the continuation, or possibly deterioration, of a chronically unsatisfactory situation.

Secondly, the range and coverage of publicly-financed social services have greatly increased. The distribution of these services has continued to be very uneven, corresponding roughly to the differences between types of national situation, between internal regions, between urban and rural settings, and between occupational and income groups, but the expansion has affected practically every country, region, and group to a significant extent. The lines of expansion have depended more on the relative strength of pressures from within the societies and on the availability of earmarked external aid than on any coherent conception of the place of social services in a strategy for development. The efficiency of most services has

[33] See Aldo E. Solari, *Algunas reflexiones sobre la juventud latinoamericana* (Cuadernos del ILPES, Serie II, 14, Santiago 1971), and A. Gurrieri, E. Torres-Rivas, J. González, Elio de la Vega, *Estudios sobre la juventud marginal latinoamericana* (Editorial Siglo XXI, Mexico 1971). ECLA in collaboration with FAO has recently undertaken field inquiries focused on the participation in development of a few groups of rural and urban working-class youth, but findings are not yet available. According to the inquiries in Guayaquil and Santiago referred to above, 50.2 per cent of the male active population in the Guayaquil sample and 31.3 per cent of the female had entered the labour force before reaching 15 years of age. In Santiago the percentages were 64.1 and 42.2.

[34] See Henry Kirsch, op. cit. Presumably, as the Guayaquil and Santiago findings also suggest, unemployment is lower among the least educated because they are also least selective in the jobs they will accept and least able to depend on family maintenance while seeking more acceptable means of livelihood.

been low in relation to their claims on public resources. In spite of these qualifications, the social services are undoubtedly making real contributions to human welfare, are changing the quality of the human element for the better, and are generating new opportunities as well as constraints for development policy. For the middle strata, the services now constitute a very important part of their preferred job market, their values dominate the content of the services, and they are able to capture a disproportionate share of the benefits. Nevertheless, however ambivalently, their role in the services brings them into confrontation with the negative by-products of the prevailing style of development and involves them in the quest for different solutions in ways that would not be present if their livelihood derived more exclusively from private activities. Furthermore, the contours of poverty change when the most disadvantaged strata begin to have some access to schools and health services and some consciousness that the State has assumed responsibilities for their protection, although prevailing social relationships tend to distort this consciousness into dependence and unrealistic appreciations of the capacity and intentions of the State.

In the expansion of the social services education has had the leading role, both in proportion of resources absorbed and in the importance and complexity of its impact on the societies. The expansion of health services has also been important in practically all countries, as the general declines in infant mortality and rises in life expectancies, despite the absence of demonstrable improvements in food consumption and housing, indicate. Social security has broadened its coverage, although in most of the countries the rural population and the more marginal urban strata remain outside it *de facto*, whether or not the law calls for their incorporation and the discrimination in benefits between occupational strata remains wide. In these and other areas of public social action, present trends do not diverge greatly from what has been described in previous reports. The last part of this chapter will therefore concentrate on certain problems of food supply, housing, and educational expansion.

(a) *Food supply and nutrition*

FAO data (table 187) show that availability of calories per capita, availability of proteins, and availability of animal proteins remain below international norms in a good many countries, that gains in the early 1970s over the 1960s are small, and that the improvements up to 1980 that can be projected from past trends or national objectives will not entirely erase the deficit. The most urbanized countries with high income levels and low rates of population growth also have the more adequate food supplies; in these countries faltering agricultural and stockraising production means a declining export surplus rather than a deficient national diet. The large countries, along with Chile and Cuba, are at middle levels in per capita food supply, while most of the smaller, more rural countries are well below the regional average. When the national average is inadequate or barely adequate in settings of extreme inequality in income distribution it can be assumed that the diet of the lower-income groups and depressed regions is far below an acceptable minimum, while the more prosperous groups consume a good deal more than they need. Recent calculations made in the Central American countries, where dietary deficiencies are particularly pronounced, show what this means in practice, although the quality of the information hardly justifies the apparent exactness of the figures (table 188).

Urbanization changes the nature of the food supply problem and the policy implications, without necessarily affecting the statistical adequacy of food supplies for better or worse. Until recently, most of the population with inadequate diets lived in the rural areas, where the deficiencies were chronic and did not generate pressures for remedial action. This is still true in most of the Central American countries and in the smaller countries elsewhere. To the extent that the low-income population congregates in the cities and urban consumption patterns penetrate the rural areas, however, demands change and the family gains some degree of choice in expenditures. The basic diet probably remains monotonous, confined to a few staples, and there may be a nutritional loss as regards home-produced vegetables, etc., while family expenditures are diverted in part to bottled beverages and packaged foods of relatively low nutritional content. At the same time, urban low-income families can force the State to try to keep the prices of staple foods low, and a good many of them gain access to free or subsidized foods distributed under various international aid programmes. Meanwhile, the State is assuming wider responsibilities for maintenance of standards, prevention of adulteration and contamination, requirement of the incorporation of nutritional additives in flour and other staples, etc. In countries where increases in the domestic food supply are sluggish, agrarian unrest pronounced, distribution systems costly and inefficient, and urban incomes low, the State is at a loss to reconcile the problems of production incentives, welfare, and political stability within a coherent policy. The strains become all the more severe in so far as income redistribution is seriously attacked in view of the relatively high income elasticity of demand for food and the low responsiveness of the production

