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ACTION GUIDELINES EMERGING FROM THE APPRAISAL
OF THE INTERNATIONAL DEVELOPMENT STRATEGY



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I. THE IMPACT OF THE WORLD CRISIS

1. The present world situation raises very serious problems. It is not the purpose of this brief report to diagnose these problems, but rather to draw attention to some important aspects of concern to Latin America, so as to open the way to the definition of a series of measures for tackling them, not only at the international and regional levels, but also at the level of some internal development aspects. A brief outline is given here of the measures considered most important, but there are of course others which would also have to be considered within any well-conceived programme of action.

Although the problems are serious indeed, it is encouraging to think that this crisis, like others which have preceded it, also offers great opportunities for action. The great world depression of the 1930s, for example, made possible a strong impulse for industrialization, which up to then had met with considerable obstacles. It is to be hoped that the present crisis, too, may contribute to the introduction of certain urgent transformations in the productive structure. Without them, it will not be possible to step up the rate of development, which is essential if a sound basis is to be provided for a policy aimed at extending the advantages of development to a sizeable proportion of the population which has so far been excluded from them.

2. Prior to the economic recession which began in the major industrial centres in 1974, these centres had been enjoying an extraordinarily intense and long-lived bonanza, albeit one in which, particularly in the last stages, there was a very strong presence of inflationary factors. As always, the Latin American countries experienced favourable results from this situation in the centres, since the prices of most of their commodities exports improved, export manufactures received a considerable boost, and there was an abundant inflow of external financial resources.

The positive aspect of these favourable results succeeded in covering up certain features of external vulnerability and domestic

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instability, with the result that, as on other occasions in the past, the opportunity to take advantage of the relatively free flow of resources in order to tackle these features was not turned to good account.

The recession is helping to bring out these features, as may be seen in the case of the non-oil-exporting countries of Latin America, which are suffering more and more from the consequences of unfavourable economic developments in the industrial centres. The characteristics of this recession are indeed singular, for contrary to the experience of past economic situations, it is accompanied by continuing inflationary pressures in the centres which are cause for great concern everywhere. Furthermore, official calculations indicate that even when the recession is over, the growth rates in those centres in the remaining years of the decade will be lower than those in the pre-bonanza stage.

3. It should be noted that the prices of important commodity exports from Latin America continued to soar after the recession had begun in the centres. This was largely responsible for the fact that exports reached an all-time high in 1974, fostering a high rate of growth of the product which, for the countries taken together, amounted to an average rate of 7 1/2 per cent.

This stepping up of the rate of development, was, as is usually the case, accompanied by a sharp rise in imports which not only surpassed the product growth rate, but also the increased value of exports in 1974, in spite of the big rise in the value of the latter, and the trade deficit worsened, amounting to some 8,700 million dollars in the non-oil-exporting Latin American countries. This deficit may be explained to a large extent by the net inflow of external financial resources.

4. Quite apart from the fact that the floating of the major currencies of the centres has added new elements of uncertainty and instability in commodity markets, exports of manufactures are already encountering obstacles which will probably become worse because of unemployment, which is reaching sizeable figures in the centres.

/Another factor

Another factor to be taken into account is the inflationary rise in the price of manufactures which Latin America has to import from the developed countries.

The region is therefore now entering upon a new phase of deterioration of the terms of trade which, together with the high prices of oil, will tend to make the balance of payments deficits even worse.

These deficits will require external financing operations which, because of the relatively short-term nature of many of these operations, will further compound the external debt situations of several Latin American countries, where the burden of accumulated commitments will clearly call for a renegotiation to try to obtain settlement periods longer than those usually granted.

This adverse turn of events may, of course, have a greater impact on the relatively less developed countries.

5. The United Nations General Assembly had already decided to carry out the appraisal and possible review of the development strategy in the middle of this second decade, and recent events provide still further justification for such a review, both at the international and the regional and national levels, while at the same time it is desirable that attempts be made to bring into line all the measures which have to be taken to deal with the problems which the crisis entails, bearing in mind the guidelines laid down by the General Assembly regarding a new international economic order.

