

CEPAL/CID/Preliminary Version/175
International Trade and
Development Division
June 1978

THE ECONOMIC RELATIONS OF LATIN AMERICA WITH EUROPE



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Chapter I

LATIN AMERICA: A CASE OF CONTRADICTIONARY DEVELOPMENT

The first questions which this chapter sets out to answer concern the potential complementarity of Latin America and Europe, viewed from the standpoint of the former. What are the possibilities and the needs of the Latin American countries in their relations with Europe? What are some of the basic criteria which should define the strategy of these relations during the coming years? To help answer these questions we shall begin with a brief analysis of some of the main possibilities and problems of Latin American development 1/ and a description of the present stage of internal development of the countries of the region. An account will be given of some of the heterogeneous and even apparently contradictory aspects of this development, which displays important advances side by side with flagrant backwardness and the persistence of some serious problems. An attempt will be made to explain the implications of this in defining the type of relations with Europe which would best meet the needs of Latin America in the fields of trade, private investment, technology and finance.

A. The broad stages of Latin American development

Despite the disadvantages of simplification, it is helpful to distinguish three broad stages in Latin American development during the course of the present century. Such an overall view enables the present analysis, which deals with part of the second and the whole of the third of these stages, to be related to its historical background. As will be shown further on, the beginning and end of each of these stages can be only approximately defined. Moreover, the various Latin American countries passed through these stages in different ways and are even now at different points in the development process.

1/ The necessary background on the internal development and external sector of Latin America, which may not be familiar to some European readers, is taken from recent CEPAL studies, especially the reports entitled The Economic and Social Development and External Relations of Latin America (E/CEPAL/1024) and Long-term Trends and Projections of Latin American Economic Development (E/CEPAL/1027).

The first stage ends approximately with the crisis of 1930. Up to that time the basic products of Latin America were primary commodities, services and, in very rudimentary form, some manufactured goods - mainly non-durables with a few intermediate goods - based on primary commodities. The degree of protection was low and the coefficient of foreign trade in relation to the products was high. Only primary commodities were exported and many consumer goods were imported, chiefly durables, capital goods for internal use and manufactured intermediate goods. Direct foreign investment in Latin America was chiefly directed to primary activities, public services, trade and finance. Many of the Latin American countries had access to private foreign markets for medium- and long-term capital, where they obtained a large part of their financial backing from abroad.

The world crisis of 1930 cut short this stage and ushered in the second. It compelled the introduction of exchange and financial regulations and protection. What was at first little more than a policy designed to adjust the use of foreign currency to the available resources was gradually transformed into a protection policy more specifically aimed at promoting industrial development. Protection was at a very high level and, due to its successive modifications, lacked the rationality needed to reconcile it with clear criteria aimed at industrialization. The State gave impetus to the industrialization process not only through protection and the transfer of revenue from the primary sectors to industry, but also through direct action by means of development agencies, State enterprises and various important supporting measures. A process of import substitution was carried out on the basis of the closing of each national market with a severity and intensity which varied from one country to another. Industry developed vigorously, mainly in the fields of non-durable and durable consumer goods. The world war and the performance of the international economy during the post-war period also helped to promote industrialization. Progress began to be made in the production of some intermediate goods, but the production of basic capital and intermediate goods lagged noticeably behind the development of light industry.

/Exports continued

Exports continued to consist solely of primary commodities. The import of consumer goods was gradually diminishing, imports being confined to essential intermediate and capital goods with a high elasticity of demand in relation to income. There was a constant trend towards external strangulation, through the slow growth of exports and the upsurge of import needs. The growth rate of exports and imports was much slower than that of the product, so that the trade coefficient systematically declined to quite low levels.

Direct foreign investments were nationalized, mainly in the field of public services and some mining industries. New direct investments were small during the war and the post-war period, in the latter case because many of the developed countries were in the process of reconstruction and were absorbing their own investments instead of exporting them. In the second half of the 1950s, however, direct foreign investment began to increase, and after some initial resistance it tended to adapt itself to the import-substitution model, confining itself mainly to industrial production for the national domestic markets. There was an increase in the relative importance of external financing from official sources, with a corresponding decline in recourse to the private medium- and long-term markets to which many Latin American countries had had access before the world war and the crisis.

Technological initiative in the Latin American countries was very slight and haphazard; there was no explicit relationship between scientific and technological initiative and industrialization.

As import substitution lost impetus and the countries had to tackle the production of goods of greater technical complexity, with more exacting requirements in respect of fixed capital or larger markets because of the importance of economies of scale, many Latin American countries began to enter a third stage. This began in the 1960s, when the trend towards the closing of the economies to outside trade was reversed and there began, through integration processes, a tentative opening up in the regional sphere which later spread to trade with the rest of the world.

An effort was made to introduce non-traditional exports, including manufactures. Protection was reduced and rationalized, and more realistic exchange policies were adopted. Industry laid more stress on efficiency and competitiveness. At the same time most of the countries continued to develop import substitution, though now with a more carefully defined degree of protection. Thus exports and substitution became two elements of a single industrialization policy.

Foreign private investment began to adapt itself, though with considerable resistance and delay, to the new policy of exporting manufactures first within the regional sphere and more recently to the rest of the world. Many of the Latin American countries began to lose effective access to the official concessionary and even non-concessionary sources of finance and some of them, especially the largest, resorted to private sources of financing, above all the private banks, as access to the medium- and long-term capital markets was still very rare.

Efforts began to be made in the technological field, which was still at an early stage but was already significant and growing, especially in the larger countries of the region, and these efforts were increasingly related to the policies of exporting manufactures.

This third stage began in response to long-term structural development needs in the Latin American countries; during its course, however, policy was also influenced by the international economic crisis which began in 1973. As mentioned earlier, these stages did not follow a uniform pattern in all the Latin American countries, being more in evidence in the larger and some of the medium-sized countries. Some of the medium-sized and smaller countries exhausted their possibilities of substitution on the basis of their domestic markets before they had reached high coefficients of domestic supply even in traditional industries. More recently the medium-sized and relatively less developed Andean countries instituted a sub-regional integration process in order to advance further in industrialization and substitution by overcoming the limited size of their domestic markets. As far back as the 1950s the Central American countries had initiated an integration programme in order to make progress in industrialization, which was not
/feasible for

feasible for such small domestic markets on an individual basis. The progress made was undeniable, and it had a favourable impact on industrialization, but it proved impossible to attain more advanced stages of production of basic capital and intermediate goods, partly because even the combined market of the five countries was still too small.^{2/} Some of the countries which made a later start on some of the stages of import substitution followed patterns of greater efficiency and less protection than those employed by the larger countries in earlier years.

B. Outstanding features of Latin American internal development

Within the framework of the stages described in very summary and general terms in the foregoing pages, this section highlights some features of Latin American internal development which have a special bearing on the region's relations with Europe. Section C of this chapter will give a similar account of certain features of Latin America's external relations and of the position occupied by the countries of the region in the world economy. As will be seen further on, Latin American development is characterized in various fundamental aspects by marked contrasts between the major advances made in some fields and the lags, almost total lack of progress, and even regression in others.

Reference will be made to the events of the past 25 years and more particularly to the period following the mid-1960s, which corresponds to the third of the stages mentioned above.

1. Transformation of the production structure

During the period 1950 to 1975 the gross domestic product of Latin America increased at an annual rate of 5.5 per cent, exceeding by almost a whole point the rate of the developed market economy countries. In per capita terms, however, the Latin American growth rate was lower than that of the developed countries, since its annual population growth rate was around 3 per cent. The growth rate of the overall product accelerated up to and including 1974, since from 5 per cent per year in the 1950s it rose to around

^{2/} CEPAL, The Economic and Social Development and External Relations of Latin America (E/CEPAL/1024), 1977, pp. 264 to 273.

5.5 in the 1960s and 6.3 in the first half of the 1970s, but from 1975 onwards the effect of the world recession was seen in growth rates lower than the overall average for the preceding period.

Evolution varied appreciably from one country to another, but the acceleration in the growth rate was fairly general.^{3/} This acceleration of the product was made possible by an appreciable increase in the growth rate of investment, whose annual rate rose from an average 5.7 per cent between 1950 and 1965 to 8.3 per cent between 1965 and 1973. This average conceals very different situations in the individual countries, but the favourable results become clearer if the situation at the beginning of the 1950s is compared with more recent developments in terms of investment-product coefficients. Thus, this indicator rose from 19.8 per cent in 1950-1952 to 23.7 per cent for 1974-1975, with values exceeding 20 per cent in 14 of the 19 Latin American republics under study (excluding Cuba and the English-speaking Caribbean countries).

With this expansion in investment there has been a parallel dynamism in national saving, whose coefficient in relation to the product rose from 18.5 per cent in 1950-1952 to 21.3 per cent in 1974-1975.

The coefficient of domestic saving in relation to total saving has remained around 90 per cent (it dropped from 93 per cent to 91 per cent between 1950-1952 and 1974-1975), this indicator being generally higher for those countries which recorded higher growth rates of total investment. In this connexion, it should be noted that the fluctuations in external indebtedness are very wide and are linked with recurring balance-of-payments deficits.

2. Industrialization

The aforementioned developments were associated with an intensive industrialization process. The weight of manufacturing in the total product increased from 18 per cent in 1950 to 24 per cent in 1975. The countries which were of greatest economic importance at the beginning of the period (Argentina, Brazil and Mexico) recorded around 26.6 per cent of manufactures

^{3/} See CEPAL, op. cit., pp. 33 et seq.

in their total gross product in 1975, which the medium-sized and small countries achieved only an average of 17.7 per cent in the same year.^{4/}

As already noted, the trend of industrialization was strongly towards import substitution for each domestic market until the mid-1960s, whereas from then on import substitution was combined with the export of manufactures to the regional and world markets. The more advanced countries came to produce a great variety of goods, including many of some technological complexity produced by the engineering industries, and there was an improvement in quality and a reduction in costs which in many cases rivalled international levels. The share of the engineering industries in the total of manufactures has now passed 25 per cent and has grown very rapidly, since it has risen 4 points during four of the years of the present decade.

The differences between countries are reflected also in the different progress achieved in specific sectors.

The great progress made in industrialization has placed a group of Latin American countries in a new stage of development which can be described as that of semi-industrialized economies. This progress is counter-balanced, however, by serious deficiencies and limitations in the industrialization itself, three problems being outstanding in this respect: first, this industrial development was linked with a very unequal income distribution ^{5/} and its greatest dynamism stemmed from the demand of medium- and high-income groups which were numerically small and had a very diversified consumption structure, strongly influenced by the consumption patterns of the developed countries. This helped to create small-scale industries, while vast sectors of the population remained on the sidelines of this process, even though in recent years the middle strata in the larger countries have been reaching "critical masses" of considerable size. Further comments will be made on these aspects later on.

Secondly, the developed part of industry grew up in conditions of heavy protection and low efficiency. This defect was gradually corrected, especially from the 1960s on, when the third of the stages mentioned earlier began and

^{4/} CEPAL, op. cit., pp. 158 and 159.

^{5/} CEPAL, Long-term trends and projections of Latin American economic development (E/CEPAL/1027), 1977, pp. 8 and 9.

protection was reduced and more emphasis laid on the export of manufactures. Progress in this field is undeniable; in some cases price and quality have already reached international levels, but in many cases there still remains a considerable degree of protection involving at the same time a high level of promotion designed in part to offset the protection, as will be seen further on.

The third problem relates to the very uneven progress made in the development of different sectors of manufacturing. In some light industries producing non-durable and durable consumer goods substitution advanced too far, attempting to produce everything without specialization, on a small scale and with little competition, while at the same time the industries producing basic capital and intermediate goods were systematically retarded. Even in the larger countries a wide field still exists for substitution in these sectors, while even within the capital goods industry there are notable differences: some items, such as machine tools for general use, are being efficiently produced and exported, while the production of other capital goods is only just beginning. Generally speaking, in the capital goods field there was delay in the production of those goods which correspond specifically to individual industries, constitute the nucleus of the production equipment of each branch of industry, and represent the technology of the sector. In contrast, more progress was made in the production of capital goods for general use which are equally applicable to many industries. Preference has been given to a type of intersectoral specialization, great progress being made in light industry while the basic industries lag behind. It has not been possible to achieve the pattern of industrial development characteristic of mature economies, where specialization occurs within each sector and this is reconciled with a diversified industrial structure. Technological progress in the manufacture of any product - textile, food, consumer durable, chemical, etc. - generally involves in the creation of a new specific plant incorporating this advance; it is therefore no accident that Latin America is backward in the production of these capital goods, if account is taken of its

/poor capacity

poor capacity for the creation or even the creative adaptation of technology, together with the lack of a sufficiently defined scientific and technical policy and the scantiness of the resources assigned to these purposes.^{6/}

The seriousness of this last problem is emphasized by the fact that there is backwardness precisely in those industries which play a vital part in the process of technological innovation. Far from specializing in one activity from beginning to end, vertically, to produce finished goods, some of the chief intermediate goods, and especially equipment - a situation which may apply to countries which are well up in the technology of the sector in question and are therefore not harmed by having to import other goods - the Latin American countries have in fact adopted a kind of horizontal specialization in which innovation is left entirely to the outside world. This is important, inasmuch as competition in the world market takes the form not only of lower costs and better quality but also, and especially, the development of new types of goods or the improvement of known ones. The appearance of new goods or changes in existing goods are precisely some of the principal causes of dynamism in demand. Thus the lack of capacity for innovation becomes an important negative factor in Latin American competitiveness abroad and prevents the region from sharing in the market of the dynamic goods, which are in world-wide demand.

3. Agriculture and mining

A number of points are worthy of note in relation to agriculture and mining.

In the first place, the region is endowed with abundant and varied resources. Their exploitation, however, involves investment, technology, and the solution of institutional problems. As will be appreciated further on, natural resources continue to be the basis of 85 per cent of the total exports of the region.

^{6/} Juan Ayza, Gerard Fichet and Norberto González, América Latina: Integración Económica y Sustitución de Importaciones, Fondo de Cultura Económica, Mexico City, 1975, p. 11.

Over the last quarter of a century the exploitation of natural resources did not develop at the rate required by domestic needs and international trade. In agriculture, the chief delaying factors were the structure of land ownership, the low and fluctuating level of internal and external prices, the high levels of investment and technology needed for greater progress and the policies of the developed countries, which not only affected international prices but also hindered access to their markets. Poverty and bad distribution of property are still the main features of Latin American agriculture. Agrarian reform made little progress, and that only in a slow and uneven manner, and both it and the modernization of agriculture improved the lot of only a fraction of the poorer sectors: others emigrated to the cities or found complementary sources of income, and many made no progress at all. All in all there was no relief of social tensions, for there were still large numbers of under-privileged people and furthermore the difference between their social and economic situation and that of those who gained benefits became even more marked.

At the same time, there came into being a form of modern commercial agriculture, above all in the medium-sized and large farming estates, which showed sensitivity to price improvements, capitalized and introduced improved technologies, and took advantage of State action in respect of infrastructure and extension.

In mining, the region gained ground in the external sector in a few goods such as iron ore, and lost ground in various others.

Simultaneously major changes took place in national policy. The developed countries tended rather to diversify the sources of supply, and foreign capital invested in these sectors was displaced in relative terms to other regions of the world. For their part, many of the Latin American countries carried out a series of nationalizations.

In recent years domestic demand began to be a major factor of growth in the mining sector. Industrial development requires an increasing proportion of mineral resources, and in addition there is a clear tendency in the countries to try to export these resources with a greater degree of processing than in the past. The exploitation and processing of mining resources, however, make great demands in respect of capital and technology.

4. Energy

As regards energy, the consumption growth rate in Latin America in the period 1950-1975 was 7 per cent per year, which was substantially higher than that of the developed countries (4.5 per cent per year). The elasticity of modern energy consumption in relation to the product has tended to decrease in Latin America during the last few years, in conformity with the experience of the more developed countries.^{7/}

The drastic increase in oil prices brought energy problems and policies into the forefront of attention in the countries of the region, including the question of increasing production and limiting consumption growth rates. In the Latin American region as a whole oil is far and away the main source of energy. In recent years it provided around 80 per cent of modern energy needs, a figure which is the highest in the world.

As far as oil is concerned, the countries of the region fall into four groups. The first is that of the countries which have been oil exporters or at least have not had supply problems: Venezuela, Bolivia, Ecuador and Trinidad and Tobago. To these may be added Mexico, which will soon begin to export. The second group consists of the countries which are almost self-sufficient: Argentina, Colombia and Peru. The third group comprises the countries which, although they do produce oil, only manage to supply a limited part of their own needs: Chile and Brazil. The remaining countries do not produce oil or produce only a very small proportion of their own demand (e.g., Cuba, which produces only 3 per cent of its consumption).

Just as oil production is concentrated in a few countries, so are the reserves of oil and natural gas: 90 per cent of these are found in five countries, Venezuela having the largest share. Proven reserves at the beginning of 1976 represented 22 times the 1975 production for oil and 64 times for natural gas. If a more flexible concept of reserves such as that of "expanded proven reserves" is used, this volume could be increased fourfold. The proportion of reserves in relation to consumption is still more favourable in the case of coal.

^{7/} CEPAL, The economic and social development and external relations of Latin America, pp. 158 to 163.

5. Technological development

Some of the countries of the region are reaching a level of technological development which, although still limited, is already significant and is having practical effects on their industrialization and exports. The three countries which have most clearly attained this level are Argentina, Brazil and Mexico. Some others, such as Colombia and Venezuela, are following the same trend, although they are still far behind the first three.

This technological development has taken place parallel to a process marked by important contrasts. On the one hand there has been an increase in economic concentration, in the participation of foreign capital and in the assimilation of patterns of technology and demand deriving from societies which have reached a higher degree of development. Moreover, in contrast to the developed countries, whose reciprocal relations are characterized by technological interdependence, the more advanced countries of Latin America have relied on imitation and in many cases still continue in a state of dependence: they have adopted the advances of the developed countries with several years' delay and they have received the designs of products and productive processes from abroad, the transnational corporations being fundamental instruments in these processes. To this must be added two important facts: first, the serious imperfections of the technology markets, where technological know-how is the property of just a few firms in each case, and secondly the limited bargaining power of the Latin American States and national firms. This has resulted in excessively high payments for technology and the acceptance of restrictive clauses such as the prohibition of exports, grant-back provisions covering technological know-how adapted by the recipient enterprise, trade and technological commitments regarding supply of parts, inputs, dies and other elements, and the fixing of differential royalties between enterprises for what is essentially the same technological "package", etc.^{8/} There have also been cases in which know-how was not really supplied to the purchaser, thereby keeping him in a state of dependence on the goodwill of the supplier and impeding the genuine absorption and diffusion of the new technology in these countries.

^{8/} CEPAL, The economic and social development and external relations of Latin America, op. cit., pp. 70 et seq.

The increase in the participation of foreign capital in manufacturing, the growing concentration of the main productive sectors, and the deterioration or at least the lack of progress in patterns of income distribution, resulting in the continued marginalization of large sectors of the population from the consumption and labour markets, are all indications of the way in which technological modernization has developed in these countries.

Despite these problems and limitations, clear signs have appeared during recent years in the three countries mentioned of national advances which, despite their still limited scale, are growing rapidly and already showing concrete results. The amounts devoted to scientific and technological development in Argentina, Brazil and Mexico are now quite substantial.^{9/} Industrial advance has been accompanied by a greater capacity for the absorption, adaptation and to some degree creation of technology, and the manufactures exported by these countries contain numerous innovations in design, as do the productive processes.^{10/} The favourable conditions displayed by these three countries in exporting their manufactures to other Latin American countries and more recently outside the region are undoubtedly connected with these advances. There have also been cases of the export of turn-key plants and of the sale of technology not incorporated in goods. Cases are also beginning to appear of firms in these countries establishing subsidiaries in other developing countries, especially in Latin America.

9/ See CONACYT: Política nacional de ciencia y tecnología, estrategia, lineamientos y metas. Mexico City, 1976. Nuno Fidelino de Figueredo: The transfer of technology in the industrial development of Brazil. CEPAL (E/CN.12/937), February 1974. Jorge Katz, Importación de tecnología, aprendizaje e industrialización dependiente, Fondo de Cultura Económica, 1976.

10/ See C. Díaz Alejandro: Some characteristics of recent export expansion in Latin America. Economic Growth Centre, Yale, 1973, p. 183. R. Jenkins: Internationalization of capital, multinational corporations and industrial exports in Latin America. Mexico City, mimeo, 1976. CEPAL: La exportación de manufacturas en México y la política de promoción, Mexico City, mimeo, August 1976.

There have also been noticeable advances in the scientific infrastructure, the supply of professionals and their contacts with experts of the developed countries. In these respects, a "critical mass" of some importance is being attained. The very fact of the "brain drain", influenced also, of course, by other factors such as instability, means an increasing supply of scientists and professionals for some countries. Moreover, some significant technological externalities are being generated in the case of these three countries.

6. Population

The natural growth rate of the population of Latin America as a whole for the period 1970 to 1975 was 2.8 per cent per year. This was one of the highest rates in the world: three times higher than that of the developed areas and even somewhat above that of Africa. Brazil and Mexico together account for more than half of the population, followed by Colombia and Argentina which together comprise about one-sixth.^{11/}

Average life expectancy at birth for the period 1970 to 1975 was 61.4 years for Latin America: closer to that of the developed regions (71.1) than to Africa (41.0) and South Asia (48.5). The overall fertility rate for Latin America in the same period was 5.3; in this respect it comes nearer to other developing regions such as Africa (6.3) and South Asia (6.0) than to the developed regions (2.3). Improvement in health conditions has been very rapid in Latin America, but the decline in fertility, except in a few countries, has only relatively recently begun to take place: a fact which explains the high population growth rates in the region.

The process of urbanization has been intense in the period 1950-1975, during which time the proportion of the population living in areas of 20,000 or more inhabitants practically doubled.

For Latin America as a whole, the urban population has grown by an annual 5.1 per cent during the period 1950-1975. In the last of these years 61.1 per cent of the population were living in cities.

^{11/} CEPAL, Long-term trends and projections of Latin American economic development (E/CEPAL/1027), pp. 92 et seq.

The economically active population 12/ increased at an average annual rate of 2.5 per cent between 1950 and 1975. This rate was lower than the growth rate for the population as a whole because of the high fertility rates and the decrease in the mortality rate. The former increases the number of persons in the non-active age groups and the effect of the second is similar, since the decrease was mainly due to the drop in infant mortality. According to these same projections the economically active population will increase at an average rate of 3 per cent between 1975 and 2000, i.e., it will increase by more than 100 per cent over that period. The evolution of this indicator varies considerably from one country to another. Thus, while in the Dominican Republic the rate will be 3.7 per cent and in Mexico and Nicaragua 3.6 per cent, the average annual increase in Argentina and Uruguay will be only 1.1 per cent. The growth rate for Brazil will be the same as the average for the region.13/

The urbanization process will also continue. By the end of the century three out of every four inhabitants of Latin America will be city dwellers. The economically active urban population will increase at an annual rate of 4 per cent, so that the number of young people who will join the urban labour market will increase by nearly 170 per cent.

The natural growth rate of the population began to decline slowly from the beginning of the 1960s and this trend will continue, but even so, according to the middle projection hypothesis of CELADE, the average population growth rate for the period 1975-2000 will be 2.6 per cent per year. By the end of the century the population of Latin America could reach 600 million: double that of the United States and Canada together and more than that of Europe. The relative weight of the different countries will change substantially, with special importance being assumed by the great masses of population which will accrue to Brazil and Mexico.

12/ The economically active population includes both employed and unemployed persons, including those seeking work for the first time.

13/ Source: CELADE, Demographic Bulletin, various numbers.

7. Employment

Emphasis must be laid on the significance of this last fact, which will raise big demands for labour absorption on the economy, and in particular on urban industry and productive services, to say nothing of the need to absorb the population currently unemployed or under-employed, to which reference will be made further on.

As regards agriculture, there has been a continuing fall in the porportion of the active population employed in this sector.^{14/} This situation is connected with the intensive urbanization process mentioned above. Manufacturing should have played an active part in the absorption of labour in order to give productive employment to a major part both of the natural population increase and of those leaving agriculture, but in reality, despite the growth rates in production indicated earlier and the fact that the industrial growth rate even exceeded the general average, industry played only a very limited role from 1950 onwards: the rate of increase in industrial employment was practically the same as that of the population increase, which meant that industry more or less maintained its employment share in the total labour force, but showed itself unable to contribute to the solution of unemployment and underemployment. The labour force which moved out of agricultural activities thus established itself in the services sector, causing an expansion far beyond the limits of a sound and productive increase in these activities.

Account must also be taken of the increase in labour productivity in industry, which meant an improvement in the standard of living of those employed in it, but helped to limit the role of industry in absorbing more labour.

8. Structural unemployment

At present about 5.8 per cent of the economically active population are openly unemployed. But the problem of unemployment is much more serious than this figure would seem to indicate. A high proportion of the active population is only partially employed or carries out activities of very low productivity which frequently signify disguised unemployment. If an estimate is made of

^{14/} In six Latin American countries representing three-quarters of the active population in Latin America, 35 per cent of this population is engaged in agricultural activities and the rest in industry and services.

/which frequently

which frequently signify disguised unemployment. If an estimate is made of the proportion of disguised unemployment which this last phenomenon implies and this is added to the open unemployment already mentioned, the result is a level of virtual total unemployment close to 28 per cent of the economically active population.^{15/} A fifth of this amount relates to open unemployment, two-fifth to underemployment in agricultural activities and two-fifths to underemployment in urban activities.

Projecting the problem into the future, different calculations made independently ^{16/} coincide in estimating that - on the basis of reasonable assumptions on production structure, technology, etc. - Latin America would need to reach an annual growth rate of not less than 8 per cent, much higher than that which it appears to be approaching now, in order to begin to solve the problem of unemployment and underemployment within the next 10 or 15 years. If such a rate were achieved, rural-urban migration could be slowed and agriculture would gradually absorb its own underutilized labour force, while industry, and to a lesser degree the productive services, would give employment to the increase in the active labour force and would begin to absorb the surplus urban manpower. In this way, even though the solution of the underemployment problem would take a considerable time, there would at least be a trend in that direction.

9. Skilled manpower

The other important feature in the employment field is the sharp increase and high proportion of persons in the medium and high-level occupational strata in urban, manufacturing and service activities. These strata include professionals and semi-professionals, management personnel, employers, self-employed workers and owners of commercial establishments, representing highly qualified management and technical personnel. In Argentina, Brazil, Chile, Uruguay and Venezuela, around 1970 these people represented about a fifth of the labour force, and the proportion was rising rapidly. To this category

^{15/} PREALC (ILO), The Employment Problem in Latin America: Facts, Outlooks and Policies, Santiago, November 1975.

^{16/} Raúl Prebisch, Change and Development, and CEPAL, Long-term Trends and Projections of Latin American Economic Development (E/CEPAL/1027), p. 129 et seq.

must also be added skilled employees and workers who have reached an appreciable standard of knowledge and income. This means that a high proportion of the population in Latin America is now qualified to carry out tasks which go far beyond the levels of elementary knowledge required to discharge low-grade functions in agriculture or industry. This phenomenon reflects the degree of development reached in industry and the growth of intermediate income strata, to which reference will be made further on.

10. Income distribution and market size

Subject to all the reservations that inadequate data impose, it may be estimated that the poorer 50 per cent of the Latin American population, which in 1970 shared in less than 14 per cent of the total revenue, had in that year an annual average per capita personal income of about 150 dollars. It is estimated that about 45 per cent of the population of Latin America lives in conditions of extreme poverty.

The great majority of this group of more than 150 million people have very little capacity for purchasing manufactures. Their exceedingly low income level barely enables them to buy the most essential goods, generally of a primary nature. Some of these people who live in the towns, however, probably demand certain manufactures through imitation, albeit at the expense of consumer goods which might be considered more necessary, such as foodstuffs.

The next 40 per cent of the population, taken in ascending order of income, had in that year a personal per capita income similar to the general average, although naturally with considerable differences within this large group. As their per capita income, at least in the 1960s, increased more rapidly than the general average, the standard of living of this group fully benefited from the growth rates attained by the gross per capita product. At the present time, with a total Latin American population of about 320 million, it can be estimated that these intermediate strata constitute a mass of not less than 130 million people, with a purchasing power which makes them consumers of manufactured goods.

Mention must also be made of the 5 per cent of the population at the highest income level with a personal per capita income of about 3,200 dollars per year in 1970. This level of income enables this group, which consists of

/a little

a little more than 15 million people, to practise a form of consumption which is very diversified and exacting as regards the quality and renewal of goods. As this group is also subdivided into small national groups, its consumption, habits lead to very great diversification of the production structure, with a high import content.

There are thus three principal facts to emphasize in this context. First, there is the immense number of Latin Americans (corresponding in great measure to the unemployed or underemployed) who constitute a great reserve of domestic demand but who are practically outside the consumer market and must therefore be incorporated into it. Secondly, there is a "critical mass" of people in the intermediate-income strata who already constitute an effective market for Latin American industry, the size of which - although split up into national markets which in some cases are small - explains the eagerness of private foreign investors and the transnational corporations to enter these markets to produce for these groups. Thirdly, there are small national groups with a very high, diversified and exacting consumption pattern, closely imitative of the consumption of more developed countries; these groups in their turn, by force of demonstration, induce an increase in the consumption of the intermediate strata, which leads to the creation of industries and services producing sophisticated goods on a small scale and generates a constant pressure on the balance of payments through a tendency to import luxury goods.

C. The external sector of Latin America

The internal aspects described in the preceding section are reflected in the behaviour of the external sector and in the relations of Latin America with foreign countries, especially with Europe. This section will make an overall review of this external sector and the relations of the region with the rest of the world, their possibilities and problems. This analysis will serve as a framework for the study of Latin American relations with Europe which will be made in succeeding chapters.

1. Latin American external economic policy

Until the middle of the 1960s the degree of protection for industry was very high and was used with little discrimination in many of the Latin American countries. Non-tariff prohibitions and barriers were applied, while the nominal tariffs were sometimes more than 200 or 300 per cent.

Of course the situation with regard to protection was not uniform for all countries. The barriers were higher for countries like Argentina, Brazil, Chile and Uruguay and were lower for Colombia, Mexico and Peru, etc. The lack of tariff rationalization, however, meant that the effective protection bore no relation to development needs and in some cases even worked against them. Sometimes the exchange rate overvalued the national currency, encouraging imports and discouraging exports. No use was made of systematic policies to promote non-traditional exports, at least at a level sufficient to produce a genuine impact on trade diversification.

From the 1950s in the case of Central America, the beginning of the 1960s for LAFTA and the early 1970s for the Andean Group countries, policies began to be applied aimed at reducing tariff and non-tariff barriers to intra-zonal trade within these integration schemes. The removal of internal barriers was extensive and thorough in the case of the Central American Common Market, but only very partial in the case of LAFTA, where after some time the process was practically abandoned. In the case of the Andean Group the elimination of internal barriers is advancing at a good pace, though it has not yet been completed.

From about the middle of the 1960s a change began to appear in trade policies with respect to the rest of the world. Although the trend was not continuous or uniform as between countries, there was a reduction in non-tariff and tariff barriers and an attempt was made to apply them with a greater degree of rationality; many studies on effective protection were carried out at this time in several Latin American countries. Argentina reduced its tariffs from an average of 151 per cent in 1960 to a recent level of about 40 per cent of nominal and effective protection, with a maximum of 80 per cent. Brazil reduced its tariffs from 54 per cent to 39 per cent between 1966 and 1967, but in later years they were increased again and amounted to 49 per cent in 1973.

The five Andean Group countries agreed on a reduction from an average 40 per cent in 1971 to 28 per cent in 1976, with a maximum 60 per cent. The time-limits for the application of this reduction have been extended, however, and there are important exceptions.^{17/}

Exchange policies also underwent important changes. Exchange rates came nearer to parity and systems of frequent small devaluations ("crawling peg") were introduced to prevent inflation from invalidating the exchange rates and thus introducing a strong element of instability into the real prices obtained by exporters. The exchange reform applied in different ways by Argentina, Brazil, Chile, Peru, Uruguay, etc., was possibly the policy change which had the greatest impact on non-traditional exports.

Moreover, from 1965 onwards export promotion systems were introduced which contained fiscal, financial and institutional elements and used a considerable variety of instruments, including "draw-back", internal-tax exemption, export credits, exchange facilities, favourable terms for imports, etc. Throughout this period promotion institutions and instruments alike were frequently and markedly improved in order to increase their effectiveness and reduce their cost to the government. Specific aspects were modified, but a policy of strong support for non-traditional exports was maintained throughout.

It should be noted that the drastic reductions in protection which have been and are still being made constitute very important advantages granted by Latin America, especially for the developed countries from whom the region buys the greater part of its imports. Since these reductions were made mainly with a view to improving the efficiency of industry and reducing trade barriers, they were effected outside the Kennedy and Tokyo (GATT) rounds. This has given rise to the curious situation that in spite of them Latin America is accused of not reciprocating the lesser advantages which it is demanding from the developed countries in the multilateral trade negotiations at Geneva.

^{17/} Sources: Argentina: Santiago Macario, "Protectionism and industrialization in Latin America", Economic Bulletin for Latin America, vol. IX, N° 1, 1964. Brazil: IPEA, Relatorio de pesquisa N° 22, A política brasileira de comercio exterior y seus efeitos: 1967/1973, Rio de Janeiro, 1974. Andean Group: Board of the Cartagena Agreement, Antecedentes sobre el arancel externo común, J/PE/86/Rev.1, September 1977.

Despite the marked progress made in reform, external trade policy is still at a transitional stage in the Latin American countries. Some problems therefore still persist and foreign trade has not in every case attained a new and regular pattern of behaviour. Certain aspects may be noted by way of example.

In some sectors the level of protection is still high, making necessary an equally high level of export promotion in compensation.

In other cases, the desire to attain greater efficiency and competitiveness has resulted in over-hasty and excessively drastic reductions in protection which have endangered the industrial progress already made.

From a conceptual standpoint there are two aspects of export promotion (i.e., export incentives). In the first place, there is the compensation for the obstacles placed in the way of the new exports by the national economic policy itself: this includes compensation for import duties on inputs and capital goods used in the production of the exported article, and for the persistent overvaluation of the national currency through the fixing of unrealistic exchange rates. This procedure is accepted as legitimate by the developed countries. Additionally, internal taxes which the exported goods would pay if they were destined for the domestic market may be returned or offset; this compensation is accepted by many developed countries but opposed by others.

In the second place, where promotion goes beyond these measures, it may still be necessary to offset the initial disadvantages experienced by a new export during the process of organizing its external distribution, making the product known in foreign markets, and getting to know those markets. This type of promotion should be acceptable within reasonable limits of level and time when applied to incipient export activities, in the same way that protection is accepted within similar limits for incipient industries.

A further type of promotion, not discussed here, is needed to offset the restrictions on access to their markets applied by developed countries, which have a serious effect on some of the new Latin American exports.^{18/}

^{18/} See Chapter II, Part B.

In a recent CEPAL study 19/ it is stated that, in the past 10 years' experience of the Latin American countries which have made most progress in the export of manufactures, the export incentives provided by the promotion systems in force have consisted mainly of compensation for the customs duties and internal taxes placed on exported goods. Any further compensation is generally lower than the tariffs in force in the same Latin American countries for imports of goods similar to those exported. Of course the situation varies from one country and sector to another.

2. The total foreign trade of the region

It was stated earlier that during the 1960s one stage of Latin American development ended and another began. The main features of that which ended were import substitution in each national market, high and virtually indiscriminate protection, and little emphasis on the promotion of non-traditional exports. In the new stage, import substitution was combined with the export of manufactures, there was a tendency to reduce and rationalize protection, and high priority was given to promotion policies for non-traditional exports. The performance of trade reflects these policy changes if the boundary between the two stages is regarded as the year 1965: a choice which, although arbitrary to some extent, corresponds roughly to the period when the changes began.

As regards imports, their rate of growth during the period 1950-1964 was 0.4 per cent for each 1 per cent of the growth of the product.20/ Between 1965 and 1975, in contrast, imports increased at an average rate 1.4 times that of the product, the relation being 2.1 for Brazil, 1.3 for Mexico and 2.0 for Ecuador during this last period.

In order to assess the significance of these facts it is useful to know what would happen in Latin America as a whole if, in the case of each and every one of the different types of goods, the coefficient of imported supply in relation to the total demand for these goods remained constant in the medium term. This situation would correspond to what might be called "neutral"

19/ CEPAL, The economic and social development and external relations of Latin America, pp. 198 and 199.

20/ See CEPAL, The economic and social development and external relations of Latin America, p. 185.

import substitution in each of the sectors of economic activity, since for each one of them domestic production and imports would exactly follow the growth rate of the demand, without either of them advancing or retreating in relative terms. A calculation made on the basis of this hypothetical assumption indicates that with this "neutral" substitution imports would grow at a rate 1.3 to 1.4 times that of the product.^{21/} Moreover, this difference between the growth rate of imports and that of the product becomes even greater as the growth rate of the latter rises, that is, as the elasticity coefficient increases. This is due to the fact that, with the growth of the per capita product and even more with its acceleration, there is a more rapid increase in demand for goods with a high direct or indirect import content, and a slower increase in demand for goods with a larger proportion of national production.

Using the terms of comparison defined in the preceding paragraph, an estimate can be made of the coefficients of elasticity of imports in relation to the product during the periods 1950-1964 and 1965 onwards which were mentioned earlier. The coefficient in the first of these periods was less than one-third of the elasticity which would correspond to a "neutral" substitution in each and every sector of the economy. This can be interpreted as meaning that during this period import substitution was not only very strong, but was also possibly accompanied by actual compression of imports, i.e., by the reduction and suppression of purchases abroad, without an equivalent accompanying increase in the national production of the same goods; indeed, the experience of what occurred in many Latin American countries during this period does suggest that substitution was accompanied by import compression. As regards the period from 1965 onwards, the elasticity of imports in relation to the product which actually took place is practically the same as that corresponding to "neutral" substitution. Does this mean that the coefficient of imported supply remained constant in each and every one of the productive sectors of Latin America? Experience indicates that it did not. In some sectors of economic activity the coefficient of imported supply continued to

^{21/} Juan Ayza, G. Fichet and N. González, América Latina: integración económica y sustitución de importaciones, Fondo de Cultura Económica, 1975, pp. 66 et seq.

decline, that is to say, import substitution went ahead. In other sectors, the coefficient of imported supply increased as a result of the greater opening up of the economy (through reduction and rationalization of protection), which eliminated the compression of certain imports and caused national production to grow at a lower rate than the demand. Thus, the substitution which occurred in some sectors was more or less offset by the liberation of imports in others.^{22/}

At all events, protection is still high in many Latin American countries and this is reflected in the performance of their trade. If these countries had a degree of protection and competitiveness in their industrial sector similar to that of the OECD countries, the present size of their domestic markets would compel them to carry on more intensive external trade, i.e., they would have higher import coefficients in relation to demand than they have at present.^{23/} For example, in 1972 the size of Brazil's market for transport equipment was close to that of Italy in 1969, but its coefficient of imported supply in relation to demand was 11 per cent compared with 25 per cent for the European country. In that same year the size of the market for chemical products in Argentina and Spain was very similar, but the former's import coefficient was 9 per cent and the latter's 17 per cent. In Mexico, domestic demand for non-electrical machinery was similar to that of the Netherlands in 1969, but while Mexico's import coefficient was 52 per cent, that of the Netherlands was 68 per cent. A similar situation is found in most of the sectors, with import coefficients lower in the Latin American countries than in those of the OECD because of the higher level of protection.

About the middle of the 1960s there was also a change in the performance of regional exports. During the period 1950-1965 their purchasing power grew by only 2 per cent per year, because although they increased in volume by 4.3 per cent per year, there was a downturn in their relative prices. From 1965 onwards, however, their purchasing power grew more rapidly.

^{22/} Juan Ayza, G. Fichet and N. González, op. cit.

^{23/} Ayza et. al., op. cit.