Table 187. Latin America: social and economic indicators

Country	*Primary enrolment as a percentage of the population of 7-13 years of age*	*Secondary enrolment as a percentage of the population of 14-19 years of age*	*Higher enrolment as a percentage of the population of 20-24 years of age*	*Per cent increase in enrolment in each level of education between 1960 and 1970*		
				Primary	*Secondary*	*Higher*
Argentina (1972)	95.0[a]	40.5	17.5	19.7	73.0	51.9
Bolivia (1971)	84.6	16.0	7.8	89.8	69.7	100.8
Brazil (1971)	76.2	35.6	6.6	71.3	247.0	486.6
Colombia (1968)	62.7	20.5	3.5	61.7[b]	141.5[b]	181.5[b]
Costa Rica (1972)	101.6	37.8	12.5	75.8	171.1	225.5
Cuba (1970)	103.8[b]	26.8[b]	4.2[b]	51.3	109.1	51.3
Chile (1972)	102.0[c]	49.4[de]	9.2[e]	74.1[f]	32.2[f]	230.2
Ecuador (1969)	86.7	26.5	6.9	63.7	190.2	239.4
El Salvador (1970)	76.1	19.6	1.5	65.3	155.6	241.7[g]
Guatemala (1970)	49.9	10.9	3.7	70.3	172.9	219.2
Haiti (1968)	31.0[b]	4.2[b]	0.3[b]	27.1[b]	75.4[b]	–
Honduras (1970)	76.6[b]	12.7	1.5[b]	83.8[b]	161.8	105.9[b]
Mexico (1970)	94.4	24.1	6.1	89.3	209.3	215.8
Nicaragua (1971)	74.0	19.5	5.4	97.2	350.9	571.4
Panama (1970)	93.5	43.0	6.3	57.8	101.3	95.0
Paraguay (1970)	92.6	17.6	3.4	40.6	126.8	114.7[b]
Peru (1970)	104.1	39.8	11.0	88.7	240.0	314.2
Dominican Republic (1970)	89.3	19.4	4.6[g]	51.5	125.6	379.4[g]
Uruguay (1970)	95.8	60.8	8.7	10.5	87.4	21.4[b]
Venezuela (1971)	83.4	38.6	11.2	44.7	181.6	286.8
Barbados	...	...	...	–5.4[b]	145.3[b]	–[b]
Guyana	...	...	...	21.7[b]	140.9[b]	300.0[b]
Jamaica	...	...	...	53.8[b]	92.3[b]	333.3[b]
Trinidad and Tobago	...	...	...	25.3[b]	123.0[b]	1,525.0[b]

SOURCE: ECLA, on the basis of official data.
[a] 6-13 years of age.
[b] 1968.
[c] 7-15 years of age.
[d] 16-19 years of age.
[e] 1971.
[f] As a result of the educational reform, compulsory education was extended to 7 years of schooling in 1966 and to 8 years in 1967. Consequently, secondary education was reduced to 5 and then to 4 years of schooling respectively.
[g] 1969.

and distribution systems. Within the past few years various countries have thus found their food imports growing unmanageably, at a time when the world sources of cheap food exports are drying up. High agricultural export prices threaten national diets from another direction since domestic producers shift to the export market.[35]

The resultant policies that are now coming to the fore in a piecemeal way include: (i) curtailment of the consumption of the foods most costly to produce (mainly beef) through prohibition of their sale during certain periods (this policy is resorted to both by countries trying to increase the supplies available for export and countries trying to restrict the costs of imports); (ii) incentives to the production and consumption of other foods of high nutritive value that can be more cheaply produced domestically (fish, chickens, pork, etc); (iii) price controls on and subsidized imports of staple foods; (iv) purchases and distribution of such foods through State agencies, cooperatives, and various consumer-protection organizations, so as to cut middleman costs and insure adequate supplies at official prices to urban low-income groups; (v) special channels for distribution (through schools, clinics, community organizations, mothers' associations, etc.) of milk

[35] Cattle production for the export market has increased very rapidly in Central America, for example. An increase of 75 per cent in meat production in Nicaragua is said to have been accompanied by an increase of only 3 per cent in per capita consumption; in Guatemala production increased 40 per cent and per capita consumption declined 6 per cent; and in Costa Rica production increased 92 per cent and consumption declined 26 per cent. (Alan Berg, *The Nutrition Factor: Its Role in National Development* (Brookings Institution, 1973), abridged in *Boletín de población*, Bogotá, IV, 2, 1973.)