6. Above all, the immediate effects of the recession on the Latin American countries must be faced, while at the same time a start must be made on looking for longer-term solutions.

As already stated, the unfavourable repercussions of the recession are likely to affect the rate of growth of the non-oil-exporting Latin American countries. The consequences of this will be very serious, for they need high rates of growth to give productive employment to their continually increasing labour force and to ensure the gradual social integration of the great masses left behind in the development process.

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It is therefore imperative to introduce fundamental changes to help the Latin American countries to achieve and maintain high rates of development, even during phases of weaknesses in the external economic situation.

It will not be possible to achieve this objective without major transfers of external foreign resources in order to promote and support a broader mobilization of domestic resources. The recent shifting of financial power in the world provides a new opportunity for securing these resources, but a great domestic effort must be made, for without it the positive results of external co-operation would be seriously compromised.

II. INTERNATIONAL ACTION

7. Long-term measures are required at the international level. But it is indispensable that the short-term measures required by the present circumstances be taken too, in order to deal with the balance-of-payments deficit situation and reduce, if not avoid, its unfavourable impact on the Latin American growth rate.

8. As regards the increase in petroleum prices, the emergency financial operations decided upon in April 1974 by the special session of the United Nations General Assembly have only reached three Latin American countries, which appear in the world list of the hardest hit. This list refers only to countries with an annual per capita income of less than 400 dollars, as a result of which almost all of Latin America was excluded. It has therefore been necessary to have recourse to short-term credits in the international financial market and medium-term credits from the International Monetary Fund. The Fund is considering a proposal to subsidize the rate of interest on loans conceded under the "oil facility". However, there is the risk that this subsidy may be granted only to those countries which fall into the category of "hardest hit", among which only three

Latin American countries appear so far. Moreover, the total volume of resources for the "oil facility" is lower than that proposed by the Administration of the Fund itself.^{1/}

9. The limited nature of these resources and the undesirability of continuing to accumulate relatively short-term debts in the market also makes it necessary to examine alternative solutions.^{2/} In this connexion, mention should be made of an initiative which, in spite of its currently limited dimensions, is of great importance: namely, the operations which Venezuela has recently carried out with Central American countries. Part of the price of the petroleum imported from Venezuela stays in the importing country, thus helping them, on the one hand, to ease their external deficit, and on the other, to have financial resources available for development.

Such an initiative could mean the beginning of an operation of greater scope, extending to the other developing countries, and particularly those where the oil impact is very serious. It is to be hoped that all the oil-exporting countries will see their way to

^{1/} See in this respect the "IMF Survey" of 27 January and 10 February 1975.

^{2/} At the special session mentioned, the General Assembly decided to set up, as from 1 January 1975, a special United Nations fund which will continue to deal with the emergency programme, in addition to carrying on economic financing operations. So far the fund has not yet received any resources, and it is to be noted that the important centres have shown some reluctance to contribute. On the other hand, at the meeting of the Development Committee sponsored by the World Bank and the Monetary Fund and held in Washington in January of this year, several proposals were put forward, among them one calling for the creation within the Monetary Fund of the new special facility mentioned in the text which would provide a subsidy on the rate of interest. There was also mention of the creation of a new department in the World Bank to subsidize loans to the developing countries which find themselves in a position midway between that of the hardest hit in their balance of payments and those which can continue to make use of the ordinary loans of the institution. This and other proposals have been submitted to both institutions for study.

participating in this operation. It would be desirable for the deadline for the repayment of credits granted in this connexion to be sufficiently long and also, particularly in the case of more acute situations, for debt servicing and amortization payments to be ploughed back for internal investment for such a reasonable period as might be necessary.

As mentioned earlier, the external payments deficit is tending to get worse in the non-oil-exporting countries of Latin America and there is an obvious need to combine the various initiatives which have emerged so as to achieve a mobilization of resources in keeping with the dimensions of the problem.

10. However, this concern for the immediate future should be associated with the consideration of solutions of broader scope. This requires a net volume of international financial resources far greater than in the past, and it is here that the financial surpluses from petroleum could play their part if a fruitful field of investment were opened to them in Latin America.