Between 1965 and 1973 it rose by 6.6 per cent per year through an accelerated increase in volume (5.0 per cent per year) in comparison with the preceding period, accompanied by an improvement in prices; indeed, 1973 was the year in which the terms of trade were the best for many years for Latin America, as a result of price rises for the majority of the basic products exported by these countries, despite the fact that the relative price index was still markedly below that recorded for the period 1950-1954. In the following three years, however, from a general export standpoint, relative prices deteriorated for all the non-oil-exporting countries, and the falls in 1974 and 1975 were not offset by the improvement in 1976, which was partly due to a lower rate of inflation in industrial imports and also to the big increases in coffee prices.

Of course these global movements conceal different situations for individual basic commodities and for countries. As regards the oil-exporting countries, their prices, which had deteriorated previously, began to improve and reached their peak, in comparison with imports in 1974.

These stages are reflected in the structure of exports, as may be seen from the following table:

Table 1

PERCENTAGE COMPOSITION OF EXPORTS OF DEVELOPING LATIN AMERICAN COUNTRIES, ON THE BASIS OF CURRENT PRICES

	1955	1960	1965	1970	1975	Average annual growth rate 1955-1975 (percentages)
Raw materials	66.8	64.7	66.0	64.8	47.0	6.6
Fuels	30.1	32.0	28.6	24.0	39.4	9.9
Manufactures	3.1	3.3	5.4	9.1	13.6	16.8
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	8.6

Source: UNCTAD, Yearbook of International Trade and Development Statistics, and United Nations, Monthly Bulletin of Statistics.

/This table

This table clearly shows that between 1955 and 1965 the proportion of raw materials and of fuels in the export total varied very little, and that of manufactures increased only very slightly from 1960 onwards. In 1965 66.0 per cent of exports still consisted of raw materials and 28.6 per cent of fuels, while manufactures accounted for only 5.4 per cent of the total. From this year, i.e., in the second of the stages indicated, there was an important change in the situation. In 1965-1975 the relative proportion of raw materials fell from 66.0 per cent to 47.0 per cent, that of fuels rose from 28.6 to 39.4 per cent (because of the increase in petroleum prices), and that of manufactures from 5.4 per cent to 13.6 per cent.

In other words, exports of manufactures increased very rapidly: rising from a relatively unimportant level in the first half of the 1960s they have now come to represent somewhat more than one-eighth of the total value of all the exports of the region. Since they started at such a low level, the very rapid annual growth rates which occurred during this stage did not have a more pronounced effect on the growth of total exports; but if they maintain a similar dynamism in the future their influence will soon be marked and will come to be decisive in the growth of total exports, as it will come to represent a significant part of the whole.

The situation naturally differs from one country to another, and there is a similar difference in respect of sales to the rest of the world compared with intra-zonal sales. In the case of the largest countries the proportion of manufactures in the total exports to all destinations is quite high: Brazil (24.5 per cent), Argentina (24.2 per cent), Mexico (36.5 per cent) and Colombia (23.1 per cent) in 1975.^{24/} The smaller countries, and especially the less developed ones, generally have a lower proportion of manufactures in their exports: Bolivia (0.6 per cent), Chile (8.1 per cent), Honduras (11.4 per cent), Peru (3.8 per cent), the Dominican Republic (1.8 per cent) and Venezuela (1.0 per cent).

^{24/} CEPAL, official data.

/These manufactures

These manufactures comprise goods of various classes. In the first place, there are those coming from labour-intensive traditional sectors and natural resources (leather articles including footwear, textiles, processed foods and articles made of wood). Secondly, there are manufactured mineral goods, with a high density of natural resources and capital, and a growing industrial added value. Thirdly, there are the chemical and metal-working industries, which are acquiring increasing weight in export sales, both to the Latin American market and also outside the region (the electronic and motor-vehicle industries, consumer durables and capital goods).

These exports differ greatly from country to country in their sectoral composition. In the exports of manufactures from Argentina and Brazil the metal-working industries (CUCI 7) account for high percentages, 55.3 per cent and 40.9 per cent respectively in 1975, chief among the exports being non-electrical machinery, transport equipment and basic metal products. In Mexico, metal products and machinery represented 26.7 per cent of total exports in 1974, the most important items being non-electrical machinery and, to a lesser degree, chemical products. In Colombia the proportion of metal products and machinery is much lower, the chief exports of this country being intermediate industrial products, especially chemicals. In the exports of manufactures of the medium-sized countries (Peru, Chile and Uruguay), intermediate industrial goods predominate, such as wood pulp, paper and traditional chemical products, while in the smaller countries traditional manufactures reach very high proportions among their exports in comparison with other manufactures.

The metal-working industries employ more skilled and better-paid labour; their products have a high unit value and demand for them has a higher income elasticity. These goods are very suitable for export and also have promising sales prospects in external markets (as recent experience shows), taking into account the present stage of Latin American development.

In intra-regional trade exports of manufactures, which represented only 12.6 per cent of the total in 1960, grew at a very high rate, reaching 38.3 per cent of the total in 1975; the three countries most advanced in industry - Argentina, Brazil and Mexico - are those which have derived most benefit from this trend, although in the other countries too the volume of manufactures in their exports to the region is proportionately higher than it is to the rest of the world.

/It must

It must be emphasized, however, that there is little difference between intra-regional and extra-regional protection, except in cases of internal trade within Central America and the Andean Group, although it is true that there are other elements which favour such trade.

Despite these advances, agricultural and mining products and fuels still form the greater part of Latin American exports. The high proportion of these goods in external sales, together with their loss of importance in world trade, explain in part the declining participation of Latin America in world trade during the past 25 years. Thus, taking world trade as a whole, (including all goods and all countries), primary products practically kept pace with the evolution of total trade in the first half of the century but in the period after the Second World War the situation changed profoundly. Manufactures increased very rapidly - by an average of 12.7 per cent per year - and increased their relative weight from 43.7 per cent of the total in 1950 to 60.4 per cent in 1975, while fuels increased from 9.9 per cent to 18.6 per cent, chiefly because of price rises. In contrast, the share of raw materials and foodstuffs dropped from 46.4 per cent to 19.0 per cent. These trends were persistent during the past 25 years.

The deficiencies in the Latin American production structure have produced an unbalanced external trade structure, which has had negative effects on the expansion of exports and the equilibrium of the trade balance. This imbalance consists of a relatively high weight of primary commodities and a low weight of manufactures in exports, and the reverse situation in imports. In order to appreciate this fact it is helpful to compare the case of Latin America with that of some developed countries, drawing a distinction between primary goods, traditional industries and industries with more advanced technology. This comparison is made in table 2.

As regards technologically advanced manufactures, it can be seen from this table that the mature developed economies export and import goods in all sectors, and the volume of their exports is equal to or greater than that of their imports. For example, in the case of non-electrical machinery, the exports of the United States are 2.4 times as great as its imports and those of the EEC are 1.8 times as great as the amount imported by the Community. This reflects the fact that in these industrialized economies there is

/specialization in

specialization in each of the manufacturing sectors, so that in the sectors of greatest technological importance and dynamism in world trade, the exports of each country or area are equal to or greater than their imports for the same type of goods. In Latin America, in contrast, exports of non-electrical machinery are scarcely one-tenth of the region's imports. This same contrast between Latin America and the developed economies is shown for other sectors in table 2.

In the case of traditional industries the situation is very different. In these activities, for which less advanced technology is required and world demand grows more slowly, Latin American exports exceed the region's imports in volume, whereas in the developed economies exports and imports are equal.

In the case of primary commodities, the availability of natural resources is a major determinant of production potential in each country or region. Latin America, which is relatively thinly populated and has vast natural resources, is favourably situated to produce and export. Some of these goods are still exported in primary form without processing. Among the developed countries, however, there are great differences as regards these same resources. The United States, which is highly developed in the advanced industries mentioned above, is also endowed with both agricultural and mineral natural resources and is therefore a major exporter of certain goods, while it produces a high proportion of its domestic demand for others. In respect of other primary goods, such as fuels, its dependence on imports is critical. In contrast with the United States, Japan has very few natural resources, so that its dependence on other countries for its supply of agricultural and mineral products and fuels is very great and its exports of these products are only a small fraction of its imports (see table 2). In this respect the European Economic Community comes between the United States and Japan: its exports of agricultural products are not very different in volume from its imports, partly because of the protection and import substitution brought about by its common agricultural policy; in the case of minerals its exports of refined products are appreciable although less than its imports, while in fuels its comparative lack of natural resources makes it severely dependent on the outside world. These averages for the EEC, however, naturally fail to reflect the sometimes considerable differences which exist between countries and specific goods.

Table 2
RELATIONS BETWEEN EXPORTS AND IMPORTS IN SOME
STRATEGIC SECTORS

	Volume of exports in comparison with imports for each country or area: 1972-1974 averages			
	United States	European Economic Community (six countries)	Japan	Latin America <u>a/</u>
<u>Primary commodities</u>	1.3	0.7	0.2	2.4
Foodstuffs	1.7	0.7	0.1	2.9
Agricultural raw materials	1.2	0.9	0.2	1.5
Minerals	0.6	0.5	0.2	1.9
<u>Fuels</u>	0.2	0.2	0.01	1.5
<u>Manufactures</u>	1.1	1.5	4.6	0.2
Non-electrical machinery	2.4	1.8	2.9	0.1
Electrical machinery	1.2	1.5	7.1	0.2
Transport equipment	1.0	2.2	17.4	0.2
Chemical products	2.2	1.5	1.7	0.2
Other manufactures	0.6	1.2	4.1	0.3

Source: Prepared on the basis of data from the United Nations Monthly Bulletin of Statistics and Yearbook of International Trade Statistics.

a/ 20 republics, excluding Cuba, Paraguay, the Dominican Republic and Panamá.

In Latin America the relationship between exports and imports is more prejudicial to those sectors whose international trade grows more rapidly, which at the same time contain a higher proportion of better-qualified, better-organized and therefore better-paid labour, and whose profit margins are generally higher because of their speedier technological renovation. In contrast the relationship between exports and imports is more favourable to the sectors of the region where demand grows slowly, where there is little technological renovation, and where there is a high content of unskilled, badly-organized, and therefore relatively badly-paid labour. This asymmetrical structure of trade does not seem to be much in keeping with the considerable
/development in

development in Latin America of the managerial and professional strata and skilled workers, referred to earlier. The vigorous industrial development and the important advances which have taken place in the improvement of manpower skills have not yet been reflected in a parallel change in the structure of Latin American external trade.

3. The balance of payments and external finance

In this connexion it is necessary to distinguish between the oil-exporting countries (Bolivia, Ecuador, Trinidad and Tobago and Venezuela) and the non-oil-exporting countries. Outstanding among the former is Venezuela, which has had extremely high surpluses, although the very rapid growth of imports is leading once again to a trade deficit. Mexico, too, will soon qualify for inclusion in this group.

For the non-oil-exporting countries of the region, the average balance-of-payments current account deficit rose from a little over 1,500 million dollars per year in the period 1965-1970 (less than 15 per cent of the exports of goods and services) to a little over 4,000 million dollars per year in the period 1971-1973 (22 per cent of exports), while it jumped to almost 14,000 million in 1974-1976 (45 per cent of exports). According to preliminary calculations this deficit was reduced in 1977, although it still remained high in absolute and relative terms.

This means that external strangulation has reappeared as a major limiting element of Latin American growth, and the prospects are that this strangulation will continue - unless the improvement glimpsed in 1977 materializes - especially in view of the uncertainty about the future evolution of the international economy and the relatively lower growth rate expected in the developed economies, at least for several years to come. World-wide inflation and the severe fluctuations in the prices of basic commodities are major factors in this situation of uncertainty.

The deficit incurred by the Latin American countries in recent years as a complement to their internal measures reflected their attempts to defend their growth rates - as far as was reasonable - against sharper falls; these deficits also played a part in avoiding a sharper decline in the growth rate of imports, which are composed for the most part of capital and intermediate

/goods acquired

goods acquired from developed countries. In this way Latin America helped to maintain the trade and economy of the world at a higher level than would otherwise have been the case.

In some countries such as Brazil and Mexico there have been recent public discussions on the influence which can be attributed to foreign investment operations, and especially the activities of the transnational corporations, as contributory causes of this deficit.

The deficit countries, too, changed their sources of external finance. Before the Second World War, as noted earlier, many Latin American countries had access to medium- and long-term private capital markets. After the world war, as the reconstruction of the European countries proceeded and the reserves accumulated by Latin America during the conflict were used up, the flows of external finance were renewed. From the late 1950s until the early 1970s, however, public international and national sources of finance predominated. In recent years, since the increase in oil prices, these public sources lost importance as a source of funds for Latin America. There was a decline in the proportion of international financial flows controlled by these sources, and moreover the criteria they applied in the distribution of their funds gave precedence to the countries with the lowest income levels, leaving the greater part of Latin America on the sidelines, except for countries like El Salvador, Haiti and Honduras. There was a sharp increase, on the other hand, in the proportion of external finance for Latin America deriving from private sources, especially private banks. Some countries in the region, especially the larger ones, tried to gain access to the medium- and long-term private markets through the floating of bonds, but although positive results were achieved in this way, only a small proportion of what is needed comes from this source as yet, showing the existence of problems of access.

Exclusion from public concessionary finance affected not only the larger countries but also many medium-sized and small countries, and there was also a widespread reduction of access to non-concessionary public funds. The simplified criteria employed by the public agencies recognize only the relatively less developed countries (which are very few in Latin America: Haiti, Honduras and El Salvador, according to the criteria applied in various cases), and they tend to apply uniform treatment to all the rest, whether they
/be large,

be large, medium-sized or small countries. It should be noted that many of the medium-sized and small countries of the region have acute balance-of-payments problems, relatively primitive production and export structures, little or no access to the capital markets and severe domestic problems of mass unemployment and poverty.

The guaranteed public debt of the non-oil-exporting countries of the region rose from 8,700 million dollars in 1965 to 49,000 million in 1976, and non-guaranteed credits from private banks reached 31,000 million in 1976. These figures do not include indebtedness to the International Monetary Fund or non-guaranteed supplier credits.

Of the total indebtedness of 81,000 million dollars in 1976 (including IMF credits), guaranteed and non-guaranteed credits from private banking sources came to somewhat more than two-thirds: i.e., twice as much as the already relatively important proportion of one-third or more which they represented ten years earlier. Quite apart from its effects as regards time-limits and servicing of the debt, this can have other consequences which are still difficult to appreciate fully.

Thus, the amount of the debt has increased sharply in both absolute and relative terms. Additionally, there has been an increase in the ratio of servicing charges to exports. The debt problem is therefore one of those which requires most attention in Latin America. What is more, the fact that the ratio of debt servicing charges to exports has not attained excessively high levels is due in part to the rapid growth in the field of exports. In the future evolution of the problem the interdependence between finance and trade will have to be taken into account.

There was a parallel change in the time-limits and costs of the debt. Credits to developing countries for periods of over 7 years announced in the European currency market dropped from 50 per cent of the total borrowed in 1974 to 5 per cent in 1976, while credits of over 10 years granted by this same market disappeared completely. The surcharge on the basic reference rates rose from 1.25 per cent in 1973 to 1.78 per cent at the beginning of 1976.

/Among the

Among the non-oil-exporting countries the situation as regards deficit and financing varies from one to another. Argentina, Brazil and Mexico, through their very size, represent a very high proportion of the total deficit; but the problem is also serious for many medium-sized and small countries when related to the volume of their exports. The larger and some of the medium-sized countries have easier access to private capital markets - although in no case is this access satisfactory - and these same countries also obtain better terms from the international banking system.

Chapter II

LATIN AMERICAN TRADE WITH EUROPE

A. Global trends

1. Evolution of Latin America's share in world trade

Since the Second World War the developed market-economy countries and the European countries with centrally planned economies have grown vigorously, while not only the production but also the trade, financial and investment relations between them have increased. The developed countries increased their share in world exports from 60.2 per cent to 66.3 per cent between 1950 and 1975 (table 3). This increment, which is part of a process of changes in the share of different areas in world trade, has been achieved through an intensification of trade between the various groups and also within each individual group (EEC, EFTA, United States, Canada, Japan and the European socialist countries). Factors that have contributed strongly to this have been the integration processes, the reduction or elimination of tariff and non-tariff barriers for manufactured products, and the action of transnational corporations. The developing countries, for their part, have greatly diminished their share of world trade, in both exports and imports. The proportion of imports in the world total dropped from 31.7 to 23.9 per cent in those 25 years and that of exports from 27.1 to 22.6 per cent (table 3).

Within this group, however, there are marked differences between the various developing regions. The oil-exporting countries improved their position, their share in world exports doubling between those years (from 7.3 to 13.4 per cent), while that of non-oil-exporting countries fell from 24.4 to 10.5 per cent. A similar trend is noted in the case of imports, although to a slightly lesser degree, as can be seen from the table. Within this group, Latin America is the region that has lost most ground; its share dropped from 10.4 to 3.9 per cent in the case of exports and from 9.0 to 5.7 per cent in the case of imports between 1950 and 1975,

Table 3
EVOLUTION OF WORLD TRADE BY MAJOR REGIONS

	Exports FOB			Imports CIF		
	Share of total (percentages)		Average annual growth rate for the period	Share of total (percentages)		Average annual growth rate for the period
	1950	1975		1950	1970	
<u>A. Developed market-economy countries</u>	60.2	66.3	11.7	65.0	66.3	11.4
United States	16.6	12.2	9.9	14.6	10.7	10.0
Canada	4.7	3.7	10.1	4.6	3.5	10.2
EEC (9 countries)	26.5	33.9	12.3	31.7	33.1	11.5
EFTA (8 countries)	5.6	6.1	11.7	6.1	7.0	11.9
Japan	1.3	6.4	18.4	1.6	5.9	17.2
Other countries	5.6	3.8	9.5	5.9	6.1	11.0
<u>B. Countries with centrally planned economies</u>	<u>8.1</u>	<u>9.8</u>	<u>12.1</u>	<u>7.9</u>	<u>10.4</u>	<u>12.5</u>
Eastern Europe	6.8	9.0	12.5	6.3	9.4	13.1
Asia	1.3	0.8	9.3	1.6	1.0	9.0
<u>C. Developing countries</u>	<u>31.7</u>	<u>23.9</u>	<u>10.0</u>	<u>27.1</u>	<u>22.6</u>	<u>10.5</u>
Oil-exporting countries	7.3	13.4	13.9	4.2	6.5	13.3
<u>Non-oil-exporting countries</u>	<u>24.4</u>	<u>10.5</u>	<u>7.6</u>	<u>22.9</u>	<u>16.1</u>	<u>9.7</u>
Africa	4.0	1.8	7.7	4.4	2.7	9.1
Latin America	10.4	3.9	6.8	9.0	5.7	8.2
Asia	9.1	4.3	7.9	8.3	5.7	9.6
Middle East	0.8	0.4	7.8	1.0	1.7	13.8

Source: United Nations, Yearbook of International Trade Statistics, Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics.

/although the

although the evolution of trade with different areas is not homogeneous. The rest of the non-oil-exporting developing countries all show higher rates of increase in trade than Latin America, yet lower than those recorded by the developed regions (table 3). Within Latin America itself there are also marked differences in the growth of exports at current prices. Particularly noteworthy are the countries of the Caribbean (with an annual growth rate of 12.0 per cent), Brazil (9.4 per cent) and the Central American Common Market (9.3 per cent), while Argentina's exports grew slowly (6.0 per cent) between those years.^{1/}

2. Structure of Latin America's trade with major areas

Latin America's trade with developed market-economy countries is characterized by a notable disequilibrium in its structure, as can be seen from a comparison between the exports and imports of each group of goods. This has already been referred to in the section on Latin America's total external trade, where it was shown what happens in the case of some strategic goods such as those produced by the metal manufactures and machinery industries and the chemical industry. This chapter deals more specifically with trade with the developed market-economy countries and those with centrally planned economies, distinguishing the main types of basic commodities and manufactures as a whole. As regards the first of these two groups of countries, in 1975 fuels reflected a favourable balance for the region of 12,000 million dollars, representing the most important group. The importance of this group is, however, severely limited by the fact that almost all the exports come from one country: Venezuela. The group ranking second in importance is composed of agricultural commodities which also show a positive balance for Latin America, i.e., 7,300 million dollars. Minerals also reflect a positive balance. As regards manufactures, there was a considerable deficit (27,100 million dollars) in 1975, which was almost eight times the value of the region's exports of manufactures to the above-mentioned countries.

^{1/} On the basis of official data for the period 1955-1975.

The composition of trade with the European countries with centrally planned economies was similar, in that there was a trade surplus of 3,000 million dollars in agricultural commodities and of 200 million in mining products, while in the case of manufactures there was a trade deficit of 1,100 million dollars. Fuel also showed a negative balance, but only a small one so that total trade reflected a surplus (annex table III).

3. Decrease in Latin America's share of world trade in some basic commodities

A further breakdown of raw materials exports provides a clearer picture of the commodities in which Latin America has lost ground in the world markets.

Table 4

LATIN AMERICA'S SHARE IN WORLD EXPORTS, BY SITC SECTIONS

(Percentages)

	1955	1960	1965	1970	1975
<u>Food</u>	20.5	17.5	16.1	15.6	14.5
<u>Agricultural raw materials</u>	8.8	7.0	7.9	6.1	5.4
<u>Minerals</u>	14.5	14.6	16.7	15.7	13.2
<u>Non-ferrous metals</u>	14.4	11.8	11.1	17.8	7.0

Food includes: SITC 0, 1, 22, 4.

Agricultural raw materials includes: SITC 2 (excluding 22, 27, 28).

Minerals includes: SITC 27, 28.

Non-ferrous metals includes: SITC 68.

Source: UNCTAD, Yearbook of International Trade and Development Statistics, 1976; United Nations Monthly Bulletin of Statistics, various issues.

/The developed

The developed countries drastically increased their mutual trade in foodstuffs, owing to the sharp rise in their production linked among other factors with the improvement of technology and internally implemented support policies. In the case of these items, the loss of ground of the whole of Latin America paralleled that of the developing world as a whole. In fact, Latin America lost slightly less ground than the developing world, as is shown in the following table:

Table 5

EVOLUTION OF THE PERCENTAGE SHARE OF LATIN AMERICA IN WORLD
COMMODITY TRADE COMPARED WITH OTHER COUNTRIES
BETWEEN 1955 AND 1973

(Index: 1955 = 100)

	Latin America	Developing countries as a whole	Developed countries as a whole
Food	65	63	133
Agricultural raw materials	47	105	120
Minerals	96	91	109
Non-ferrous metals	52	71	112

As regards minerals, in which the developing world roughly maintained its share in the world market, Latin America gained some slight ground with respect to this group of countries.

In non-ferrous metals, on the other hand, Latin America's loss of ground was substantial, even within the group of developing countries, which in their turn saw their share in world trade drastically reduced in favour of the developed countries.

/Equally severe

Equally severe was Latin America's fall in agricultural raw materials, the only one of the four sectors in which the developing world as a whole improved its proportion of world trade between the years indicated.^{2/}

The developed countries, as shown in the previous table, increased their share of world trade in all four sectors.

4. Evolution of the share of different areas in European imports

Three big economic groups were formed in Europe during the period under review, namely, the EEC, EFTA and CMEA, which, although different in their scope and approach to integration, promoted trade among the countries forming part of each group. This trade grew rapidly; the proportion of imports by these three groups with respect to Europe's total imports rose from 33.2 per cent in 1955 to 43.7 per cent in 1975. The fastest growth was reflected by the mutual trade of the countries that subsequently formed the Community, which in 1955 represented one-third of its total imports and in 1973 a little over half (52.6 per cent). With the entry of the three new members - the United Kingdom, Denmark and Ireland - intra-area trade covered 54 per cent of total imports that year. In 1975 its share dropped slightly, representing 51.1 per cent of the total (annex table IV).

The European countries with centrally planned economies are still the group with the largest proportion of mutual trade, although the proportion has gradually declined in the last few years. These countries' intra-area imports dropped from 64.5 per cent of their total imports in 1955 to 53.8 per cent in 1975. This declining trend, particularly in the 1970s, is connected both with a greater opening up to other countries and with the lifting of many barriers imposed by other countries on trade with this group. EFTA's intra-area trade also reflects a vigorous growth, although its proportion in relation to the other two areas is much lower; intra-area imports in 1975 represented 16.4 per cent of the total imports of its present members.

^{2/} For a more specific discussion of basic commodities, see the relevant section of this chapter.

The elimination of internal barriers together with continued protection with respect to countries outside the area not only increased intra-area trade but affected the rate of growth of purchases from the rest of the world. Within extra-area trade the various world regions were differently affected, however. On the whole, the developed market-economy countries improved or maintained their relative position in these countries' extra-area imports. This fact is related to the faster growth of world trade in manufactures mainly among developed countries, a trend that was encouraged by the tariff reductions agreed on within the context of GATT. This trend is most striking in the case of EFTA (as originally established), in whose total extra-area imports the developed countries' share rose from 66.3 to 75.2 per cent between 1955 and 1973, while the developing countries' share fell from 28.7 to 17.9 per cent between those years.

In the Community, some loss of ground is also noted on the part of the developing countries, whose share in extra-Community imports dropped from 39.8 per cent in 1955 to 34.7 per cent in 1973. From 1973 onwards, the developing countries' position changed owing to the sharp rise in oil prices; this is reflected in a bigger share for oil-exporting countries, which explains the developing countries' increased share since that time, in 1975 they accounted for 44.3 per cent of the nine members' imports from outside the area.

The case of the European countries with centrally planned economies is a little different, partly because it is an oil-exporting area. Between 1955 and 1965 the share of the developed market-economy countries and that of the developing countries both increased, mainly at the expense of other countries with centrally planned economies, whose share fell from 37.6 per cent in 1955 to 9.3 per cent in 1965. Thenceforward the developing countries' share began to decline and in 1975 it represented 23.6 per cent of extra-area imports (compared with 16.1 per cent in 1955 and 28.6 per cent in 1965), while the developed countries continued to increase their share (from 46.3 per cent in 1955 to 73.2 per cent in 1975) (see annex table IV). The share of other countries with centrally planned economies pursued its downward trend, representing barely 3.2 per cent in 1975.

The evolution of the share of the developing countries as a whole did not affect all the developing areas in the same way. The oil-exporting countries improved their share in Europe's extra-regional trade; if petroleum imports are excluded, a clearer view is obtained of the significance of this trend and the effects on each area of developing countries; this will be done in the next section.

5. Evolution of Europe's imports from developing countries

As noted earlier, even if intra-area trade in the European integration processes, as well as fuels, are excluded, the developing countries have lost ground in Europe's total imports from the rest of the world. Besides the decline in the proportion of the whole group of developing countries in this extra-area trade, the share of each of the principal areas composing it - Latin America, South and South-East Asia, Africa and the Middle East ^{3/} - has diminished. The decline has been different in each case, however, as is clear if the share of each of the four regions in Europe's total imports from developing countries is shown. In so doing, it will be seen that South and South-East Asia and the Middle East have gained ground in the Third World as a whole and that the same is true of Latin America, without prejudice to the fact that all these areas have in any case decreased their share in Europe's extra-area supplies in favour of developed countries, as noted previously. Africa has lost some importance even within the developing world. Of Europe's total imports from developing countries, Latin America's proportion rose from 31.5 per cent in 1955 to 38.5 per cent in 1975, thus becoming the main supplier region in the Third World; the share of South and South-East Asia increased from 24.7 to 27.1 per cent over the same period, with this region ranking second in importance as a supplier. Africa's share, in contrast, fell from 40.1 per cent of these imports in 1955 to 25.6 per cent in 1975; the Middle East, despite the fact that the exclusion of petroleum brings down its percentage, increased its share from 3.9 to 5.1 per cent (see annex table V).

^{3/} It should be remembered that fuels are excluded throughout this analysis. Should they be included, the developing world and particularly the Middle East would increase their proportion of Europe's extra-area imports.

These trends are also observable at the level of each of the major European groups, although with some important differences between them. From Latin America's point of view, the European Economic Community is the most unfavourable for the region. In this case, Latin America's share diminished as from 1970, while that of Shouth and South-East Asia increased, and this process was accentuated with the entry of the new members to the Community in 1973 (see annex table V). Africa showed a declining trend throughout the period. Further, as distinct from other areas of Europe, Latin America's share in Community imports (31.7 per cent) in 1975 was not much higher than that of Africa (30.0 per cent) or South and South-East Asia (29.5 per cent).

In the case of the European countries with centrally planned economies, Latin America's predominance as a supplier in comparison with other developing regions is quite clear and has increased; the purchases made by these countries from Latin America rose as a proportion of total purchases from all the developing countries from 42.4 per cent in 1955 to 52.7 per cent in 1975, although with a decline followed by a recovery in the last few years. It should be noted, however, that purchases from Latin America by the socialist countries of Eastern Europe have traditionally been concentrated in a very few countries. In recent years, Argentina, Brazil and Peru have supplied a little over 80 per cent of Latin America's exports to that group of countries, followed by Colombia and Mexico with considerably smaller figures. A large part of the trade between these two areas has been carried out under bilateral compensation agreements, but there has been a recent tendency to replace this type of agreement by others which stipulate payment in convertible currency, and, moreover, the strictly commercial agreements are gradually being replaced by more comprehensive agreements that include various systems of economic co-operation.

In the case of EFTA, too, the developing world lost some of its importance, although in unequal proportions, Latin America is the most important supplier among all the developing regions and its share in their total rose from 28.9 per cent in 1955 to 32.7 per cent in 1973. With the withdrawal from EFTA of Denmark, and particularly the United Kingdom,

/Latin America

Latin America acquired even more relative importance, i.e., 42.6 per cent in 1975, thus becoming the primary supplier, followed by South and South-East Asia, and then by Africa which has lost some of its share.

6. Latin America's exports to Europe

Let us now consider the question from a different angle: the evolution of Latin America's exports to Europe within Latin America's total sales abroad. Europe has lost some slight importance as a market for Latin America, taking the region's exports as a whole, since Europe's purchases have grown at a lower rate than those of other regions.

The situation of the various European regions differs greatly, however. As will be seen from table 6, the European countries with centrally planned economies increased their proportion of total Latin American exports from 1.9 per cent in 1955 to 7.1 per cent in 1976. Exports to the EEC practically maintained their share of the total (18.6 per cent in 1976), and with it EEC's position as second most important market for the region after the United States. EFTA's share shows a declining trend and its relative importance is now less than that of the countries of Western Europe not included in either of these groups, which have increased their importance although as yet it is relatively small (3.5 per cent in 1976).

EFTA's decreased importance as a market for Latin America ^{4/} was, to a great extent, determined by the United Kingdom which was the main Latin American market of that sub-region and which considerably reduced its proportion of Latin American exports from 9.1 per cent in 1955 to 4.3 per cent in 1975, with an annual growth rate of only 4.0 per cent.

7. Trade trends in the major countries

In addition to the United Kingdom, significant differences are also discernible when the countries of the European Economic Community and of Latin America ^{5/} are considered separately. The rates of growth of Latin American exports to various countries show Italy with the most vigorous growth

^{4/} The data for Latin America cover 23 countries, excluding Cuba.

^{5/} CEPAL, on the basis of official data.

Table 6

LATIN AMERICA'S TRADE WITH THE MAJOR DEVELOPED AREAS

		Exports		Imports		Balance	
		Billions of dollars	Percentage of total Latin American exports	Billions of dollars	Percentage of total Latin American imports	Billions of dollars	Percentage of Latin American export balance ^{a/}
EEC	1955 ^{b/}	1.4	15.1	1.4	16.0	0.0	+2.1
	1965 ^{b/}	2.5	19.2	2.0	16.7	+0.5	+19.3
	1970 ^{b/}	3.4	19.7	3.3	17.8	+0.2	+3.2
	1973 ^{b/}	5.3	17.9	5.4	17.2	-0.1	-2.5
	1973 ^{c/}	6.6	22.5	6.8	21.6	-0.2	-2.7
	1975 ^{c/}	8.2	16.9	11.2	19.7	-3.0	-36.5
	1976 ^{c/}	10.0	18.6	10.4	17.6	-0.4	-3.9
EFTA	1955 ^{d/}	1.2	13.0	1.0	11.0	+0.2	+21.3
	1965 ^{d/}	1.5	11.4	1.3	10.9	+0.2	+10.9
	1970 ^{d/}	1.6	9.2	1.8	9.9	-0.2	-15.0
	1973 ^{d/}	2.4	8.1	2.7	8.4	-0.3	-10.9
	1973 ^{e/}	0.9	3.1	1.3	4.1	-0.4	-40.2
	1975 ^{e/}	1.2	2.5	2.0	3.6	-0.8	-69.7
	1976 ^{e/}	1.5	2.8	2.0	3.4	-0.5	-33.1
Rest of Western Europe	1955	0.2	2.4	0.1	1.4	+0.1	+47.8
	1965	0.4	2.9	0.2	1.7	+0.2	+47.4
	1970	0.6	3.2	0.4	1.9	+0.2	+36.4
	1975	1.6	3.1	0.9	1.5	+0.7	+45.2
	1976	1.9	3.5	0.9	1.6	+0.9	+50.3
European countries with centrally planned economies	1975	0.2	1.9	0.1	1.6	+0.1	+20.0
	1965	0.7	5.6	0.6	5.0	+0.1	+17.8
	1970	1.0	5.7	0.9	5.0	+0.1	+6.1
	1975	3.9	7.9	2.5	4.5	+1.3	+34.0
	1976	3.8	7.1	2.8	4.8	+1.0	+26.7
United States	1955	3.8	40.3	3.5	40.2	+0.3	+7.6
	1965	4.2	32.1	4.2	35.1	-0.0	-2.2
	1970	5.6	32.2	6.5	34.7	-0.9	-15.3
	1975	17.1	35.2	16.9	29.8	+0.2	+1.0
	1976	19.2	35.8	17.0	28.8	+2.2	+11.4

Source: UNCTAD, Yearbook of International Trade and Development Statistics, 1976.

^{a/} The percentages are calculated on the basis of a larger number of digits.

^{b/} Includes the six original members.

^{c/} Includes the nine members.

^{d/} Includes the original members of EFTA.

^{e/} EFTA, excluding the United Kingdom and Denmark.

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(an annual average rate of 9.4 per cent in 1955-1975), followed by Germany (8.2 per cent), France, and the three remaining countries of the original Community (7.8 per cent) (see annex table VI).

In Latin America itself there are also marked differences in the development of exports to Europe from the various countries. The Latin American countries noted for the accelerated growth of their exports to Europe (both the market economy countries and those with centrally planned economies) in the period 1955-1975 are Brazil (10.2 per cent annually), the Andean Group (7.9 per cent), the English-speaking Caribbean countries (7.8 per cent) and Mexico (6.1 per cent).^{6/}

8. Latin America as a market for European exports

With regard to European extra-area exports, a sharp increase is noted in sales to developed market-economy countries between 1955 and 1973; their share in the total rose from 59.3 to 65.6 per cent, while that of the developing countries as a whole declined from 32.0 to 24.2 per cent between those years. For Latin America the proportions were 8.8 and 6.0 per cent, respectively. This situation changed as a result of the rise in oil prices and the world recession in the next few years, so that exports to developed market-economy countries in 1975 represented 56.6 per cent of Europe's total extra-area exports, which is a little less than the share obtained in 1955 (see annex table VII). The proportion of sales to Latin America remained practically unchanged in the 1970s, representing 6.9 per cent of the total in 1975. It should be noted that these are percentages of Europe's total sales to all external destinations, not only to developing countries. In earlier sections it was seen that although Latin America's proportion of the sub-total of European purchases from developing countries increased if petroleum products were excluded, its share of Europe's purchases from all parts of the world declined substantially.

Moreover, as from 1973, exports to other developing countries increased, and in 1975 represented 24.4 per cent of total extra-area sales,

^{6/} CEPAL, on the basis of official data.

/which is

which is higher than the percentage recorded in 1955 (see annex table VII).

Exports to countries with centrally planned economies also increased (from 8.7 to 12.1 per cent) in 1975. As stated previously, this reflects the changes occurring in connexion with the barriers imposed on this trade in earlier periods; it should be noted that a large part of this increase represents the growth of trade within Europe between market-economy countries and those with centrally planned economies.

Among the three European groups considered there are significant differences in the evolution of their extra-area exports, although in every case the share of exports to developed market-economy countries is seen to increase. The biggest difference is shown by the countries with centrally planned economies, whose proportion of total intra-area exports fell from 60.0 per cent in 1955 to 57.4 per cent in 1975. Exports to developed market-economy countries grew more rapidly than in the other two groups, as did the developing countries' share; Latin America's share of these countries' extra-area exports rose from 4.4 per cent in 1955 to 7.7 per cent in 1975; that of the other developing areas increased from 10.8 to 23.3 per cent over the same period.

As regards EEC's extra-area exports, the biggest increase was in sales to developed market-economy countries and those with centrally planned economies. The former increased their share of the extra-area sales of the six original members of the Community from 55.3 per cent in 1955 to 66.3 per cent in 1973. In the case of the present members of the Community, the share of the developed market-economy countries is slightly smaller and in 1975 had dropped to 50.8 per cent of total extra-area exports. The developing countries, whose relative importance as markets for the Community had declined substantially between 1955 and 1973, recovered some of their importance in the last few years but without regaining their 1955 levels. As regards exports from the Community of six, Latin America's share dropped from 10.9 per cent in 1955 to 6.2 per cent in 1973, while that of the rest of the developing countries fell from 28.8 to 17.8 per cent between those years. As regards exports from the

/Community of

Community of nine, Latin America's share grew from 6.8 per cent in 1973 to 7.5 per cent in 1975, while that of the rest of the developing countries rose from 20.6 to 29.2 per cent. The developing countries therefore represent an important part of the Community's external market (36.7 per cent in 1975) and, in particular, increased their relative importance precisely during the recession, thereby constituting an important factor of impetus and economic recovery.

For EFTA, the export trend is similar to that of the EEC, although with certain differences. The share of intra-area trade is smaller than in the previous case (18.7 per cent of total exports in 1975); the relative importance of the developed countries in extra-area sales is greater (71.9 per cent in 1975). In this case, too, the share of the developed countries increased and that of the developing countries declined during the period considered. Likewise during the period of recession from 1973 onwards, the developing countries increased their relative importance in these sales and thus made significant contribution towards a recovery: between 1973 and 1975 Latin America's share of extra-area exports rose from 4.2 to 4.7 per cent and that of the rest of the developing countries from 9.5 to 11.3 per cent.

Lastly, some differences are observable among the Latin American countries. The fastest growth was recorded by the purchases made by Brazil, whose share in Europe's total exports to Latin America increased significantly between 1955 and 1975 as regards both the EEC and EFTA and the European countries with centrally planned economies; their share declined only in exports from the rest of Europe. Thus Brazil is now a more important market for Europe than the Andean Group, as distinct from the situation in 1955 when this group of countries was the most important Latin American customer for the EEC and EFTA.^{7/} Mexico also increased its share of Europe's exports to the region during this period, in the case of both the EEC and EFTA, the countries with centrally planned economies, and the rest of Europe. Argentina's relative importance in Europe's exports to the region for these four groups of European countries dropped substantially.

^{7/} See annex table VIII.

9. Composition of Europe's exports to Latin America

Manufactures represented 88.1 per cent of total exports to the region by the EEC (9), and an even greater proportion (91.9 per cent) of exports by EFTA.

Table 7

EXPORTS OF MANUFACTURES, AVERAGE 1973-1975

(Millions of dollars)

	Total to world	EEC(9)	EFTA	United States	Japan	Developing countries	Latin America
EEC(9)	199 586	92 900	24 472	25 421	2 404	35 251	8 251
EFTA	36 126	15 634	7 156	2 147	598	5 006	1 540

As may be seen from these data, Latin America imported during that period three times more manufactures than Japan and about one-third of the volume imported by the United States and EFTA from the Community.

As regards exports by EFTA, Latin America's imports amounted to 70 per cent of the value of sales to the United States and 2.6 times the value of imports by Japan.