Table 187 (*continued 1*)

Country	Central government tax revenue as a percentage of the gross domestic product (1971)	Percentage of total central government expenditure on			Death rate among children of 1-4 years of age (per thousand inhabitants)		Inhabitants per doctor 1968-1971	Distribution of doctors[a] 1968-1971
		Housing 1971	Education 1971	Health 1971	1960-1962	1970		
Argentina	5.7	0.9[b]	16.3[b]	5.8[b]	4.3	2.7	521	1.3
Bolivia	7.5	0.6	16.8	5.8	16.8	27.6	2,174	3.1
Brazil	10.2	2.5[b]	6.5[b]	0.5[b]	...	15.0	1,918	2.4
Colombia	9.3	...	16.5	8.1	15.4	11.7	2,341	2.2
Costa Rica	12.0	...	25.4	2.9	7.5	4.0	1,804	2.1
Cuba	...	...	...	...	2.3	1.2	1,123	...
Chile	20.9	6.5	18.6	7.9	8.2	3.3	1,803	1.5
Ecuador	10.3	...	22.5	3.5	22.2	16.6	2,928	2.8
El Salvador	10.4	...	31.3	12.1	17.1	14.5	5,101	3.7
Guatemala	7.3	2.0	18.3	12.3	32.4	30.0	4,498	5.8
Haiti	5.4	...	11.3[c]	15.9[c]	...	33.0	15,750	11.4
Honduras	10.8	1.8	21.3	8.7	14.1	20.0	4,085	4.3
Mexico	7.9	...	24.3[b]	5.0[b]	13.8	10.6	1,726	2.5
Nicaragua	8.6	0.4	18.0	4.0	...	18.4	2,014	3.1
Panama	12.9	...	22.7	9.2	7.9	8.0	1,616	2.2
Paraguay	9.6	...	14.4	5.0	9.4	6.9	1,811	3.6
Peru	14.4	2.4	20.7	6.6	15.7	7.9	1,917	3.2
Dominican Republic	15.6	4.5	15.0	11.0	10.4	7.9	2,247	2.0
Uruguay	12.4	...	26.0[d]	5.7[e]	1.3	1.7	1,032	1.5
Venezuela	15.8	4.0	18.3	9.9	5.7	4.9	1,115	1.4
Barbados	25.2	4.4	21.5	16.5	3.7	2.2	2,066	1.9
Guyana	...	...	...	...	...	3.2	4,461	1.4
Jamaica	19.8	...	18.3[f]	10.9[f]	6.8	4.1	4,149	2.9
Trinidad and Tobago	11.9	10.7[b]	19.0[b]	8.7[b]	2.5	1.9	2,559	...

SOURCE: Central government tax revenue as a percentage of the gross domestic product: IDB, *Socio-economic Progress in Latin America, Annual Report* (Washington, 1972); infant death rate: PAHO/PASB/WHO, *Health Conditions in the Americas, 1965-1968;* remaining indicators: Ministry of Health publications based on four-yearly projections, and CELADE, *Boletín Demográfico* No. 10 (July 1972).

[a]Doctors in cities with over 100,000 inhabitants divided by total number of doctors in the country multiplied by total population divided by population in cities with over 100,000 inhabitants.

[b]1972.

[c]1972-1973.

[d]1970.

[e]1968.

[f]1971-1972.

and other protective foods to ensure that they reach young children. During the 1970s these and related measures are sure to increase in scope in spite of the formidable problems of organization and equitable functioning they have encountered.

The deficient nutrition of children under five years of age has emerged as the most alarming and intractable facet of the problem, in view of its long-term implications for quality of the population and the difficulties of getting the right foods in adequate quantities where they are most needed. Sample surveys carried out in 13 Latin American countries and 3 English-speaking Caribbean countries in different years between 1965 and 1970 indicate percentages of under-nourished children (defined by body weight 10 per cent or more below theoretical normal weight) ranging between 37 and 80. In all countries more than half the sample group was undernourished, and in 7 countries two thirds or more. Second-degree undernourishment (weight 25 per cent or more below the norm) affected 20 per cent or more of the sample in 5 countries.[36] The samples are not fully comparable, but they indicate that the highest rates of child undernourishment are found in Central America and the Caribbean. Serious undernourishment among young children is well known to result in a permanent stunting of physical growth and in reduced adult working capacity, but in the past few years irreversible brain damage caused by insufficient protein in the diet of very young children, previously unsuspected, has emerged as probably the main threat. The dimensions of this evil and the nutritional threshold at

[36]Pan American Health Organization, "Four-year projections of Ministries of Health for the period 1972-1975".

Table 187 (*continued 2*)