11. It is perfectly understandable that the industrial centres should have placed emphasis on attracting financial resources from petroleum to cover their external payments deficits. It is in everyone's interest that a solution should be found to this problem, for as well as being very important, this solution cannot be delayed too long, since it is inconceivable - from the standpoint of a rational distribution of resources - that countries with a high potential for domestic capital formation should continue to contract debts indefinitely. Hence the importance for the industrial centres of the use by the petroleum-exporting countries of an increasing share of their financial surpluses for the purpose of making loans and investments in the developing countries, for these latter countries will certainly use them to increase their imports of capital goods and other goods produced by these centres. This would generate a three-way feedback which would help the centres to correct their external deficit by additional exports rather than additional debts.

12. The significance for the centres of this triangular reversion of the financial surpluses from petroleum is even more readily understood when the great magnitude of Latin America's imports of capital goods is borne in mind.

Thus, for the United States' exports of capital goods, consumer durables and chemical products, the Latin American market is three times the size of the Japanese market and nearly as big as that of the EEC. For European exports of the same items, the Latin American market is the equivalent of three-quarters of the United States market and is over four times as big as the Japanese market. Exports to Latin America from these three developed areas (United States, EEC and Japan) amounted to 11,000 million dollars in 1973.

The importance of Latin American development for the expansion of exports of capital goods from the industrial centres is therefore obvious.

13. The importance for these centres of the triangular reversion operations fully justifies the co-operation which they could provide to set these operations in motion. It is a well known fact that the industrial centres, generally speaking, are a long way from following the recommendation made by the United Nations General Assembly that they should set aside the equivalent of 0.7 per cent of their gross product for official financial aid to developing countries. It is to be hoped that the normalization of the economic evolution of the centres will enable them to come progressively closer to achieving this goal. Meanwhile, without abandoning this goal in the least, it would seem more feasible to grant subsidies on the interest rates for these financial transactions.

14. In the next section on regional action, mention is made of the desirability of setting up machinery to promote projects specially aimed at transforming the structure of production in Latin America. This should not be confused with financing operations. Mention may be made here of the importance for this triangular reversion of the creation of a third department in the World Bank to carry out, with interest subsidies, an increasing number of development financing transactions.

Of course these are not mutually exclusive, but complementary channels of financing. The access to the international financing market of bonds issued by the Latin American countries would constitute such a case. At present, there are still limitations which make such access difficult.

15. It should not be forgotten, on the other hand, that the approval of a link between the creation of new international monetary resources and the external financing of development is still pending. Although present circumstances pose this matter in new terms, until such time as international monetary flows become stable Latin America should continue to press for a positive solution on this head. It should be mentioned that recent studies confirm the theory that the creation of international money - if carried out with caution - does not have inflationary consequences.

16. To turn to another aspect, the decline in the prices of primary commodities has once again brought up the older problem of price stabilization. It may be recalled that there has been very vigorous resistance on the part of some industrialized countries to price stabilization agreements, as being contrary to the law of supply and demand. The success achieved in agreements such as the Wheat Agreement, which was of interest to some large centres, was not sufficient to overcome this resistance and open the way to other price stabilization agreements which could help the developing countries.

The truth is that market forces, important though they are, have not proved effective in ensuring stable and remunerative prices for the majority of primary commodities. In the case of tropical products, for example, the terms of trade have traditionally been adverse on account of the abundance of land and labour in the producer countries, which has made it possible to burden their consumption in the developed countries and obtain excessively large marketing profits.

The case of petroleum is different, although it also shows that market forces have not been capable of establishing prices

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consistent with the exhaustible character of this natural resource. What is more, they have not made it possible to establish prices calculated to encourage the development of new sources of energy. This fact has recently been recognized in the United States, where one of the salient items on the energy programme consists in setting a petroleum import price high enough to encourage the development of other sources of energy and to guarantee that possible downward movements in international prices will not reduce the profitability of investment in such sources.