If manufactures are broken down by SITC sections it will be noted that Latin America's relative importance in the exports of certain products by both the Community and EFTA is even greater. This is so in the case of chemical products (SITC 5) where Latin America's imports represented just over half of EFTA's purchases from the Community, while the United States' imports of these products represented only three-quarters of the value of Latin America's imports from the EEC. Nearly a quarter of the total volume of chemical products exported to developing countries by the EEC (9) is destined for Latin America. The situation is very similar in the case of EFTA's exports of these products, even though the absolute figures are lower, the relative importance of Latin America is still

/substantial, in

substantial; in relative terms, Latin America imported more (30.8 per cent) 8/ than the rest of the developing areas.

The Community's exports of manufactures to the Middle East and Africa have increased in volume in the last few years owing to the greater availability of foreign exchange in some countries after the rise in oil prices; the volume of their respective imports is bigger than that of Latin America's imports.

EEC's sales of capital goods to the region exceed its exports to Japan and the United States.

In the case of the European countries with centrally planned economies, the composition of their exports is somewhat different, with a comparatively lower proportion of manufactures in exports to both developed and developing countries. This is explained by the bigger proportion, in particular, of fuels which in 1975 represented 35.2 per cent of their total exports to the developed countries compared with 33.9 per cent of manufactures. In exports to Latin America, manufactures predominated with 51.9 per cent of total exports, while fuels represented 21.6 per cent. Exports of agricultural commodities were also fairly important that year, representing 18.2 per cent of exports to the region. As regards other developing areas, the importance of manufactures in total exports to Latin America is relatively less, even though in absolute value they clearly exceed those sent to other developing areas.

10. Structure of Latin American trade with Europe

In Latin America's exports to Europe raw materials predominate (SITC sections 0 + 1 + 2 + 4 and division 68). Although exports of manufactures have grown rapidly, they still represent a small proportion of total exports, which partly explains Latin America's loss of ground compared with the developed countries. It must also be borne in mind that most exports of manufactures come from the three major countries; quite apart from the size of these countries, the dependence on commodity exports in the other countries of the region is even greater. Moreover,

8/ On the bases of data from the United Nations Monthly Bulletin of Statistics.

in the case of the latter, a few basic commodities represent a very high proportion of total exports to Europe. This is true of the exports to Europe (the OECD countries) of several Latin American countries in which only two products represented a high proportion of total sales in 1974: Chile, 76.3 per cent (copper and iron), Paraguay, 78.7 per cent (meat and cotton); Costa Rica, 96.0 per cent (coffee, bananas); El Salvador, 89.2 per cent (coffee, cotton); Nicaragua, 73.0 per cent (coffee, cotton); and Honduras, 69.6 per cent (coffee, bananas).^{9/}

In the case of EEC(9), raw materials represented 72.2 per cent ^{10/} of the region's total sales to that destination in 1975, while the share of these products in Latin America's total exports was only 47.0 per cent.^{11/} In contrast, manufactures (SITC sections 5, 6, 7 and 8, excluding division 68) attained an importance close to that of manufactured products in Latin America's total exports: 12.6 per cent of the total exported to the Community as against 13.6 per cent of exports to the world. Petroleum exports (SITC 3) to the EEC represented only 14.7 per cent of total sales to that destination, while their share in Latin America's total exports was nearly three times higher (39.4 per cent).^{12/} This partly accounts for the weak development of trade between the Community and Latin America, particularly in comparison with other developing areas, as noted earlier. Only minor changes took place in trade during the period under review, but they show a high rate of growth for manufactures; in 1955 these products represented only 3.5 per cent of total exports to the six members of the Community compared with 12.6 per cent in 1975, as mentioned above.

The composition of exports to EFTA is similar to that of exports to EEC; raw materials absorbed 75.0 per cent of Latin America's total exports to that destination in 1975. Here too the growth of manufactures

^{9/} On the basis of data from OECD, Statistics of Foreign Trade, Series C.

^{10/} On the basis of data from the United Nations Monthly Bulletin of Statistics.

^{11/} Excluding fuels.

^{12/} It should be recalled that the figures include exports by the Netherlands Antilles.

was significant and in 1975 represented 16.6 per cent of the total for the present members. In the case of the original members they represented only 1.6 per cent in 1955.

The structure of exports to European countries with centrally planned economies is even more asymmetrical; in 1975, raw materials represented 95.1 per cent of the region's total exports to that destination while the share of manufactures was 4.1 per cent. There have been practically no changes in the composition of these exports over the past 20 years; in 1955, 3.4 per cent of the total were manufactures and 96 per cent basic commodities. Consequently, these exports are not considered in the analysis of the trend followed by sales of manufactures.

Apart from these structural differences between the region's exports of basic commodities and manufactures to the world and to Europe, within the manufactures group there are also some differences in composition according to destination. Latin America's intra-regional trade is more diversified in composition, as shown in annex table IX, the three destinations covering 87.5 per cent of total exports of manufactures in 1975.

11. Latin America's commodity exports to Europe

In 1975, Europe absorbed 52.1 per cent ^{13/} of Latin America's total commodity exports (excluding petroleum). The EEC(9) is the most important market; it absorbed 26.2 per cent of these total exports, surpassing the United States whose relative importance has diminished in the past 20 years, reaching 20.6 per cent in 1975. EFTA's importance has also diminished: 4 per cent of the total of these commodities, while the relative importance of the European countries with centrally planned economies and the rest of Western Europe has increased, representing, respectively, 16.3 per cent and 5.7 per cent of total commodity exports in 1975. Since the Community is the most important market for this type of product, the development of its trade with Latin America will be analysed more fully here.

^{13/} According to data from the United Nations Monthly Bulletin of Statistics, and UNCTAD.

The EEC's commodity imports from all sources averaged 27.5 per cent of total Community imports in the three-year period 1973-1975.^{14/} Intra-area trade in these products, particularly those subject to the Common Agricultural Policy, as will be seen later, has grown rapidly and in 1975 represented 41.3 per cent of Community raw material imports.

Latin America is an important supplier of basic commodities to the EEC(9), even though its share in extra-Community imports is slightly lower than the Community's purchases from the United States or Africa, these areas provided an average of 16.9 per cent and 15.8 per cent, respectively, of extra-Community purchases of these products in 1973-1975, while Latin America's share was 14.9 per cent.^{15/} There are many commodities of which Latin America is the main supplier, for example coffee and bananas, in which it covers half of the Community's total imports. The region also covers a considerable percentage of iron, copper, sugar and cotton imports. Annex table X summarizes the situation of 18 basic commodities which between 1972 and 1974, represented 66.8 per cent ^{16/} of Latin America's exports to all destinations and 64.7 per cent of the EEC's imports from the region. As can be seen from this table, the proportion of the EEC's total imports from Latin America represented by this group of products did not change substantially throughout the period, even so there are marked differences among the various products in relation to access conditions and other problems encountered in the Community market.^{17/}

12. A more detailed view of basic commodities

Despite the considerable drop over the last few years in the share of basic commodities ^{18/} in Latin America's total exports, they still represented a little over 85 per cent of total exports in 1975, if petroleum is included, and 47 per cent if it is excluded.

^{14/} United Nations Monthly Bulletin of Statistics.

¹⁵ Ibid.

^{16/} World Bank, Commodity Trade and Price Trends (1976).

¹⁷ For a more detailed analysis by commodities, see the relevant section below.

^{18/} Defined by SITC sections and divisions 0+1+2+4+67+68 (plus 3 for fuels). Division 67 (iron and steel) is included because these products are usually exported from developing countries after only simple processing.

Table 8

LATIN AMERICA: SHARE OF BASIC COMMODITIES IN TOTAL EXPORTS

(Millions of dollars)

Year	A	B	C	B+C	C
	Total exports	Petroleum	Basic commodities	A	A
1955	9 400	2 820	6 306	97.1	67.1
1960	10 170	3 240	6 610	96.9	65.0
1965	12 940	3 670	8 635	95.1	66.7
1970	17 430	4 150	11 475	89.6	65.8
1975	48 530	18 950	22 905	86.2	47.2

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976, Supplement 1977.

For every individual country of Latin America, the share of basic commodities (excluding petroleum) in its total exports continues to be high, as will be noted in table 9.

As can be seen, the structural dependence on basic commodities still affects the Latin American countries and will continue to do so for a long time yet. Such dependence brings with it a number of problems which have been discussed in the most widely varying international forums: price instability and, in many cases, the long-term trend towards a deterioration of the terms of trade; the insignificant effect in terms of stimulating the economies and societies, etc.

Commodity exports to Europe constitute an important part of Latin America's total sales, as will be seen in table 10.

Clearly, Europe has considerably strengthened its position as a destination for the total commodity exports from Latin America, and since the beginning of the 1970s has established its share at around 50 per cent, if petroleum and petroleum products are excluded from the analysis.

/Table 9

Table 9

COUNTRIES OF LATIN AMERICA: SHARE OF BASIC COMMODITIES
(EXCLUDING PETROLEUM) IN TOTAL EXPORTS, 1974

Country	Year	Percentage
1. Cuba	1974	98.6
2. Peru	1974	95.2
3. Dominican Republic	1974	97.9
4. Guyana	1975	97.6
5. Honduras	1975	85.3
6. Chile	1974	94.8
7. Jamaica	1974	93.7
8. Surinam	1972	93.3
9. Paraguay	1972	89.0
10. Uruguay	1972	88.2
11. Nicaragua	1975	83.5
12. Bolivia	1972	81.4
13. Panama	1972	79.9
14. Costa Rica	1975	74.5
15. Argentina	1975	75.8
16. Guatemala	1972	74.6
17. Brazil	1975	72.3
18. El Salvador	1972	70.3
19. Colombia	1975	72.2
20. Haiti	1974	62.7
21. Mexico	1974	59.7
22. Barbados	1972	51.2
23. Ecuador	1973	44.4
24. Venezuela	1975	4.3
25. Trinidad and Tobago	1975	6.6

Source: United Nations, Yearbook of International Trade Statistics; UNCTAD,
Handbook of International Trade and Development Statistics, Supplement, 1977

Table 10

EXPORTS OF BASIC COMMODITIES (EXCLUDING PETROLEUM) FROM LATIN AMERICA TO EUROPE AND THE WORLD

(Millions of dollars)

Year	Food, including beverages, tobacco, oilseeds SITC 0+1+22+4		Raw materials of agricultural origin SITC 2 (excluding 22, 27, 28)		Crude minerals SITC 27 and 28		Iron and steel and non-ferrous metals SITC 67 and 68		Total basic commodities		Europe as a percent- age of the world
	Europe	World	Europe	World	Europe	World	Europe	World	Europe	World	
1955	1 550	4 190	544	1 070	129	495	260	551	2 483	6 306	39.4
1960	1 855	4 330	478	970	219	730	336	580	2 888	6 610	43.7
1965	2 910	5 540	555	1 190	342	1 060	378	845	4 185	8 635	48.5
1970	3 720	7 160	515	1 100	680	1 650	837	1 565	5 752	11 475	50.1
1975	9 140	16 710	696	1 680	1 255	2 930	747	1 585	11 838	22 905	51.7

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976 Supplement, 1977.

/Very different

Very different results are arrived at from a study of table 11, i.e., if consideration is given to Latin America's relative position in Europe's total commodity imports.

In fact, the region has lost rather than gained ground as a supplier of basic commodities to the European countries in the past two decades, although the situation in this respect of other developing areas, for example Africa, and of the developing countries as a whole is, relatively speaking, even worse. This table reflects a basic fact which will be analysed in greater detail later in this study; the more than proportional increase in Europe's commodity imports from other developed countries (either through intra-area trade or from North America and Oceania), particularly in the field of foodstuffs and agricultural raw materials. This took place at the expense of the developing countries, which saw their share in Europe's imports of basic commodities shrink from just under one-third to less than one-quarter of the total.

As regards the composition of Latin America's exports to Europe by groups of products, the changes occurring over the past 20 years can be seen in table 12.

Food (including beverages, tobacco and oilseeds) obviously predominates throughout the period under review, with 62.4, 64.2, 69.5, 64.7 and 77.2 per cent of total commodity exports to Europe in the years 1955, 1960, 1965, 1970 and 1975, respectively, and its importance seems to have been enhanced in recent years. Furthermore, the relative drop in raw materials of agricultural origin is very clear, both from the comparison of Latin American exports by commodities and from Latin America's relative position as a supplier of the European market, while minerals and crude fertilizers are shown as the most dynamic sector in both senses.

13. Exports of manufactures from Latin America to Europe

Latin America's exports of manufactures to the world, though still representing not more than 13.6 per cent of total exports, grew more rapidly over the past 20 years. This significant growth of exports of manufactures has been due in part to the increase in goods produced with more advanced technology (capital goods, consumer durables and basic

Table 11
EUROPE'S COMMODITY IMPORTS FROM LATIN AMERICA, AFRICA AND THE WORLD
(Millions of dollars)

Year	Total imports	Imports from Latin America	Percentage of total imports	Imports from Africa	Percentage of total imports	Imports from developing countries	Percentage of total imports
1955	23 270	2 458	10.6	3 070	13.2	7 631	32.8
1960	28 620	2 867	10.0	3 489	12.2	8 606	30.1
1965	37 595	4 157	11.1	3 972	10.6	10 499	27.9
1970	51 240	5 729	11.2	5 238	10.2	13 783	26.9
1975	134 660	11 838	8.8	8 523	6.3	26 226	19.5

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976. Supplement, 1977.

Note: SITC division 67 (iron and steel) has been excluded from this calculation.

Table 12

Year	Europe's total imports A	Imports from Latin America B	Latin America's total exports C	B as a percent age of A	B as a percent age of C
<u>A. Food (including beverages, tobacco and oilseeds)</u>					
1955	11 690	1 550	4 190	13.3	37.0
1960	14 290	1 855	4 330	13.0	42.8
1965	20 390	2 910	5 540	14.3	52.5
1970	26 410	3 720	7 160	14.1	51.2
1975	65 630	9 140	16 710	13.9	54.7
<u>B. Raw materials of agricultural origin</u>					
1955	7 360	544	1 070	7.4	50.8
1960	8 480	478	970	5.6	49.3
1965	9 250	555	1 190	6.0	46.6
1970	10 750	515	1 100	4.8	46.8
1975	19 830	696	1 680	3.5	41.4
<u>C. Crude minerals, etc.</u>					
1955	2 050	129	495	6.3	26.1
1960	2 820	219	730	7.8	30.0
1965	3 770	342	1 060	9.1	32.3
1970	5 900	680	1 650	11.5	41.2
1975	12 440	1 255	2 930	10.1	42.8
<u>D. Iron and non-ferrous metals</u>					
1955	4 575	270	551	5.9	49.0
1960	7 300	336	580	4.6	57.9
1965	9 615	378	845	3.9	44.7
1970	18 500	837	1 565	4.5	53.5
1975	36 760	747	1 585	2.0	47.1

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976.
Supplement 1977.

/intermediate products).

intermediate products). The 1974 figures for Latin America's exports of goods produced by electrical and non-electrical machinery and transport equipment industries totalled 1,840 million dollars.

That same year, exports of intermediate iron and steel goods by six Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela) amounted to 251.8 million dollars, of which 43 per cent went to the industrialized countries.^{19/} Exports of motor cars, lorries and buses from these same countries represented 415.9 million dollars; sales to the industrialized countries were 32.3 per cent of this total. Another important group includes radios, television sets, other light electrical and electronic items, with exports totalling 211.5 million dollars and a very high proportion destined for the industrialized countries (65 per cent). Available information for 1975 indicates that exports of the majority of these types of products declined that year, particularly those destined for the developed countries.

Inter-Latin American trade showed the most dynamic performance, with an average annual growth rate of 19.2 per cent between 1955 and 1975; in this last year of the period it accounted for 36.0 per cent of total exports of manufactures (SITC 5+6+7+8, except division 68).

The United States was the most important market outside the region and in that same year represented 31.2 per cent of total exports of these products. Sales to Europe grew at a fairly high rate (15.8 per cent) between those years, exceeding the rate of growth of exports to the United States (14.8 per cent); nevertheless, the total value of exports to Europe represented just over two-thirds of the total value of these exports to the United States. Of the total exports of manufactures to Europe (1,439 million dollars' worth) in 1975, 72 per cent went to the EEC(9), 14 per cent to EFTA and 11 per cent to the socialist countries of Europe; hence a major part of the analysis will be devoted to the study of trade with the Community.

^{19/} Including the United States, Canada, the rest of the continent except Latin America and CARIFTA, the EEC, EFTA, Eastern Europe and the rest of Western Europe.

A striking fact is the marked predominance of "traditional" manufactures in sales to the developed countries (with about three-fifths of total sales of manufactures, compared with two-fifths, for example, in Latin America's intra-regional trade in manufactured products). On the other hand, there are some noteworthy differences between Western Europe and the United States. In the latter market the relative importance of chemical products and machinery and transport equipment is practically equal, with each group absorbing one-fifth of the total; while in the case of Western Europe the share of exports of chemical products is just over twice the value of exports of machinery and transport equipment. This is partly explained by the existence of transnational corporations, since these companies generate the major part of the exports of these types of products and European companies predominate in the chemicals sector, as will be seen in chapter III.

14. Composition of exports of manufactures to the EEC

Nearly two-thirds of the imports of manufactures from Latin America by the Community(9) cover SITC sections 6 and 8, excluding division 68 which consists in general of manufactured products other than metal manufactures, machinery or chemical products (annex table IX). Latin America's share in total imports of these products compared with other areas is insignificant; most trade in manufactures is between developed countries. Furthermore, trade in these manufactures is important because of the high degree of competitiveness that has developed in many products belonging to this group both in Latin America and in other developing countries. In 1974, most of the imports of these types of manufactures effected by the EEC(9) from the region were textiles and included clothing, footwear and other products of leather and iron and steel, which totalled a value of 397 million dollars. Of this value, 249 million dollars' worth were textile products and clothing. These imports have also grown vigorously, since in 1965 they represented virtually insignificant values (see annex table XI). Moreover, these products are important not only for their volume but also because they are exported by the relatively less developed countries as well as the three major countries, Argentina, Brazil and Mexico. In addition,

/these products

these products have stiffer barriers to face in their access to the developed countries' markets. Most of these goods belong to the "sensitive" category of the Community's Generalized System of Preferences.

The region's exports consist not only of traditional manufactures but also of those produced by modern industry. Brazil, Argentina and Mexico, in particular, export by no means insignificant amounts of manufactures produced by these industries. In 1975, Brazil's sales to the EEC of six types of metal manufactures and machinery amounted to 51 million dollars; of these, power-generating machinery alone (SITC 711) accounted for 26 million dollars. The value of these same products exported to EFTA was 18.5 million dollars, motor vehicles (SITC 732) being the most important item representing 13 million dollars. Although no systematic data are available for subsequent years at this level of aggregation, the information at hand would seem to indicate that these items are increasing rapidly.

15. Latin America's trade balance with the major European areas

Latin America's exports to the Community have not increased at the same rate as imports from that origin, particularly in the last few years, which has meant that its trade balance with the Community, which was positive up to 1970, has since been converted into a growing deficit; in 1975 the deficit amounted to 3 billion dollars, or 36.5 per cent of total exports to that market. A very similar situation has arisen with regard to trade with EFTA; at the end of the 1970s the trade balance was converted into a deficit for Latin America. This amounted in 1975 to 800 million dollars, or 69.3 per cent of total exports to EFTA. Trade with the rest of Western Europe and the European countries with centrally planned economies shows a favourable trend for Latin America with increasing trade surpluses throughout the period.

In 1976 Latin America's position improved and available data seem to indicate that this trend continued in 1977. With respect to Europe as a whole, Latin America obtained a surplus of 1 billion dollars, mainly owing to a trade surplus with the countries with centrally planned economies. Trade with the EEC and EFTA reflected a negative balance, though considerably less than in previous years. With respect to the rest of the European countries, Latin America obtained a positive balance (see table 6).

B. Trade policies of developed countries and problems
of access to their markets

This section deals with the European Economic Community, because it is the most important European area for Latin America and has certain common policies.

A study of the European Economic Community's trade policy reveals two features which, especially in recent years, have given rise to serious concern about the effects they might have on the growth of Latin America's exports to that group of countries.

The first question is the emergence and strengthening of distinctly protectionist tendencies which affect a number of products of great interest to Latin America and which, although not expressly directed against the region, can be said to affect Latin American exports more seriously than those of other developing areas. Moreover, these tendencies are not peculiar to the EEC but are shared by other developed areas.

Furthermore, the various agreements concluded by the EEC with several countries of the Mediterranean area, particularly the Lomé Convention of which 53 countries of Africa, the Caribbean and the Pacific (the so-called ACP countries) are members, have led to the formation of a trade grouping of the Community with a great many developing countries, which undoubtedly has connotations of discrimination against countries not forming part of that grouping, especially the Latin American countries.

The first group of problems (protectionism) is amply illustrated in a recent statement by the Director-General of GATT to the effect that the measures designed to restrict imports adopted in recent years, or about to be adopted, affect from 3 to 5 per cent of world trade to a value of 30 to 50 billion dollars. Among the categories of goods affected are beef, textiles, leather manufactures, footwear, steel, transport equipment, household electrical products, including electronic articles, etc. To this list should be added those agricultural commodities which, in the case of the EEC, are included in the common Agricultural Policy and for many years have been the subject of import restrictions.^{20/}

^{20/} CEPAL, The economic and social development and external relations of Latin America, op. cit.

The above-mentioned manufactured products are all of great present or potential interest to Latin America; they represent a significant part of the growth of exports from the Latin American countries in the last few years. Their potential interest is all the greater because, for the production of most of these goods, Latin America has advantages in the way of cheaper manpower than in the developed countries (including skilled as well as unskilled manpower), its supply of natural resources and the degree of maturity attained by its industry. If the protectionist trends of the industrialized countries continue, not only would the region's export capacity be seriously affected but also its import capacity which, besides obstructing the industrialization process, could not but have some negative effects on the industrialized countries themselves, as the origin of most of the region's imports of equipment and intermediate goods.

Generally speaking, the protectionist policies adopted by the industrialized countries are in response to concerns related to unemployment or balance-of-payments disequilibrium, or they are designed to defend industries considered of strategic importance. It should be noted, however, that the harm these restrictions do to the developing countries is undoubtedly greater than the alleviation they bring to the countries adopting them, since the values involved have a much greater relative significance for the former's exports than for the latter's imports. It would seem, moreover, that in the face of an objectively difficult situation for all, the developed countries have a greater capacity for defence in view of their superior position in financial, economic and technological terms, and, therefore, that they should strive to find solutions to their conjunctural problems that will not involve sacrifices of this kind for the developing areas.

Specifically, the most significant immediate negative effects are being felt by the textile, clothing and footwear, and leather manufactures sectors, at least in the case of the restrictions imposed by the EEC; exports of steel products, metal manufactures and machinery, electronic items and transport equipment to this group have not yet acquired much importance, although they should do so in the future.

/In analysing

In analysing the second category of problems, i.e., the EEC's treatment discriminating against Latin America and favouring other countries, specific reference must be made to the concession of more favourable, not generalized, trade treatment for those countries with which the EEC has concluded trade agreements.^{21/} These countries already number over 70, if account is taken of:

(a) The non-reciprocal preferences accorded to the 53 ACP countries signatories of the Lomé Convention, the three Maghreb countries and the four Mashrek countries which enjoy preferential trade treaties.

(b) The reciprocal preferences implicit in the agreements existing with the four Mediterranean countries which are forming a customs union with the EEC (Greece, Turkey, Malta and Cyprus), the eight member countries of EFTA and Israel, which have signed agreements with the EEC with a view to the establishment of a Free Trade Association.

Apart from these agreements there are examples of special agreements with individual countries on a single product or group of products. Included in this category are the agreements with Yugoslavia on beef, and the special agreements with member countries of the Commonwealth to compensate for the loss of customs benefits resulting from the entry of the three new members into the Community. It has been estimated,^{22/} that the agreements with Canada involve concessions that cover agriculture, fishery and forestry exports to a value of over 250 million dollars. Other countries enjoying these special benefits are Australia and New Zealand.

The Lomé Convention grants, in principle (with the sole exception of those products which are subject to the Common Agricultural Policy), completely free access for all products of the 53 ACP countries, with no reciprocity obligations. There are also three supplementary agreements on industrial co-operation, technical and financial assistance and the stabilization of export earnings (STABEX).

²¹ See later in this study for a discussion of the nature and scope of generalized preferences.

^{22/} United States Department of Agriculture, Foreign Agriculture, 21 February 1977. "The EEC and its special third country partnerships", by Omero Sabatini.

Table 13 summarizes the different treatment given under EEC's trade policy to Latin America compared with the ACP countries in the field of basic commodities. It will be noted in the table that as regards the 23 commodities analysed, which represent about two-thirds of Latin America's total exports to Europe, in 1974 Latin America still had a bigger share than the ACP countries (4,901.5 million dollars against 4,511.7 million). The situation has probably changed in recent years as a result of the Lomé Convention, the difficulties of access for beef and sugar to the EEC and the problems of fish meal production in the region. In any case, it will be seen from the table that Latin America's treatment is significantly more unfavourable. This will probably have a greater impact in the future, with less favourable commodity prices and markets, than in the past when these conditions were particularly satisfactory in some years.

The preferential treatment reserved for the ACP countries is obvious both in comparing their position as regards tariffs and in the use of the STABEX mechanism. Note should also be taken of the special case of sugar which, though not benefiting from the STABEX system, is subject to a special supply agreement, through which the EEC guarantees the ACP countries the purchase of sugar quotas at prices that must not be below the support prices paid to producers in the Community itself.

As regards manufactures, it should be noted that many of the ACP countries represent a distinctly lower net export potential than Latin America. Yet it is worth while pointing out that their position compares very favourably with that of the Latin American countries, since their completely liberalized access is not subject to the quota system in force for "sensitive and semi-sensitive" products in the EEC's Generalized System of Preferences. Moreover, some ACP countries are already in a position to take advantage of this improved treatment. The Lomé Convention only contains a safeguard clause authorizing restrictive measures to be implemented in such a way as to cause a minimum of difficulties to the ACP countries, in the event that imports should give rise to serious disruptions in the economy of the export country.

Table 13

EUROPEAN ECONOMIC COMMUNITY: CONDITIONS OF ACCESS FOR MAIN BASIC COMMODITIES^{a/}

Commodity	Value of imports CIF 1974 (millions of dollars)	Treatment of Latin American countries		Treatment of Lomé countries			
		Latin America's countries' share (percent-ages)	ACP share (percent-ages)	Use of generalized system of preferences and preferential tariff	Tariff preferences under Lomé Convention (tariff applicable)	Use of STABEX compensatory system	
Beef	1 713.9	13.4	0.5	CAP	No	Favourable treatment b/ (rule 706/76)	Yes
Wheat	1 927.5	4.4	-	CAP	No	Irrelevant, not produced b/	Supply agreement
Maize	2 500.1	14.5	-	CAP	No	Favourable treatment (rule 706/76)	Yes
Linseed, coconut and palma oil	990.8	13.7	18.0	[Palm: 4-14% 5-20% c/	Palm: 2.5-12% No	Exempt	Yes
Sugar and honey	1 532.2	24.2	14.2	[Sugar: CAP Honey: 27%	Honey: 25% No	Exempt	Yes
Bananas	481.9	52.6	17.0	20%	No	Exempt	Yes
Groundnuts	286.7	4.8	41.7	0%	No	Exempt	Yes
Copra	174.8	-	1.9	0%	No	Exempt	Yes
Wood				0%	No	Exempt	Yes
Groundnut oil	309.4	23.2	56.4	5-15% c/	No	Exempt	Yes
Coffee	1 808.5	52.3	33.0	[Beans: 5.4%, Roasted: 15% Soluble: 18%	Roasted: 12% Soluble: 15%	Exempt	Yes
Cocoa	1 056.3	11.6	43.4	[Butter: 12% Powder: 16%, Paste 15%	Butter: 8% c/ Powder and paste: 11%	Exempt	Yes
Tobacco	962.5	8.4	6.0	[Manufactured: 26% or 52-117% Unmanufactured: 14-23% Plus specific duty	Small margins only 7% c/	Exempt	Yes
Undressed hides and skins	689.3	2.5	7.0	0%	No	Exempt	Yes
Wool	1 458.5	7.3	0.2	[Combed or carded: 3% The rest: 0	No	Exempt	Yes
Cotton	1 288.1	20.3	14.3	[Combed or carded: 1.5% The rest: 0	No	Exempt	Yes
Sisal and abaca	320.9	30.0	19.1	0%	No	Exempt	Yes
Iron ore	2 316.1	26.0	20.5	0%	No	Exempt	Yes
Refined copper	4 695.5	14.6	34.9	0%	No	Exempt	Yes
Refined lead and zinc	1 033.0	5.9	2.6	3.5%	No	Exempt	
Refined tin	469.7	0.7	7.4	0%	No	Exempt	
Non-ferrous metal ores	2 139.7	15.0	6.7	0%	No	Exempt	
Fish meal	318.0	23.1	0.5	2%	Exempt	Exempt	

Source: Statistical data: OECD, Trade by Commodities, Imports 1974; Generalized System of Preferences and most-favoured-nation tariff: EEC, Practical Guide to the Use of the European Communities' Scheme of Generalized Tariff Preferences (May 1977).

Note: CAP-Subject to the Common Agricultural Policy.

a/ Comprise two-thirds of Latin America's exports to the EEC.

b/ See page...

c/ This concession is subject to a pre-established quota.

/In addition

In addition to the Lomé Convention, whose main features have just been outlined, there are the above-mentioned preferential agreements with other countries, especially of the Mediterranean basin. These countries, some semi-industrialized and others approaching the stage of full industrialization, are strong present and potential competitors of Latin America.

All the foregoing information presents a situation of distinct discrimination against Latin America, which is difficult to justify in the light of the existing legal instruments (UNCTAD and Part IV of GATT). It is worth recalling that although Part IV of GATT provides for the concession of special preferences to developing countries, in the principles and objectives included in the same chapter it is stated that the basic objectives of the Agreement include improving the level of living and the progressive development of the economies of all the contracting parties, and that the achievement of these objectives is particularly urgent if the contracting parties are developing countries.

In other words, the preferences should not become advantageous for one group of countries at the expense of the rest. Nor is it a valid argument that the countries with which the EEC has signed preferential agreements are relatively less developed than the Latin American countries, since hitherto the EEC has granted special preferences to countries with widely varying income levels, many of which are higher than that of the Latin American countries.

It may therefore be affirmed that the granting of special preferences to only one group of countries violates the spirit of the world movement towards generalized preferences and also the spirit and basic motivations of Part IV of GATT.

Furthermore, Latin America's importance as a buyer from the EEC (7.2 per cent of total sales in the period 1973-1975 compared with 5.6 per cent for the ACP countries), particularly in some specific items such as chemical products and machinery in which its share is close to that of the United States, compares very unfavourably with its position as a supplier (2.9 per cent of total imports in 1974, as against 4.3 per cent for the ACP countries).

/It would

It would seem that the lack of a united view on the part of the Latin American countries has been one of the factors that have so far prevented the region from having more bargaining power with respect to the EEC,^{23/} although possibly the historical ties between the EEC and many of the ACP countries have played an even more important role.

The conclusion is that the problem of trade discrimination against the region is destined to be one of the focal points of discussion between the EEC and Latin America, unless clear measures are adopted to improve the conditions of access for Latin American products to the Community market.

The Community's scheme under the Generalized System of
Preferences and its utilization

A detailed description of the nature of the Community scheme under the Generalized System of Preferences was included in an earlier document of the Economic Commission for Latin America ^{24/} issued in 1975. Since then there have been changes in the lists of products covered but basically the structure of the scheme and its significance for the Latin American countries remains the same.

The principal Latin American beneficiaries of the scheme in 1975 were Argentina, Brazil, Mexico, Peru and Venezuela. Trade of these countries which actually entered the Community with preferences amounted to:

Argentina	47	million	units	of	account
Brazil	162	"	"	"	"
Mexico	59	"	"	"	"
Peru	32	"	"	"	"
Venezuela	1	"	"	"	"
	301				

The corresponding total for all beneficiaries was 1,792 million units of account.

^{23/} On this subject, see CEPAL, The economic and social development and external relations of Latin America, op. cit., pp. 236-243; and Leopoldo Tettamanti, Relaciones económicas de América Latina con la CEE, E/CEPAL/L.159, June 1977.

^{24/} CEPAL, Latin American Development and the International Economic Situation, Part II. E/CEPAL/981/Add.2, 21 February 1975.

About two-thirds of Latin America's exports to the EEC is made up of 25 basic commodities.^{25/} Sixteen of these are subject to tariff duties, but only three receive preferences. These preferences are in the form of only partial tariff reductions and the margins of advantage over countries not receiving preferences are quite small. The scheme of the EEC has been intended and designed from the start to encourage exports of manufactures and semi-manufactures from the developing countries more than exports of primary goods. Indeed exports of many agricultural primary goods are actually discouraged by the Community through implementation of its common agricultural policy.

On the other hand the expressed intention to stimulate exports of industrial goods from the developing countries has been partially frustrated by limitations which the Community itself has placed on such exports. These limitations are in the form of tariff quotas and ceilings which prevent duty-free entry once the specified limits have been reached. Unfortunately some of the products affected are precisely those non-traditional exports which the Latin American area has been striving to develop in order to reduce its debilitating dependency on a few export products subject to sharp international price and demand fluctuations.

Forty-six sensitive industrial products are subject to tariff quotas, with advance allocation of each quota among the member states of the Community. Certain tariff quotas include a reserve share to enable allocation to be adjusted according to use of the quota. Semi-sensitive products number 131; these are subject to ceilings at the Community level. For almost all other non-agricultural products (the so-called non-sensitive ones) ceilings at the Community level are applied when the category of sensitivity of the products is changed. Individual exporting countries are in principle limited to a specific percentage of the Community quota (the butoir) which means that no one country may export more than 50, 30, or 20 per cent of the ceiling, depending on the product. These butoirs are set out product-by-product in the list of goods receiving preferences.

^{25/} See list in CEPAL, The Economic and Social Development and External Relations of Latin America, p. 230 (E/CEPAL/AC.70/2, 16 February 1977).

Industrial raw materials are excluded from the preferences scheme but in general these have low or zero duties.

According to information provided to UNCTAD by the European Economic Community, there is a great disparity between the value of imports, from all sources, of products included in the preferences scheme and the value of imports of the same products which actually entered the Community with preferential treatment,^{26/} the ratio being 3 to 1. Some Latin American countries (Brazil, Mexico and Peru) showed much less disparity according to figures provided for 1975 in the source cited. Argentina's percentage corresponded to the world average and Venezuela's percentage was quite low.

Probably the two main factors which severely limit utilization of the preferences are (a) the quotas and ceilings which the Community imposes for certain sensitive and semi-sensitive products and (b) insufficient knowledge and understanding of the scheme on the part of exporters, contributed to by the complexity of its regulations. With respect to the first of these two elements, in 1976 five Latin American countries exceeded the maximum amounts established by the Community (Brazil with seven products, Mexico and Venezuela with two each, and Argentina and Colombia with one each). All beneficiary countries under the scheme, including Latin American countries, were limited in their duty-free exports of 23 other products to the Community owing to the latter's quantitative restrictions. This makes a total of 36 product-cases where Latin American countries were affected by the application of such restrictions under the preferences scheme. For the developing countries as a whole 105 products were affected. The categories of exports to which the 36 products correspond are hides and skins, wood, cement, yarn fabrics and apparel, shoes, citric and glutamic acid, petroleum derivatives, certain manufactured metal articles and building materials.

For 13 of the products where a quantitative restriction under the scheme affected a Latin American country or countries the maximum quantity permitted to enter duty free is less than half a million dollars.

^{26/} See UNCTAD, TD/B/C.5/30/Add.4 "Generalized System of Preferences: Replies received from preference-giving countries", 20 June 1977.

For other products the amount is even less than 800,000. Moreover, for yet other products the limits are very low in relation to total exports of the "beneficiary" country to the Community (e.g. hides and skins exported by Argentina, shoes and planed lumber exported by Brazil).

C. Individual analysis of main basic commodities

Sixteen commodities are considered here: wheat, maize, rice, meat, cotton, sugar, cocoa, coffee, bananas, bauxite and aluminium, copper, lead, zinc, tin, iron and, of course, petroleum. They represent 64.8 per cent of Latin America's average exports in the period 1973-1975.

Table 14 provides information on Latin America's share in Europe's imports in terms of quantity and value. Because of the source used,^{27/} these tables cover only the European countries belonging to the OECD, that is, not the socialist countries of Europe.

These countries are, however, included in the data on commodity exports by SITC sections,^{28/} and the evolution of their imports from Latin America will be dealt with in greater detail later on in this study. The share of the European countries members of CMEA can already be said to be considerably lower than that of the member countries of the OECD, in spite of having risen from 9 per cent in 1960 to 15.2 per cent in 1973, essentially owing to Cuba's exports to those countries.

There has been a steady increase in the volume of commodity exports throughout the period under review. In some cases (such as that of agricultural products of tropical origin), this indicator presents characteristics of slower growth than world demand for these products and than exports to those countries by other parts of the world (particularly Africa). In others, as noted in section B, barriers were established for Latin American exports to Europe, particularly to the EEC. This happened in the case of temperate-zone agricultural products and, to a certain extent, sugar. Demand for non-ferrous metals depends on the level of industrial activity of the consumer countries and has therefore grown considerably in the last few decades.

^{27/} OECD, Trade by Commodities, various years.

^{28/} See tables 10, 11 and 12 above.

Table 14
LATIN AMERICA'S SHARE IN DEVELOPMENT OF COMMODITY IMPORTS OF
EUROPEAN COUNTRIES MEMBERS OF THE OECD

(Percentages)

SITC	Commodity	On the basis of value				On the basis of volume			
		1960	1965	1970	1974	1960	1965	1970	1974
011	Meat	44.9	28.5	18.7	9.4	26.4	21.1	21.6	8.3
041	Wheat	8.8	17.0	4.1	3.4	8.8	18.3	4.2	2.5
042	Rice	0.3	11.1	14.0	12.4	2.2	14.1	19.3	12.9
044	Maize	33.4	20.6	28.2	17.5	33.4	20.4	29.6	17.5
051.3	Bananas	...	74.6	83.0	83.4	...	76.2	84.0	84.4
061	Sugar	53.7	55.0	26.4	36.6	48.4	37.1	33.8	34.4
071	Coffee	63.6	64.2	64.2	57.6 _a /	56.3	58.2	61.6	55.2 _a /
072	Cocoa	13.0	7.0	7.4	11.9 _a /	11.8	5.0	7.1	9.5 _a /
263	Cotton	15.5	30.0	24.6	20.3 _a /	14.3	28.4	...	19.5 _a /
281	Iron	17.1	19.4	20.8	26.8 _a /	11.3	14.6	18.1	24.3 _a /
682	Copper	18.9	14.6	17.0	10.8 _a /	19.1	16.6	17.4	11.5 _a /
283.3	Bauxite	...	20.0	25.1	23.3	...	7.6	7.9	8.4
685, 283.4	Lead	19.2	12.2	13.0	10.7	17.4	11.2	12.2	10.7
686, 283.5	Zinc	8.2	4.8	5.4	10.8	10.0	1.2	6.7	15.4
283.6	Tin	...	33.3	60.5	54.9	...	55.8	76.3	70.2
331, 332	Petroleum	13.8	9.4	3.9	1.9	10.0	7.9	...	2.1

Source: OECD, Statistics of Foreign Trade, Series C, several volumes.

a/ The data are for the 20 republics.

/Although it

Although it is true that in terms of volume commodity exports have grown steadily, the same cannot be said for the series of indexes of unit value for the period concerned. This depends on the price fluctuations for nearly all the commodities.

Figure 1 presents a series of international price indexes for the commodities studied, including petroleum, and compares it with an index of world inflation prepared by the World Bank on the basis of the prices of exports of manufactures from the developed countries. It may be noted from this figure how far the prices have suffered fluctuations, sometimes extreme, in the course of time, in sharp contrast with the progressive rise in the prices of manufactures (and of petroleum) which represent the bulk of the imports from the Latin American countries. Although admittedly there has been a notable recovery in price levels since 1973, in the first place it should be noted that the actual increase in terms of purchasing power has been seriously affected by the rises in world price levels and, secondly, it is a well-known fact that for many of these products (sugar and copper being two particularly serious cases for the region), in 1976 and 1977 there were occasionally sharp drops from the 1974 levels, sometimes even below the 1972 levels.