Country	*Indexes of production of foodstuffs per inhabitant (1961-1965 average = 100)*				*Availability of calories per inhabitant*				*Availability of proteins per inhabitant (grams per day)*			
	1968	*1971*	*1972*	*1973*[a]	*1964-1966*	*Projections 1970*	*Consumption 1970*	*Projections 1980*	*1964-1966*	*Projections 1970*	*Consumption 1970*	*Projections 1980*
Argentina	101	96	94	97	2,885	3,036	...	3,069	90.2	98.4	92.9	98.4
Bolivia	109	111	112	116	1,765	1,902	1,997	2,122	45.8	49.1	49.1	55.6
Brazil	102	110	112	114	2,541	2,613	2,816	2,731	63.9	64.5	66.7	68.5
Colombia	100	103	105	99	2,192	2,160	2,103	2,233	50.1	48.1	47.7	51.2
Costa Rica	114	125	129	131	2,334	2,344	...	2,472	56.7	61.3	...	66.4
Cuba	95	96	81	88	2,501	2,688	...	2,762	62.8	63.1	...	65.7
Chile	105	96	91	77	2,516	2,540	2,562	2,655	65.4	66.4	65.7	70.6
Ecuador	92	94	88	85	1,848	1,906	1,993	2,014	46.7	48.0	46.5	51.2
El Salvador	98	106	95	105	1,877	1,873	...	2,002	47.0	46.0	...	49.1
Guatemala	102	108	106	107	1,952	1,972	...	2,145	49.2	49.7	...	54.4
Haiti	92	93	92	91	1,026	1,896	...	1,905	47.0	46.5	...	47.0
Honduras	120	126	118	126	1,930	2,042	...	2,203	48.6	52.3	...	57.4
Mexico	104	105	104	104	2,624	2,660	...	2,698	66.5	67.1	...	67.4
Nicaragua	109	114	110	110	2,253	2,314	...	2,426	60.7	61.4	...	64.8
Panama	117	117	114	112	2,338	2,429	...	2,661	62.5	65.4	...	73.5
Paraguay	104	99	98	95	2,732	2,798	2,760	2,835	68.1	70.3	74.7	71.6
Peru	93	102	98	99	2,271	2,194	2,341	2,428	61.0	57.1	60.8	64.9
Dominican Republic	91	104	107	104	2,077	2,143	...	2,223	45.7	48.5	...	50.4
Uruguay	96	82	80	83	3,023	3,105	...	3,167	105.5	108.2	110.6	109.6
Venezuela	110	113	107	108	2,367	2,525	2,359	2,641	61.1	63.8	59.9	67.1
Barbados	92	88	77[a]	...	...	...	...	...	...	...	...	...
Guyana	91	90	74[a]	...	2,291	2,399	...	2,562	55.1	58.8	...	64.1
Jamaica	97	99	98[a]	...	2,276	2,331	...	2,514	59.1	59.7	...	65.6
Trinidad and Tobago	...	...	...	...	2,361	2,442	...	2,708	63.9	66.8	...	75.9

SOURCES: FAO; *The State of Food and Agriculture, 1973; Food Balance Sheet 1971; Agricultural Commodity Projections 1970-1980; Perspective Study of Agricultural Development for Latin America, 1972.*

[a] Provisional figures.

Table 187 (*continued 3*)

Country	Potable water							Sewage disposal			Social security (*percentage of the economically active population contributing to systems that cover major risks*)	
	Urban			Rural			Total 1971	Urban		Rural 1970		
	1961	1970	1971	1961	1970	1971		1961	1970		1961	1969
	Percentage of total population											
Argentina	66	66	67	1.3	17	18	56	32	32	...	46.5	67.6
Bolivia	45	59	62	...	3	4	24	32	19	...	8.7	8.4
Brazil	62	64	83	...	4	23	52	14	30	...	19.3	31.4
Colombia	64	92	71	40.0	48	47	61	53	67	19.2	6.4	14.4
Costa Rica	97	100	100	20.0	56	57	78	33	24	...	33.4	37.4
Cuba	60	100	89	...	45	51	74	37	38	...	...	...
Chile	71	87	90	14.0	9	9	66	42	36	6.5	49.8	67.5
Ecuador	45	62	65	...	8	9	34	55	47	1.2	12.0	16.1
El Salvador	57	73	67	...	27	32	43	41	56	0.2	4.7	10.2
Guatemala	33	96	97	...	12	12	38	23	45	...	21.9	29.4
Haiti	19	44	44	...	3	3	10	...	8	...	1.2	1.0
Honduras	53	100	93	6.8	10	11	36	29	54	0.1	3.7	4.8
Mexico	50	84	73	...	30	29	57	21	50	...	12.1	20.9
Nicaragua	41	92	91	...	10	16	50	22	42	...	5.6	14.9
Panama	97	92	98	...	10	49	74	61	65	0.6	22.6	34.3
Paraguay	22	38	33	...	6	6	16	15	14	...	10.9	9.6
Peru	58	63	65	...	12	13	39	63	55	0.2	22.5	27.8
Dominican Republic	53	76	83	16.0	10	12	38	37	16	...	12.3	9.7
Uruguay	67	89	91	2.3	22	22	77	45	52	...	...	...
Venezuela	46	88	92	...	76	50	80	31	42	3.3	11.3	22.9
Barbados	...	100	100	...	...	100	100	...	...	...	...	...
Guayana	...	96	98	...	38	36	54	...	39	...	...	...
Jamaica	...	73	67	...	29	54	59	...	19	0.6	...	...
Trinidad and Tobago	...	99	99	...	95	95	96	...	51	0.3	...	...