17. In all this the world is suffering the consequences of lack of foresight. In a recent study, the Vice-President of the International Bank for Reconstruction and Development (IBRD), Professor Hollis Chenery, maintains that if the rise in petroleum prices had come about gradually during the last two decades by virtue of a policy concerted between producers and consumers, the industrial centres would have absorbed the increase without undue disruptions. After all, it barely represents, in the industrial countries in the aggregate, 2 per cent of the overall product.^{3/}

18. Another significant fact relates to food. The factors responsible for the serious pressures afflicting world agriculture are a matter of common knowledge. It is generally agreed that, in addition to freaks of weather, the population explosion, especially in the developing world, has played an important part. But what is not always remembered is the influence of the expansion of consumption in the great industrial centres. Its significance, however, is great: according to the latest report of the Development Assistance Committee (DAC), the increase in direct and indirect per capita consumption of cereals in the countries members of the Organization for Economic Co-operation and Development (OECD) plus

^{3/} See Hollis B. Chenery, "Restructuring the World Economy", Foreign Affairs, New York, January 1975.

the Soviet Union in the last eight years is almost equivalent to average per capita consumption in the developing countries in 1973.^{4/} 19. It is to be hoped that these developments will lead to a change of attitude and will facilitate negotiations between producer and consumer countries to conclude stabilization agreements on certain primary commodities, based on equitable and remunerative prices and at the same time incorporating supply guarantees.

This subject is being carefully studied by the United Nations Conference on Trade and Development (UNCTAD). Its secretariat has just drawn up a programme of action covering eighteen products in respect of which simultaneous negotiations would be conducted in order to secure an equitable distribution of benefits. Out of these eighteen products, fourteen are of importance to Latin America. The programme establishes a number of measures, including the regulation of the world market for the products in question through the financing of buffer stocks. It is estimated that some 11,000 million dollars would be needed for that purpose. The ECLA secretariat is making a thorough study of this programme and intends to discuss its views in due course with the UNCTAD secretariat.

20. Admittedly, not all products lend themselves to the negotiation of agreements of this kind. The UNCTAD programme itself takes this question into consideration and refers to the concept of compensatory financing whereby consumer countries would transfer funds to the producer countries when the prices of their exports fell below certain limits.

In this connexion, attention should be drawn to the significance of the negotiation in which the European Economic Community (EEC) has just conducted with the associated developing countries, and under which a compensation procedure of the sort described will be established. Clearly, this concerns a group of countries only, and

^{4/} See "1974 Review, Development Co-operation", Report of the Chairman of the OECD Development Assistance Committee, November 1974, p. 21.

not the developing countries as a whole. Hence the need to seek solutions which would be applicable to all of them. This would obviate cleavages which might weaken the bargaining power of the developing countries in the aggregate instead of giving it the additional strength that in the light of experience is plainly indispensable.

21. It was pointed out earlier that the recession in the great industrial centres precludes the possibility of favourable prospects for the developing countries' exports. Nevertheless, Latin America and other developing countries should look beyond the immediate present, and should not slacken their efforts to secure better access to the markets of the industrialized centres, both for primary commodities and for industrial products. The forthcoming negotiations of the General Agreement on Tariffs and Trade (GATT) offer an opportunity of seeking to avert a repetition of what happened in the Kennedy Round, when the highly positive results secured by the developed centres contrasted with the meagre advantages gained by the developing countries.

Another desirable move would be the continued intensification of efforts to promote a preferential régime for the manufactures of the developing countries. This policy has been embarked upon, but has not as yet achieved very much. It is also to be hoped that the difficulties created by the United States Trade Act will be smoothed away.

Another highly important component of a preferential policy should be the selective application of the import restrictions imposed by the industrialized countries on the grounds of market disruption problems. It would be advisable for manufactures from the developing countries to be exempt from such restrictions.

22. There is another problem to be faced: namely, the threats that are hovering over exports of manufactures because of the tendency to identify subsidies with dumping operations. There

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is no question of encouraging irregular international market transactions. The subsidy is intended simply to offset, within certain reasonable limits - and for a judicious length of time - the heavier costs inherent in the initial phases of the industrialization process and in the limited size of the domestic markets, as well as in the lack of that very experience in exporting which needs to be fostered in this and other ways.