1. Temperate-zone agricultural commodities

These commodities have been seriously affected by the restrictions imposed by importing European countries members of the OECD, and in particular by the EEC. The countries most affected have been Argentina, followed by Uruguay, Brazil, and others, although on a much lesser scale.

Between 1970 and 1974, meat imports from Latin America by the European OECD countries 29/ dropped to less than half their previous volume. Because of the mechanism used (complete suspension of imports) beef was the sector most seriously affected by the restrictive policy for imports of agricultural origin by the EEC. Wheat has also been

29/ As regards this information, and all that following in relation to "the OECD European countries", there is a small overestimation in the figures for 1974 owing to the inclusion of Finland, which was not a member of the OECD in 1965.

Figure 1 a

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN AMERICA
COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)

Semilogarithmic scale

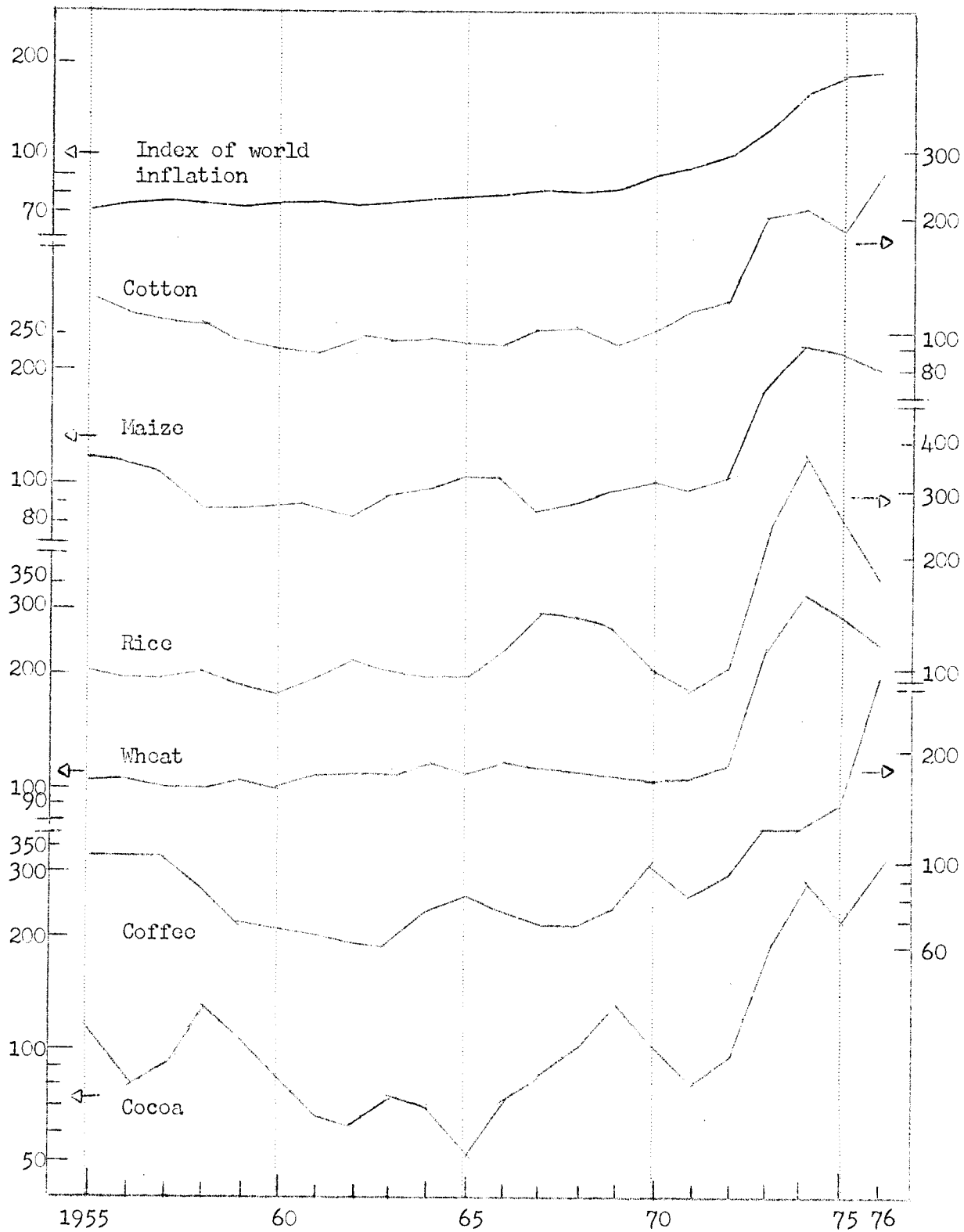
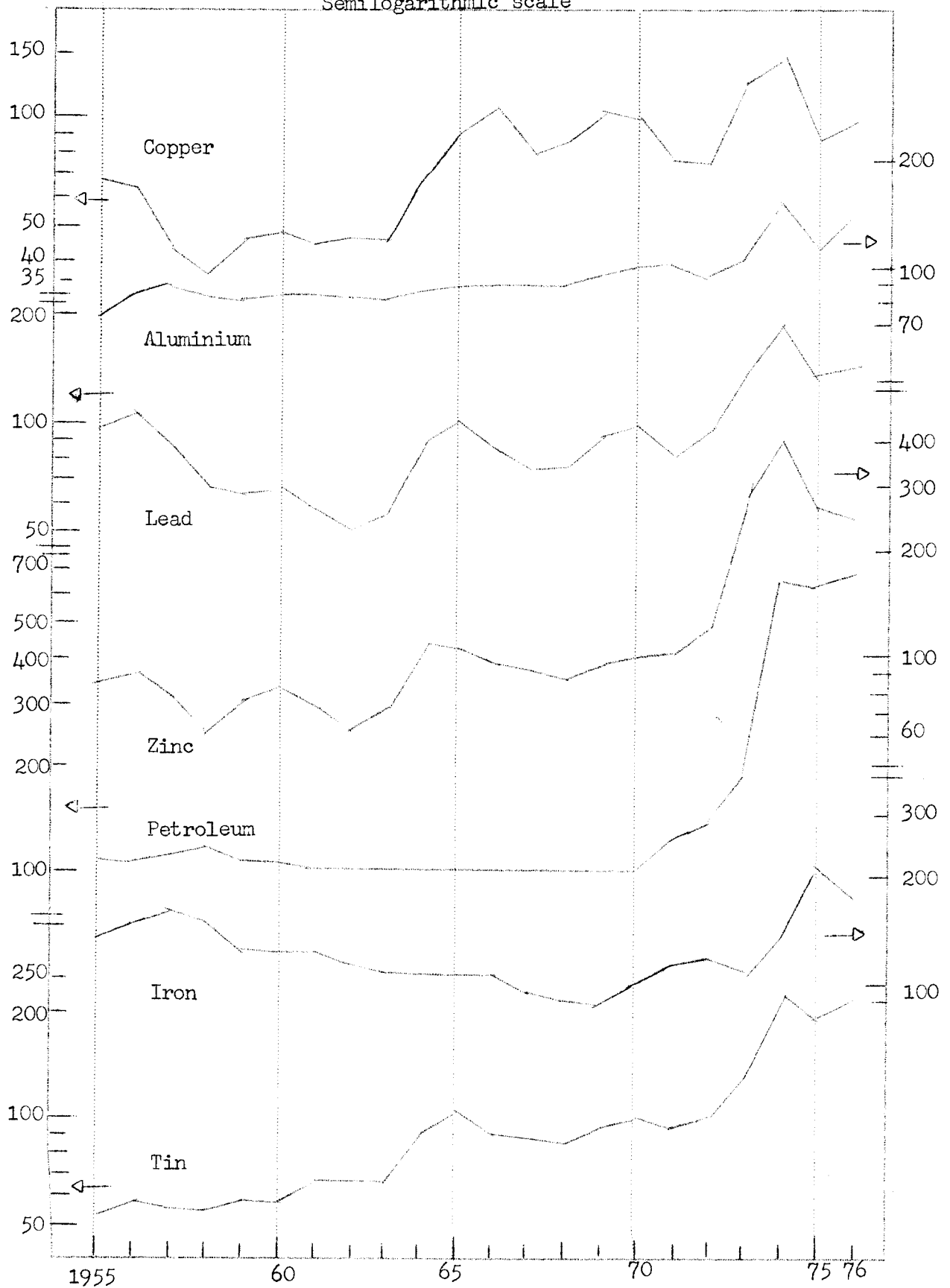


Figure 1 b

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN
AMERICA COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)
Semilogarithmic scale

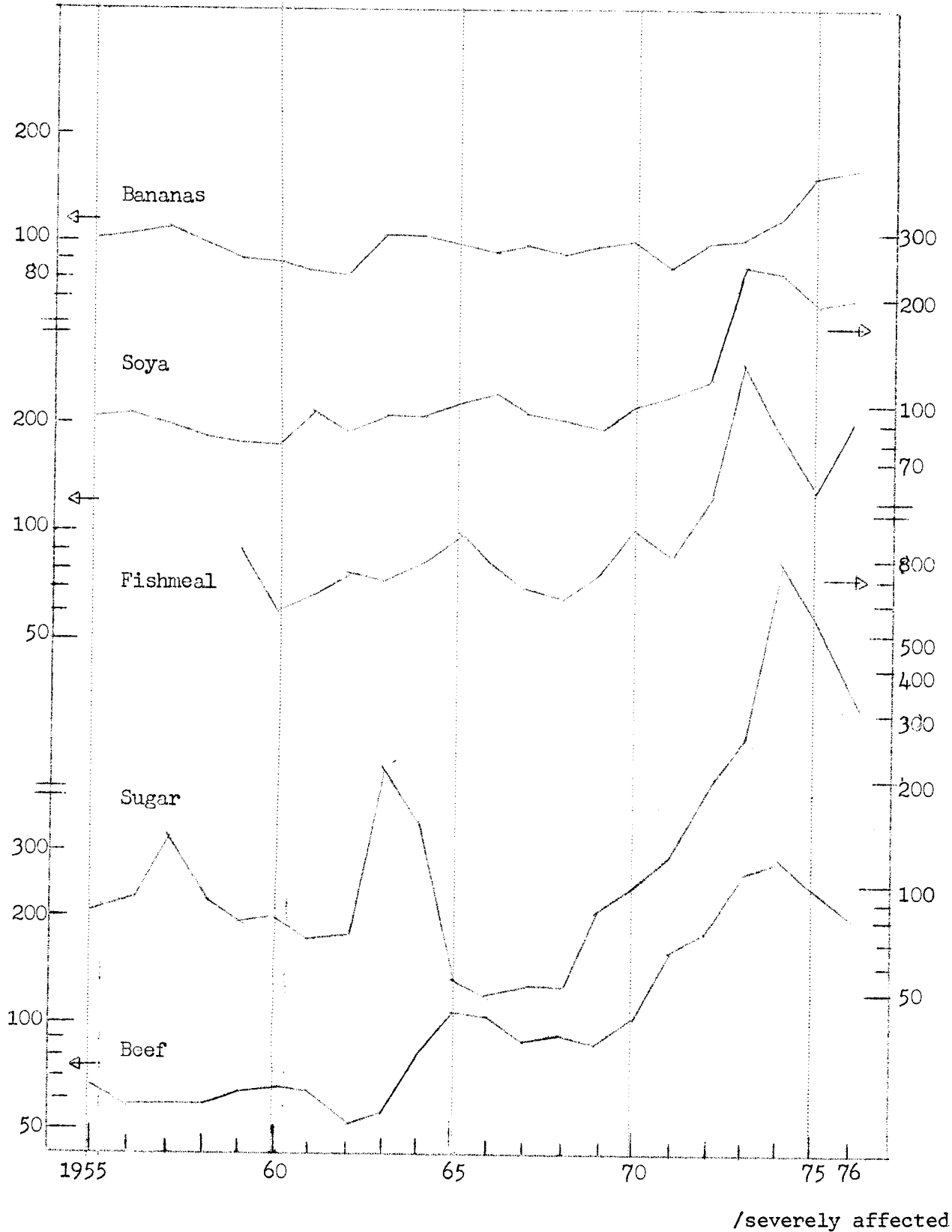


/Figure 1 c

Figure 1 c

INDEXES OF PRICES OF BASIC COMMODITIES OF INTEREST TO LATIN AMERICA
COMPARED WITH THE INDEX OF WORLD INFLATION

(Index base: 1970 = 100)
Semilogarithmic scale



severely affected (in this case, too, imports by the European OECD countries declined to half), although the drop in exports to Western Europe may have been partially compensated for by the considerable increase in exports to the Soviet Union. The decrease in maize imports, on the other hand, has not been very great and it has been accompanied by a marked increment in sales to the CMEA countries. In more general terms, Latin America's share in imports of wheat, maize, rice and meat by the European countries members of OECD fell from 23.2 per cent in 1965 to 10.8 per cent in 1974 as a result essentially of the EEC's Common Agricultural Policy, which led to growing self-sufficiency through the mechanism of imposing variable levies on imports.^{30/} Exports of vegetable oils are in a similar position, although the effects on import values have not been so marked, since there was no previous significant flow of these products. The increase between 1965 and 1974 (from 69 to 254 million dollars) in the imports of European countries (OECD) from Latin America hides the barriers that have prevented this item from representing a much higher figure. Moreover, 1974 was a year of unusually high prices for vegetable oils.

2. Tropical agricultural commodities

Particularly notable among these commodities is the case of sugar, which like the temperate-zone commodities is subject to the EEC's Common Agricultural Policy. For sugar, as for other tropical commodities, the signature of the Lomé Convention distinctly improved the relative position of the Caribbean countries in this respect,^{31/} although in normal years there is still a situation of surplus production in the Community which makes it difficult to import from the rest of Latin America. Imports from "developing America" (that is, including non-self-governing territories,

^{30/} Designed to compensate for the difference between the price of imported products (CIF plus fixed customs duties) and the domestic support price established for each year.

^{31/} As a result of this Convention, the Caribbean countries may retain their position as traditional suppliers of sugar to the United Kingdom, market; at the same time they enjoy tariff exemptions and the use of the stabilization of export receipts mechanism (STABEX) envisaged for the member countries.

for purposes of comparison) by the European countries members of the OECD dropped from 48 to 34 per cent between 1960 and 1974, while the increase in volume over the same period was practically negligible, i.e., from 2,450,000 tons to 2,600,000. Moreover, if Finland and Yugoslavia which were not members of OECD in 1960 are excluded, the figure is a little over 2,500,000 tons. Latin America's prospects of supplying Western Europe's demand for sugar, except in years when there may be a sugar shortage in the Community, show no signs of improving. The preferential treatment given to the Caribbean countries signatories of the Lomé Convention and the export quota for European countries not members of the EEC may be expected to be maintained. Cuba's case is quite different; there is an agreement in force with the countries of CMEA - of which it is actually a member - signed in 1965 and renewed up to 1980, guaranteeing the market of the socialist countries of Eastern Europe at price levels which, except in very special periods such as the second half of 1974, are higher than world prices.

As regards coffee, the United States, which is the traditional market for Latin America, has shown a negative growth of its volume of imports (17 per cent less in 1974 than in 1959). The European market, on the other hand, has expanded notably in the last two decades, exceeding that of the United States and becoming stabilized at over half of the total world imports of this commodity (52.7 per cent in terms of value in 1974). This explains why Latin America's coffee exports, in spite of having lost ground to Africa in both the world market and in Europe, where they dropped from 63.6 per cent of the total imported in 1960 to 57.6 per cent in 1974, have found their most dynamic market in Europe. What has shown itself to be even more dynamic, although at what are still relatively low levels, is the market of the CMEA countries which doubled its volume of coffee imports from Latin America between 1960 and 1974.

Access to the EEC market presents some difficulties ranging from the customs tariffs (5.4 per cent), from which the member countries of the Lomé Convention are exempt, to the excessively high level of internal taxes in certain countries such as Germany and Italy, where the internal tax (without considering the tariff) amounted to 130 per cent and 110 per cent, respectively, of the CIF import price in 1973.

/Cocoa presents

Cocoa presents many characteristics in common with coffee: slow growth of world demand, high level of internal taxes in the EEC countries, strong competition from other developing areas. Inasmuch as the customs tariff is as high as for roasted and soluble coffee (12 per cent for cocoa butter and 16 per cent for cocoa powder), the customs exemption granted to the ACP countries under the Lomé Convention is relatively more detrimental to the Latin American countries, particularly if it is taken into account that their share of total imports by the European CECD countries had already dropped from 11.8 to 9.5 per cent in terms of volume between 1960 and 1974. In the case of both coffee and cocoa, attention is drawn to the lack of growth of Latin America's production.

In the case of bananas, which has been thoroughly studied by the Intergovernmental Group set up by FAO, in co-operation with UNCTAD,^{32/} is very typical of a certain situation in the production and marketing of basic commodities concerning which a recent CEPAL document ^{33/} suggests the need for "a complete restructuring of all phases of the process of production and marketing of this commodity so as to enable the producing countries to have a larger share in them as the only means of increasing their net foreign exchange earnings". These marketing mechanisms, in which transnational corporations play a predominating role, are responsible for the fact that the export price of bananas is only 11.5 per cent of the final retail price. To this situation is added a decline in export earnings in real terms, due to the deterioration in the terms of trade, which is more evident in the case of bananas than in that of any other commodity. In spite of a relatively high tariff barrier in the EEC's common external tariff (20 per cent) and of the competition from the non-self-governing territories of America and the African countries, Latin America increased its share in the volume of imports by Europe (OECD)

^{32/} See the documents Pricing policy in relation to marketing and distribution of bananas (TD/R/C.1/CONS.10/L.5) and The marketing and distribution system for bananas (TD/B/C.1/162), both issued in 1974.

^{33/} Information note on recent trends in some primary commodity markets (E/CEPAL/L.122), 20 August 1975.

from 46.0 per cent of the total in 1965 to 62.5 per cent in 1974. Satisfactory results, with good prospects of a subsequent improvement, have also been recorded in the CMEA countries, particularly the German Democratic Republic, where per capita consumption of bananas has exceeded that of certain Western European countries such as Italy.

3. Raw materials of agricultural origin

For lack of space, this analysis will exclude items of medium importance to several Latin American countries; it will deal only with cotton, which, as can be seen from the following table, represented 47 per cent of the region's total exports of these products in 1974.

Table 15

LATIN AMERICA'S EXPORTS OF RAW MATERIALS OF AGRICULTURAL ORIGIN
TO EUROPE (OECD), 1974

(Millions of dollars)

Hides and skins		51.4
Natural rubber		5.0
Wood, cork, cellulose		43.5
Agricultural and animal raw materials not elsewhere specified		80.6
Textile fibre:		561.7
Wool	130.4	
Cotton	345.1	
Other vegetable fibre	81.4	
<u>Total</u>		<u>742.2</u>

No major tariff or non-tariff barriers exist for exports of raw cotton to Europe and to the Community in particular, although there are fairly stiff barriers for the more highly processed forms of cotton exports.^{34/}

^{34/} See part B.

The common external tariff is zero, except in the case of combed or carded cotton which in any case represents a minimal percentage of Latin America's total exports. Nevertheless, the region's share in the total volume of imports dropped both in absolute terms (from 438,600 to 268,000 tons) and in relative terms (from 28.4 to 19.9 per cent) between 1965 and 1974.^{35/} This decline was essentially due to the lower imports from those countries (Brazil, Mexico and Peru) which had been the biggest exporters in 1965, while the countries of the Central American Common Market and Colombia significantly increased their share in the total volume of trade. The reason for this drop in exports to Europe from Brazil, Mexico and Peru seems to stem from an essential factor: the development of the national textile industry and, therefore, the use of a relatively larger part of production for domestic activities.

4. Non-ferrous metals

This section will deal with exports of metals (SITC 68) but not of crude ores (SITC 283), since in global terms the former are more important than the latter. Reference will be made to exports of crude ores when, as in the case of tin, lead and zinc, they represent a value close to or higher than exports of refined metals.

Copper, 80 per cent of which is exported by Chile (and which represented an average of nearly three-quarters of this country's exports in the period 1973-1975) is by far the region's chief export commodity in this category.^{36/} Latin America's share in Europe's total imports decreased sharply between 1960 and 1974 (from 19.1 to 11.5 per cent in terms of volume).

Moreover, the depressed situation with respect to world copper prices is only too well known (see figure 1), and is essentially attributable to a greatly excessive supply due partly to the slow economic recovery of the industrialized countries and partly to the lack of agreement

^{35/} This drop would be even greater if the figure for Finland, which was not a member of OECD in 1965, were deducted from the 1974 figures.

^{36/} It represented about 85 per cent of Latin America's total exports of non-ferrous metals to Europe in 1970-1972.

among the member countries of the Intergovernmental Council of Copper Exporting Countries (CIPEC) ^{37/} to implement policies for the self-limitation of supply. The working groups convened by UNCTAD in 1976 and 1977 with a view to preparing the ground for an agreement to regulate the world copper market have so far shown no significant results.

The problems of copper's entry into the European countries are connected not with customs duties (the EEC's tariff is zero), but, for the reasons explained above, with demand. The present tension will probably continue, considering also that in several countries of Latin America (Chile, Peru, Panama, Colombia, Mexico) the possibility is insistently being raised of opening up new mines for development, some with a very great production potential. A certain trend towards a decline in the production of copper in the developed countries will apparently not be sufficient to counteract, within a reasonable period, the present situation of excessive supply on the world market.

As regards the processing of copper, it should be noted that, as in the case of tin referred to below, Latin America exports a relatively higher proportion of crude ore (20 per cent) (in terms of the export value of crude ore in relation to the total export value of the ore and the metal) than other developing areas such as Africa (3.8 per cent).

5. Iron ore

Nor has this commodity any difficulties in terms of access to the European markets, since the tariff is zero. Latin America's share in the total value of Europe's imports has risen steadily in the past 15 years, from 17.1 per cent to 26.8 per cent. Latin America's exports of iron ore to Europe are almost exclusively from three countries (Brazil, Venezuela and Peru), since Chile, the fourth exporting country of the region, sends Europe only a minimal proportion of its exports.

With the development of new and large-scale projects in Brazil, in some of which there are European interests, it may be assumed that

^{37/} This body, of which two Latin American countries - Chile and Peru - are members, controls 30 per cent of world production and 70 per cent of world exports.

Latin America's share in iron ore exports to Europe will increase in the future. The possible development of the Mutún mines in Bolivia, which have an enormous potential (no less than 40 per cent of the total potential reserves of all the developing countries) will add an element of great importance to Latin America's position in the world iron market. Nevertheless, the evolution of exports of this commodity, even more than in other cases, is closely linked with the reactivation of the economy in the industrialized centres.

Chapter III

DIRECT PRIVATE INVESTMENT

A. Events and trends 1/

Direct private investment by the United States continues to predominate in the world, although European investment already accounts for a very large share of the total. Nearly 38 per cent of the accumulated total of direct foreign investment in the world in 1971 originated in European countries, compared with 52.1 per cent in the United States. A very important supplementary indicator of investment by United States enterprises is that it amounted to 23,581 million dollars in continental Europe in 1973, while investment by continental Europe in the United States amounted to 6,595 million dollars.2/

The considerable importance achieved by the European enterprises is reflected in some significant data as well as in the percentage quoted above. Of the world's 650 largest industrial enterprises in terms of total sales, 185 are European, according to a United Nations report based on figures published by Fortune.3/ According to the same source, 21 of the largest enterprises in the world are European. Of these 21 enterprises, 4 have annual sales exceeding 10 thousand million dollars. The total sales of Royal Dutch Shell, the biggest of these enterprises, amount to 36 thousand million dollars, i.e., practically the gross domestic product of Venezuela, and exceed the GDP of all the Latin American countries except for the 3 largest (Brazil, Mexico and Argentina).

1/ This and the following section include elements and information from Alfredo E. Calcagno, "Las Inversiones Extranjeras Directas en América Latina", mimeographed, January 1978. Some of the data, concepts and proposals in this chapter also reflect preliminary results of the work of the joint CEPAL/CTC unit.

2/ United States Department of Commerce, "Survey of Current Business".

3/ "Multinational Corporations in World Development", United Nations Department of Economic and Social Affairs, 1973.

Domination by the North American enterprises is linked, inter alia, to the role which the dollar played in the international monetary system, and the great effort which the United States made to create technology with major government support, which gave its enterprises a vanguard position in very dynamic sectors of international manufacturing. It should also be stressed that the 228 subsidiary companies of continental European enterprises operating in the United States, and the 905 American subsidiary companies operating in continental Europe, deal predominantly with the same branches of industry, and in the majority of the enterprises in both cases, with the electrical machinery and chemicals sectors.

The situation, however, seems to be changing to the advantage of Europe. The importance of the manufacturing subsidiaries of major European companies compared with those of the United States increased substantially as from the 1970s, once the reconstruction of Europe was progressing and European enterprises were being consolidated, aided by the creation of the European Economic Community. More than half the subsidiaries of European enterprises existing in the world in 1971 had been established after 1965. According to data available, up to 1970, 67 per cent had been established in France after 1965, 55 per cent in the Netherlands, 53 per cent in the Federal Republic of Germany and Belgium and Luxembourg, 47 per cent in the United Kingdom, 41 per cent in Sweden, 58 per cent in Switzerland and 37 per cent in Italy. In the United States, however, this percentage was only 18 per cent, i.e., the majority of the subsidiaries had already been established prior to 1965.^{4/}

^{4/} These proportions are based on the number of affiliates established prior to 1970 (a total of 5,567 for the European countries referred to and 9,127 for the United States). This indicator is less representative than the capital invested in these affiliates or their output, but in any case it gives an idea of the relative importance of the growth of the European transnational corporations compared with those of the United States before and after 1965. The data have been taken from Lawrence G. Franco, "The European Multinationals", London, 1976.

If the group of developing countries is considered as a whole, and the situation in 1967 is compared with that of 1976,^{5/} it may be observed that the share of the United States in the total direct private investment of the countries members of the Development Assistance Committee (DAC) in the total number of developing countries increased from 50 to 52 per cent, while that of Japan increased from 2 to 5 per cent. Europe's share, however, dropped from 44 to 39 per cent, basically owing to the decrease in that of the United Kingdom from 19 to 14 per cent, and to smaller decreases in France and the Netherlands. Among the European countries, Germany's share increased sharply (from 3 to 7 per cent).

Europe's performance in the developing countries as a whole is therefore different from its performance in the world as a whole and in Latin America, as will be seen below. In the first case, the relative importance of Europe decreased. In the other two, it increased. This may apparently be explained by the different relative weight of Great Britain in the two cases, and by this country's loss of territory.

A Community press bulletin (17/78 of 11 May 1978) refers to the stagnation of the global flow of investment by the European Community in the developing countries, and to a dramatic drop in long-term investment, especially in the mining sector, where the surveying expenses of the European firms in the Third World accounted for only 13 per cent of the total, compared with 57 per cent in 1961.

^{5/} Data prepared by the Joint CEPAL/CTC unit, on the basis of OECD data, annex table XII.

1. European direct private investment in Latin America

Total accumulated direct private investment from all sources in Latin America increased from around 17 thousand million dollars to around 30 thousand million dollars between 1967 and 1976.^{6/}

An indicator of the presence of foreign capital in the different Latin American countries may be obtained by observing the proportion of the gross domestic product of the Latin American countries which corresponded to the transnational corporations in 1975. If Venezuela is omitted from the calculation, owing to the distortion caused by the presence of mass investment in oil in that country, this indicator was an average 5.5 per cent in 1975. Brazil and Panama were above this average, and Chile well below it. Somewhat below it, were such countries as Argentina and Colombia, while Mexico and the majority of the remaining countries showed values closed to the regional average.

For the years following 1967 there are no complete data by countries of origin and destination.^{7/} This restricts the analysis, makes it necessary to use non-standard sources, and also means that caution must be observed with the conclusions. This clarified the evolution from 1967 to 1976 and the situation at the beginning of the latter year may now be considered.

^{6/} Alfredo E. Calcagno, Informe sobre las inversiones directas extranjeras en América Latina, mimeographed, January 1978. The data used were taken from OECD, Les Actifs correspondant aux investissements directs du secteur privé des pays du CAD dans les pays en voie de développement - état à la fin de 1967, Paris 1972; and data supplied later by OECD. These data correspond to the 20 countries of Latin America, excluding Cuba, plus Guyana, Jamaica, Surinam and Trinidad and Tobago. The subsequent OECD data referred to were taken from the publication Cooperation pour le développement-examen 1977. Among the issues of this publication corresponding to data for 1974 and 1975 a decrease instead of an increase may be seen in the accumulated amount of investment. It is assumed that this must be interpreted as the stagnation of this investment, and not as being due to methodological causes.

^{7/} For these data and others, information supplied by the Joint CEPAL - Centre for Transnational Corporations Unit has been used.

Between these two dates, the market economy countries of Europe witnessed an increase from 23 to 26 per cent in their share of direct accumulated investment in Latin America. The share of the United States, however, dropped from 66 to 61 per cent and that of Canada from 6.5 to 4 per cent. Japan's share increased substantially, from 2.4 to 4.8 per cent. In short, the share of the United States decreased, that of Europe increased and that of Japan doubled.

Within Europe as a whole, some countries witnessed an increase in their share in the accumulated total of foreign investment in Latin America, while for others this indicator dropped substantially. Although there is no standard information to determine the comparable shares of the countries of Europe, that of the Federal Republic of Germany can be said to have increased substantially (its percentage increased by approximately 50 per cent of what it was in 1967), as did the shares of Switzerland (which more than doubled) and France, where there was a moderate increase. The relative share of the Netherlands dropped substantially (its percentage of the total dropped to approximately half of what it was in 1967), and that of the United Kingdom decreased moderately.

It is useful to observe the evolution of European private investment in Latin America in a long-term historical perspective. Up to 1914, the United Kingdom controlled nearly half of total direct private investment from all sources in Latin America, followed by the United States, France and Germany in that order.

This means that Europe had a far higher percentage than the United States. Between the end of the First World War and the end of the Second, the share of the United States increased considerably, and came to exceed that of the United Kingdom when it became the region's top investor; as far back as 1945 the United States was ahead of all the European countries together. In the same period, the European countries came to a standstill. Of the latter, France substantially decreased its direct private investment in Latin America, even in absolute terms. As from the end of the First World War until the mid 1960s, the United States increased its domination, although as from the mid 1950s Europe had again begun an upward curve in absolute terms, although continuing to decrease in proportion to the whole for some

/years more.

years more. It was as from mid 1960s that Europe began to increase its share compared with the United States, as has already been said. This increase in the relative importance of the European countries between 1967 and 1976 represents a partial recovery of the loss which they experienced in previous periods and especially during the immediate postwar period.

An analysis, based on a differentiation by the number of affiliates established, similar to that made at the beginning of the section for the whole world, leads to similar conclusions.

2. Latin America in the world total of direct European investment

The other question which should be asked is what weight Latin America had in the total private investment of European origin in the whole world. Using data on the number of affiliates,^{8/} it may be observed that in 1971 more European manufacturing subsidiary companies were situated in Europe's own developed countries and in the United States. It may be seen from table 16 that 59 per cent of the subsidiary companies of seven European countries,^{9/} were located in developed Europe, the United States and Canada. Of the total subsidiary companies of the same seven European countries located in developing countries, the percentage established in Latin America (15 per cent) was larger than that of Asia and Oceania, and Africa and the Near East. The case of the United Kingdom is different from that of the seven countries; the majority of its subsidiary companies are located in Asia, Oceania, Africa and the Near East, as can also be seen from this table.

^{8/} J.W. Vaupel and J.P. Curhan, "The World's Multinational Enterprises: a Sourcebook of Tables", Graduate School of Business Administration, Harvard University, Boston, 1973.

^{9/} These seven countries are: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, Sweden and Switzerland.

Table 16
GEOGRAPHICAL DISTRIBUTION OF THE MAJOR MANUFACTURING SUBSIDIARY COMPANIES

(Percentage)^{a/}

Country or region of the parent company	Region in which the subsidiary company is intalled						Total number 100%
	United States and Canada	Developed Europe ^{b/}	Less developed Europe ^{c/}	Latin America	Asia and Oceania	Africa and the Near East	
United States	13	35	4	27	15	7	4 246
Developed Europe excluding the United Kingdom	12	47	9	15	8	8	2 599
United Kingdom	13	26	3	6	27	25	2 265
Japan	5	1	2	18	65	9	479

^{a/} For the United States: data at 1 January 1968. For other countries: data at 1 January 1971.

^{b/} Including: Federal Republic of Germany, Belgium and Luxembourg, France, Italy, the Netherlands, United Kingdom, Sweden and Switzerland.

^{c/} Including: Spain, Portugal, Greece and Turkey.

/United States

United States subsidiary companies also tend to be located in developed countries: the United Kingdom and the rest of the developed Europe (48 per cent); in the developing world, in this case too, the largest share corresponds to Latin America (27 per cent). The case of Japanese subsidiary companies is different; the majority are located in Asia and Oceania (65 per cent), but in this case too more are located in Latin America (18 per cent) than in Africa and the Near East (9 per cent).

The same conclusion emerges from the data, incomplete though they may be, available for accumulated investment. In fact, the amount of European investment in Latin America appears to be similar to the total amount of European, Japanese and Canadian investment in Africa. Assuming that Japanese and Canadian investment in the latter continent is not very large, it may be deduced that Latin America accounts for a rather larger (although not very different) share of investment of European origin than Africa, and very probably Asia, where it may be assumed that European investment accounts for a smaller sum than Africa.

3. The country situation in Latin America

Of the total sum of direct private investment in Latin America from all sources accumulated at the beginning of 1976, the largest proportion was to be found in Brazil (31 per cent), Mexico (16.4 per cent) and Argentina (6.8 per cent); the rest of the countries together absorbed the remaining 45.8 per cent.^{10/} If Venezuela whose situation is a special one owing to investment in oil, is excluded, the figures change but the order of magnitude is maintained.

Brazil substantially increased its relative importance between 1967 (22.1 per cent) and 1976 when it reached the percentage indicated.

If each of the countries of Latin America with the largest shares in direct total private investment from all sources is considered, and European investment in each of them compared with that from other sources, the following situation emerges.

^{10/} A.E. Calcagno, op. cit.

/In Brazil,

In Brazil, European investment substantially increased its share of accumulated total private investment from 31 per cent in 1969 to 42.7 per cent in 1976 (table 17). In the latter year, total investment from all sources amounted to around 9,000 million dollars (annex table XIII) according to the source indicated. Particularly outstanding among the European countries on account of the increase in their relative importance and especially because of the considerable weight which this importance acquired in the whole, were the Federal Republic of Germany (from 10.3 per cent in 1969 to 12.4 per cent in 1976) and Switzerland (from 6.1 per cent to 10.9 per cent in the same years). The investment by France, Luxembourg, the Netherlands and Sweden also increased more than proportionally. However, Belgium and Great Britain lost relative importance, while Italy maintained its share in the whole.

Among non-European developed countries, the relative decrease in the share of the United States from 47.7 per cent in 1969 to 32.2 per cent in 1976 (owing to a less rapid growth than others) and in that of Canada is noteworthy. Japan, however, had only 0.3 per cent of its total external direct private investment in Brazil in 1969 and increased it to 11.2 per cent in 1976.

More than half total direct investment made in Latin America in 1974 and 1975 by DAC countries went to Brazil; with the addition of Mexico and Peru 90 per cent of the total is accounted for.

In Mexico (table 17) the share of the investment of the main European countries 11/ in the accumulated total of external direct private investment increased from 14.8 per cent to 19.6 per cent between 1970 and 1975. In any case, this percentage was still much smaller than that of Brazil. The share of the United States, however, despite having dropped from 79.4 per cent to 72.2 per cent in the same years, was still decisive.12/

11/ These countries are the Federal Republic of Germany, Great Britain, Switzerland, the Netherlands, France and Italy.

12/ See annex table XIV.

Table 17
SHARE OF COUNTRIES OF ORIGIN IN TOTAL DIRECT FOREIGN INVESTMENT

(Percentages)

	Brazil		Argentina 1969	Mexico	
	1969	1976		1970	1975
Germany	10.4	12.4	9.0	3.4	5.8
Great Britain	6.4	4.7	15.7	3.3	4.7
Switzerland	6.1	10.9	...	2.7	4.2
Netherlands	0.5	2.6	...	1.8	1.9
France	2.0	3.6	10.8	1.6	1.5
Italy	0.9	0.9	8.8	2.0	1.5
Belgium	2.2	1.2
Luxembourg	1.0	2.8
Sweden	1.0	2.4
<u>Total Europe</u>	<u>31.0</u>	<u>42.7</u>	<u>44.3</u>	<u>12.8</u>	<u>19.6</u>
United States	47.7	32.2	51.2	79.4	72.2
Canada	9.8	5.4	...	1.6	2.0
Japan	0.3	11.2	...	0.9	1.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0 a/</u>	<u>100.0 a/</u>	<u>100.0 a/</u>

Source: Annex table XIII, based on the Bulletin of the Banco Central do Brasil, December 1977.

Annex tables XIV and XV, based on A.E. Calcagno, "Las inversiones directas extranjeras en América Latina", mimeographed, January 1978, tables 17 and 20.

a/ The total used to determine the percentages is the sum of the countries for which data exist.

/With regard

With regard to Argentina, data are available only for 1969 (table 17), corresponding to direct private investment in manufacturing. In that year, four European countries 13/ accounted for 44.3 per cent of total foreign investment, while the United States controlled 51.2 per cent. This means that although only four countries are considered, Europe accounted for higher percentages of the total than in the cases of Brazil and Mexico. It is probable that these proportions have not changed substantially since then.

In the case of Venezuela, of total accumulated direct investment in 1967, 73 per cent was accounted for by the United States and 23 per cent by Great Britain and the Netherlands together - mostly in the oil industry. After the nationalizations it is estimated 14/ that 85 per cent of total investment was made by the United States, i.e., the majority of investment other than in oil in Venezuela originated in that country.

Panama is a special case because of its position as an international financial centre, which explains how in 1975 it came to have accumulated 2,300 million dollars of direct private investment. Of this sum, it is estimated that 80 per cent came from the United States.

4. Foreign investment in Latin America by sectors of economic activity

Considered in the long-term, the sectors in which direct foreign investment in Latin America has been located have changed substantially, with a very large decrease in mining, petroleum and the services, and a proportionally large increase in manufacturing. Although data are not available for investment from all sources, information on investment by the United States shows that between 1929 and 1976 the share of mining and smelting decreased from 21 per cent to 8 per cent of the total, that of petroleum from 17 per cent to 10 per cent and that of the other sectors (including

13/ These countries were Great Britain, France, the Federal Republic of Germany and Italy (see annex table XV).

14/ A.E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", January 1978.

public services, trade, agriculture and other sectors) dropped from 55 per cent to 32 per cent. Investment in manufacturing, however, increased over the same period from 7 per cent to 50 per cent.^{15/}

In the decrease in the proportion of direct investment devoted to mining and oil activities, the nationalization processes carried out during various stages in many Latin American countries have had some influence.

The substantial reduction of investment in public services, which was very considerable up to the Second World War, was also due to fairly widespread nationalization processes in the region. The share of trade and finance in some cases increased, and in particular investment in manufacturing activities, both in absolute and relative terms, increased substantially. The larger part of this investment was devoted to production for the domestic or sub-regional markets; only recently was some investment devoted to producing for export, especially in the case of United States enterprises in what are known as the make-up industries in Mexico.

In manufacturing, the relative importance of foreign enterprises compared with national public and private enterprises was generally greater in sectors of dynamic demand and more modern technology. In the case of Brazil, the foreign enterprises had a particularly large share in the ownership of assets in the electrical (61 per cent), transport equipment (63 per cent), machinery (46 per cent), rubber (61 per cent), and non-metallic minerals (35 per cent) industries in 1974; also in the case of Brazil the share in the tobacco (99 per cent) and food (31 per cent) industries was considerable too.^{16/} Recent capital earnings also show a strong preference for chemical industries.