SOURCE: Potable water and sewage disposal: PASB/WHO, *Community Water Supply and Sewage Disposal Programmes in Latin America and Caribbean Countries* (document No. E.S.5) p. 3 and the annual report of the Director, p. 50; social security: ECLA, on the basis of official information.

which permanent damage can be expected are still not entirely clear, since research has been limited to small groups of children in a few settings, but several troubling questions must be confronted. First, what are the implications for education, considered as an instrument for equalization of opportunities; for raising of labour force productivity; and for democratic participation in the social order, if an important part of the population is handicapped mentally as well as disadvantaged by poverty and discrimination?[37] To what extent does the former handicap, transmitted from generation to generation, explain the static poverty at the bottom of the income distribution ladder? The findings on child malnutrition, in the sweeping terms in which they are beginning to be disseminated, can support élitist views of the social order as well as arouse the public conscience to the threat to human well-being and the national future. Second, how can the societal mechanisms for allocation of resources give adequate priority to a need that is of enormously greater importance than most of the other demands on public resources, but that cannot exert pressures of comparable force for its satisfaction? Improving the

[37] "Numerous studies ... have produced clear proof that the proportion of primary schoolchildren who are not equipped to follow their studies in the normal manner is much greater than was imagined, amounting to as much as 40 or 45 per cent of the total number of primary schoolchildren .... If the nutritional aspects of the last three or four years have been deficient or unsuitable, ... it must be recognized that there is a potential negative legacy which may mean that in the next few years the proportion of backward children may rise by 50 per cent.... In view of the fact that it is well-nigh impossible for children educated in establishments of the Special Primary Schools System to progress on to secondary studies, the Special Schools System should allot a major place to vocational training in its programmes". (Government Directive on education, Santiago, Chile, 19 December 1973.)

Table 187 (*concluded*)

Country	Gross domestic product per capita (in U.S. $ at 1960 prices) 1973	Annual rate of growth of GDP at constant prices		Gross agricultural product as percentage of GDP 1973	Price indexes: annual rate of growth	
		1968-1972	1973		1968-1972	1973
Argentina	1,141	4.0	4.8	12.3	25.0	60.4
Bolivia	210	3.9	5.4	20.4	4.3	29.7
Brazil	447	8.0	11.4	16.9	21.1[b]	15.3[b]
Colombia	407	5.0	7.3	27.8	9.2	23.1
Costa Rica	569	4.4	3.9	22.0	3.8	...
Chile	610	3.5	-4.1	8.1	37.0	352.8
Ecuador	388	7.7	12.7	23.0	6.4	13.0
El Salvador	324	3.0	4.0	25.5	1.4	5.5[c]
Guatemala	383	4.5	7.9	28.1	1.3	13.9
Haiti	87	3.5	5.8	46.9	3.3	22.7
Honduras	216	3.1	3.3	34.0	2.9	3.2
Mexico	744	4.8	7.5	10.6	4.0	11.3
Nicaragua	344	4.0	2.7	26.4	...	...
Panama	717	5.7	5.9	17.9	2.7	7.5
Paraguay	315	4.1	5.8	33.9	3.2	13.4
Peru	418	4.3	5.3	15.8	8.8	9.5
Dominican Republic	299	8.9	8.9	18.7	3.3	15.1
Uruguay	681	1.7	1.0	22.1	47.5	97.0
Venezuela	935	3.7	8.6	6.2	2.5	4.4
Barbados	470	3.8	...	12.4[e]	8.0	16.9
Guyana	282	2.5	1.0	18.7[e]	2.9	7.5[d]
Jamaica	504	3.9	3.0	-8.8[e]	6.9	19.9
Trinidad and Tobago	702	1.8	3.7	-5.0[e]	5.2	14.8
Total	*565*	*5.3*	*7.4*	*14.9*		

SOURCES: GDP: ECLA, on the basis of official statistics. Price indexes: ECLA, on the basis of United Nations *Statistical Bulletin* and official statistics.

[a] At factor costs.

[b] Urban São Paulo.

[c] Variation over a period of 8 months.

[d] Variation over a period of 10 months.

[e] Estimated on the basis of expected values at current prices.

Table 188. Estimated per capita daily consumption of calories and proteins, by income strata, in 1970

	Low (50 per cent)		Medium (30 per cent)		High (15 per cent)		Very high (5 per cent)		Average for total population	
	Calories	Proteins (grams)	Calories	Proteins (grams)	Calories	Proteins (grams)	Calories	Proteins (grams)	Calories	Proteins (grams)
Costa Rica	1,990	47.2	2,632	69.6	3,107	86.9	4,112	122.9	2,456	63.6
El Salvador	1,345	30.0	2,128	50.1	2,697	67.8	3,695	101.4	1,901	45.1
Guatemala	1,326	30.7	2,362	56.9	2,919	75.5	4,234	129.7	2,021	50.3
Honduras	1,465	33.3	2,661	65.0	3,268	85.8	4,590	136.8	2,250	55.8
Nicaragua	1,767	46.6	2,704	72.5	3,255	90.3	3,931	111.9	2,380	64.2
Average for South American countries less Argentina and Uruguay (8 countries)	2,089		2,843		3,313		4,238		2,581	

SOURCES: For the Central American countries: GAFICA/INCAP (Grupo asesor de la FAO para la Integración Económica Centroamericana/Institut de Nutrición para Centro América y Panamá). For South America: FAO, *Estudio de las perspectivas del desarrollo agropecuario*, vol. I, chapter V (PSWAD/1, August 1972).

adequacy of food supplies to the lowest-income families is essential but insufficient, since protein malnutrition of very young children derives partly from culturally determined patterns of distribution of food within the family.

(b) *Housing*

Problems of shelter and human settlement continue to differ according to three main types of setting. In the strictly rural areas standards of shelter almost everywhere have been very low, corresponding to prevailing poverty, family building capacity limited by locally available materials and traditional building techniques, and disincentives to housing investment associated with prevailing systems of land tenure. For most of Latin America there is no reason to believe that over-all rural housing levels have improved or deteriorated very much, since the previous constraints have continued, while the rural population has grown slowly enough to permit reproduction of the previous types of housing without much difficulty. Rural housing deficiencies naturally form a larger part of the over-all housing problem, and the likelihood of deterioration is greater, in the third group of countries previously distinguished, where the rural population is still growing rapidly. In the small towns and slowly growing provincial cities, traditional housing standards have been relatively satisfactory. Here too there has probably been little over-all change for better or worse in housing proper, but gains in electrification, water supply and sewerage have been much more pronounced than in the strictly rural localities.

During the past two decades attention has naturally centred on the more dramatic deficiencies of the larger and more rapidly growing urban centres, where conventional mechanisms for the organization of house-building have manifestly been unable to prevent deterioration. Attempts at quantification have taken two main approaches, associated with differing diagnoses of the nature of the problem: calculation of housing deficits and calculations of numbers of families living in urban "marginal" or "uncontrolled" settlements.

Calculations of housing deficits compare the stock of housing meeting certain defined minimum standards with the number of families needing shelter. Most national authorities made calculations of this kind during the early 1960s and came to alarming conclusions, particularly when rates of increase in the urban housing deficit were forecast from rates of formation of new families and rates of deterioration of the existing housing stock. The calculation of deficits was associated with the preparation of housing plans calling for construction of given numbers of new units per year, and with availability of substantial external funds, particularly in the form of low-interest loans, for financing housing construction and associated infrastructure. Such housing plans had various attractions to Governments in addition to their primary purpose: the simple quantitative targets attracted the urban voters, the construction and building material industries were powerful advocates, and the housing plans offered a promising means of absorbing unemployed unskilled labour. However, it rarely proved possible to attain the planned objectives for more than a year or two at a time, or to recover a substantial part of the costs from the families receiving new housing. The effective demand for housing at prevailing unit costs, even with subsidies and generous terms of payment, had narrower limits than was expected. Even the middle strata that received most of the new housing were struggling with many competing demands on their budgets and commonly managed to evade part of the housing costs through inflation or otherwise.[38] The urban population has continued to increase more rapidly than the stock of "normal" housing, and the size of the deficit should have increased considerably during the 1960s and early 1970s. Nevertheless, one finds few recent estimates of housing deficits bearing this out, and the symptoms of urban overcrowding seem less acute than might have been expected.[39] In practice, a good deal of the pressure has been relieved by unconventional housing "solutions" that initially were viewed as the most alarming aspect of the "problem".

The growth of settlements built by their occupants around the fringes of the cities first attracted attention during the 1950s. It soon became obvious that the population of these settlements was growing more rapidly than that of the cities proper, and a long series of national and inter-

[38] The typical housing programmes have required from applicants a minimum income permitting regular amortization payments. The poorer applicants were thus motivated to falsify their incomes to acquire eligibility, and later were unable to keep up payments, even with excessive sacrifices in other areas of consumption. See, for example, Fanny Tabak, "Vivienda y política de desarrollo urbano en el Brasil", *Revista Interamericana de Planificación*, 7, 27, September 1973.

[39] In the early 1960s, United Nations and Inter-American Development Bank reports estimated the over-all housing deficit of Latin America at 15 to 20 million dwelling units. It is significant that the same estimates are still being repeated as applicable to the early 1970s, although a comparison of population growth and "regular" construction levels indicates that, by constant standards, the over-all deficit must by now be very much larger. For a recent calculation arriving at an urban deficit of 8.9 million units and a rural deficit of 9.9 million units for 1970 see Jorge E. Hardoy, "Un esayo de interpretación del proceso de urbanización en América Latina", *Revista Interamericana de Planificación*, 7, 27, September 1973.

national studies has repeated estimates of their size, recited their picturesque local names, and called for remedial action.[40] As investigation proceeded and the settlements continued to grow it became evident that the phenomenon was more complex than originally supposed and by no means so one-sidedly negative. For the most part, the settlements proved to represent determined efforts by low-income families already established in the cities to meet their own needs for shelter and security, rather than camps of rural migrants or foci of delinquency and discontent. The organized efforts of the occupants to defend their immediate interests and obtain services from the State seemed to offer channels for their integration into the urban order—if the order itself was capable of finding a place for them. As the conventional national housing programmes demonstrated their incapacity to relieve housing shortages beyond the limits of the middle-income strata, government attention increasingly turned to cheaper and less conventional techniques involving overt or tacit recognition of the legitimacy of the irregular settlements—provision of water, electricity, sewerage, paved streets, playgrounds and shopping centres; relocation of settlements from radically unsuitable land; supply of building lots, minimum services, cheap materials and technical advice for self-help construction; promotion of community organization.