In the case of Mexico there are no data on the proportion of investment in specific sectors in the hands of foreign enterprises. However, data on the sectoral destination of the investment of United States enterprises in

^{15/} A.E. Calcagno, table 11. Information for 1976 excludes the Bahamas, Bermuda and other dependent territories where investment in services is proportionally much greater than in other countries of the region.

^{16/} Calcagno, op. cit., table 11 of the Annex.

that country also showed a predominance of manufacturing, and within this sector, of the chemicals and machinery industries which constituted half the accumulated investment in manufactures from this source. The make-up industries are important in this country.

In the case of Argentina, the European enterprises mainly devoted themselves to the motor-vehicle and steel industries (France), to omnibuses and trucks, tractors, electrical articles and tobacco (Germany), and to motor-vehicles, rail equipment, rubber articles (especially tyres), electrical and office articles and steel (Italy). The United States enterprises for their part, covered the motor-vehicle, metal, chemicals, rubber, food and textile industries.

Progress in the integration process in the countries of the Cartagena Agreement may take the form of a relative increase in investment in the metal manufactures and machinery and chemicals industries, to judge by the interest shown by foreign enterprises in taking part in the development of sectors where the programming has already been decided upon (motor-vehicles, metal manufactures and machinery and petrochemicals).

B. Interest of European private investment in
Latin America 17/

For the international operations of the transnational corporations as a whole, the output of affiliates located in countries other than the home country represents a very important element of expansion. A United Nations document 18/ contains 1971 estimates for the transnational corporations of the United States, the United Kingdom, France, the Federal Republic of Germany and Japan. In that year, exports by these enterprises from their home countries amounted to around 150,000 million dollars; the output of their affiliates situated in foreign countries was estimated at around 160,000 million dollars

17/ The reasons for this interest which will be analysed here generally apply to private investment from all sources (Europe, United States and Japan); notwithstanding, investment from other countries tends to be more enterprising and prepared to accept different conditions, as is explained in another section of this chapter.

18/ United Nations, Multinational Corporations in World Development,
(ST/ECA/190), New York, 1973.

for the same year. Export figures from the home country and production figures for affiliates abroad can only be compared with reservations and only for certain specific aims. Despite this, however, the fact that for these countries the output of the affiliates was 1.75 times 19/ the exports made by the transnational corporations from their home countries, illustrates the importance of this output for the possibilities of growth, the obtaining of profits and the achievement of economies of scale in the effort to create technology, both for the transnational corporations themselves and for their home countries.

A similar conclusion is reached if the case of 50 major enterprises in the United States in 1970 is considered.20/ Among these enterprises are to be found some of the largest producers of motor-vehicles, capital goods (electrical and non-electrical machinery), electronic and computing equipment, chemicals, petroleum, foodstuffs, etc. For 35 out of these 50 enterprises, exports accounted for between 30 and 65 per cent of the total; for 22 of them, exports accounted for 40 per cent or more of the total.

With regard to the profits, information is available for 30 of the enterprises; in 23 of them, the profits obtained abroad accounted for between 30 and 98 per cent of the total; in 17 out of 30 enterprises, the profits obtained abroad were equivalent to or greater than 40 per cent of the total.21/

19/ For the United States of America and the United Kingdom this ratio is even greater than this average.

20/ A.E. Calcagno, op. cit., based on, Report of the Sixth meeting of members of Congress and of the European Parliament, September, 1974, The Multinationals: their functions and future, Washington, 1974.

21/ According to the same source, the proportion of profits obtained abroad is generally greater than the proportion of exports from the United States. This would apparently indicate that the operations of the affiliates are, proportionally, economically more viable, although this observation should be considered carefully because it may be affected by the quality of the data. In a study published by the United States Department of Commerce (Survey of Current Business, US Direct Investment Abroad in 1975, by Obie G. Wichard and Julius N. Friedling), August, 1976, p. 40 onwards, there is a fact which points to a similar conclusion - for the group of enterprises considered, the declared rate of direct investment in manufacturing in 1975 was greater in Latin America (14 per cent) than in the developed countries (11 per cent); in this case too there may be problems due to the quality of the data, the definite risk which operations in different countries may involve, and the different sectoral structure.

In the case of Latin America, the exports which the developed countries of Europe as well as the United States and Japan make to the region reflect only very partially and inadequately the magnitude of the interest of these developed countries and their enterprises in the Latin American markets; in the case of several sectors which are very dynamic for European countries, such as those producing motor-vehicles and transport equipment, capital goods and chemical products, the production of the Latin American countries themselves with direct and large-scale participation by European enterprises is greater than the exports which the same enterprises make to Latin America from their home countries.

However, production within the Latin American countries with large-scale participation by these transnational corporations also leads to the purchase of parts and spares and equipment from the home countries of the corporations.

On the basis of these data, the main theme of this section will now be examined.

The share of European private investment in Latin America, compared with investment by other developed areas, is substantial and on the increase; furthermore, Latin America absorbs a very large proportion of total European investment in the developing world, comparatively greater than other areas; it presumably clearly constitutes the most important area for many of the more dynamic manufacturing activities. These conclusions emerge from section A of this chapter, and bring up two questions which it will be endeavoured to answer below. They are:

1. How can the great interest of private investment and the transnational corporations in operating in Latin America be explained?
2. What significance does this interest have for the countries of Latin America?

1. Factors which explain the interest

Among the important factors affecting this interest, the following may be highlighted: (a) size of the market; (b) cost of labour; (c) degree of manufacturing development, education and labour training, (d) natural resources; (e) environment. These factors are discussed in the next few points, after considering the degree of interest of the affiliates' operations for those of the transnational corporations as a whole.

/(a) Size

(a) Size of the market

By means of a simplification which enables this topic to be discussed in general terms, although it should be subjected to exceptions and qualifications, three main cases may be distinguished here:^{22/}

(i) goods using simple and practically unchanging technology generally non-durable consumer goods;

(ii) consumer goods using medium- or high-level technology, mainly consumer durables;

(iii) basic capital and intermediate goods, mainly chemicals.

With regard to the goods in the first group, a large proportion of Latin American demand is covered by domestic production. The domestic market for these goods is already considerable in Latin America and will still grow a great deal more as the large percentage of the now marginal population is incorporated into the labour and consumer markets. Foreign investment and the transnational corporations generally speaking have little direct share in the production of these sectors in the Latin American countries, with exceptions, as in the case of tobacco.

Consumer goods of intermediate or high level technology, generally consumer durables (motor-vehicles, domestic appliances, etc.) and some non-durables, are in demand among the intermediate and high-level income strata. Bearing in mind the number of inhabitants and the proportion of them incorporated into the intermediate strata,^{23/} the Latin American market for these goods already has at present a position of considerable importance among all the regions of the world. Taking the region as a whole, the size of its market for these goods is smaller than that of the developed and some developing regions. However, bearing in mind the growth projections for the population, a reasonable hypothesis would be that the size of the combined Latin American market for these goods will increase more rapidly than that of other regions and will be smaller only than that of Southeast Asia and China,

^{22/} The groups presented here are similar to those identified in Chapter V, although in the interests of this analysis some sectors are omitted and the division of the groups is not quite equal.

^{23/} See Chapter I, section 10.

/and larger

and larger than that of each of the main developed areas and of the other developing areas.^{24/} Naturally, Latin America does not operate as a single market in so far as it is not integrated; nor are the other developing areas with which it can be compared, while in contrast the United States, the EEC, Japan, China and CMEA do operate in an integrated form. In Latin America 4 major units at least must be distinguished: Brazil, Mexico, the Andean Group and Argentina. To increase the real demand for these goods, a large share of national savings is mobilized through credit machinery in order to acquire them. Advertising, the demonstration effect of consumption in more developed countries and the action of the transnational corporations themselves are also important elements in expanding demand in these sectors. The potential Latin American market would be still greater in comparison with developed areas if its problems of marginality could be overcome and the 600 million inhabitants which the region will possess towards the end of the century could really be incorporated into the market.

The policy of protecting national industry applied by Latin American countries, which has declined but will continue to be significant and on average greater than in the developed countries over the next few years, contributes to ensuring a large market for the domestic production of this type of goods.

The real future participation of transnational corporations in Latin American production in these sectors will possibly continue to be substantial; naturally, the modes of participation at present differ from one case to another and may evolve in the future, from direct production in the hands of the transnational corporations to their participation in specific aspects such as the supply of technology or other aspects.^{25/}

^{24/} France, Ministère de l'Industrie et de la Recherche, Spécialization Internationale du Travail et Redéploiement Industriel, pp. 73 to 76. This work of research distinguishes 15 areas of the world: black Africa, Latin America, East Asia, Australia, New Zealand and South Africa, Canada, European Economic Community, China, Scandinavia, United States, European countries with centrally planned economies, Mediterranean Europe, Japan, the Arab world, Alpine countries and the Soviet Union. The measurement of the future size of the market exclusively based on the population is a simplification, which means that these conclusions of the study must be taken only as merely approximate indications.

^{25/} See Section C of this Chapter.

The increase in the domestic output of the two groups of consumer goods mentioned and others not explicitly considered here generates the market for the goods of the third group, i.e., capital goods and chemicals. In this group the Latin American market at present and for the next 10 years may be calculated as being smaller than that of several of the main developed areas with market and centrally planned economies and some of the developing areas, to judge by the comparison made in the publication quoted. However, the size of the regional market for these goods compares favourably with several others in the 14 areas mentioned in this study. In this case too the size of the Latin American market varies according to whether one may assume a real and substantial integration of the whole of the region, or alternatively, the continuation of the present division into four major units and other smaller ones. In any case, each of these four major units very probably compares favourably with a fair proportion of the units which make up effectively integrated markets in Asia or in Africa.

In this third case too, the level of protection of domestic or regional production will presumably continue to be significant, and effectively ensure some market for domestic output.

In this third case, the interest of foreign investment and the transnational corporations is considerable compared with other developing areas. It should increase as the region grows and these industries evolve on the basis of the levels already reached.

(b) Cost of labour

This cost is generally considerably greater in developed countries than in the Latin American countries. Comparisons of this type should be cautious owing to the difficulties inherent in the differences in quality and importance of the information for the different countries, and because the data used here are for the years 1970 and 1972 in some cases, since when the situation may have changed. Furthermore, productivity in physical units is generally greater in developed countries than in those of Latin America, and this may offset wholly or in part and even obviate the differences in the cost of a unit of labour. For this reason the data which will be given below are only useful as indicators to show the apparent existence of an important phenomenon.

/In table

In table 18 it may be seen that for manufacturing on average, the cost of an hour's work in Great Britain, France, Belgium-Luxembourg, Federal Republic of Germany, Canada and the United States, was between 2.9 and 7.1 times that of Brazil. Comparing these developed countries with Mexico, also for the average of the manufacturing industry, an average hour's work in Great Britain, France, Belgium-Luxembourg, the Federal Republic of Germany, Canada and the United States costs between 3.3 and 8.3 times that of Mexico.

If the comparisons are made for the operations of a single enterprise in particular (General Motors), large differences may also be seen. In comparison with Argentina, an average hour's work cost between 2.3 and 6.3 times more in Japan, the United Kingdom, Australia, the Federal Republic of Germany and the United States. In comparison with Brazil, it was between 4.1 and 5.6 times greater in the five countries mentioned. In comparison with Mexico, an hour's work cost between 1.1 and 2.9 times more in the same five countries.

Taking average wages per hour in different assembly plants in some sectors, wages in the United States were 4 times higher in electronics, 4.2 times greater in semi-conductors and 6.3 times greater in machinery than in Mexico.

In manufactures, average wages per hour in the United States were 4.3 times those of Mexico, 5 times those of Honduras, 6.3 times those of Trinidad and Tobago and 6.7 times those of Costa Rica.

The differences were still greater in comparison with South Korea, Hong Kong, Singapore and Taiwan, although in these countries wages have apparently tended to increase in recent years.

Although this is not the place to go into this more deeply, it is well known that a similar phenomenon is found in connexion with other developing countries, particularly North Africa and some Asian countries. There are still large differences in the cost of labour between the most industrialized countries of Europe and some Mediterranean countries of the same continent, especially in the more depressed regions of the latter.

Table 18

COST OF AN AVERAGE HOUR'S WORK IN INDUSTRIES IN DEVELOPED COUNTRIES COMPARED WITH SOME LATIN AMERICAN COUNTRIES^{a/}

	Average for industry 1970 b/		Operations of General Motors at end of 1972 c/ and d/		Average wages per hour in assembly plants ^{e/}					Manufactures		
					Elec- tronics	Machi- nery	Semi- conduc- tors	Mexico	Mexico			Mexico
Brazil	Mexico	Argentina	Brazil	Mexico	Mexico	Mexico	Mexico	Mexico	Costa Rica	Hondur- as	Trini- dad and Tobago	
United States	7.1	8.3	6.3	5.6	2.9	4.0	6.3	4.2	4.3	6.7	5.0	6.3
Canada	6.1	7.2	1.0									
Federal Republic of Germany	4.6	5.4	4.1	3.6	1.9							
Australia			2.8	2.4	1.3							
Belgium-Luxembourg	3.8	4.4										
France	3.4	3.9										
United Kingdom	2.9	3.3	2.3	2.1	1.1							
Japan			2.3	2.1	1.1							

a/ Number of times greater the average cost of hour's work is in each developed country than in each of the Latin American countries, prepared on the basis of A.E. Calceagno, op.cit., table 6.

b/ Committee on Finance, United States Senate, Russel B. Long, Chairman, Implications of Multinational Firms for World Trade and Investment and for United States Trade and Labour, Report to the Committee on finance of the United States Senate and its Sub-Committee on International Investigation, HQ 332-69, under section 332 of the Tariff Act 1930.

c/ Source: Hearings before the sub-committee on international trade of the Committee on Finance, United States Senate, Multinational Corporations, Washington, February and March 1973.

d/ Total cost per hour including complementary benefits, local currencies converted into dollars at the rate of exchange at 20 February 1973.

e/ Source: United States Tariff Commission, Economic Factors Affecting the use of the Items 807 000 and 806.30 of the Tariff Schedules of the United States, Washington, September 1970.

/The differences

The differences in the cost of labour offer an incentive for the transfer of some sub-sectors or operational sectors which are highly labour-intensive, using skilled or unskilled labour, from developed to some developing countries. This process has expanded considerably in recent years through the different methods of co-production, sub-contracting, transfer of plants (especially medium- or small-sized), and association between capital from developed and from developing countries to produce specific goods in the latter, etc.

This trend will also be affected by another three factors: (i) a more intensive competition among transnational corporations, especially among those from different developed countries, could accentuate it; (ii) the economic difficulties of developed countries and the uncertainty of the world economy could slow it down in the short- and medium-term, as has already begun to happen; (iii) the different degrees of industrial development, of labour skill and education in the different developing regions could influence to some extent the direction of the trend, depending on the level of skill and technology requirements in each sector of production. The first two factors mentioned are dealt with in section C of this document. The third is considered below in this section.

The difference in the cost of labour, in conjunction with the different levels of per capita income, has also produced labour movements from countries with lower income levels towards more developed countries. This is the case of migration from Mediterranean countries to more developed countries in the North of Europe and from Latin America to the United States. According to a recent study by UNCTAD, 20,296 experts and professionals emigrated from Latin America to the United States, Canada and the United Kingdom between 1961 and 1972; 80 per cent of them went to the United States.^{26/} These migratory processes are not exempt from problems; the loss of professionals and skilled workers which they represent for Latin American developing countries would perhaps not take the same form if it were the industries or labour-intensive processes which transferred from developed to developing countries.

^{26/} A.E. Calcagno, based on: UNCTAD "La transferencia inversa de tecnología: dimensiones, efectos económicos y cuestiones de política", Geneva, 1975.

(c) Degree of manufacturing development, education and labour training

Although these elements could be dealt with separately, they are presented here as a group because they are closely related from the point of view considered here.

Reference has already been made in Chapter I to the considerable degree of development achieved or about to be achieved by industry in many Latin American countries, with the appropriate differences depending on countries and sectors. This development takes the form of a diversified manufacturing structure, an industrial environment suitable for the establishment of new activities, the fairly considerable experience of entrepreneurs, experts and workers in the operation of plants, production under efficient conditions, the solution of problems of marketing and financing of enterprises, etc. The gradual reduction of protection and the growing move outwards to conquer external markets which took place in the last few years are certainly linked with this development in the form of a greater ability to produce under competitive conditions of costs and qualities.

The general improvement in the level of education and in particular the training of labour at all levels are another aspect of this phenomenon. This topic was also dealt with in Chapter I in connexion with skilled labour. As was observed, in Latin America there already exists a large proportion of the population which in terms of training and experience is in a position to undertake the administration of enterprises, professional activities and skilled manual work; a very large and growing number can be found in the cities devoted to urban work in industry, commerce and other services.

According to the study already referred to,^{27/} in terms of these factors too, the Latin American countries are in a less favourable position than the developed areas in the world. Of course, these are averages which go to make up very different situations according to countries and sectors.

There also exists in the region a still limited but significant capacity of adaptation and technological innovation, also referred to in Chapter I.

^{27/} France, Ministère de l'Industrie et de la Recherche, op. cit.

In brief, the comparative advantages "acquired" have been changing and continue to change with time for the countries of Latin America, where sectors of industry are concerned. In manufactures, where efficiency is closely linked to the factors of the availability of skilled labour and entrepreneurial capacity, experience in the production and handling of plants, available capacity for technological innovation and the existence of an industrial environment, the actual process of installing and developing many manufacturing sectors which produce consumer durables, and capital and intermediate goods, has definitely helped to improve the comparative advantages of these countries for producing goods of this kind. Costs, quality and even the innovative capacity of Latin American countries, have improved substantially over the last decade; due to this, these countries are at present in a position to produce on a competitive basis even goods which require skilled labour and relatively advanced technology. The comparative advantages can only be taken dynamically and not statically, if it is hoped to avoid a halt in manufacturing progress and even reverses.

These factors can also be expressed in the fact that Latin American countries have external economies which favour the continuing development of many of the sectors of industry already in existence, and the possibility of tackling the development of other new sectors.

This allows a large number of Latin American countries to export manufactures, including metal manufactures and machinery and chemical products, and stimulate the interest of foreign investment in coming to the region and contributing to its production and exports. As has been said in another section of this document, the possibility of exporting manufactures, the production of which requires a considerable and increasing degree of skilled labour, will in turn define the possibilities of increasing the proportion of the population which will come to form part of the upper strata, and maintaining the improvement of the level of living of those who are already part of them. This means that not only is it possible but necessary for the transnational corporations in Latin American countries to adapt to the needs of exporting manufactures employing more advanced technology.

/(d) Natural

(d) Natural resources

The availability of abundant and varied natural resources - including energy resources - in Latin America, has traditionally been an important element in attracting private investment. In recent years, pessimistic projections of the future supply of some of these basic commodities for developed countries and the effect of the rise in oil prices, have increased the interest of such countries in ensuring a stable supply of above all mineral and energy resources, and for this purpose in having recourse to Latin America in order to associate themselves with the production and processing of these goods.

The traditional forms of participation of foreign private investment in the domestic production of minerals and energy have lost their importance, and in some cases have tended to disappear because of nationalizations and the interest of many Latin American governments in claiming sovereignty over their natural resources.

Interest in obtaining technology and capital from abroad for production and processing stimulated the search for new forms of co-operation in keeping with the degree of maturity achieved by the Latin American economies and their needs. This is manifested in the methods which tend to be used to associate national public or private capital and foreign capital, and basically in the fact that in many cases - as in those where production or processing have been nationalized - certain services are bought without relinquishing any or all the ownership of the production process to foreign hands. Methods of long-term sales contracts to developed countries, in some cases in connexion with the provision of certain technological and other services, have also been introduced. This topic is also dealt with in section C of this chapter.

(e) Environment

The problems of the pollution of the environment have taken on importance for international industrial policy and the location of economic activities over the last few years. The importance which the different developed countries attribute to the problem and how they tackle it varies from one to another. However, in all of them, the need arises, to a variable degree, for more investment and higher costs in some sectors, and this affects the comparative advantages of these countries vis-à-vis developing

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countries. The latter, of course, also have the problem of pollution which causes considerable concern. However, its relative importance and how it is dealt with may be different, bearing in mind the other serious problems of mass poverty which they face.

The availability of the favourable elements and conditions dealt with in this section and their probable intensification in the future make it possible for the region to have elements of consideration to hand for negotiating the conditions of the relations with foreign private investment and with the developed countries which best answer the needs of Latin American development. The extent to which this power can be used is another problem.

It should be mentioned that developments in private investment from now on will also depend on what happens in the developed countries. In Chapter V consideration will also be given to several elements which may be determining factors in the future international division of labour between Latin America and Europe.

2. Possible contribution of direct foreign investment

What can Latin America obtain from direct private investment in general, and from European investment in particular? Without attempting to expand this topic beyond the scope of the present document, some points may be mentioned briefly.

Firstly, it is indispensable for this investment to contribute effectively to promoting the development strategy measures defined by each Latin American country, which will in turn take into account the needs and priorities of the present stage of this development. Reference is made to this topic in Chapter I, the present chapter and in Chapter V.

Furthermore, direct private investment and the transnational corporations must adjust to the rules and modes of action defined by the governments in each case; progress in defining a code of conduct prepared internationally will contribute to its compliance with useful requisites of uniformity and reasonable moderation.

/More specifically,

More specifically, there are three main contributions which may be expected from direct private investment and the transnational corporations: (i) technology; (ii) an effective contribution for access to external markets of manufactures, including those employing more advanced technology; (iii) organizational capacity. The first two elements appear to be particularly important, bearing in mind that they are fundamental for the present stage of development through which many Latin American countries are passing, and that in both the external contribution is fundamental. As for access to external markets, not only is it a problem affecting direct investment and the transnational corporations, but it is also closely linked to the trade policy of the developed countries and the policies for reforming their industry. The fact that the jurisdiction of the decisions made by the governments and private enterprises in developed countries is separate to some extent, should not be a motive for preventing these aspects from being dealt with and decided upon jointly; the interaction between governments and enterprises in developed countries for the purposes of conquering external markets including those of developing countries is very effective in many important aspects; in Latin America the use which governments make of their bargaining power will determine whether there is to be joint consideration of aspects involving the transnational corporations and the policy of governments of developed countries with regard to exports of manufactures. As for the financial contribution of foreign direct public investment it is not negligible but does not, however, appear to be the most important contribution from the point of view of Latin American countries. Of course, no general assertion can be made about this since the situation differs according to countries and sectors. Some medium- and small-size countries in Latin America, with inadequate capacity for the formation of national savings and little access to international public and private loans, may still assign considerable importance to this contribution. On the other hand, both for these and larger countries, the contribution does not cease to be important and is particularly valuable in the case of sectors which require large investment, large-scale immobilization of this investment and a high risk. The facility which direct investment possesses for contributing to obtaining international financial resources of different origins from those of the investing

/enterprise itself

enterprise itself is also important. In any case, the financial contribution of the enterprises themselves and their countries of origin is usually limited, at least in recent experience, in the average transnational affiliate.^{28/}

C. Norms and modes of operation of direct foreign investment including the activities of the transnational corporations

The question it is proposed to discuss in this section is how far changes of importance in response to Latin American development needs, are taking place or may take place in the norms which govern private investment and the transnational corporations, and in their modes of operation.

The concerns of many countries in the region lie mainly in three directions: (a) to avoid all interference of foreign investment in internal political matters; (b) to ensure that this investment adapts its actions to the strategy and development policy orientations of each country; (c) to ensure that the modes of operation of foreign private investment are those which are most appropriate for achieving the above, i.e., which respond to the country's needs and realities.

Reference will be made below to the first and second of these aspects. The third will be the central topic of the rest of this section.

With regard to the first aspect, the operation of transnational corporations is not free from political implications which may be of importance. The report of an expert group convened by the United Nations, in referring to their forms of action, says that "in home countries, they may attempt to influence foreign and domestic policy by utilizing their broad financial power and their often close relationship with government cadres. They can lobby for or against governments of host countries, depending on whether or not they receive specially favourable terms of treatment. In host countries, the affiliates of multinational corporations can seek to influence government policies in undesirable ways. Being closely connected with domestic groups

^{28/} A.E. Calcagno, op. cit.

favouring foreign investment, they can use their own or their parent company's resources to support particular political parties of their choice, and they can rally against groups advocating social reforms".^{29/} The sensitivity of governments and public opinion to these problems has increased in recent years.

The co-operation which the Latin American countries require from foreign investment with regard to technology, access to external markets and administration of enterprises and plants, is indispensable for their development. Interest in finding formulae and machinery to avoid possible problems and ensure an adequate contribution of this investment according to the development policies being followed has thus been clear and has increased.

With regard to the second aspect - the adaptation of foreign investment to the real development policies and strategies of the countries - the first requirement is for the governments themselves to establish clear policies and communicate them to the transnational corporations. For the sectors of industry which for reasons of economy of scale can develop more efficiently if they can count on subregional or regional markets, the definition of measures for co-ordinating policies among several countries is very useful for the transnational corporations, so that they can adapt their actions to the orientations established by the governments, and so that on the contrary it is not they themselves who in fact define the development criteria and orientations of the sector. In this sense it is useful to compare in Latin America the cases of LAFTA and the Andean Group. In the former, the initiative of the countries with regard to the complementarity agreements was very limited and in some case practically non-existent, which meant that it was the transnational corporations which took the main initiative. However, in the case of the Andean Group, in the sectors reserved for programming, which are new and generally contain economies of scale, it is the countries

^{29/} United Nations, Department of Economic and Social Affairs, "The impact of multinational corporations on development and on international relations", ST/ESA/6, New York, 1974, page 45.

themselves which define the development orientations of each sector, the siting of plants and the specialization of each of the countries; the governments thus retain the initiative, and the transnational corporations which wish to operate in the market adapt their actions by negotiating with each of the governments on the basis of the orientations agreed upon by the five countries. The examples of the metal manufactures and machinery, motor-vehicles and petrochemicals sectors are a case in point. One of the very important aspects of the adaptation to the development strategies and policies in force relates to the concern of the governments, especially in recent years, regarding the impact of the transnational corporations on the balance of payments. The evolution of the balance of payments has once again converted the external sector into a limiting factor of development. The effects of foreign investment on it have acquired new interest.

In the first place, the transnational corporations influence imports. These corporations generally act in sectors of industry where the import coefficients are higher than the manufacturing average. Their presence promotes the development of these sectors and in many cases encourages an increase in the consumption of goods with a high import content, and this contributes to aggravating the tendency towards a trade deficit in the recipient countries. Meanwhile, their export coefficient is very small. The transnational corporations in the majority have been little disposed to export, except in cases where a condition has been set for investment whereby part of production must be exported. Tendencies of transnational corporations to export from Latin American countries are still incipient, despite their recent forward-looking evolution and despite the new modes and policies which will be discussed below; for example, in the case of the United States transnational corporations which operate in Latin America, half of their accumulated investment in 1973 corresponded to manufactures,

/and during

and during the period 1973-1976, 94 per cent of their sales were destined for the Latin American domestic market and only the remainder was sent abroad.^{30/}

Secondly, there are the effects of intra-company trade, referred to later in this chapter, which may adversely influence the balance of payments, although it is difficult to evaluate this factor exactly. There are also the payments of profits, interest and royalties. For an idea of the impact of this type of payment, the example may be taken of United States investment in Latin America, which during the period 1966-1976 gave a negative balance on current account of 7,300 million dollars, resulting from the net outflow of capital from the United States to a value of 7,500 million and of net income to this country of 14,800 million in terms of dividends and interest.^{31/}

With regard to the adaptation of the transnational corporation to the development strategies of the countries, the case of the foreign banks operating in the region is important; they collect the national savings of the countries in which they act and serve as channels for granting them credits.

With regard to the third aspect mentioned - modes of operation, in some countries of Latin America and in the rest of the world - there have been developments in at least three directions referred to here:

(a) regulation of foreign direct private investment by means of general or specific legal provisions; a possible code of conduct agreed upon internationally and prescribed legal provisions issued at the level of a

^{30/} A.E. Calcagno, Informe sobre las inversiones directas extranjeras en América Latina, January 1978; Fernando Fajnzylber and Trinidad Martínez Tarrago, Las empresas transnacionales, expansión a nivel mundial y proyección en la industria mexicana, México, D.F., 1975; Daniel Chudnovsky, Empresas multinacionales y ganancias monopólicas en una economía latinoamericana, Siglo XXI, Buenos Aires, 1974.

^{31/} Source: US Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1977, vol. 57, N° 8, page 32 and squ. US Direct Investment Abroad in 1975, Obie Wichard.

country or group of countries; (b) definitions of areas in which the action of foreign private investment is admitted, excluded or admitted under conditions; (c) negotiation and activities on a case by case basis with specific foreign enterprises and application of incentives to obtain from them modes of operation which are more in accordance with national development objectives. An exhaustive review of developments in these aspects in Latin America is beyond the possibilities of the present document; it comes up especially against an inadequacy of data which can only be obviated by basic research. But the elements available do make it possible here to carry out a first review from which some tentative conclusions of interest may be drawn. As will be appreciated, not only has the form in which all of these three elements (regulation, definition of sectors and case by case bargaining) been used varied from one country to another, but the relative weight given to each vis-à-vis the rest has also been different. In some countries or groups of countries the weight given by the government to legal rulings vis-à-vis case by case bargaining would seem to have been greater. In others this individual bargaining was apparently used to a larger extent than the rules. Naturally, in all the countries, or in the majority, the three types of instrument were used; they are indeed complementary and not mutually exclusive.

One of the main aims of these three complementary forms of channelling the activities of foreign investment in Latin America is to succeed in applying some of the new modes of co-operation between this investment and third countries which have been evolving in the world in recent years and which may respond better than the traditional methods to the region's requirements.

Here the Latin American countries have potential advantages supplied by some facts which will be highlighted in the course of this section: (i) the forms of operation of the transnational corporations are not static; on the contrary, they are evolving throughout the world, and there is a notable emergence of new modes and types of arrangement; (ii) the "newcomer" enterprises, which have been in a minority in a certain region of the world, tend to be more flexible and offer more favourable conditions for penetrating the oligopolistic markets; they usually carry along with them the already-established enterprises which must also make their activities more flexible in order to tackle competition with the new enterprises; (iii) a tendency to

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play a more active role through regulations, nationalizations and individual negotiations, vis-à-vis the transnational corporations may be observed in the Governments of many developing countries, so that the action of the former will be more favourable to them; (iv) co-operation among countries in some cases has stimulated their bargaining power and capacity to operate vis-à-vis the transnational corporations; (v) the inflationary recession in the developed countries and the uncertainty of the world economy influenced the policies of transnational corporations with regard to investment in developing countries; the energy crisis and the problems of the environment modified these policies and the sectoral pattern of investment; (vi) in some cases, the public enterprise, with its greater scope and economic and financial capacity, and with the support of the Governments, is in a better position than medium-sized or small private enterprises in Latin America to bargain with the transnational corporations on an equal footing; a deliberate and more energetic policy by the State to support Latin American private enterprise, and the setting-up of transnationals among several countries of the region, will no doubt cut down the drawbacks of local private enterprises. Naturally, the use made of these new trends depends on the resolution with which each government defines and applies clear policies in keeping with the new opportunities.

The remainder of this chapter will start by examining these new modes of co-operation; the forms of action which the Latin American countries are using to orientate the activities of foreign private investment will then be described.

1. Modes of co-operation and the experience of Latin America

In the world in general and in the developing countries in particular, especially in Latin America, there are different modes of co-operation with foreign private investment and the transnational corporations. Without attempting to cover all the types, the following are presented here:

(a) Co-production and specialization agreements between plants sited in developed countries and plants belonging to local enterprises in developing countries;

/(b) Sub-contracting;

- (b) Sub-contracting;
- (c) Co-operation arrangements limited to aspects of technology and marketing;
- (d) Joint ventures.
- (a) Co-production and specialization agreements

This is an important and frequently used mode of co-operation. An analysis shows its considerable potential interest for Latin American countries, both on account of the importance which it may attain and because its characteristics lend themselves to making arrangements in response to the requirements of Latin American countries. The method consists in a plant belonging to a foreign enterprise located abroad and a national or regional public or private enterprise or an affiliate of the same foreign enterprise located in a developing country dividing the components or the types and models of a specific good, and each one of them producing a part and marketing it. A basic feature of this mode of operation is that the developing country imports certain of the sector's goods which it does not produce, but also exports others in which it specializes with the co-operation of the transnational corporation which facilitates these exports. Where - and this is extremely common in Latin America with the import substitution process - the enterprise or affiliate in the developing country only produces for the domestic market, this cannot in fact be considered co-production since it does not permit exports.

The other case in which, by means of the arrangement made, the transnational corporation exports exclusively in the context of regional markets involved in integration processes, constitutes co-production, but a limited form; it does not allow the developing country to conquer the markets of developed countries.

Two cases may in turn be distinguished within this mode of co-operation: co-production and specialization. In the case of co-production, both parties produce and trade among themselves components which are incorporated into the final good assembled by one or both of them. The foreign enterprise supplies part of the production team, the licences and technical assistance. Once the plant located in the developing country is operating, the foreign enterprise
/supplies from

supplies from its own country or another developed country the parts of the good which have more advanced technological requirements. In turn, the plant in the developing country prepares components whose technology and production are within the scope of this country's level of development; in some cases of metal transforming industries (production of capital equipment, motor-vehicles, etc.) components with fairly demanding requirements are produced competitively in third world countries. The parts produced in developing countries will be those with the highest labour component and advantage is taken of the lower cost of the work in these countries compared with the developed countries. The assembly of the finished good is carried out in the developed or the developing country according to the technological requirements involved and the relative labour and capital content of the process.

In recent years, significant examples of this type of co-operation have begun to appear in Latin American countries. This is the case of Fiat and Volkswagen in Brazil and Nissan in Mexico; parts and components are produced in these countries and are exported outside the region for incorporation in the production of the home countries of these transnational corporations, or for distribution by their marketing network. In a way, this is an extension of the form in which the motor-vehicle industry is organized in each developed or developing country: a large number of plants produce parts and components at a very specialized level and they are then incorporated into the final good in the assembly plants or used as spares. A similar form of organization can be used in other metal transforming industries such as those producing capital goods. In Japan, extensive use has been made of this method, relating large enterprises with medium and small ones.

In the case of co-production, the foreign enterprise generally continues to contribute the new technological changes which take place in the production of the good, when the initial installation period is over.

In the case of specialization, instead of distributing the production of the components among the plants situated in both countries, it is the production of the types or models of the final good which is distributed. Like the above, case, the types or models involving stiffer technological requirements, or those which because of their higher quality and cost carry the weight of more expensive labour, are produced in the plant located in the developed country.

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In the plant in the developing country, however, which are models less new, production of which is in decline or has been discontinued in the developed countries are produced. This type of arrangement has been made recently in a few cases between Latin American countries and European transnational corporations in the motor-vehicle industry. Volkswagen in Brazil has produced a car model and Mexico a jeep for export outside the country and outside Latin America. In the case of Argentina, Peugeot continued to produce a car model for export outside the country and outside the region. In these cases too, the lower costs of labour in the developing country make it possible to continue for a time the production of models which might not otherwise be competitive in the international market.

Cases of co-production and specialization where a leading role has been played by transnational corporations, and production has been distributed among different developed countries have been frequent.

Plants installed in developing countries under these arrangements may remain in a situation of dependence vis-à-vis the foreign enterprise possessing the technology and the access to the external markets. However, these problems can be handled through negotiation, specially if the developing country has a large domestic market and productivity advantages, some degree of industrial development, cheaper labour than developed countries etc., all of which carry weight in the negotiations. Of all these factors, the most important in achieving greater bargaining power is the size of the market the country can offer to the foreign enterprise as well as the security it offers, in the form of some degree of protection vis-à-vis the exterior and, in the case of integration arrangements by tariff or non-tariff area preferences. Comparing these arrangements with those for sub-contracting dealt with below, it must be concluded that co-production and specialization are definitely better; the degree of dependence vis-à-vis the foreign enterprise is less and it is easier to avoid its consequences; the favourable effects of the plants on the rest of industry are greater (of dissemination of technology, creation of new activities, labour training, export of more value added in manufactures).

(b) Sub-contracting

A firm in a developing country carries out some stages of the production process of a good for another firm in a developed country, the good is transferred from the developed to the developing country at a certain point in production, the stage agreed upon is incorporated into it and it is re-exported for termination in the developed country. The stages carried out in the developing country are generally low-skilled labour-intensive. The technical specifications are set by the foreign enterprise, which also provides technical assistance and equipment.

This type of arrangement is also made in both developed and developing countries between large enterprises and medium and small ones.

In Latin America cases of sub-contracting have acquired importance in recent years, mainly in Mexico with the make-up industries which have resulted in the installation of plants, especially near the frontier with the United States, for clothing, electronics and other industries. In 1975, the value added by Mexican make-up industries amounted to 468 million dollars. The gross value of exports of these manufactures that year was 1,020.6 million dollars, or 26.3 per cent of the country's total exports and 46 per cent of total exports of manufactured products.^{32/} These operations have been facilitated by United States tariff items 806-30 and 807-00, which establish as a basis for the payment of the estimate value added abroad and not the total value of the import, in order to make possible the sub-contracting which the transfer abroad of a part of activities in some processes of production, in order to take advantage of cheap labour, allows.

The advantages of these arrangements for countries with surplus under- or unemployed manpower are clear in terms of providing employment and generating foreign exchange. From another point of view, the activities located in developing countries are in a very vulnerable position vis-à-vis the foreign enterprise which at any moment may decide to transfer the arrangements for the processes of production to another country. Investment in the developing countries is generally minimal. In a great majority of cases, only a low-skilled, low-wage labour is used. The effects of the dissemination

^{32/} Economic Commission for Latin America, "La exportación de manufacturas en México y la política de promoción", CEPAL/MEX/76/10, August 1976.

of technology and encouragement to set up other industries, i.e., external economies, are practically non-existent, since the semi-processed goods used are imported entirely from a developed country, with the sole aim of incorporating a labour-intensive process and re-exporting them. These limitations have meant that in the case of Mexico an endeavour is being made to induce these industries to acquire other inputs in the same country, and to locate them not only on the frontier but also in other regions of the country in order to facilitate their further integration with the rest of the manufacturing sector.

- (c) Co-operation arrangements limited to aspects of technology and marketing are also common.

They arise out of the tendency to break down the investment private package into its main components. It should be recalled that this investment mainly contributes technology, access to markets, organizational capacity and financing. Traditionally, up to nearly the end of the 1960s, investment contributed these elements in a single package - the foreign enterprise was the owner or had a majority share of the capital and the handling of the plants established in developing countries with its participation. The new trend subsequent to this date in the majority of the developing countries, but especially in those reaching a stage of semi-industrialization, consists in breaking down this package, and obtaining separately and independently the elements which each country requires. The ownership and management of the plants was thus no longer - exclusively or principally at least - in the hand of the foreign investor. On the contrary, means are being sought of obtaining specifically those elements which the developing country does not have. Even the technology is broken down into its different parts or components, in an attempt to find for each a source of supply which is cheaper and more suited to the conditions of the country in terms of making more use of domestic resources for production, increasing the effects of the creation of a national capacity which will help to close the technological gap and produce the good in question in such a way as best to prepare it for the specific use it will have in the market for which it is destined.