Within the prevailing style of development, with the associated patterns of social stratification and income distribution, such measures constitute unavoidable expedients rather than acceptable solutions to the housing needs of the low-income groups. They are compatible with continuing evasion of the need for comprehensive planning of urban growth and controls on land use and costs, since they usually involve cheap or publicly-owned lands remote from the urban centres, and require long journeys to and from work for the settlers. For environmental reasons and eventual infrastructural costs, there must be some limit to the urban sprawl associated with this kind of settlement as well as to the suburban preferences of the upper and middle strata. The newer policies of aid to the peripheral settlements are also compatible with continuing allocation of the lion's share of public housing subsidies and incentives to the middle-income market.

(c) *Education*

Formal education has expanded more rapidly and generally than any other form of public social action during the 1960s and early 1970s. Practically all countries now devote more than 15 per cent of central government expenditures to education, and in some of them State, municipal, and private financing add appreciably to the total commitment. In at least four countries, education accounts for more than 25 per cent of central government expenditure; in such cases the proportion cannot rise much higher and further increases in educational resources will have to depend on over-all expansion of public sector resources.

The expansion has affected all educational levels. Primary enrolment in most countries has grown at rates well above the average annual 3 per cent increase in numbers of children in the relevant age group.[41] The proportion of children receiving no schooling is now relatively small, except in some of the poorest countries and the most disadvantaged internal regions of others. Illiteracy rates have continued their long-term downward trend, as far as can be judged from the few 1970 census tabulations as yet available.[42] Since adult education has received only fitful attention (although sometimes a good deal of publicity) in most educational programmes, this downward trend affects mainly young people, that is, the age groups 15–29.

Nevertheless, primary education continues to suffer from the shortcomings that have been documented during the past years when over-all dimensions and coverage were much smaller. Except in the most educationally advanced countries only a minority (sometimes a very small minority) of children *complete* the primary course (usually of six grades). The gap in quality between urban and rural primary education continues to be very wide. Many children do not begin their schooling at the "normal" age of 6 or 7, but at 8 to 10, and drop out after two or three years. Even if one leaves out of account the supposed mental consequences of

[40] See, in particular, "Urbanization: development policies and planning", *International Social Development Review*, No. 1, 1968.

[41] The most remarkable achievement at this level is probably that of Costa Rica, which during the whole period 1950–1972 outpaced an average annual increase of 4.3 per cent in the number of children aged 6–13 with an annual increase in primary enrolment of 5.6 per cent and an annual increase in primary graduates of 10.6 per cent, indicating steady improvement in school retention of pupils. During these 22 years the number of primary pupils more than tripled and the annual number of graduates increased more than seven times. (Universidad de Costa Rica, *Diagnóstico del sistema de educación cientfica y tecnológica de Costa Rica y bases para su planificación a largo plazo* (Ciudad Universitaria "Rodrigo Facio", 1974).)

[42] In Brazil, the illiteracy rate of the population 15 years of age and over dropped from 39.5 per cent in 1960 to 33.0 per cent in 1970, but the absolute number of illiterates increased by more than 2 millions. 1970 illiteracy rates by region ranged from 60.0 in the north-east to 25.0 in the south. (Bolivar Lamounier, "Educaçao", in *Composiçao da Populaçao Brasileira*, Centro Brasileiro de Analisee Planejamento, São Paulo, 1973.)

protein deficiency in the pre-school years, the general setting of poverty leaves them in no position to gain significantly from the brief and low-quality schooling they receive. The objective of universalizing a minimum education as a requisite for national integration and social justice, proclaimed since the nineteenth century, is thus still far from accomplishment. It is now evident that equalization of the educational opportunities of the poor would require fairly expensive supplementary measures beginning long before the children reach primary school age—particularly nutritional and health care, nursery schools and kindergartens. Programmes of the latter kind are by now found in most urban settings, but their resources and coverage are small. It is significant that enrolment in pre-school institutions, in practically all countries for which data are available, is only between 2 per cent and 5 per cent of primary enrolment.

Meanwhile, enrolment at the middle and higher educational levels has been increasing faster than primary enrolment in most countries, and the higher level has shown an extraordinary acceleration in very recent years. The most recent statistics for Brazil show a particularly marked trend:[43]

	Primary enrolment	*Rate of increase*	*Middle enrolment*	*Rate of increase*	*Higher enrolment*	*Rate of increase*
1970 . .	12,812,000	4.2	4,083,600	12.5	425,500	24.0
1971 . .	13,682,600	6.8	4,578,000	12.1	561,400	31.9
1972 (est.)	14,523,500	6.1	5,273,600	15.2	694,100	23.6

Differential rates of increase are to be expected in countries that are approaching universality in primary enrolment, but very few Latin American countries are really in this position, while even the countries that are lagging furthest behind in primary enrolment are raising middle and higher enrolment quite rapidly. Enrolment levels and rates of increase are closer to uniformity in the different types of countries at the latter levels than at the former. In a good many Latin American countries the proportions of the relevant age groups enrolled in middle and higher education are now higher than in the average European country, and vastly superior to the proportions in the European countries at a time in the past when the latter had already attained universal complete primary education.[44]