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This also contributes to avoiding or reducing some drawbacks which have been observed in exports made through intra-company transactions. As is well known, a large proportion of the exports made in the world by transnational corporations is composed of transactions between affiliates of the same enterprise or between these and the parent company. The fact that the same enterprise is both buyer and seller means that it is more difficult to check that the prices fixed really correspond to those of the competitive market for the goods, and that the developing country really obtains earnings corresponding to the value added by the activities of the enterprise in its territory and pays fair prices for the same goods imported by the enterprise itself; the examples which have been observed of setting lower or higher prices than normal for the goods exported or for the inputs and equipment imported, have made developing countries sensitive about checking that the earnings received as exporters and the prices they pay as importers are correct. Although difficulties in judging the quality of the information do not allow the data to be considered as more than indicators, the fact that intra-company transactions account for large proportions of exports of manufactures by transnational corporations, cannot but be significant; in the case of the United States, this proportion is nearly 50 per cent; in 1972, it was 73 per cent for Brazil and 82 per cent for Mexico.^{33/}

^{33/} On intra-company trade, see, United States Senate, Committee on Finance, Implications of multinational firms for world trade and investment and for US trade and labour, op. cit., p. 314 et seq. With regard to transfer prices (in particular possible undervaluations of imports and exports), see: United States Senate, Committee on Foreign Relations, Multinational corporations in Brazil and Mexico: structural sources of economic and non-economic power, op. cit., p. 19 et seq.; Constantine Vaitsos, Intra-country income distribution and transnational enterprises, Oxford University Press, 1974; Daniel Chudnovsky, Empresas multinacionales y ganancias monopólicas en una economía latinoamericana, Siglo XXI Editores, Buenos Aires, 1974; Ronald Muller and Richard Morgenstern, 'Multinational corporations and balance-of-payments impacts in less developed countries: an econometric analysis of export pricing behaviour', in Kyklos International Review for Social Sciences, Vol. XXVII, 1974 (reproduced in El Trimestre Económico, Mexico, July-September 1974, N° 163, pp. 665 et seq). In this last-mentioned article, an estimated undervaluation of some exports by transnational corporations in Argentina, Brazil, Mexico and Venezuela is given, ranging on average between 40 and 45 per cent of the prices paid in the open market.

In the light of what was said in the foregoing paragraphs, the countries of Latin America and other developing countries frequently tend towards specific co-operation arrangements in technology and marketing. This requires the developing country in question to have adequate knowledge of the alternative sources available in the world to obtain these elements, to have the capacity to analyse the different alternatives bearing in mind its specific needs, and then judge them from a technological and economic and financial, etc., standpoint.

Some of the methods attempt to obtain the transfer of technology to national enterprises, or to firms a majority share of whose capital or management is owned nationally, so as to combine this transfer with arrangements regarding technical assistance in the handling of plants and the training of personnel. In other cases, it is a matter of an arrangement for the transfer of technology without the provision of other services. These methods allow national enterprises access to forms of transfer of technology which were traditionally reserved by the transnational corporations for their own affiliates or for situations in which they held a dominant position. In this case, the national enterprise shares the production, export markets and the creation and adaptation of technology. In Brazil, some examples of new modes of transfer of technology involve petrochemicals, computers and aircraft construction. One case concern the design and manufacture of civilian aircraft; the foreign enterprise provides technical assistance for the production of parts, assembly, quality control, etc.; this enterprise has the right to export; the Brazilian State enterprise can in turn also export, probably using the distribution network of the foreign enterprise. Mexico, too, has achieved greater national technological capacity and a more selective and disaggregated incorporation of foreign technology. For example, in synthetic fibres, competition was encouraged between foreign enterprises of different origins, and in the selection both the obtaining of technical assistance at the start and in the future and the right to acquire separately the different technological components were taken into account. In these and other similar cases an endeavour is made to make the agreements for the transfer of technology more flexible for the developing country, reinforce its capacity for national generation in this field and improve its position for bargaining and selecting technologies.

/The methods

The methods of transfer of technology range from the most systematic and complete methods, for example, from the "product in hand",^{34/} to the more partial examples of sales of technical services or patents. We refer here, of course, to cases in which the national enterprise is free to export all or part of its production abroad. If it is production only for the domestic market of the developing country, this goes back to the traditional case of the sales of technology which did not allow exports; the analysis of such a case does not concern us here.

Cases of "products in hand" generally consist of the foreign enterprise selling the plant on a turn-key basis to the national enterprise - public or private - and initially training the technical staff and a certain proportion of the skilled labour, and later giving advisory services during the first years of operation of the plant, until it is in a position to be handled entirely by the developing country. This method may be of interest for relatively less developed countries when they tackle sectors where not only do they not have the necessary technological grounding, but neither do they have a certain degree of general industrial development which allows them to rely on the context and external economies to tackle these new productions by themselves. Naturally, this mode of operation will presumably prove more expensive for the country and for the national enterprise involved, with the result that they will not give it preference when they are in a position to avoid doing so. The consequences of this method have some important features in common with the case in which it is not a public or private national enterprise but an affiliate of the transnational corporation itself which is set up in the developing country, with a majority share of its capital and administration in foreign hands, to produce specific goods.

In the other case of the sale of specific technical services or patents, the enterprise which is mainly nationally owned acquires from foreign enterprises on a selective basis those aspects of technology which are not available in the country. This case is more interesting because it may prove cheaper and also opens up the possibility of selecting and combining technologies of different origins, in accordance with characteristics and conditions of the developing country and the sector in question.

^{34/} A.E. Calcagno, op. cit., p. 99.

In Latin America cases similar to these in some aspects have been common, but only for production for the domestic market. In the relations of transnational corporations with European centrally-planned economies, there have been some cases in recent years where the agreement to sell technology also includes arrangements regarding sales of a part of the production outside the market of the producer country.

For the countries of Latin America which are reaching a stage of semi-industrialization, the arrangements for the selective purchases of technology are also more advantageous from the point of view of allowing the development of a national capacity for design and engineering, essential for continued progress in the creation of competitive conditions for the exports of manufactures. It is relevant to refer to the case of Japan which by law forbids United States engineering firms to operate in its territory. However, co-operation between external and national engineering firms in developing countries makes it possible to train nationals of the country and develop its potential capacities.

The examples already given for Brazil and Mexico indicate the beginning of a new stage for Latin America.

Specific co-operation in marketing and distribution in external markets may form part of a wider arrangement which also includes co-operation in production, or alternatively, may take the form of an agreement which only concerns exports to international markets. For the machinery and chemical sectors where the developing countries also require to buy technology, there is generally combined co-operation in the production and marketing of certain parts and components produced by national enterprises or by affiliates in the developing country, which are distributed over the network of the foreign enterprise in external markets, or come to form part of finished goods in the developed country and are sold by it.

The second case, more restricted to marketing, may occur for more traditional sectors (food, clothing, etc.) where the developing country possesses no substantial technological drawback to production, but where some transnational corporation has trade marks, new forms of presentation, propaganda apparatus, or distribution networks which make it possible to penetrate the market of developed countries. For the developing country, an international distribution arrangement with the transnational corporation, or alternatively selling on its own account, which may require the setting-up of a special enterprise or distribution network in some markets of developed countries, constitute options which are frequently mutually exclusive, the choice of which depends on the developing country's capacity, the competitive or oligopolistic characteristics of the markets to be conquered, and the marketing margins of the goods in question.

In Latin America these modes of specific co-operation in marketing are fairly recent. The examples quoted above for Brazil and Mexico illustrate these trends.

(d) Agreements between two or more parties to carry out joint ventures

These usually include capital elements, technology and management capacity from one or more foreign enterprises and even from different developed countries, combined with national elements from the developing country. In some cases, none of the parties has a majority share in the capital or management. The foreign enterprises supply the more advanced technology and facilities for export. Financing may be obtained externally and internally by means of joint efforts. National participation, even in aspects of technology of certain importance, is increasing.

/Increasingly frequent

Increasingly frequent are agreements constituting mixed economy companies with shared ownership signed by Governments, etc. This is the case of the increasingly numerous agreements constituting mixed economy companies signed by Governments or public enterprises of Latin American countries with transnational corporations.^{35/}

^{35/} Among these mention may be made of the agreements made by the Government of Brazil: (a) in the metal-transporting sector, constituting Usiminas Mecânica, with Gutehoffnung (Germany) and Nippon Steel (Japan); (b) in the iron and steel industry, Industria Metal N.S. Aparecida, with Thomas First and John Brown (United Kingdom); Usiminas, with Nippon Steel; Forja Acesita, with Sumitomo (Japan); (c) in petroleum, Petrobrás; (d) in aluminium with ALCAN (Canada); (e) in chemicals, Ciquine do Nordeste, with Adela (Luxembourg) and Royal Dutch Shell (United Kingdom-Netherlands); Ultrafertil S.A. with International Finance Co., (United States) and private Brazilian groups; Cia., Brasileira de Estirenos, with Koppers (United States) and Huels (Federal Republic of Germany); Oxiteno S.A., with IFC (United States) and local groups; Cia., Química do Reconcavo, with Morton Norvich (United States); Nitriflex S.A., with Goodyear (United States); Isocianatos do Brasil, with E.I. du Pont (United States); Salgema Industria Química, with E.I. du Pont (United States) and a private Brazilian group; Ciquine, with Mitsubishi (Japan) and a local group; Politen S.A., with C. Itoh (Japan) and a private Brazilian group; (f) in mining, Termisa Terminais Salineros, with Morton Norvich (United States); and for bauxite, with ALCAN (Canada); (g) in telecommunications; Rio Grandense de Telecomunicações, Ericsson (Sweden) and the State Government of Rio Grande do Sul; (h) in automobiles: Fiat (Italy) and the state of Minas Gerais; (i) in electronics: the agreement with Ferranti (United Kingdom); (j) in atomic energy, with Urangesellschaft (Federal Republic of Germany). In other Latin American countries, cases include in Venezuela, the agreement of the Corporación Venezolana de Guyana, Reynolds International (United States), Mitsubishi and Sumitomo (Japan), on aluminium. In Ecuador, CEPE (State) and Texaco-Gulf (United States) for producing petroleum; and the Corporación Financiera - Comisión de Valores, a State company, and a Swiss group, for the watch industry. In Trinidad and Tobago, the Government, Kawasaki and Mitsui (Japan) and Este N.V. Hoesch Hoogorem (Netherlands), for the steel industry (A.E. Calcagno, "Informe sobre las inversiones directas extranjeras en América Latina", p. 98).

2. Instruments of orientation

Bearing in mind these modes of co-operation among developing countries and foreign enterprises in the world and in Latin America, the instruments and methods which the governments of countries in the region are using to achieve forms of activity more in accordance with the needs and policies of these countries should be looked at. They are of three kinds:

- (a) Regulations
- (b) Definition of areas
- (c) Negotiation on a case-by-case basis.

(a) Regulations

With regard to regulations governing foreign investment, apart from certain restrictions common to all transactions with the exterior, especially in connexion with the control of foreign exchange, up to the Second World War such investment was not, generally speaking, subject to any particular rules. It was at the beginning of the post-war period when specific legislation began to appear, including restrictions which ranged from the prohibition of investment in certain sectors of the economy (publishing, domestic transport, public services, etc.) to the prior authorization required to set up an enterprise (Chile, Mexico, Argentina). In the case of Mexico, the Government reserved the right to grant this authorization on condition, in certain cases, that at least 51 per cent of the shares were in the hands of nationals of the country.

A period of relative liberalism followed in the acceptance of foreign investment, during which the companies slowly adapted to the import substitution process set in motion in the majority of Latin American countries.

At the end of the 1960s, discussion was renewed on the need for regulations to govern foreign investment. From this discussion emerged various examples of legislation which will be commented on here briefly although not exhaustively.

Within the Cartagena Agreement a unified legislation was adopted in 1970 for member countries, contained in Decision 24 of the Agreement and modified by Decisions 37 and 37A of 1971 and 103 of 1976. The text defines

/the foreign

the foreign enterprise as that in which national investors possess less than 51 per cent of the shares, or where foreign investors, even when national investors possess 51 per cent or more, control the management of the enterprise, either technically, financially, administratively or commercially. It is established that an authorization is required for all new investment, re-investment, contracts for the transfer of technology, external credits, external payments for remittances of profits, royalties or the repatriation of capital. The authorization is granted insofar as the investment, which must be specified in detail, answers to certain conditions aimed at protecting national industry.

Other elements contained in the text provide for:

- a limit of 5 per cent (increased to 7 per cent in 1976) on reinvestment profits;
- a limit of 14 per cent (increased to 20 per cent in 1976) on capital investment for the remittance of profits in convertible currency in one year (this provision may be repealed by the governments of the member countries);
- access to domestic credit restricted to short-term credit only (in 1976 the maximum term was set at 3 years);
- the participation of foreign enterprises in the benefits of the tariff liberalization programme of the Cartagena Agreement made subject to their transformation into mixed enterprises (that is, an enterprise in which between 51 and 80 per cent of the capital belongs to national investors) within the limit of 15 years (20 for Bolivia and Ecuador) as from 1 January 1974.

It is interesting to note that the foreign enterprises which devote 80 per cent or more of their production to exports outside the Andean region were exempted from all the above restrictions. In 1976, this exemption was extended to the enterprises operating in the tourism sector.

The regulations of the Cartagena Agreement constitute one of the most complete sets of rules applied in Latin America and certainly that which has had most repercussion on public opinion.

The Mexican law on foreign investment of 1973, in view of the free exchange system existing in that country, does not place any restriction on the repatriation of capital or on remittances of profits.

/All foreign

All foreign investment which gives control of more than 25 per cent of the capital of an enterprise or 40 per cent of fixed assets, or which permits control of the actual management of an enterprise, requires prior authorization by the Comisión Nacional de Inversiones Extranjeras (set up by this same law). Except in specific cases authorized by this commission, foreign investment cannot exceed 49 per cent of a firm's registered capital, and participation in the administrative units cannot exceed the share of the capital.

All foreign investment must be registered in the Registro Nacional de Inversiones Extranjeras and the shares in foreign hands must be nominative.

Partial restrictions were laid down for investment in specific sectors (mining, secondary petrochemicals, and parts for motor-vehicles) and total restrictions for hydrocarbons, public services and basic petrochemicals.

Mention should also be made of Mexico's law on the transfer of technology of 1972, which established prior authorization and registration in a national register for the transfer of technology of all contracts for the purchase of foreign technology.

In Argentina a law governing the participation of foreign investment in the economy was in force between 1973 and 1976, and established:

- compulsory authorization and registration subject to certain conditions to safeguard national interests, including a prohibition on purchasing domestic enterprises and even shares belonging to national investors;
- a prohibition on any foreign investment in certain specific sectors and limited investment in others;
- the possibility that the government may require the transformation of foreign enterprises into mixed or national enterprises in a short-term of three years;
- fixed annual limits for the repatriation of capital and remittances of profits.

This law has been currently replaced by another with a much more liberal system for foreign investment. It classifies new foreign investment in three categories:

- (a) investment requiring prior approval by the government, although with no fixed term for granting it (article 4);
- (b) investment registered automatically (article 5);
- (c) other investment requiring for its application the prior authorization of the government which must be granted within a fixed period (article 6)...

With regard to the right to remit profits and distribute capital, three situations are distinguished:

- (a) periods of free exchange (international); when there are no restrictions on the purchase, sale or transfer of foreign currency, naturally both registered and non-registered investors have this right;
- (b) periods of exchange controls: only registered investors have the right;
- (c) periods of exchange controls and difficulties in external payments: the right of registered investors to remit profits and repatriate capital may be suspended. Only in the case of remittances of profits will the foreign investor be given bonds and debentures expressed in foreign currency (articles 11, 12 and 13). Thus the repatriation of capital may take place when there is no ostensible difficulty in the external payments.

A special tax applies to registered foreign investors in conjunction with:

- (a) payments of profits in excess of 12 per cent of the capital registered;
- (b) the surplus product of the investment realized, in excess of the capital which can be repatriated (article 15).

It governs the relations between the foreign controlling firm and its subsidiary in the country, and:

- (a) recognizes them as valid provided that they respect normal market prices and practices;
- (b) imposes restrictions on this principle in the case of loans and contracts coming under the law on the transfer of technology (article 20).^{36/}

^{36/} CEMLA, Boletín Mensual, Mexico, vol. XXIII, N° 2, March-April 1977, pp. 96-105.

In the case of Brazil, there are different legal provisions which define the treatment of foreign investment. They establish:

- total or partial prohibition on interference in certain specific sectors;

- obligation to use the register of the Central Bank through FIRCE (Fiscalización de Registros de Capitales Extranjeros), which issues a certificate of registration giving investment, reinvestment, changes in money values authorized by law, remittances of profits and other money movements;

- restriction of remittances of profits producing goods and services to an annual 8 per cent of the registered capital.

Also in the case of Brazil, compared with other Latin American countries, a relatively wider use has apparently been made of negotiation on a case-by-case basis, than of the regulations to obtain specific forms of activity from foreign investment and the transnational corporations, which are favourable to national development objectives. This will be referred to below. A possible interpretation of this fact is that it is desired to maintain greater flexibility in applying the policy.

In addition to the regulations mentioned, some countries (Brazil and Mexico) have modified their legislation on patents and trade marks, by reducing the period of protection on unused patents.

(b) Definition of areas

With regard to the areas in which the participation of foreign capital is admitted, excluded or admitted under certain conditions, the provisions contained in the laws of Mexico, Argentina and Brazil were already mentioned in the above example.

In addition to the regulations, nationalizations were the main instrument which caused the liberty existing before the Second World War to give way to the present situation in which this investment is restricted or prohibited for some sectors.

Two main periods of nationalizations may be distinguished - one in the immediate post-war (1945-1954) and the other at the end of the 1960s and the beginning of the 1970s (1968-1975).

/Up to

Up to the 1960s, foreign investment in Latin America was principally aimed at the public services and the mining industry. It was towards these activities that the nationalizations put into practice following the Second World War were directed.^{37/} Since in many cases there was a substantial quantity available of foreign currency accumulated during the war and favourable conjunctures in international trade, many countries (especially Argentina, but also Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela) nationalized the greater part of their public services owned by foreign companies during those years (railway, telephone and electricity companies).

In the same period a movement to control the primary industries (generally mining) developed in the region, and in a few cases took the form of nationalizations (this was the case of the tin mines in Bolivia in 1952 or the expropriation of the United Fruit Company begun in Guatemala in the same year).

In addition to the very special case of Cuba, the second wave of nationalizations in Latin America began around 1968 and were aimed almost exclusively at foreign investment in the mining sector. In Peru, mining enterprises almost entirely belonging to the United States, and including the International Petroleum Corporation, Gulf Oil, Cerro de Pasco and Marcona Mining, were nationalized. In Chile, in 1971, the copper mining industry, which accounted for around one-third of the United States' total mining investment other than in oil in the region, was nationalized. The main companies affected were Kennecott and Anaconda. In the same year the bauxite mining industry in Guyana was nationalized.

In the petroleum sector, Argentina nationalized the production and refining of petroleum in 1964, but three years later it returned part of the assets to the foreign enterprises and expanded their share in the sector. As from 1 January 1976, Venezuela nationalized all the assets of the petroleum enterprises. The governments of Trinidad and Tobago in 1974 and Ecuador in 1977 acquired the goods of the main petroleum companies in both countries.

^{37/} The expropriation of the Mexican oil companies in 1938, which preceded the process analysed here, should be mentioned.

As a result of the measures referred to, the share of the mining and petroleum sectors in the total sum of foreign investment in Latin America has diminished notably. In the case of the United States, this percentage, which was 49 per cent in 1960 had already dropped to 19 per cent in 1975, and very probably has decreased notably in the last two years as the result of the nationalization process in Venezuela.

This does not mean that direct foreign investment is going to disappear in the region's mining sector, since investment of some importance is being registered, such as Japanese investment in Brazil, or United States investment in Chilean copper.

These nationalizations in the public services and mining sector, were accompanied particularly in the last fifteen years by very large increases in investment in sectors of industry where, without exception, the countries of the region allowed the participation, regulated or otherwise, of foreign investment.

(c) Negotiation and incentives on a case-by-case basis

The negotiation and activities on a case-by-case basis implemented for each sector of production or each foreign investment, and the application of incentives, are important instruments, whose effectiveness is linked to, although not exclusively dependent on, the bargaining power of each country provided by the elements analysed in the last section of this chapter, in particular the size of the domestic market; from this point of view, in the case of Latin America the larger economic units such as Brazil, Mexico, the Andean Group and Argentina are in a better bargaining position than the other groups and individual countries; a co-operation policy covering all the region, and which by means of an area preference grants a certain significant degree of security of being able to depend on the market of all Latin America, would make this potential bargaining power still greater.

With regard to European private investment in particular, it may be recalled that: (i) in recent years private investment by European enterprises in the world, and apparently in Latin America too, has increased more rapidly than that of the United States, which appears to indicate that European enterprises have achieved a larger share of the external markets;

/(ii) since

(ii) since the beginning of the 1970s, the approach of wage levels in these countries to those of the United States, and the reduction of the value of the dollar in relation to some European currencies, tended to reduce the competitiveness of the exports of some of these European countries, and to increase their interest in setting up affiliates in developing countries; (iii) in Latin America, these European enterprises are still generally in a minority position compared with those of the United States, as was said in section A of this chapter. In view of the facts, it is not surprising to hear it said frequently that the attitudes of the transnational corporations and European private investment are generally more flexible, in that they accept more favourable conditions for the Latin American countries so as to gain entry to them or increase their share in their markets. The newcomers must offer more favourable conditions in order to penetrate into oligopolistic markets. Not all the European countries have the same attitude to the conquest of markets. Some, like Germany, are more active than others, like Great Britain. The fact is that the transnational corporations of the United States are no longer dominant in some sectors, especially in increasing foreign investment. In order to protect themselves from growing competition from the newcomers, the transnational corporations of the United States must also increase their flexibility and accept new conditions, which will be more favourable for Latin American countries. This, of course, varies from one sector to another. These new conditions include: exports of a part of production towards markets outside Latin America; association with Latin American capital; a better disposition towards accepting the breakdown of the private investment package into its components of technology (and this in turn into its different parts), marketing, management and financing; better conditions for the transfer of technology, etc.

The aims of these negotiations and incentives generally consist in procuring a better adaptation of the activities of private investment and the transnational corporations to the development strategies and policies of each country, and obtaining modes of operation more in accordance with each country's characteristics and needs.

/Incentives and

Incentives and other similar forms of activity have been applied to an increasing extent. In Brazil, in a case in the motor-vehicle industry, as part of the negotiations to allow the establishment of a plant in the country, the foreign enterprise undertook to make a specific sum of exports per year; another enterprise in this same sector located the production of a forerunner of the latest model in Brazil for export to the international market. Also in Brazil the amounts exported by each of the main foreign enterprises, compared with their import requirements, are published periodically; some enterprises can obtain special benefits in exchange for exporting each year an amount which offsets the outflow of foreign currency which the enterprise itself generates in imports, royalties and remittances of profits. In any case, the actual publication of these amounts constitutes a form of influencing the conduct of the enterprise through public opinion.

In Mexico too a foreign motor-vehicle company was induced through negotiation to export parts and components to the home country. Something similar took place in Argentina with another motor-vehicle company which set up in that country the production of a successful model which still had a market and had ceased to be produced in the home country.

The growing preference of Latin American countries for foreign capital to function in association with public or private national capital and not alone, also aims at achieving a greater degree of national control over important economic decisions and at increasing local participation which makes it possible to advance towards the achievement of a basic technological and industrial capacity in order to operate on a competitive basis. The form in which this association has been obtained has mainly been through negotiations made at the moment when the foreign investment enters the country or when a project is started, or by means of regulations as in the Andean Group. The examples of mixed enterprises quoted above for Brazil were obtained generally speaking through negotiations on a case-by-case basis.

These instances of negotiations on a case-by-case basis and of regulations are recent, although they are providing positive experience not only because they facilitate the development of national technological

/capacity but

capacity but also for their excellent impact on the balance of payments and the reinforcement of the country's decision-making capacity. The national enterprises are reinforced and modes of operation are achieved which are better adapted to the needs of these countries. A growing predisposition may be observed on the part of the transnational corporations to adopting a flexible attitude to these trends, by showing themselves disposed to accept changing conditions within certain limits, since the benefits they obtain are totally acceptable and the arrangements are much more stable, and this clearly reduces the economic and political risks these enterprises run in such investment.

3. The special case of minerals

Investment in mineral resources has features in common with the general case dealt with earlier, and also some features of its own.

Up to the Second World War, the main form of producing and processing minerals in Latin America was the long-term concession and package investment in which financing, technology, organization of production and marketing were all provided together; the mineral was frequently exported with a low grade of processing. Faced with the policies of Latin American countries aimed at nationalizing ownership of natural resources and increasing the degree of processing in their countries, external private investment showed itself disposed to seek in flexible form new modes of operation more in accordance with these new policies; the interest of Latin American countries in exporting minerals with a higher degree of processing, and in taking a greater part in their international transport and distribution, may be explained if it is considered that at present the Latin American exporter countries only obtain a fraction - sometimes rather small - of the final price which the consumer pays.

By separating out the investment package, the transnational corporations provide Latin American enterprises or governments with modern technology for mining or processing; they draw up risk contracts for surveying in such a way that the remuneration of the foreign enterprise is dependent on the discovery of resources; they take part in the international marketing of raw or processed mineral resources; they make long-term purchase contracts

/tied or

tied or otherwise to the provision of technology or to the association of foreign investment in the production or processing of the resources, and share in the transport with the utilization of specialized technology. The interest of the developed countries in ensuring their regular supply of some mineral resources encourages these new forms of co-operation, which in some cases take place with some direct or indirect participation by the governments of the developed countries.

The evolution of the conditions of co-operation does not only function at the moment when production begins, but also during its operation. Before the nationalization of the foreign oil enterprises, the Government of Venezuela and of other oil-exporting countries changed as time went on the share of the final price which should remain in the producer country. In some cases, this was done by applying taxes or other policy measures laid down by the government of the developing country, taking into consideration the specific characteristics which at any given moment influenced the specific possibilities of modifying these proportions.

Chapter IV

FINANCING

A. Changes in the external financing of Latin America ^{1/}

In the last few years some important changes have taken place in the financing of Latin America.

(a) The deficit in the current account balance of payments of non-oil-exporting countries in Latin America increased strongly, both in absolute terms and in comparison with exports. Although in 1977 that deficit dropped to 16.7 per cent of the exports, a ratio not very different from that corresponding to the 1966-1969 period, this drop was at the expense of important sacrifices in the rate of economic growth. The gross domestic product for the region increased by 4.4 per cent in 1977, compared to the 6 per cent annual average for the 1966-1969 period. The implications of this retarded growth rate have been pointed out elsewhere.

World recession has affected the rate of growth of Latin American exports. In order to deal with it, the countries had two alternatives: either to adjust the rate of growth of their economy, restricting it to such levels as their lower import capacity allowed, or to incur in debt. In practice, Latin American countries have opted for a combination of both modalities. Thus, the balance-of-payments deficit and the consequent foreign debt have been for Latin American countries the instruments that have prevented problems such as unemployment and critical poverty from becoming even more acute. At the same time, Latin American countries contributed to avoid a more serious drop in the growth rate of world trade and helped developed countries, from which they buy most of their imports, to tackle their balance-of-payments, employment and recession problems in a better way.

^{1/} This section summarizes some of the main conclusions appearing in recent studies undertaken by CEPAL. See "El desarrollo económico y social y las relaciones externas de América Latina", Document L.1024, "Dos Estudios sobre Endeudamiento Externo", Carlos Massad and R. Zahler, Cuaderno N° 19, CEPAL. This section takes into account what has taken place after these studies were prepared.

(b) Public sources have, to a considerable degree, lost their relative importance as providers of external funds for Latin America. The region has tended, save exceptional cases, to be excluded from concessional financing. Furthermore, its participation in non-concessional public sources has decreased considerably. Conversely, there has been a steady increase, both in absolute and relative terms, of funds from the private sector, particularly from banks.

(c) Conditions for external financing have deteriorated. Concessions and terms have, on the whole become more restrictive and rates of interest have risen. As regards Eurocurrency credits granted by banks (which constitute an important part of the funds required by non-oil-exporting Latin American countries) to all the developed countries, 48.5 per cent corresponded to credits the terms of which ranged beyond 7 years, whereas in 1976, they dropped to less than 5 per cent.

(d) The foreign debt of non-oil-exporting Latin American countries 2/ rose considerably from 37,000 million dollars in 1973 (150 per cent of goods and services exports) to 82,000 million in 1976 (220 per cent of goods and services exports).

(e) The growth of the debt and the deterioration of fund-raising conditions has increased the interest, due to the relation of services with regard to exports in many countries. Payment for such services has not, up to the present, represented a serious problem due to the still relatively active growth shown by exports. Should this increase in exports become weaker, payment of services would affect imports more seriously and foreign debt would become a more important problem for many of the Latin American countries.

(f) The fact that a considerable part of Latin American external financing should come from private sources makes many of the countries in the region very sensitive towards maintaining their credit worthiness.

2/ This refers to officially guaranteed debts and to an estimate of the long, medium and short term not officially guaranteed bank debt pending at the end of each year.

B. European financing 3/

Net flows from Europe to Latin America lost relative importance in the total external financing of the region despite increase in absolute terms. This high level of European flows, which between 1969 and 1973 remained relatively stationary ranging from 800 to 950 million dollars per year, increased by almost 70 per cent in 1974 and was over 1,820 million dollars in 1975.^{4/} European participation in total external financing dropped from about 32 per cent in 1970 to 16.2 per cent in 1972, rising to 25 per cent in 1974.

Of the total 8,000 million dollars representing the net European flows towards Latin America accrued between 1969 and 1975, most of it (92.5 per cent) comes from EEC member countries. Special mention, because of its importance and growth, should be made of the flow from France (a little over a quarter of the total),^{5/} West Germany (20.8 per cent), the United Kingdom (18.5 per cent), Italy (15.7 per cent) and the Netherlands (8 per cent).

Five groups of Latin American countries may be distinguished:

(i) Brazil and Argentina, for both of which European participation in external financing is important. In 1975 these countries absorbed 37.5 per cent and 15.5 per cent respectively of the net resources coming from Europe.

(ii) Countries in which the participation of European external financing is quite important, but somewhat irregular: Chile, Peru, Bolivia, Venezuela, Costa Rica, Haiti and Jamaica.

^{3/} The lack of information available has made it necessary to use various sources to prepare this section. In some cases they use definitions and criteria which do not coincide with one another, and it has been endeavoured here to bring these sources into line. The conclusions, should, however, be interpreted with some caution. European countries members of CMEA are not included.

^{4/} Data on European participation in capital flow received by Latin American countries were prepared on the basis of information supplied by OECD and on figures published by the IDB.

^{5/} Transfers from France to French overseas territories in Latin America have not been included.

(iii) Countries in which European participation is decreasing: Mexico (which however, in 1975 was still absorbing 6 per cent of the resources coming from Europe), Cuba, Ecuador, Guyana and, to a certain extent, Trinidad and Tobago. In the case of Uruguay in particular, European participation has not only been decreasing, but the total balance for the period between 1969 and 1974 has been favourable to Europe.

(iv) Countries in which European participation is of limited relative importance or of small magnitude: Colombia, Central American countries, Dominican Republic and Paraguay.

(v) The three off-shore financial centres of the region (Panama, the Bahamas and the Bermudas) jointly negotiated a high proportion of the resources received from Europe in 1975. This does not imply however that the final destination of this capital has always necessarily been Latin America.

The remaining part of this section will deal with some of the principal components of European financing for Latin America, medium- and long-term markets, banks, credit granted by suppliers and official flows.

1. Medium- and long-term private markets

The problem of access to European bond markets is highly interesting for Latin American countries. Throughout the nineteenth century and the beginning of the twentieth century, many Latin American countries resorted to British, French, and even Belgian and German capital markets by means of negotiating loans or issuing bonds to finance public works. The crisis of the thirties put an end to a long phase in the relations between Europe and Latin America in this sphere. During the next forty years there were no new issues of Latin American bonds in any European market. Although at the beginning of the sixties there are some cases of isolated operations, it is only with the entrance of the IDB to the Italian market in 1962 and two years later to the British and German markets that a new stage in the Latin American presence in European markets begins. As from 1966 this presence was expanded with the first investments in Mexican, Brazilian and Argentinian bonds by the Euromarket.

/Due to

Due to the characteristics typical to each of them, it might be advisable to examine briefly the differences existing between national European capital markets and the so-called Euromarket.

Any type of issue in most of the European markets is regulated by the legislation existing in the country where such issue is made, which, in addition to regulations aiming at protecting the national investor, also includes regulations giving priority to national bond issues, particularly to those made by governmental or State entities. To this effect, maximum amounts per issue are fixed and a system of previous authorizations and waiting lists, which do not always respect the order in which the applicants appear, is established. Several countries also possess regulations restricting the purchase of foreign bonds by institutional investors (insurance companies, social security, entities, etc.).

The afore-mentioned reasons, often combined with ignorance about the solvency and reliability of the country making the issue, and in some cases, with an ill-suited regulation of bonds issued by developed countries in the secondary market, have considerably restricted the possibilities for access to European capital markets of most of the developing countries. This accounts to the fact that, in the case of Latin America, only Mexico should have had regular access to some of those markets in the last decade. In later years Brazil, and even more recently Argentina, have been incorporated.

The distinctive characteristic of "international issues" or Eurobond issues (i.e., those made in the Euromarket, or "international market") is that they are made in more than one country, with a currency that is not the one used in the country where they are placed. Issue of Eurobonds is less regulated than issues in national markets.^{6/} The most important limitation lies in the fact that countries possessing a strong currency tend to discourage issues in their own currency. This affects in particular bond issues in Swiss francs and German marks. The latter are in fact treated like bond issues

^{6/} Particularly because they are not subject to maximum limits and because they do not have to fulfill all the numerous requirements that, in matters related to information on issue and issuing entity, are in force in some countries.

made in the German market. The above mentioned limitations explain why most of the Eurobond issues are made in dollars. Moreover, in the remaining European markets, international issues are ruled by the same system of waiting lists as issues in national currencies. Similarly, institutional investors are also subject to regulations in relation with the purchase of Eurobonds.

From the point of view of the present study, there is also another difference between these two periods of issues which must be analysed before considering the degree of European participation in the absorption of Latin American bonds.

As regards placements in the European market it may be assumed that the whole or most of the same are absorbed by the nationals of the country carrying out the issue or by foreigners owning the funds deposited in the country. However, given the peculiarities of the Euromarket it is impossible to determine the nationality of the ultimate possessors of the bonds issued. There is practically no systematic information on the destination of this type of issue. It is only assumed that a large part remains in the hands of the banks taking part in their placement and that, approximately half of all Eurobonds are finally placed in Switzerland.^{7/}

For these reasons, the only possible way of evaluating European participation in the placement of Latin American bonds is in terms of the market in which the issue was carried out, in the case of issues in national markets, and of the currency nominated in the case of international issues (Eurobonds).

An important aspect which is worth stressing is that the total of Latin American placements in European markets represents only a very small proportion of the total placements in these markets. This implies that on the one hand, Latin America has made very little use of these markets, partly because of problems of access to the same, and on the other, that the eventual access of medium-scale and small-scale countries of the region, which up to now have had little or no participation in this market, would not necessarily involve competition with issues by larger-scale countries in the region, which are, up to a certain extent, already incorporated.

^{7/} See Development Committee Secretariat. "Report on Regulations and Practices affecting capital market access" and OECD, "Financial Market Trends", June 1977.

(a) Issues in the national markets

Between the early sixties and mid-1977, Latin America had issued bonds in European markets amounting to 1,114.6 million dollars.^{8/} This figure equals 29 per cent of all the placements of the region for the same period. European participation in Latin American placements has been irregular and does not show any definite trends.

From this total amount, a little over three fourths (838.2 million dollars) were placed by the IDB and were assigned to finance Latin American development projects. Among Latin American countries, the following stand out: Mexico, Argentina, Peru, Jamaica, Trinidad and Tobago and Ecuador.

The European market, where most of the placements were made is Switzerland (491.3 million dollars or 44.1 per cent of the total), followed by West Germany (26.3 per cent of the total) and Italy (11 per cent of the total). Conversely, the limited amount of placements in France and the United Kingdom, is in open contrast with their importance as financial markets, with the intensity of their financial links with Latin America in the last century and with the present day importance of their trade relations with Latin America.

The main problems Latin American countries have to face in connexion with the national European markets include institutional aspects related to European markets and existing regulations of bond issues; lack of information on the part of European investors on the Latin American governments and institutions issuing bonds; collateral problems; lack of information on the part of Latin American countries (save the largest in size) about procedures and modus operandi of European markets.

(b) Bond issues in the international market

In the period comprised between 1966 and the first half of 1967, the Latin American countries placed a total of 938 million dollars in bonds in European currencies in the International European market. The great increase

^{8/} Table XVI in the Annex shows a list of the issues carried out annually by Latin American countries and the IDB in the national European markets. Table XVII of the same Annex includes the total amount of issues by Latin American and European countries in the same period. Furthermore, Table XVIII of the Annex includes the amounts of placements per year in European markets and in all the external markets.

that such placements had in 1976 and 1977 is evident: they reached 253.9 million dollars in 1976 and 304.1 million dollars in only the first half of 1977.

This shows that as from this period some Latin American countries have started once again to make substantial issues of bonds, a practice which had been almost negligible since before the Second World War.

In Latin American countries, as in the case of issues in European national markets, in 1976 and in the first half of 1977, Mexican bond issues were predominant (amounting to 535.6 million dollars in this period, and representing 57.1 per cent of the Latin American total), followed by Brazil with 35 per cent of the total over the same period.

The principal currency in which these issues have been made is the German mark (832.7 million dollars, representing 88.7 per cent of the total). Issues were also made in Dutch florins and in account units of the European Economic Community.

Banks

The following information refers to outlays by private banks in the case of officially-guaranteed loans exceeding twelve months. Consequently, substantial amounts of credit from private banks are not included.^{9/}

^{9/} The series used to determine European participation in the external financing of the region provided by banks are those published by the World Bank relating to private bank outlays, for loans exceeding twelve months, made to official organizations or those with official guarantee. Short-term loans have therefore been excluded, and only effective loans have been considered. For Chile and Mexico information is available only for the period 1971 to 1975. The data includes loans made by European banks, particularly where these are members of a consortium which makes loans to Latin American countries in the Euromarket, as well as direct loans from European banks and governments to public and private organizations in Latin America with official guarantee. It therefore also excludes operations carried out by the private sector without official guarantee, and which, in the case of Euromarket operations, accounts for a considerable percentage of the loans received by some Latin American countries.

European banks disbursed 6,128.6 million dollars on long-term loans to Latin America. The figure does not include loans received by Chile and those received by Mexico in 1976.^{10/} 90 per cent of these loans were absorbed by four countries: Brazil, Mexico, Argentina and Peru. Other Latin American countries which draw regularly upon European banking sources are Colombia, Guyana and Uruguay.

Finance provided by foreign private banks to Latin American countries has important economic and financial implications for these countries. On the one hand, these funds have in many cases been obtained more quickly and with fewer requirements than those obtainable from international finance institutions or from bonds; this may account for the intensive use that Latin American countries have made of this source. On the other hand, the future possible consequences for Latin American countries of having substantial debts with foreign transnational banks, are not always clear to see. These banks have in some cases consulted the IMF on the credit worthiness of the borrowing country when granting substantial loans or renegotiating a loan. However, there is no established set of rules in this matter, and private banks may decide to apply their own rules and conditions for granting or renegotiating loans.

In the period under consideration Brazil received 2,084 million dollars, which is 34 per cent of the total; European loans amounted to 28.6 per cent of the total of effective loans made by private banks to Brazil between 1969 and 1976.

Mexico received 2,074.7 million dollars up to 1975, which represents 33.8 per cent of the total; between 1971 and 1975 European loans accounted for 27.5 per cent of the bank loans made to Mexico.

Argentina received 957.6 million dollars, i.e., 15.6 per cent of the total. European loans represent an important but variable proportion of the total of loans received by Argentina.

Peru received 355.8 million dollars, 5.8 per cent of the total.^{11/}

^{10/} Although exact figures are not available, it is estimated that these may have been in the region of 1,000 million dollars.

^{11/} The figures for loans negotiated in the United Kingdom are not available. Because of the substantial amounts of loans taken by Peru in the Euromarket, the United Kingdom figure may have been important. For this reason Peru's proportion of the total loans made by European banks to Latin America may well be underestimated.