In the early 1960s, diagnoses of education in Latin America commonly insisted on the inadequate output of the specialized skills needed for development and on the excessive proportions of persons revealed by statistics to be holding posts for which they were educationally unqualified. It followed that rapid and carefully planned expansion of professional and technical education was called for.[45] The shortages are undoubtedly still present in a good many specializations, particularly those for which the international market is so strong that the "brain drain" nullifies the contribution of the educational systems, but for the most part a quite different diagnosis now seems appropriate. The lines of educational expansion at the middle and higher levels have been linked with the tactics of the middle strata for upward mobility and with the greater real opportunities for social ascent offered by some professions and by general education as against technical education. Educational requirements for the better-paid and more prestigious jobs have been continually raised as a means of restricting entry irrespective of the relevance of the qualification to the functions performed. Almost everywhere, expansion at the middle level has been aimed at preparation for university entry rather than at technical-vocational specialization. In at least a few countries, over-all output at the middle and higher educational levels already markedly exceeds absorptive capacity in the appropriate occupations, and the present rates of increase and distribution of enrolment suggest that this situation is bound to spread to other countries.[46]

The consequences of present patterns of educational expansion also include claims on the public resources allocated to education that can

[43] "Estrategia da Segunda Década para o Desinvolvimento. Informaçees sobre o Brasil", op. cit.

[44] For detailed discussion of these questions, see "Secondary Education, Social Structure and Development in Latin America" (E/CN.12/924), document presented jointly by ECLA and the Latin American Institute for Economic and Social Planning at the Conference of Ministers of Education and those responsible for the promotion of science and technology in relation to development in Latin America and the Caribbean, convened by UNESCO, Venezuela, December 1971.

[45] See, in particular, *Education, Human Resources and Development in Latin America* (United Nations publication, Sales No. E.68.II. G.7).

[46] In Chile, according to estimates by the Planning Office of the University of Chile, the stock of professionals will increase by 55 per cent during the period 1970–1975. The ideal absorptive capacity for graduates of middle-level education during this period would vary from 13,000 to 18,000 persons annually, as against enrolment in the last year of middle education of 64,400 in 1972 and 104,100 in 1975. The ideal absorptive capacity for graduates of higher education would vary between 6,000 and 8,000 persons, while university graduates will number nearly 11,000 in 1972 and 17.000 in 1975. (Rolando Sánchez Araya and Juan Manuel Cruz, *Perspectivas de desarrollo de la Universidad de Chile* (Oficina de Planificación, Universidad de Chile, Santiago, August 1973).)

hardly be reconciled with the needs indicated above for upgrading of primary education;[47] a general deterioration of quality as the middle and higher institutions are unable to find teachers and complementary services to deal with the flood of poorly prepared students, chronic unrest and demands for revolutionary educational change combined with resistance to all proposals for specific reforms; and increasing pressure from graduates, unable to find satisfactory jobs elsewhere, for employment within the educational systems.

A projection of rising costs and demands for admission suggests that the educational crisis will become increasingly serious during the 1970s unless different priorities and expectations come to the fore. Two alternative strategies for educational reform can be envisaged: (*a*) A systematic equalization of educational opportunities accompanied by de-emphasis on the schools and the formal educational ladder as an instrument of social mobility and differentiation. That is, pre-school programmes, schools, mass communication media, and adult education would jointly help the family and the individual cope with life in society, leaving a maximum of free choice in use of educational resources made available by the State. Such a strategy, which has been proposed in a number of variations by educators, would require a far-reaching redistribution and transformation of the resources applied to education, and an even more difficult transformation of the expectations of all the social strata now struggling to gain specific advantages from schooling; (*b*) A systematic subordination of educational content and output to the requirements of the prevailing style of development and the distribution of power in the societies. This would imply limits on the further expansion of most lines of higher education and of university-entrance secondary education, greater selectivity in admissions, planned expansion of technical-vocational education in accordance with demand for specialized manpower, and universalization of terminal primary education for the majority, with content adapted to expected work experience and roles in the society. Such a strategy would also encounter powerful resistances, since it would clash with professed values, and since the groups whose expectations would be frustrated—at the middle as well as the lower levels—would be much larger than the groups gaining. Accordingly, it seems probable in most countries the internally contradictory growth of education will continue for some time, with successive proposals for reform unable to mobilize sufficiently coherent support, and with a series of expedients relieving the most urgent pressures on resources. As in the case of quantitative increases in other developmental "problems", the capacity of the systems to continue indefinitely without breakdown is likely to prove greater than might be expected from the conspicuousness of present strains and conflicts.

[47] In Chile, which may be an extreme case, the percentage distribution of the budget of the Ministry of Education has evolved as follows:

	1965	*1970*	*1972*
Basic education . . .	40.1	39.7	32.8
Middle education . .	20.3	20.2	17.3
Higher education . .	26.6	28.1	37.1
Other	13.0	12.0	12.8
	100.0	100.0	100.0

The items in the "other" category were also, in practice, devoted largely to higher education. In 1971 the ratio of costs per pupil enrolled at the three levels was 1 : 4 : 15. (Universidad de Chile, Oficina de Planificación, *Antecedentes e Informaciones*, No. 4, Santiago, August 1973.)