Among the lending countries under consideration here, the proportion of countries belonging to the Eurodollar market is notably high: the United Kingdom (3,302.5 million dollars, representing 53.8 per cent of the total); France (1,115.2 million dollars, 18.2 per cent of the total); Luxembourg (212.9 million dollars, with 3.5 per cent). The two other major sources of bank loans for Latin America have been the Federal Republic of Germany (600.3 million dollars, 10.7 per cent of the total) and Switzerland (272.4 million dollars, 4.4 per cent).

Official financial flows 12/

Official financial assistance for bilateral development between 1969 and 1975, in terms of a net flow from European countries members of DAC to Latin

12/ Under this heading "the official assistance for development" (OAD) and "other official lines of credit" are included. The OAD has been defined by the Development Assistance Committee (DAC) of the OECD as the total contributions provided for developing countries and for multilateral institutions by the official organizations of developed countries, including local offices and negotiating entities in each in turn and at every level of operation subject to the following criteria:

(a) They are made with the essential aim of favouring the economic development and the improvement of the standard of living of developing countries; and

(b) They have a favouring character and include an element of liberality of at least 25 per cent. This "element of liberality" has in turn been defined as "equal to the nominal value of the financial commitment taken from the actual amount of amortization and of the foreseen interests (on the basis of an actualization rate of 10 per cent)". On the basis of this definition, the countries members of DAC often label as OAD the donations of the public sector (in the form of technical assistance, foodstuffs and donations of technical equipment goods); the so-called "soft loans" including renegotiation of debts originated in loans of this kind; contributions made to multilateral entities either in the form of contribution to the United Nations or as capital subscription of development banks. Much has been said as to whether some of the financial flow included in this definition is actually "assistance for development" or not. In this report, considering that OECD information will be used, these financial channels will be considered as such, excepting those loans made by countries to their colonies or dependent territories in Latin America. Because the report published by OECD allows the separation of such lines of credit (very important in the case of France and less so in the case of the United Kingdom and the Netherlands), this analysis has concentrated on the bilateral flow between European countries and the independent countries in Latin America. "Miscellaneous financial flow", although it has never been so precisely defined as OAD, includes all the rest of the (Cont.)

/American countries

American countries amounted to 1,223.3 million dollars, representing 5.6 per cent of the total of the net OAD bilateral allocated by these countries to developing countries as a whole. This proportion did not increase in 1975. The low priority given by European countries to Latin America for development aid is therefore evident.

This low priority is practically confirmed in the case of all European countries (Finland, the Netherlands, the Federal Republic of Germany and Switzerland) the proportion assigned to Latin America dropped from 18.4 per cent to 10.3 per cent of the total between 1969-1975; in all other European countries the proportion was less than 10 per cent. Particularly worth mentioning are the cases of France and the United Kingdom, which assigned to Latin America a mere 0.9 per cent and 3.9 per cent respectively of their net OAD, which contrasts vividly with the interests these countries have in Latin America and with the proportion they represent in other types of financial flow.^{13/}

Eighty-five per cent of the net European transfers accumulated in these 7 years refers to 3 countries: the Federal Republic of Germany (54.7 per cent), the Netherlands (almost 20 per cent) and the United Kingdom (10.3 per cent).

Two facts are worth mentioning in connexion with Latin American countries. In the first place, the relatively low amounts from the European OAD received by countries which have greater need for concessional assistance (El Salvador, Honduras, Guyana, Haiti, Nicaragua, etc.). Secondly, there is a concentration of OAD on a limited number of Latin American countries (Brazil, Chile, Colombia, Peru). In the case of Cuba, in 1975 the main source of European OAD came from 3 Scandinavian countries: Sweden, Finland and Norway.

^{12/} (Cont.) bilateral financial transactions, among them, government to government loans, public credits to exporters, their refinancing, and those contributions made to multilateral organizations under conditions similar to those existing in the market. See OECD, "Geographical distribution of financial flows to developing countries", *op. cit.*

^{13/} It is probable that Latin America as a whole receives a higher proportion of less soft loans than donations. As the figures mentioned are for net flow (loans minus amortizations), the low priority given to Latin America is more clearly shown than if these were expressed in gross flow.

European aid to capital and to the fiduciary fund of the IDB is recent and important not only because of the amounts involved, but also because of the implications in the diversification of capital in the IDB. Other official financial flows between 1969 and 1975 were the bilateral loans for terms exceeding 12 months made by European countries to Latin America and which amounted to 907 million dollars.^{14/}

Although no systematic information has been compiled, the data available for certain countries and years indicate that European participation in the grand total received by Latin America from any source in the flows under consideration here, has been reduced, and only exceptionally exceeds 30 per cent.

The greater part of the loans to the region made by European countries came from the Federal Republic of Germany (54.5 per cent of the total), Italy (12.3 per cent of the total), Spain (10.6 per cent of the total); the rest in order of importance are the United Kingdom, France and the Netherlands.

A concentration of loans on a few countries is evident and with the exception of Argentina, the beneficiaries are the same as those beneficiaries of the OAD. In this period Brazil received 33.1 per cent of the total of official credits of European origin given to the region, Argentina 20 per cent and the rest, in order of importance, Chile, Colombia and Peru. These 5 countries absorbed 80 per cent of the total of official bilateral credits of European origin.

^{14/} It has only been possible to obtain information on official bilateral loans for terms longer than 12 months to Latin American countries, according to series published by the World Bank on disbursements between 1969 and 1975. These statistical series present some problems. In the first place, it has not been possible to obtain data on Mexico and Venezuela; secondly, the World Bank has not published any information on Cuba, which is possibly the country which has received more funds of this kind from European sources; neither does the World Bank publish any information on its Debt Reporting System on other Latin American and Caribbean countries such as the Bahamas, Barbados, Bermudas and Haiti nor on the Dominican Republic, Guyana and Paraguay; thirdly, the available information is probably incomplete and a certain number of operations may not be included; finally, it is quite possible that many of the operations appearing in these series are not actually "miscellaneous official financial flows" but OAD type operations which therefore have already been accounted for by the series in the OECD.

Credits provided by exporters 15/

Europe provides Latin America with a high proportion of goods which are susceptible to payment on a long-term basis: principally capital goods for different activities and transport equipment. It is therefore not surprising that credits granted by European exporters should represent an important part of the total credits of this type received by Latin American countries.

European exporters' credits received by Latin America in 1973 amounted to 65.2 per cent of the total exporters' credits received by Latin America; in 1976 the proportion was 49.6 per cent.

In 1976 the Latin American countries for which information is available received a total of 655.3 million dollars in exporters' credits, of which 352.2 million came from European exporters. In 1973 European credit sources accounted for 14 per cent of Latin American imports of machinery and transport equipment from Europe.

In the case of Argentina, European exporters' credits averaged 68.9 per cent of the total of exporters' credits received by this country between 1969 and 1976. In the case of Brazil, between 1969 and 1973 European exporters' credits amounted to 1,037 million dollars, representing 58 per cent of Brazil's total credits of this type. For Colombia, the European proportion of the total of these credits in the period 1969 to 1976 amounted to 76.9 per cent. In Venezuela (1969 to 1974) Europe accounted for 92.9 per cent. For Mexico, the figure was 40.1 per cent; Jamaica (90.7 per cent), Ecuador (80.4 per cent), Costa Rica (58.6 per cent), Bolivia (45.7 per cent) and Peru (41.8 per cent), are the remaining countries for which information is available on the proportion of European exporters in the total amount of exporters' credits received.

Among European countries, the major sources of exporters' credits are Italy and Germany, followed by France and the United Kingdom.

15/ The information available on exporters' credits is both scarce and fragmentary. For this reason, the relevant data should be considered with caution. Among other sources, information provided by the World Bank on effective credits for terms exceeding 12 months was consulted. Consequently, exporters' credits for periods of less than 12 months are excluded, and these may well represent a significant proportion of the total.

Chapter V

THE FUTURE OF THESE RELATIONS. NOTES FOR AN ANALYSIS

It would go far beyond the purpose of this study to carry out a complete and systematic analysis of the future relations of Latin America with Europe. The only aim here is to indicate, on the basis of the conclusions which emerge from previous chapters, a few lines of analysis for the study of some of the aspects which are considered particularly vital for the future of these relations. The following comments, therefore, should be taken as a starting point for the discussion and as a working hypothesis for future research.^{1/} Moreover, the only subject dealt with will be industry in relation to the international division of labour.

Mention will be made of aspects which relate to the division of labour between Europe and Latin America and which consequently affect the trade between them the evolution of the Latin American productive structure - especially in manufacturing - and direct European private investment in Latin America. The study will not deal with other subjects such as relations in respect of basic products, energy, finance, etc.

The following notes will refer in particular to relations with the more developed economies of Europe. The references to private investment apply mainly to the European countries with a market economy, although they may be extended, at least in some important aspects, to those with a centrally planned economy.

What is said here might also be applied, with due modifications, to Latin America's relations with other developed market-economy areas.

This forward look is taken on the basis of two time horizons:

(a) The long term; e.g., 10 to 20 years.

(b) The transnational period, that is, the short to medium term; e.g., 2 to 5 years.

^{1/} This chapter incorporates, with modifications, ideas presented in a paper prepared at the request of the secretariat by Ben Evers, Gerard de Groot, and Willy Wagenmans, "Perspectives on industrial adjustment: the EEC and the developing countries". However, the opinions expressed in the present study are not necessarily those of these authors.

A. International division of labour in the long term

Some points arise from previous chapters which should be highlighted in summary form as a basis for what follows.

(a) Latin America now has a very extensive domestic market for consumer durables and capital goods which are of great interest for Europe's exports and even more for the technology and private investment of that continent. This market, based mainly on the middle-income strata, will increase in relative importance as a result of the high growth rate of the Latin American population, the increase in these middle-income strata and the incorporation of sectors at present margined from the market.

(b) Latin America has a labour force with a relatively high and still rising general level of education. It has broad sectors with industrial qualifications and experience. A high and increasing proportion of this labour force is urban and must therefore be absorbed into the manufacturing industry and the productive services connected with it.

(c) The cost of labour in Latin America is still lower than in developed countries and, although the difference may be expected to decrease, it will continue for some time to be significant.

(d) The region possesses abundant and varied natural resources, including mining resources. The countries are very evidently interested in increasing the degree of processing in the export of these goods.

(e) If the aim is to prevent an intensification of the present serious problems of extreme poverty, marginality and unemployment in the labour force and, by contrast, to produce a trend, albeit slow, towards solving them in the long term, it is essential to achieve a high economic growth rate, no less than 8 per cent.

(f) This poses delicate problems of external bottle-necks which can only be tackled successfully if the exports of basic products maintain constant growth and stable prices, and above all if the exports of manufactures to developed countries develop at a high rate. The present asymmetry of Latin American external trade with exports of mainly primary goods and imports of manufactured goods is changing and must continue to evolve, through an increase in the content of manufactures among the exports and in the average level of their technology, as part of the process of change in Latin America's insertion into the international economy.

(g) Latin American

(g) Latin American industry has now reached an important level of competitive development in a variety of goods, including consumer durables and capital goods. The continuance of this development, essential to avoid a standstill in the living standards of the broad urban strata incorporated in the market, involves also an increasing proportion of mechanical, chemical and metallurgical goods among the exports, in addition to the more traditional manufactures.

(h) The region also possesses a technological capacity which is still insufficient and partial, though by no means insignificant. The strengthening of this capacity will be a very important policy objective in Latin America.

(i) The protection of industry will probably continue to be rationalized and reduced. However, in most of the countries of the region government policy will probably continue to sustain a level of protection and support for national industry adequate to fulfil their policies for developing new industries, above all those of basic capital and intermediate goods.

(j) Probably the countries of the region will continue to give high priority to the attainment of methods of operation of foreign private investment and of transnational corporations such as co-production, specialization and in a lesser degree subcontractation properly so-called; probably they will try to introduce these methods to a large extent in place of the traditional procedures whereby foreign enterprises produced exclusively for the domestic markets. They will favour whenever possible the breakdown of the private investment packet by means of a separate negotiation of its components (technology, management capacity, access to international markets and distribution networks); they will probably also prefer association arrangements with foreign enterprises with national capital public or private, as well as those which would enable them to strengthen the national technological capacity and the degree of self-determination of each country; it is possible that access to the internal national or regional markets for foreign enterprises will be made dependent on their exporting a part of their production, to the rest of the world and assigning to factories situated in these countries the production of parts and pieces of certain goods, and the production of some models of others.

/(k) The

(k) The supply of goods of high technology or "de punta" will continue to depend to a large degree on imports from developed countries; as the demand for these goods increases very rapidly, imports by Latin America from those countries, including the European countries, will be very dynamic.

(l) The relative availability of capital in Latin America will of course continue to be low in relation to labour and natural resources, in comparison with developed countries.

Four cases of specialization and co-operation

Bearing in mind the points summarized in the previous section, it is possible to identify in a very tentative and preliminary form four cases of manufacturing sectors. The possibilities of specialization in Latin American countries and of localizing in them the activities of these sectors, and the methods of co-operation with developed countries like those of Europe, are different in each of these cases.

The grouping of sectors made here and the characteristics assigned to each represent simplifications which only aim to point out some of the main factors involved and to indicate policies of Latin American countries and methods of co-operation which may exist in each case. At the same time the possibilities and problems differ from one Latin American country to another. A more specific analysis, case by case, will be required to reach conclusions permitting a decision on the courses of action to be followed in each situation.

Two of these groups - those treated in points (b) and (c) - relate to consumer goods, non-durable and durable respectively, although point (c) also includes capital goods which do not require a highly complex technology for their production. The first group (a) relates to intermediate products which serve as inputs for other manufacturing activities or for construction. Finally, group (d) relates to the production of highly technical capital goods.

(a) Industries for processing basic minerals and chemicals

The goods processed by these industries serve as inputs for other manufacturing industries or for construction. They include, for instance, the iron and steel industry, some which process non-ferrous metals, the petrochemical industry, the fertilizer industry, etc.

/Generally they

Generally they are industries with a high capital intensity, and often also with a high capital immobility and long lead-times for investment. Usually they have economies of scale and the minimum sizes of large plants. Technological renovation is important - through a change in processes, for example, in order to make mineral resources economically exploitable which were not so before. In some cases within the same industry there is a part which involves a rapid technological renovation and another where the technology changes less; for example, the petrochemical agreement of the Andean Group does not in general include products whose manufacture is subject to an excessive risk of obsolescence. The labour intensity in relation to capital and product in the actual production, that is to say in the plant, is low. These conditions give the industrialized countries advantages in respect of these sectors, through their resource endowment and technological capacity.

On the other hand, mention must be made of the following features which explain the growing proportion of these industries localized in Latin American countries.

(a) Some of these industries generate external economies in the form of forward or backward linkages. The production which they carry out stimulates the establishment of other industrial activities to provide them with inputs or capital goods, or to use the goods which they produce to process in their turn other goods; in this way they have positive effects on the industrial structure. The iron and steel industry, the processing of some non-ferrous metals and certain chemical industries lead to the creation of industries which use these goods as inputs.

In the preliminary study of the rayon industry in Argentina there is an analysis of two types of externality which were presumably generated: (a) the appearance of suppliers and manufacturers of spare parts and equipment; and (b) technical services for clients.^{2/}

The social benefit may be greater than the private and may help to explain the support that the governments usually give to these sectors.

^{2/} BID/CEPAL research programme on scientific and technological subjects. Working monograph N° 13: "Productivity, technology and local efforts in research and development", March 1978.

(b) The recovery by Latin American governments of sovereignty over some non-renewable resources and their policies to achieve more local processing of the goods exported aim to obtain a greater share for the country of the price paid by the final user abroad. The frequently oligopolistic character of the foreign markets of these goods and the intention to localize in the country some of the forward links of these (processing activities) explain these policies. The increased concern about the availability of some of these natural and non-renewable resources, which was expressed in the publication of the report of the Rome Club and which was intensified by the increase in oil prices, arouses in the industrialized countries a keen interest in ensuring a regular supply of these. This provides the developing producer countries with a greater bargaining power to attain their aims.

(c) The domestic market of some Latin American countries or the regional market is already an important part of the demand for its own production. In some cases such as steel, production has been traditionally below domestic demand. But even in other cases of industries originally set up for export, the national or regional market is undoubtedly acquiring a growing relative importance with the process of industrialization. This assured domestic market gives the Latin American countries an advantage and strengthens the trend towards setting up industries which also export.

(d) These industries often produce a high degree of pollution, which causes some developed countries to look with approving eyes on the displacement of the growth of these industries into developing countries.^{3/}

The balance between the two groups of factors mentioned will possibly lead to: the increasing localization in Latin America of mineral-processing industries destined to satisfy a greater proportion of the internal demand and to export with a greater manufacturing value added; the development of basic chemical industries with intra-sectoral specialization making the export of some goods compatible with the import of others; an increasing degree of participation of national public and private capital in the ownership of these industries; and methods of co-operation between Latin America and enterprises of developed countries like the European for the development of these industries, in some of the forms dealt with in chapter III, part C. It would

^{3/} This subject, like those of the size of the domestic market for consumer goods, cost of labour, etc., was dealt with in chapter III, part two.

seem that this prospect, elaborated mainly from the Latin American standpoint, might in its general features be acceptable to European developed countries. However, it may be that there is little hope that even in the long term these countries will allow the industries to be entirely transferred to developing countries.^{4/} For strategic, political and economic reasons, the developed countries will possibly also try to control a certain proportion of their demand, and a diversification of their sources of supply, in order to avoid being placed in a vulnerable position by a too heavy and unilateral dependence on certain suppliers. At the same time it must be hoped that there will be a continuance of the trend towards the development of technologies which save natural resources, especially minerals, by means of recycling, the substitution of industrial products, etc. Among the improved processes reference may be made to electro-chemistry, combustion technology, biotechnology, catalysis, etc. In other words, it is probable that the production of these goods will be shared between developing and developed countries, the latter co-operating with the former in their part of the production.

A very important example of this type of sector is the iron and steel industry.^{5/} Others would be the petrochemical and the non-ferrous metals industries. It should be noted that the iron and steel industry is mentioned only by way of example and not because it is more important than various other industries which would be equally suitable for the same expository treatment.

During the post-war period there was a very rapid expansion of the iron and steel sector in Europe, which in 1974 reached a level of steel production comparable with that of the United States and the Soviet Union. The technology underwent important changes and was widely diffused; production techniques and the structure of the sector tended to become more homogeneous in European countries. Productivity rose rapidly; the number of employed fell from 469,000 in 1963 to 426,000 in 1971, in spite of the rapid increase in production.

The sector is predominantly national in character in Europe. Internationalization is on the whole exceptional (e.g., the case of ESTEL between Holland and Federal Germany). The national markets are relatively

^{4/} Ben Evers, op. cit., pp. 28-30.

^{5/} Ben Evers, et al., op. cit., pp. 41 and 42.

closed and function as oligopolies; in Europe 12 companies are responsible for 75 per cent of the production; in Japan 6 companies cover 80 per cent of the production and in the United States 9 companies produce 71 per cent.

In Europe steel production is under the aegis of the European Coal and Steel Community which promotes and rationalizes the common iron and steel market and can sanction trust-formation practices and impose minimum prices, as it is doing now in consequence of the present recession.

Between 1953 and 1971 international trade in iron and steel grew more rapidly than production: the latter doubled while the former quadrupled; the proportion of international trade over production rose from 7.4 per cent to 13.7 per cent. Parallel to this there was a sharp change in the participation of individual countries in world trade between 1950 and 1971. During this period the proportion of traditional exporters (United States, Belgium, France, Italy, Great Britain and the Federal Republic of Germany) dropped from 85 per cent to 46 per cent. In contrast, there was an expansion of new exporters during the same period: Japan (from 3.4 per cent to 22.2 per cent), the Soviet Union (from 4.1 per cent to 7.9 per cent) and numerous developing countries. The developing countries have increased their presence mainly in recent years: between 1970 and 1974 their share in the total iron and steel imports of the OECD countries increased from 2.8 per cent to 4.1 per cent; between 1965 and 1971 the number of developing countries exporting these products rose from about 26 to 54. It must not be forgotten that the proportion of unprocessed iron is greater in the imports coming from the developing countries than in the total; even though this proportion has diminished, it represented in 1970 9.2 per cent of the total imports of the OECD countries and 58.0 per cent of their purchases from developing countries. In 1974 these percentages were 9.2 per cent and 45.5 per cent respectively.^{6/} The chief exporters of more highly processed products among developing countries are: Korea (55 per cent of imports from these countries), Argentina (7.5 per cent), Mexico (7.5 per cent), Taiwan (6.7 per cent) and Brazil (4.0 per cent).

^{6/} Source: OECD, "Trade by commodities imports", 1970 and 1974.

The growing importance of developing countries in the world iron and steel industry is boosted by the growing number of those which wish to export their raw materials in processed form, and by the increasing importance of their markets in this sector in consequence of their own development and industrialization. The international division of labour between developing and developed countries which is being introduced appears to assign to the former the initial, more standardized phases of the process; the developed countries, on their side, tend to specialize in the more advanced phases to which they assign strategic importance in addition to their greater technological requirements.

The exports of iron and steel from developing countries to markets of the European Economic Community encounter considerable obstacles of three types: tariff and non-tariff barriers, transport costs, and the oligopolist structure of these markets.

The tariffs of the EEC increase in proportion to the degree of processing: from zero for iron ore they rise to 6.6 per cent for the semi-processed product and to 8.7 per cent for the processed. The non-tariff barriers include import licenses, quotas, anti-dumping regulations, administrative obstacles and support to the domestic industry (direct payments, investment incentives and tax facilities). These non-tariff barriers are the result of internal pressures and often have an ad-hoc character.

Fluctuations in export prices, in so far as they depend on markets of developed countries, are also greater for the processed products than for the mineral, pellets and cast iron being usually subject to long-term contracts. Through the policies and measures actually applied it is clear that the European Economic Community considers this sector very important and is not prepared to sacrifice it despite the growing international competition. For this purpose a policy of restructuring is applied to the industry complemented by the commercial policy measures.

The serious internal difficulties of the EEC are manifested in an excess of structural capacity (only 65 per cent of the installed capacity is used), which is due to the great expansion carried out before the beginning of the recession, the unfavourable evolution of domestic consumption and the deterioration in the external position of the market (exports less than imports).

/The recession

The recession has resulted in the loss of many millions of man-hours of work through temporary suspension of workers and a reduction in the number of employees; the employment prospects for the future are not encouraging.

During 1976 the European Economic Community took measures for the temporary relief of the crisis, using the possibilities of the European Coal and Steel Community. The worsening of the situation led to the extension of these measures into a complete crisis programme with objectives up to 1985 and 1990. In the short and medium term its aims are as follows:

- (i) To improve the profitability of the industry without expanding the productive capacity; the EEC has suggested the application of price regulations for various iron and steel products, has increased the possibilities of financial support to stimulate readjustment towards a more modern and rational industry, and has proposed measures of support for research with a view to improving productivity;
- (ii) To control the market; to this effect the EEC has introduced an "early warning" system paying special attention to imports and a series of anti-dumping regulations for iron and steel products;
- (iii) To reduce the consequences for the workers of the re-adjustment process by means of a social and Regional Fund.

Although the EEC's programme for the iron and steel industry is the one with the greatest scope for manufactures, it contains important restrictions. The business enterprises and the governments have no formal obligation to follow its dictates, so that its success depends on their willingness to adopt it. Moreover, an additional expansion of demand is urgently required in order to avoid more serious problems for the industry. In these conditions the future of the sector is uncertain.

Under these circumstances the possibilities for developing countries to increase their participation in the Community's iron and steel market are limited, at least until the industry of the Community's own member-countries is in a better condition to compete.

(b) Light industries for the processing of final and semi-final non-durable consumer goods

The second group comprises light industries for the processing of agricultural and some chemical products and the production of final non-durable consumer goods based on the former. It includes food and drink industries, together with others which process agricultural raw materials (textiles and clothing, leather and its products including footwear, light chemicals such as paints, articles made of wood, etc.). It includes both the production of goods exported in final form, and others which are sold abroad as intermediates, with some degree of processing for use as inputs in other industrial processes.

With all due reservations in the case of a simplified generalization of this kind, certain features may be attributed to these industries which favour developing countries like the Latin American in establishing them:

(a) A broad and increasing domestic market; many of these goods are widely consumed by sectors with rather low incomes.

(b) A capital intensity generally not too high.

(c) A need for a medium or high proportion of labour which, in particular, need not be highly skilled. There are, however, important differences in this aspect as in the former, even among industries which form part of similar manufacturing groups. For example, the fibre and yarn industries are generally more capital-intensive and less labour-intensive than the clothing industry; the latter is generally well-known for the high content of low-skilled labour which it requires in its productive process.

(d) A technological renovation not very rapid.

Nevertheless, several developed countries, among them European, maintain a large share and an active interest in the development of these sectors of manufactures in the following ways:

(a) They have a high degree of control over the distribution and marketing of some of these goods, such as some food industries, dairy products, oils, etc. Publicity is an important aid to influencing public taste and thus to maintaining a degree of control over the distribution.

/(b) Even

(b) Even though technological change is not important, some developed countries do in fact exercise leadership and a degree of control over some of these activities, whether to have the advantage in design which is important for textiles or high-quality footwear, or because they introduce innovations in the presentation of the product or control patents, as in the case of food industries such as dairy products, chocolates, etc. The needs of urban life often reveal the advantages of new presentations of foodstuffs, such as packaging, etc.

In brief, the Latin American countries possess important advantages for the development of these sectors. It may be assumed that their participation will increase in the supply of the growing world demand, including that of developed countries. Of course one cannot expect a complete displacement of these industries from North to South nor a total loss of participation and interest in them on the part of the developed countries; these countries will possibly try to avoid an excessive dependence on other countries for the satisfaction of their own demand and will continue to exert influence through advantages of design, presentation, management of distribution procedures and influence of the public taste by means of publicity. The importance which these factors may have will also depend on the effort made by the developing countries to achieve a leading role. It must also be remembered that we are referring here to the long term; in the short and medium term the growing protectionist trends which will be dealt with in the following section will play an important part.

In other words, in the long term, within a production operation shared by developed and developing countries, the Latin American countries ought to increase their share of total production, collaborating in some cases with enterprises of the developed countries.

The prospect for the future may be projected against two time horizons:

- (a) the long term, during which the factors dealt with later will have an important though not absolute influence on the specialization and participation of Latin American countries in the development of each type of sector: and
- (b) the short or medium term, during which the rigidities caused by the already existing capacity and the present problems of unemployment, balance of payments, recession and inflation will play a major part and will limit

/or hamper

or hamper an advance towards the long-term goals. The present section of this chapter refers to the long-term view; the last section contains some commentaries relating to the short and medium term.

(c) Metal-working industries

The third case comprises metal-working industries producing durable consumer goods and capital goods which do not need technology "de punta" and which are often produced in series. An important part of these industries generally consists of the assembly of pieces produced in their turn by sub-sectors which differ considerably among themselves in respect of labour and capital intensity, technological requirements, etc. In the interests of simplicity two classes of sub-sectors or processes within each industry may be identified.

One group of sub-sectors or processes contains:

- (a) Medium or high capital intensity;
- (b) Relatively low labour intensity;
- (c) High technological requirements.

All these features often appear together, but even when this is not so, there are at least exacting technological requirements stemming from the fact that the industry as a whole involves a considerable degree of technological renovation and therefore its competitive development demands considerable resources devoted to research.

A second group of sub-sectors or processes, in contrast to the former, is relatively low in capital intensity, high in labour intensity and with a technology which, although it may be modern, is within the reach of developing countries.

A clear example of this type of industry is the motor-vehicle sector. The production of the sector is organized on the basis of assembly plants and a considerable number of factories producing individual parts and pieces.

The renewal of models, required by competition, and of pieces calls for a high degree of technological capacity; capital intensity is also high in some of the processes of spare-part production; in other words, there are within the industry sub-sectors or processes of the first type. On the other

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hand, other spare parts or processes belong to the second sub-group: their productive process demands little capital intensity, a lower capacity for technological innovation, and only medium or low skills in their labour force.^{7/}

The economies of scale are very different from one to another sub-sector: some can produce competitively with relatively small scales; others, in contrast, have strong economies of scale and therefore require plants of considerable size.

The transnational corporations are generally the owners of brands and patents and are able to carry out the necessary technological research. The sub-sectors and processes of the second type can be in separate plants which still belong to national companies of developing countries, associated or not with the transnational enterprises.

For these reasons, co-production and sub-contraction play a very important part in the organization of this sector in most countries of the world where it exists, including those of Latin America. This leads to an important international trade in the sector's products; parts and pieces are interchanged between plants in different countries. It also generates in each country a strong domestic trade in parts and pieces of considerable volume in relation to the production of the sector.

In addition to the motor-vehicle sector there are several others with similar characteristics, such as electronic industries, sectors producing consumer durables, industries of capital goods with a mass production (multiple-use machine tools, tractors, boilers, ship-building, etc.). There also occurs in these sectors a traditional organization of the industry on the basis of various plants specializing in the production of different parts and pieces, and plants for assembly; the tendency to subdivide the industry into separate plants varies from one country to another and it can be said that it has tended to increase in recent years. For example, Japan has made great use

^{7/} This semi-skilled or low-skilled labour force however, must usually have a general education above a certain level. For example, in an assembly line each worker must carry out simple but varied and numerous operations, so that his general education cannot be very low. The general training also is usually related to responsibility and work habits essential for the industry.

of the specialization of several plants within a single sector; this has led to a very close co-operation between large plants and firms and other medium-sized and small ones producing parts and pieces; the former generally handle the technological side and are responsible for components and processes with a high capital intensity and powerful economies of scale; the medium and small firms specialize in products which are more labour intensive and less capital-intensive and receive from the large firms the technical and financial assistance needed for them to produce components which fulfil the cost and quality requirements demanded by the competitiveness of the industry as a whole.

The transnational corporations which generally control the production and technology of each sector are beginning to seek to shift the more labour-intensive part into countries where labour costs are lower; this involves not only labour with low specific skills but also more highly trained manpower which even so is less expensive. An hour's work by a skilled labourer or engineer in a developing country like those of Latin America is cheaper than that of a worker or engineer with similar qualifications and experience in a developed country. This trend towards the displacement of sub-sectors into developing countries has been gaining in importance and will probably be intensified in the long term, particularly as a result of the growing competition of the Japanese and European firms with those of the United States, which dominated the markets and the sectors up to a few years ago. In the short and medium term the developed countries are able to put up resistance.

The example of the motor-vehicle industry presented in the study mentioned earlier,^{8/} illustrates this type of sector.

In four countries which form part of the European Economic Community (The Federal Republic of Germany, France, Great Britain and Italy) the motor-vehicle industry is very important. In 1973, in relation to the total production, it generated between 5.2 and 6.9 per cent of the value added and employed 5.5 per cent of the labour force. Its weight in the external trade of these countries was even greater, as it represented between 8 and 14 per cent of their total exports.

^{8/} Ben Evers, et al., op. cit., pp. 36-39.

This motor-vehicle sector has undergone a marked process of decentralization. Up to the 1950s inclusive the industry was concentrated in a few large centres, such as Dagenham, Paris-Billancourt, Wolfsburg, Torino, etc. During the 1960s there was an internal decentralization towards other regions within the same European countries, prompted on the one hand by increased labour conflicts and the rise in wages, and on the other by the policies of the governments of these countries which made decentralization attractive.

At present a process of international decentralization is taking place which has followed in some cases, and in others run parallel to that carried out within the same countries. This transnationalization is reflected in the rapid increase in the number of assembly lines. In 1974 there were 550 lines in 81 countries, of which 80 (15 per cent) had been established in the last two years. Of this total, 350 lines (60 per cent) were for European cars, 98 (18 per cent) for Japanese and 85 (15 per cent) for those of the United States.

There are two main factors behind this international decentralization. The first relates to labour. The motor-vehicle industry is relatively labour-intensive. The special skills required are low in important parts of the productive process, although an appropriate level of general education is required for the reasons given in footnote seven of this study. The conditions of work in various parts of the process are by no means attractive; because of standardization or automation. For these reasons, in the European countries named the industry attracted migrant workers coming from countries or regions with a lower income level, and labour conflicts continued to increase. This led to the beginning of a process of displacement of production into countries where labour was abundant and cheap.

The second reason relates to the market. In order to improve their access to the markets the firms have had to carry out a mutual interpenetration of the markets of industrialized countries (e.g., Volkswagen in the United States) and to establish assembly plants in developing countries, above all in those which were applying a high level of protection and going ahead with dynamic industrialization processes, as was the case with many Latin American countries. In the case of the developing countries, in addition to the former
/processes aiming

processes aiming to produce for each domestic or regional market, there is a perceptible trend towards displacing part of the productive processes into these countries with lower labour costs, with a view to producing for the international markets. This process is prompted by the increasing competition of Japan, in addition to the excess of installed capacity for production in the European industry and to the slow expansion of demand in these countries. The import restrictions which the European countries might apply would not be very effective in the medium or long term, since the Japanese firms could retaliate by establishing production lines inside the European Economic Community.

Some producers have now decided to displace labour-intensive parts of the productive processes into countries with cheaper labour, to then export to other markets. By way of illustration, the FIAT plants in Spain (SEAT) export to other developed countries; the Ford Fiesta model for the European Market is produced in Spain; the Volkswagen plants in Brazil and Mexico are also oriented towards export; the co-operation of firms with European countries which are members of CAME (FIAT in Poland and the Soviet Union, Renault in Rumania) stimulates the presence of the products of these countries, above all in the market of other European countries.

With regard to assembly plants, as already stated elsewhere, production might be expected to be increasingly displaced into developing countries with lower wages, while new models and the smaller production series of expensive models in some makes which have a lower price-elasticity of demand, continue to be produced in developed countries where wages are higher. In addition to the assignment of large proportions of the international market for certain models to developing countries, which was discussed in chapter III in the case of specialization, the production of parts and pieces is also being divided up. The original situation in which the production of components was carried out near to the assembly plants has gradually yielded to a policy of the transnational enterprises to try to multiply the sources of supply in order to avoid the risks of depending on a single source for the supply of vital parts, and in order to promote more competition among the suppliers.

/These trends

These trends towards decentralization have had political implications. The great importance of the motor-vehicle sector for manufacturing, for the structure of industry, and for the employment situation and international trade of the European countries, makes these implications inevitable. A reduction of 100,000 jobs in the European motor-vehicle industry is expected for the coming decade. International competition is intense. Prospects are uncertain, not to say unfavourable. The European Economic Community encourages co-operation between firms on the European level, which reduces the possibilities of the national governments to influence the development of their own industries; the individual influence of the national trade unions in each country may also be affected.

With regard to the Latin American attitude, in addition to what has been said in the third section of chapter III, reference should be made to the example of the motor-vehicle agreement recently approved by the Andean Group, in which it has been established that each country should produce a part of the components required for the vehicle in which it is going to specialize and may import the rest from abroad, always provided that this import is offset by an equivalent value of exports of the components it produces. This compensated interchange constitutes a duty imposed on the terminal plants which will undoubtedly be under the control of some of the great transnational motor-vehicle enterprises. Permission to import part of the vehicle makes it possible to avoid an increase in its cost or an excessive fall in its quality by compelling the enterprises to produce in the member countries components which these are not in a position to process competitively either now or within a reasonable time; to produce these components would force them to fix protection for the final article at a higher level than the maximum which the country or the sub-region is prepared to allow. The obligation to offset these imports with exports is a further example of terms imposed on transnational companies and enables the countries on the one hand to defend the balance of payments, and on the other to ensure the beginning of the regular export of parts and pieces of motors or vehicles. In Latin America it has generally been the case that, for an initial period, a condition of entry of a transnational company into the production market has been to include an increasing proportion of national (or regional or sub-regional) components

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in the production of the article in question. Only in a second stage (very recently introduced) have export obligations been introduced into the terms of entry or permanency in the national or sub-regional market. In the first stage there is a desire to prevent the industry from consisting of a mere assembly of parts manufactured abroad. The production of components provides a major part of the favourable technological impact that the motor-vehicle industry produces on the economy as a whole. Consequently it is made a condition of participation in the sub-regional market that the vehicles should contain increasing proportions of components produced by the Group.

An interesting case in which production is generally not carried on in series of great length, except for certain parts and pieces, is that of machine tools for a single speciality. These are tools which are adapted to the specific need of a particular industry or process, such as specialized or high-precision lathes or milling machines; they are quite different from those of more general application which are used for repairs or in industries and processes which do not require very specialized machinery. In this case, the machine cannot be produced in series. It has to be "made to measure" after a careful study of the process of industry in which it is to be employed. This requires highly qualified and technically specialized manpower, although not necessarily much infrastructure of basic and applied research. It might rather be said that it is a case of craftsmanship with a high technical content requiring the participation of specialized engineers. Some Latin American countries have now had considerable experience in producing this type of article, and they also have the advantage of the relatively lower cost of their trained manpower in comparison with developed countries. Examples similar to that of the specialized machine tool can also be found in other capital goods, particularly if one assumes a concentrated research effort which in scope and quality comes within the reach of Latin American countries.

In brief, most of the Latin American countries, with due regard for the differences between them, have the interest and facilities to play an active part in the development of these sectors. They already produce many of these goods to supply their own markets and in many cases have already begun to export significant amounts. They have relatively lower costs for unskilled and even skilled labour. They wish to diversify their exports by incorporating

/these goods

these goods which have a relatively high income-elasticity of demand and a dynamic international market in comparison with the basic products and also the non-durable consumer goods produced by traditional industries.

In addition to the advantage of available labour the Latin American countries have the important advantage of bargaining power provided by their own broad and increasing domestic market. In recent years several governments have established conditions for permitting the entry of transnationals to produce for their domestic market.

(d) Goods involving high technology

The fourth case consists of sectors producing specialized capital goods involving high technology. This group includes, among others, producers of equipment which determines the productive technology of other goods.

The research carried out by these sectors is the factor which enables innovations to be introduced, which in their turn make it possible to achieve greater cost and quality efficiency in the goods produced with these types of equipment. The research required is in turn complex and expensive and is generally beyond the reach of developing countries. The production of these goods does not necessarily imply a relatively high capital content, but it does demand very high levels of investment and costs for technology. The manpower required is to a large extent of a very high technological standard.

The industrialized countries will probably tend to shift resources into these industries so that they may exploit their advantage in the scientific and technical field, benefit from the high income-elasticity of demand for these goods, attain higher margins of profit in virtue of their technological superiority, and be able to pay their work force increasing wages in proportion to the higher qualifications required.

In the case of Latin American countries, for a certain number of years their technological inferiority will not allow them to undertake the competitive production of some of the more complex of these goods; they will need to import them in order to produce in their turn, with up-to-date technologies, the goods which are made with this equipment.

In qualification of the foregoing paragraph, and with reference to exceptions which may be important, it may be hoped that some Latin American countries, particularly the more advanced, will undertake some processes or

/parts of

parts of the production of these goods in order to concentrate in them an effort which may lead to possibilities of competitive production both for the national and regional market and for export. The operation of plants in Latin American countries over a long period of years is gradually generating a technical experience which facilitates a deeper knowledge of the processes, the introduction of minor innovations in the plants, and the provision of useful support in the installation of new ones. For example, in some cases where a furnace, a distillery or a petrochemical factory has to be installed, some Latin American countries have the capacity to build but not to design certain parts of the plant, and this has to be obtained from abroad. The engineering concern which provides the design needs to operate with a capacity for research and with an operational scope which in some cases is beyond the reach of these countries. It is possible to envisage a form of co-operation between Latin American countries and enterprises of developed countries in which the former contribute the construction and the latter the design and certain technologically complex parts.

B. Conflict between long- and short-term objectives?

The preceding section presented a long-term view of the type of specialization which Latin America might pursue, and the co-operation with European countries which might be sought in different sectors. This section will contain a brief analysis of some problems which arise in the short and medium term in the advance towards these objectives.

In the case of the developed countries there appears to be a measure of conflict between, on the one hand, what would be long-term objectives and the policies appropriate for pursuing them and, on the other, the short- and medium-term objectives and policies. First, a summary will be given of the policies for industrial reconstruction which are being followed by some of the principal European countries with market economies. Next, reference will be made to some of the major problems at present affecting the developed economies, with their restrictive effect on reconstruction, and to the protectionist policies of these developed countries. Finally, a proposal will be made for the reconciliation of long- and short-term objectives for the revival of the world economy.

/1. Reconstruction

1. Reconstruction policies of developed countries

Following the interpretation given in the study mentioned earlier ^{9/} concerning current policies for industrial reconstruction in the industrialized countries of Europe, it might be said that these policies are directed towards the long-term attainment of transformations in the manufacturing sector through three types of elements which are mutually complementary.

(a) First, there are the policies designed to place the existing industries in those countries in a competitive situation vis-à-vis similar ones in other developed and developing countries. These policies apply in particular to sectors such as textiles, footwear and other leather industries, paper, automobiles, ship-building, iron and steel. They are intended to modernize obsolete machinery, rationalize the productive processes, and in general bring these industries up to date. They cannot, of course, completely overcome the potential disadvantages of these countries in the industry of these sectors, disadvantages which stem from more permanent factors, such as the high cost of their labour, environmental problems, etc.

(b) Secondly, in so far as the aforesaid policies are unable to eliminate the competitive disadvantages of these countries in the sectors in question, through the existence of more permanent factors such as those mentioned above, which hamper or impede their economic viability, the developed countries of Europe can seek association with developing countries in order to share in the production of these industries in the latter countries. In this case, the European countries are in a position to contribute elements such as technology, access to the markets and capital. The developing countries can contribute labour, natural resources, an industrial environment and their own markets, in addition to the technical capacity which they already possess, as mentioned in chapter I. This production would be destined not only to cover the demand of the actual countries where it is carried out, but also to be in part exported to the rest of the world, including the developed European countries themselves.

^{9/} Ben Evers et al., op. cit., pp. 47 et seq. The authors of this study refer to the member countries of the European Economic Community; here their theory is extended to other developed European countries which are members of the OECD.

/(c) Thirdly,

(c) Thirdly, there is the development of industrial sectors with advanced technology, by giving them a greater priority than hitherto in the sectoral composition of the industrial structure and by assigning them productive resources. Among other examples of these sectors mention might be made of computing and data-processing equipment, aircraft construction, telecommunications, nuclear technology, etc. The development of these sectors generally requires government support and in some cases also co-operation between European countries, as has occurred in some sectors in recent years. Government support can be provided by means of measures to stimulate research and development, financial help and investment orientation, sales promotion, etc.

The transforming of the manufacturing structure by assigning for the future a less important role to the more labour-intensive industries with less intense technological change, and granting increased priority to industries with more rapid technological change, more capital content and a highly qualified work-force, is one process by means of which the developed countries can sustain their wage increases and the general development of their economies. This measure is encouraged by some transnational enterprises as a result of the growing competition among them and among developed countries for the conquest of markets, which induces them to shift parts of the industrial productive processes into countries which possess certain cheaper elements of production. In chapter III some facts were given on the different progress made by transnationals of Europe, the United States and Japan towards the conquest of markets for export and investment.

In general the industries which are the object of reconstruction cater for demands which have been declining in developed countries as the markets have gradually become saturated. In contrast, the demand for their products is still keen in Latin American countries, since the needs of the social strata already incorporated into the market have not yet been satisfied and there is a further great potential demand in the margined strata. The dynamism of these manufactures is gradually being displaced from North to South. If there were also a shift into developing countries of the productive activity of these sectors (producers of non-durable and durable goods, and some capital and intermediate goods), and a closer co-operation between these countries and the developed countries were achieved, the developed countries would still have

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a dynamic horizon, while the developing countries, on their side, by obtaining part of the market of the developed countries, would receive a great boost to their production and exports and would increase their imports, both in these sectors and in others with advanced technology, from the developed countries.

2. Short- and medium-term policies of the developed countries

In the short and medium term, the application of the aforesaid restructuring policies may produce maladjustments such as those which usually accompany transformations in the production structure. In this case in particular there are certain circumstances which must also be taken into account. In the first place, it is not a question of changes in isolated sectors with little influence on the great macroeconomic **variables**; in this case there are several very important sectors which may be affected, with a by no means negligible effect on the economy as a whole. In the second place, these changes are taking place at a time when there are also serious problems to be faced in the world economy.

It is common knowledge, of course, that in the developed economies two problems arise, or are latent, simultaneously: the problem of recession, with a fall in the economic growth rate and consequent unemployment, and the problem of inflation. The growth rates predicted for the medium term in the economies of the OECD are lower than those sustained over long periods in the past. Open unemployment has reached high proportions in many of these countries, and although it has been reduced it is still a major problem; in some cases a further rise in unemployment has been avoided by a reduction in the proportion of foreign labour employed. The solutions are all the more difficult in that the measures for combating the recession may stimulate inflation, and those intended to limit the rise in prices may have a negative effect on the growth rate and on the recovery of economic activity.

Although the present problem has an undoubted conjunctural component, it is not only a question of short-term phenomena. The present period is one of transition in the economy of the world, in developed and developing countries alike. Some of the factors which gave dynamism to these economies after the war are becoming exhausted. To obtain new dynamic factors transformations are required which involve time and important decisions. There is an

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overlapping of short- and long-term factors; the solutions also need to combine the two time horizons and cannot eliminate these problems in a short period.

The transformation which is taking place in the international monetary and financial system must be added to those which are occurring in the other fields mentioned above.

It must also be remembered that a change is taking place in the relative position of the developed countries among themselves. Not only is the bipolar world gradually giving place to a multipolar world, as seen in the increase in competition mentioned earlier, but there is also an intensification of the differences in dynamism among the various economies of the OECD, differences which help to explain those already existing among these countries in respect of the priority which they currently assign to long- and short-term considerations.

The measures adopted by developed countries, both European and others, for combating their inflation and defending their balance of payments, have a negative effect on their policies for industrial reconstruction and their imports from Latin America and other developing countries. In the initial stage following the increase in oil prices, the surplus of the OPEC countries had its counterpart in a balance-of-payments deficit both in the developed and the developing countries. Gradually, however, the former succeeded in levelling off their balance of payments and the deficit is now confined to the developing countries. It should be borne in mind that this surplus of some of the OPEC countries will be substantial and prolonged, a factor which must be added to the transformations already referred to in the world economy.

Hitherto, by means of their deficit, the developing countries have helped to activate the economies of the developed countries. For the future, the development rate of the former, the performance of their exports and consequently of their imports, the deficit in their balance of payments and their external debt, are not aspects which should be considered of interest only to the developing countries themselves; their problems are created by factors of the world economy as a whole; their solutions will also have important implications for the performance of this same world economy.

/For these

For these reasons it is a matter for concern that in the policies of developed countries short-term considerations may take precedence over long-term ones. An indication of this possibility is the substantial increase observable in the protection policies of these countries.

In effect, an important form of expression which concern over the problems just described has taken is the growing trade protectionism to which reference was made in the discussion of trade policy in chapter II. Certain details which are relevant to the conflict between short- and long-term goals might conveniently be added here.

As pointed out in a recent article in The Economist,^{10/} pressure groups in the industrial countries "are becoming increasingly preoccupied by the prospect of 'other Japans' flooding their markets and extinguishing whole industries (although) the threat is exaggerated (and) there are benefits to both rich and poor from increasing trade in manufactures". The article classifies eleven countries, including two Latin American (Brazil and Mexico) as "Nics" (newly industrializing countries) and describes growing protection in the industrialized world against them as follows: "the Nics, as well as Japan, are coming into the front line of protectionist fire in America and western Europe. The backlash in particularly 'sensitive' areas (e.g., textiles) is worrying enough - especially when the barriers thrown up are unpoliced (because 'voluntary') and impossible to hurdle (because quantitative). More ominous still are the hints that the rich might disallow the basic development strategy that has produced those troublesome exports, in part because of Japan's mercantilist behaviour in piling up a seemingly permanent trade surplus". The article goes on to say that the products in which the Nics have so far scored their biggest gains are precisely those which the older industrial economies ought gradually to be abandoning in favour of more sophisticated things needing the skill, research and development and capital that are scarce in industrializing developing countries.

Three main groups may be distinguished as those which have been influencing governments of industrialized countries to step up trade protectionism. They are (a) the industrialists who see a possible threat

^{10/} The Economist, June 10, 1978, pp. 84-85.

to their own firms, (b) the labour unions, which are concerned about the threat to employment, and (c) minority groups and regions whose interests may be at stake in the case of particular industries.

It has been observed that opposition from the European trade unions against the way in which the new international division of labour is taking shape is growing. The observation is based on certain ICFTU declarations, this organization being rather representative due to the dominance of European unions, (AFLO-CIO left the organization in 1969).^{11/}

Neo-protectionism is aimed particularly at the semi-industrialized countries, including several Latin American, and the industries most affected by this resurgence are precisely those that are of great importance to Latin America. Here there is a clear example, moreover, of attempts to solve short- and medium-term employment and balance-of-payments problems interfering with efforts to achieve longer-term objectives of economic restructuring.

3. Reconciliation of long- and short-term objectives

It seems therefore undeniable that some conflict exists between the long- and short-term aims of the developed countries. On the one hand, it is imperative to activate the transformation of their economies, by shifting their attention and economic resources from their traditional sectors into others more dynamic, in order to create the conditions for a new stage of dynamic development. On the other hand, these same transformations may aggravate the short-term problems of employment and the balance of payments. If these short-term considerations prevail, the advance towards the necessary transformation will be hampered and the period of uncertainty, difficulty and low growth rates will inevitably be prolonged.

In practice it can be assumed that the policy of the developed European countries will combine both elements in the next few years. This will probably mean that the rate of reconstruction will be slowed down and its form modified.

^{11/} Ben Evers, etc., op. cit., pp. 72-82.

In the study of the authors mentioned above ^{12/} a summarized account is given of the policies of industrial reconstruction of various developed European countries; the conclusion emerging from this account is that the policies applied by the various countries give a different priority to the long-term reconstruction considerations as against those of the short term. Moreover, just as the strength and characteristics of the economies of these countries differ, so there is a difference in the importance given by their governments to social and political considerations closely linked to the problems of the present situation.

How to combine both time horizons and achieve a gradual advance which would not create unmanageable disturbances in the short term, but which would at the same time ensure steady progress in the right direction, is a problem of economic policy which interests both groups of countries. For the developed countries the growth of the developing economies, especially those which have achieved semi-industrialization like many Latin American countries, promises to be the "engine of growth" which is so much needed. For the developing countries the subject is even more vital: on the achievement of adequate international co-operation to complement their domestic effort depends their possibility of tackling with some hope of success the grave problems of massive unemployment and poverty and their economic, social and political consequences.

Finally, from the Latin American standpoint, it is essential that the international co-operation policies in different fields (trade, private investment, finance and technology) should be viewed not only separately but as a whole. Partial considerations and separate negotiations in different specialized fields may be necessary from the operational point of view, but if the relation between these different fields is not at the same time taken into account, there can be no true interpretation of the nature of the problems nor an adequate approach to their solutions. Here are two examples.

In the first place, a greater access to the markets of developed countries for the manufactures of the region, and in consequence a more rapid growth rate for their total exports, relieves the need for external finance and reduces the effect of the servicing of the debt on the balance of payments and on the capacity to import.

^{12/} Ben Evers, etc., op. cit., pp. 72-82.

In the second place, in discussions on the restrictions which some developed European countries place on the import of Latin American goods, it is not sufficiently taken into account that Latin America constitutes at the present time, and will even more in the future, one of the most important areas for private European investment in the world. The possibility of investment in this region leads to the strengthening of the international corporations and their capacity to sustain on an adequate scale the heavy costs of research and development involved in achieving technological innovations, which in their turn generate the competitive capacity of the European countries throughout the world. Reference has already been made to the great bargaining power which Latin America possesses in virtue of its broad internal market. This bargaining power is important both in relation to private investment and aspects of commerce, finance and technology. To relate this interest in European investment in the Latin American market with the treatment of Latin American exports to the European markets, is a matter of great importance to Latin America.

/ANNEX

ANNEX

Table I
LATIN AMERICA: TERMS OF TRADE INDEX

Year	Oil-exporting countries a/	Non-oil-export- ing countries	Latin America b/
1950-1954	179.9	124.0	134.7
1955-1959	182.6	104.6	121.5
1960-1969	122.6	95.9	101.5
1970	100.0	100.0	100.0
1971	112.9	92.8	96.9
1972	111.5	97.5	100.3
1973	131.6	108.6	113.1
1974	273.0	100.2	127.8
1975	235.5	89.0	110.1
1976	225.2	94.6	113.3

Source: CEPAL, official data.

a/ Include Bolivia, Ecuador and Venezuela.

b/ Excludes Cuba, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

Table II
STRUCTURE OF WORLD TRADE^{a/}

	Constant values (billions of dollars at 1974 prices)						Current values						Percentage breakdown <u>b/</u>						Growth during each period 1950-1975	
																			Annual	
	1950	1960	1973	1974	1975	1950	1960	1973	1974	1975	1950	1960	1973	1974	1975	Number of times <u>b/</u>	rate (percentage) <u>b/</u>	Annual rate (percentage) <u>b/</u>		
Food and raw materials	55.0	82.2	158.4	154.0	155.3	25.7	38.8	123.2	154.0	151.0	46.4	34.8	23.8	20.1	19.1	5.9	7.3	4.2		
Fuels	27.2	50.2	160.9	160.0	140.8	5.5	11.0	59.4	160.0	147.0	9.9	9.9	11.5	20.9	18.6	26.7	14.0	6.8		
Manufacturers	8.0	118.0	401.6	442.0	421.1	24.2	61.7	329.4	442.0	447.0	43.7	55.3	63.5	57.8	60.4	19.7	12.7	8.3		
Total (including items not elsewhere classified)	140.2	252.4	723.1	764.4	737.0	55.4	113.1	518.5	764.4	790.0	100.0	100.0	100.0	100.0	100.0	14.3	11.2	6.9		

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Source: United Nations, Yearbook of International Trade Statistics, 1959, 1967 and 1974, vol. I; United Nations, Monthly Bulletin of Statistics, June 1976.

a/ Excluding trade of countries with centrally planned economies.

b/ In terms of current values.

c/ In terms of constant values.

Table III

LATIN AMERICA: TRADE BALANCE WITH SOME AREAS

(Millions of dollars)

	Agricultural commodities		Mining products		Fuels		Manufacturers		Total a/	
	1955	1975	1955	1975	1955	1975	1955	1975	1955	1975
<u>Developed countries</u>										
Exports	4 470	11 638	976	3 215	1 530	13 073	211	3 675	9 400	31 817
Imports	580	4 293	139	821	220	711	4 880	30 783	8 710	37 544
Balance	+3 890	+7 345	+837	+2 394	+1 310	+12 362	-4 669	-27 108	+690	-5 727
<u>European countries with centrally planned economies</u>										
Exports	164	3 432	4	231	0	8	6	158	175	3 852
Imports	15	463	0	32	23	548	90	1 288	140	2 540
Balance	+149	+2 969	+4	+199	-23	-540	-84	-1 130	+35	+1 312
<u>Other developing countries</u>										
Exports	80	1 265	2	33	90	885	0	252	180	2 449
Imports	145	145	9	129	50	6 350	80	388	290	7 027
Balance	-65	+1 120	-7	-96	+40	-5 465	-80	-136	-110	-4 578

Sources: UNCTAD, Yearbook of International Trade and Development Statistics, 1976; United Nations, Monthly Bulletin of Statistics, May 1977.

a/ Excluding SITC section 9.

Table IV
SHARE OF VARIOUS SUPPLIER COUNTRIES IN IMPORTS BY EUROPEAN COUNTRIES

Year	Imports from other member countries of the same economic group				Extra-area imports				Total imports from countries outside the various economic groups			
	Millions of dollars		Per cent. age		From other developed market-economy countries		From developing countries		From other sources a/		Millions of dollars	
	Per-	Per-	cent-	age	Millions of dollars	Per-	cent-	age	Millions of dollars	Per-	cent-	age
Whole of Europe												
1955	13.5	33.2	33.2	62.2	20.5	62.2	30.2	10.0	2.5	7.6	33.0	100.0
1965	39.1	44.4	44.4	66.7	43.1	66.7	26.1	16.9	4.5	7.2	64.5	100.0
1970	73.7	49.9	49.9	67.4	66.6	67.4	24.8	24.5	7.6	7.8	98.7	100.0
1975	200.2	43.7	43.7	54.2	139.7	54.2	32.5	83.8	34.0	13.2	257.5	100.0
EEC												
1955b/	6.2	32.3	32.3	56.3	7.4	56.3	39.8	5.2	0.4	3.9	13.0	100.0
1965b/	20.8	44.6	44.6	59.2	15.3	59.2	34.4	8.9	4.7	6.4	28.9	100.0
1970b/	43.3	50.8	50.8	59.5	25.0	59.5	33.2	14.0	3.0	7.3	42.0	100.0
1973b/	84.1	52.6	52.6	56.9	43.2	56.9	34.7	26.3	6.3	8.4	75.8	100.0
1973c/	110.6	54.0	54.0	54.5	51.4	54.5	36.7	34.6	8.2	8.7	94.2	100.0
1975c/	145.9	51.1	51.1	47.7	66.7	47.7	44.3	61.9	11.2	8.0	139.8	100.0
EFTA												
1955d/	2.6	15.9	15.9	66.3	9.0	66.3	28.7	3.9	0.7	5.0	13.6	100.0
1965d/	5.8	19.7	19.7	72.5	17.1	72.5	21.5	5.1	1.3	6.0	23.5	100.0
1970d/	12.0	25.3	25.3	73.7	26.1	73.7	19.2	6.8	2.5	7.1	35.4	100.0
1973d/	22.2	25.9	25.9	75.2	47.9	75.2	17.9	11.4	4.3	6.9	63.6	100.0
1973e/	6.9	16.1	16.1	84.8	30.7	84.8	7.9	2.9	2.6	7.3	36.2	100.0
1975e/	9.9	16.4	16.4	79.5	39.9	79.5	11.1	5.5	4.8	9.4	50.2	100.0
European countries with centrally planned economies												
1955	4.8	64.9	64.9	46.3	1.2	46.3	16.1	0.4	1.0	37.6	2.6	100.0
1965	12.5	65.5	65.5	62.1	4.1	62.1	28.6	1.9	0.6	9.3	6.6	100.0
1970	18.4	64.4	64.4	68.2	6.9	68.2	26.8	2.7	0.6	5.0	10.2	100.0
1975	44.4	53.8	53.8	73.2	27.9	73.2	23.6	9.0	1.2	3.2	38.1	100.0

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1976, United Nations, Monthly Bulletin of Statistics, May 1977.

a/ Difference between total extra-area imports and those from developed market-economy and developing countries, i.e., imports from countries with centrally planned economies. b/ Including EEC (6). c/ Including EEC (9). d/ Original EFTA. e/ EFTA, excluding the United Kingdom and Denmark.

Table V
EUROPE'S EXTRA-AREA IMPORTS (EXCLUDING PETROLEUM) FROM DEVELOPING COUNTRIES^{a/}

(Millions of dollars and percentage)

	Latin America		Africa		South and south-east Asia		Middle East		Total imports from developing countries	
	Value	Per-cent age	Value	Per-cent age	Value	Per-cent age	Value	Per-cent age	Value	Per-cent age
Europe										
1955	2 511	31.5	3 198	40.1	1 972	24.7	317	3.9	7 978	100.0
1965	4 300	36.0	4 322	36.2	2 740	23.0	570	4.8	11 937	100.0
1970	5 960	36.5	5 829	35.7	3 462	21.2	797	4.9	16 335	100.0
1975	13 275	38.5	8 835	25.6	9 329	27.1	1 765	5.1	34 456	100.0
EEC										
1955 ^{b/}	1 240	29.9	1 894	45.6	847	20.4	180	4.3	4 150	100.0
1965 ^{b/}	2 245	38.1	2 440	41.4	1 005	17.0	220	3.7	5 900	100.0
1970 ^{b/}	3 250	38.5	3 300	39.1	1 383	16.4	390	4.6	8 440	100.0
1973 ^{b/}	4 955	34.4	4 880	33.9	3 390	23.5	790	5.5	14 400	100.0
1973 ^{c/}	6 290	33.4	5 829	31.0	5 263	28.0	1 128	6.0	18 808	100.0
1975 ^{c/}	6 990	31.7	6 613	30.0	6 926	31.4	1 054	4.8	22 070	100.0
EFTA										
1955 ^{d/}	915	28.9	1 119	35.3	1 033	32.6	100	3.2	3 180	100.0
1965 ^{d/}	1 020	29.6	1 225	35.5	1 025	29.7	180	5.2	3 450	100.0
1970 ^{d/}	1 310	31.3	1 460	34.8	1 164	27.8	190	4.5	4 190	100.0
1973 ^{d/}	2 120	32.7	1 610	24.8	2 335	36.0	420	6.5	6 420	100.0
1973 ^{e/}	813	41.2	515	26.0	450	22.8	195	9.9	1 974	100.0
1975 ^{e/}	1 086	42.6	495	19.4	752	29.5	196	7.7	2 552	100.0
European countries with centrally planned economies										
1955	175	42.4	115	27.8	92	22.3	27	6.5	413	100.0
1965	730	38.9	452	24.1	570	30.4	120	6.4	1 877	100.0
1970	990	36.8	739	27.4	744	27.7	217	8.1	2 690	100.0
1975	3 844	52.7	1 727	23.7	1 275	17.5	452	6.2	7 299	100.0

Source: UNCTAD, Yearbook of International Trade and Development Statistics, 1976;
United Nations, Monthly Bulletin of Statistics, May 1977.

^{a/} Developing market-economy countries.

^{b/} EEC (6).

^{c/} EEC (9).

^{d/} EFTA, including the United Kingdom and Denmark.

^{e/} EFTA, excluding the United Kingdom and Denmark.

Table VI

SHARE OF SOME EUROPEAN COUNTRIES IN EXPORTS FROM LATIN AMERICA (23 COUNTRIES) a/

(Percentage)

	1955	1975	Annual growth rates
France	1.7	1.7	7.8
Italy	2.4	3.2	9.4
Federal Republic of Germany	5.1	5.3	8.2
Rest of ECC (6)	5.4	5.7	7.8
United Kingdom	9.1	4.3	4.0
Rest of EFTA	3.6	2.6	6.4
Rest of Western Europe	3.5	7.5	12.1

Source: CEPAL, official data.

a/ Excluding Cuba.

Table VII
SHARE OF VARIOUS COUNTRIES OF DESTINATION FOR EXPORTS FROM EUROPEAN COUNTRIES

	Extra-area exports												
	Exports to other member countries of the same economic group a/		To other developed market-economy countries b/		To developing countries		Other developing countries		To other countries		Total		
					Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage			
<u>Whole of Europe</u>	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	Billions of dollars	Per-centage	
	1955	13.5	31.3	17.6	59.3	2.6	8.8	6.9	23.2	2.6	8.7	29.7	100.0
	1965	39.1	39.6	39.7	66.6	4.1	6.9	11.2	18.8	4.6	7.7	59.7	100.0
	1970	73.7	43.8	62.8	66.5	6.4	6.8	16.4	17.4	8.8	9.3	94.4	100.0
	1973	144.9	46.8	108.1	65.6	10.8	6.0	30.0	18.2	16.7	10.1	164.7	100.0
1975	200.2	55.2	135.6	56.6	16.6	6.9	58.7	24.4	29.1	12.1	240.0	100.0	
<u>EEC</u>	1955c/	6.2	32.8	7.0	55.3	1.4	10.9	3.7	28.8	0.6	5.0	12.7	100.0
	1965c/	20.8	43.5	17.7	65.2	2.0	7.4	5.4	20.1	2.0	7.3	27.1	100.0
	1970c/	43.3	48.9	29.9	66.0	3.3	7.3	8.2	18.2	3.8	8.5	45.2	100.0
	1973c/	84.1	49.0	58.2	66.3	5.4	6.2	15.6	17.8	8.4	9.7	87.6	100.0
	1973d/	110.6	52.6	61.6	61.7	6.8	6.8	20.5	20.6	11.1	10.9	99.7	100.0
1975d/	145.9	49.3	76.1	50.8	11.2	7.5	43.7	29.2	18.8	12.5	149.8	100.0	
<u>EFTA</u>	1955e/	2.6	18.3	7.3	64.0	1.0	8.4	2.8	24.1	0.4	3.5	11.5	100.0
	1965e/	5.8	22.1	14.2	69.9	1.3	6.4	3.7	18.2	1.1	5.5	20.3	100.0
	1970e/	12.0	27.7	21.6	69.2	1.8	5.9	4.7	14.9	3.1	10.0	31.2	100.0
	1973e/	22.2	30.1	36.4	70.5	2.7	5.1	7.8	15.1	4.8	9.3	51.7	100.0
	1973f/	9.4	18.4	24.0	78.2	1.3	4.2	2.9	9.5	2.4	8.1	30.6	100.0
1975f/	9.9	18.7	30.9	71.9	2.0	4.7	4.9	11.3	5.3	12.1	43.1	100.0	
<u>European countries with centrally planned economies</u>	1955	4.8	60.0	1.5	47.5	0.1	4.4	0.3	10.8	1.2	37.3	3.2	100.0
	1965	12.5	63.2	4.1	56.7	0.6	8.3	1.8	24.1	0.8	10.9	7.3	100.0
	1970	18.4	60.3	7.0	58.0	0.9	7.7	3.1	25.6	1.1	8.7	12.1	100.0
	1973	29.9	57.3	13.4	60.0	1.3	5.9	5.5	24.7	2.0	9.3	22.3	100.0
	1975	44.4	57.4	20.2	61.2	2.5	7.7	7.7	23.3	2.6	7.8	33.0	100.0

Sources: UNCTAD, Handbook of International Trade and Development Statistics, 1976; United Nations, Monthly Bulletin of Statistics, May 1977.

a/ Including reciprocal trade among the member countries of EEC, EFTA and the European countries with centrally planned economies.

b/ Including exports to other developed market-economy countries.

c/ Including EEC (6).

d/ Including EEC (9).

e/ EFTA, including the United Kingdom and Denmark.

f/ EFTA, excluding the United Kingdom and Denmark.

Table VIII
IMPORTANCE OF SOME LATIN AMERICAN COUNTRIES AS MARKETS FOR EUROPEAN EXPORTS ^{a/}
SHARE OF EACH COUNTRY OR GROUP OF COUNTRIES IN TOTAL SALES TO LATIN AMERICA
(Percentage)

	Argentina	Brazil	Mexico	Andean Group	CACM	Caribbean	Rest of Latin America	Total Latin America ^{a/}
CEE (6)								
1955	21.6	21.8	6.0	32.0	4.7	1.8	12.1	100.0
1975	11.6	36.5	11.0	28.2	4.4	2.0	6.3	100.0
EFTA ^{b/}								
1955	16.0	18.9	5.5	29.4	2.6	16.8	10.7	100.0
1975	9.3	33.8	11.3	20.9	4.6	12.9	7.2	100.0
CMEA (European)								
1955	69.6	24.1	0.6	1.9	0.6	1.3	1.9	100.0
1975	20.5	48.7	4.7	14.6	3.3	1.0	7.2	100.0
Rest of Europe								
1955	21.0	60.9	3.0	6.0	0.8	-	8.3	100.0
1975	12.8	23.0	10.7	38.7	4.9	1.9	8.0	100.0
<u>CIF value of Latin American</u> <u>imports at current prices</u> <u>from: (Billions of dollars)</u>								
EEC (6)								
1955	265	267	74	392	57	22	148	1 225
1975	938	2 955	891	2 283	360	162	510	8 099
EFTA								
1955 ^{b/}	140	166	48	258	23	148	94	877
1975 ^{b/}	324	1 176	392	726	159	451	251	3 479
European socialist countries								
1955	110	38	1	3	1	2	3	158
1975	100	237	23	71	16	5	35	487
Rest of Europe								
1955	28	81	4	8	1	-	11	133
1975	94	169	79	285	36	14	59	736

Source: CEPAL, official data.

^{a/} Excluding Cuba.

^{b/} Original EFTA countries.

Table IX
LATIN AMERICA: COMPOSITION OF EXPORTS OF MANUFACTURES BY DESTINATIONS, 1975
(Millions of dollars and percentages)

	Intra-area		United States		Western Europe		EEC(9)	
	Value	Percent age	Value	Percent age	Value	Percent age	Value	Percent age
Chemical products	524	21.9	423	20.7	358	27.9	266	25.9
Machinery and transport equipment	930	38.9	417	20.4	153	11.9	126	12.2
Other manufactures	938	39.2	1 203	58.9	770	60.1	637	61.9
<u>Total manufactures</u>	<u>2 392</u>	<u>100.0</u>	<u>2 043</u>	<u>100.0</u>	<u>1 281</u>	<u>100.0</u>	<u>1 029</u>	<u>100.0</u>

Source: United Nations, Monthly Bulletin of Statistics, May 1977.

Table X
VALUE OF IMPORTS BY EEC(9) FROM LATIN AMERICA ^{a/}
(Millions of dollars)

		1960	1965	1970	1974
011	Meat	196.6	245.2	296.5	315.2
041	Wheat	50.0	121.0	41.4	84.5
044	Maize	163.0	221.0	252.4	363.5
051.3	Bananas	...	166.7	171.3	271.9
061	Sugar	109.3	102.2	135.7	494.4
071	Coffee	345.4	466.7	674.0	946.7
072	Cocoa	44.1	18.6	31.2	126.7
081.4	Fish meal	...	102.7	138.6	73.5
263	Cotton	156.1	234.6	169.6	262.1
262	Wool	131.6	168.8	92.4	106.7
281	Iron	138.5	160.6	260.3	602.5
283.1, 682	Copper	...	273.4	515.7	736.0
283.4	Lead	11.2	12.4	36.3	29.8
283.5	Zinc	7.9	6.0	14.6	94.6
42	Vegetable oils	50.4	62.6	89.3	230.1
12	Tobacco	21.2	42.5	46.2	91.0
21	Leather	46.6	45.4	61.2	35.2
24	Wood	21.2	45.1	42.0	71.2
	- Total selected products	1 493.1	2 495.5	3 068.7	4 935.6
	- Total imports from Latin America	2 768.8	5 187.6	4 613.3	8 735.7
	- Selected products as a percentage of total imports	53.9	48.1	66.5	56.5
	- Total imports of basic products	2 330.7	3 177.6	4 020.2	6 961.5
	- Selected products as a percentage of total imports of basic products	64.1	78.5	76.3	70.9

Source: OECD, Foreign Trade Statistics, Series C, several years.

^{a/} Includes the 20 republics.

Table XI
CEE IMPORTS OF SELECTED MANUFACTURES FROM LATIN AMERICA
(Millions of dollars)

	1960	1965	1970	1974	Growth rates 1960- 1974
Textiles	3.4	2.1	7.1	194.4	33.5
Clothing	-	0.09	1.0	54.2	103.6
Leather products	0.8	6.7	40.4	94.7	40.6
Footwear	-	0.0	0.4	14.5	-
Iron and steel	0.6	1.6	12.9	38.7	34.7

Source: OECD, Foreign Trade Statistics, Serie C, several years.

Table XII
OECD-DAC COUNTRIES^{a/}: DIRECT INVESTMENT IN DEVELOPING COUNTRIES

Investing country	Cumulative values (millions of dollars)			Average annual growth rates			Percentage breakdown		
	1967	1970	1975	1968- 1975	1968- 1970	1971- 1975	1967	1970	1975
United States	17 448	22 071	39 973	10.9	8.2	12.6	50.0	50.0	52.0
Canada	1 477	1 658	2 528	6.9	3.9	8.8	4.0	4.0	3.0
Western Europe	15 400	19 139	29 683	8.5	7.5	9.2	44.0	43.0	39.0
United Kingdom	6 804	7 714	10 553	5.6	4.3	6.5	19.0	17.0	14.0
Netherlands	1 789	2 227	3 236	7.7	7.6	7.8	5.0	5.0	4.0
Federal Republic of Germany	1 198	1 941	5 204	20.2	17.5	21.8	3.0	4.0	7.0
France	2 980	3 832	5 033	6.8	8.7	5.6	8.0	9.0	7.0
Switzerland	695	877	1 432	9.5	8.1	10.3	2.0	2.0	2.0
Italy	879	1 245	2 235	12.4	12.3	12.4	3.0	3.0	3.0
Belgium	692	765	1 018	4.9	3.4	5.9	2.0	2.0	1.0
Other European countries ^{b/}	363	538	972	13.1	14.0	12.5	1.0	1.0	1.0
Japan	702	1 198	3 853	23.7	19.5	26.3	2.0	3.0	5.0
Australia and New Zealand	101	305	727	28.0	44.5	19.0	-	1.0	1.0
<u>Total</u>	<u>35 128</u>	<u>44 371</u>	<u>76 764</u>	<u>10.3</u>	<u>8.1</u>	<u>11.5</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: OECD-DAC, Stock of private direct investments by DAC countries in developing countries (end 1967), Paris 1972; OECD, Coopération pour le développement, Examen 1977.

^{a/} Organisation for Economic Co-operation and Development - Development Assistance Committee.

^{b/} Include Austria, Denmark, Norway, Finland and Sweden.

Table XIII

BRAZIL: FOREIGN INVESTMENT BY COUNTRY OF ORIGIN, 1969-1976

(Millions of dollars)

	1969	Per- cent- age	1970	Per- cent- age	1971	Per- cent- age	1972	Per- cent- age	1973	Per- cent- age	1974	Per- cent- age	1975	Per- cent- age	1976	Per- cent- age	Annual growth rate 1969-1976
Federal Republic of Germany	177	10.3	253	10.8	331	11.4	372	10.9	521	11.4	710	11.8	871	28.4	1 118	12.4	30.1
Switzerland	105	6.1	132	5.6	192	6.6	254	7.5	357	7.8	560	9.3	736	24.0	981	10.9	37.6
United Kingdom	109	6.4	208	8.9	273	9.4	281	8.3	324	7.1	401	6.7	430	14.0	421	4.7	21.3
France	35	2.0	34	1.4	130	4.5	165	4.8	205	4.5	242	4.0	300	9.8	326	3.6	37.5
Luxembourg	17	1.0	30	1.3	36	1.2	47	1.4	108	2.4	131	2.2	174	5.7	253	2.8	47.0
Netherlands	8	0.5	23	1.0	36	1.2	70	2.1	96	2.1	154	2.6	185	6.0	234	2.6	62.0
Sweden	17	1.0	39	1.7	58	2.0	69	2.0	73	1.6	119	2.0	145	4.7	220	2.4	28.5
Belgium	38	2.2	46	1.9	54	1.8	58	1.7	61	1.3	68	1.1	71	2.3	104	1.2	15.5
Italy	16	0.9	32	1.4	32	1.1	35	1.0	34	0.7	38	0.6	57	1.9	77	0.9	25.2
Other European countries	8	0.5	13	0.6	31	1.1	33	1.0	51	1.1	84	1.4	96	3.1	109	1.2	45.2
<u>Total Europe</u>	<u>530</u>	<u>31.0</u>	<u>810</u>	<u>34.5</u>	<u>1 173</u>	<u>40.3</u>	<u>1 394</u>	<u>40.7</u>	<u>1 832</u>	<u>40.0</u>	<u>2 505</u>	<u>41.6</u>	<u>3 065</u>	<u>42.0</u>	<u>3 842</u>	<u>42.7</u>	<u>32.7</u>
United States	816	47.7	986	42.0	1 096	37.6	1 272	37.3	1 717	37.5	2 022	33.6	2 295	31.4	2 901	32.2	19.9
Canada	168	9.8	260	11.1	294	10.1	305	9.0	360	7.9	401	6.7	411	5.6	482	5.4	16.2
Japan	55	0.3	105	4.5	125	4.3	193	5.7	318	6.9	598	9.9	841	11.5	1 006	11.2	51.5
<u>World total</u>	<u>1 710</u>	<u>100.0</u>	<u>2 347</u>	<u>100.0</u>	<u>2 912</u>	<u>100.0</u>	<u>3 404</u>	<u>100.0</u>	<u>4 579</u>	<u>100.0</u>	<u>6 027</u>	<u>100.0</u>	<u>7 304</u>	<u>100.0</u>	<u>9 005</u>	<u>100.0</u>	<u>26.8</u>

Source: Boletim do Banco Central do Brasil, April 1977.

Table XIV

MEXICO: ORIGIN OF DIRECT FOREIGN INVESTMENT

(Percentage)

Country	1970	1975
United States	79.4	72.2
Federal Republic of Germany	3.4	5.8
United Kingdom	3.3	4.7
Switzerland	2.7	4.2
Canada	1.6	2.0
Japan	0.9	1.9
Netherlands	1.8	1.9
France	1.6	1.5
Italy	2.0	1.5
Others	3.3	4.3

Source: 1970: Bernardo Sepúlveda and Antonio Chumacero, La inversión extranjera en México, Fondo de Cultura Económica, México, 1973;
1975: Secretaría de Industria y Comercio, Dirección de inversiones extranjeras.

Table XV
ARGENTINA: INDUSTRIAL PRODUCTION OF FOREIGN COMPANIES,
BY COUNTRY OF ORIGIN OF THEIR CAPITAL, 1969
(As a percentage of foreign industrial production)

	United States	United Kingdom	France	Federal Republic of Germany	Italy	Total
Food	64.3	20.8	-	1.6	-	100.0
Beverages	14.4	15.2	-	2.1	-	11.5
Tobacco	24.1	15.3	-	27.8	27.7	100.0
Textiles	1.6	3.4	-	10.8	11.0	3.5
	24.1	58.1	-	17.8	-	100.0
	3.1	24.8	-	13.3	-	6.7
	79.0	14.6	-	-	3.7	100.0
	2.6	1.6	-	-	0.7	1.7
	47.8	30.1	-	10.0	4.4	100.0
<u>Subtotal</u>	<u>21.7</u>	<u>45.0</u>	-	<u>26.2</u>	<u>11.7</u>	<u>23.3</u>
Rubber	80.8	-	-	-	19.2	100.0
Chemicals	8.3	-	-	-	11.4	5.2
Petroleum products	63.1	11.4	3.9	9.0	2.5	100.0
Non-metallic minerals	19.8	11.7	5.7	16.2	4.6	16.0
	39.3	60.7	-	-	-	100.0
	6.3	32.0	-	-	-	8.2
	62.6	20.1	9.5	-	-	100.0
	3.2	3.4	2.3	-	-	2.6
	59.9	22.9	2.7	4.5	4.4	100.0
<u>Subtotal</u>	<u>37.6</u>	<u>47.1</u>	<u>8.0</u>	<u>16.2</u>	<u>16.0</u>	<u>32.1</u>
Basic metals	22.4	-	51.9	-	25.8	100.0
Metal products	2.4	-	26.6	-	16.2	5.5
Machinery	65.5	11.6	7.9	7.6	-	100.0
Electrical appliances	2.4	1.4	1.4	1.6	-	1.9
Transport equipment	42.6	18.3	-	25.4	4.9	100.0
	3.0	4.2	-	10.2	2.0	3.6
	42.9	1.7	1.0	10.1	30.5	100.0
	3.6	0.5	0.4	4.9	14.9	4.3
	50.7	1.1	24.2	11.9	12.2	100.0
	28.0	1.9	63.6	37.4	39.2	28.3
	46.3	2.9	22.7	11.1	14.6	100.0
<u>Subtotal</u>	<u>39.4</u>	<u>8.0</u>	<u>92.0</u>	<u>54.0</u>	<u>72.3</u>	<u>43.6</u>
<u>Total</u>	<u>51.2</u>	<u>15.7</u>	<u>10.8</u>	<u>9.0</u>	<u>8.8</u>	<u>100.0</u>

Source: Juan V. Sourrouille, El impacto de las empresas transnacionales sobre el empleo y los ingresos: el caso de Argentina, ILO, World Programme of Research on Employment (document WP 7), Geneva, 1976; based on a national survey on demand for manpower.