Perhaps the essential difference between developed centres and developing countries is not clearly perceived. Subsidies are inadmissible among countries whose competitive capacity is relatively evenly-matched, whereas they are justified in the case of exports of manufactures from the developing countries, during the interim in which their industrial progress is gradually placing them on a competitive footing. The subsidy is, in fact, an incentive to such progress.

Furthermore, the reduction in customs duties that may be obtained in the above-mentioned GATT negotiations will likewise reduce the margins of preference secured for the developing countries' industrial exports, making it all the more essential to apply subsidies, even at the expense of the exporter countries; and they should thus be regarded as another element in preferential treatment in favour of the developing countries.

23. Needless to say, in the last analysis, any additional exports to the industrial centres that may be effected by the developing countries will quickly be converted into imports from those centres in the aggregate. The same might be said of the benefits which the developing countries would obtain by the stabilization of primary commodity prices at remunerative levels.

III. REGIONAL ACTION

24. Elsewhere in the present report mention has been made of the need to change the structure of production and of the possibilities of developing at the regional level the production of capital goods and intermediate goods, in which no very significant progress has yet been made in Latin America. This necessity has become more imperative in view of the unpromising outlook for trade with the industrial centres during the second half of the current decade.

It is essential that the capital and intermediate goods industries should be of regional scope, for the sake of economies of scale which could not be achieved if industrial development were to continue in the water tight compartments of the individual countries.

25. It might be supposed that the intention to expand production of capital goods and intermediate goods in the Latin American countries is directly at variance with what has just been said of the need to effect large-scale imports of those same goods by means of the recycling of financial resources from oil. There is no real contradiction, however, since not only do requirements of such goods increase rapidly, but they are characterized by constant technological innovations which necessitate a steady expansion of trade with the developing centres, insofar as these latter accord facilities to Latin American exports.

26. The restructuring of production might give noteworthy impetus to inter-Latin American trade. Integration movements are already under way, with instruments of trade policy and industrial co-operation at their disposal. Resolute and systematic use should now be made of these instruments in pursuit of the objective referred to. The ECLA secretariat has long been maintaining that this could be done much more effectively than in the past, especially in support of specific industrial specialization or complementarity projects on bases of reciprocity. The time has come, therefore, to embark without further delay upon the formulation of concrete projects under well-integrated

/programmes for

programmes for the transformation of the structure of production. In other words, the transition should be made from a mere trade theory to economic negotiations with much broader horizons than have existed hitherto.

ECLA has presented one or two studies on the more efficient utilization of the existing instruments 5/ referred to above, and is currently concerned with seeking ways and means of linking up the various agreements in force. One of the measures to which special importance attaches is the programmed allocation of certain lines of production on the basis of which adequate reciprocity could be ensured.

27. Given this approach, special attention would have to be devoted to the relatively less developed countries, which are at an economic, financial and technological disadvantage beside the more advanced Latin American countries. In such economic negotiations special promotion measures must be introduced, since experience shows that mere trade measures are not enough.

28. One of the obstacles which may perhaps have hindered the development of industrial trade between the Latin American countries has been the lack of a promotion mechanism for specific projects.

The possibilities to such projects are now promising. The foreseeable import requirements of the development process indicate the growing importance of capital goods and intermediate goods to which reference has already been made elsewhere. There is a broad field here for specialization and division of labour, the exploitation of which will gradually alter the structure of production. The division of labour and specialization need not necessarily be by industries, but by products or groups of products within each industry. This would allow a rational and equitable distribution of work and benefits among the various Latin American countries.

5/ See the "Nota Informativa" presented at a meeting of the Permanent Executive Committee of the Latin American Free Trade Association (LAFTA), E.CN.12/109, 18 June 1974; and "Algunas orientaciones básicas para el eventual ajuste del Tratado de Montevideo a una nueva etapa de integración económica", E/CEPAL/L.110, 4 September 1974.

29. In other words, if a country installs a basic line of production intended for export to other Latin American countries, it is essential that these other countries should also be able to participate in the arrangement with their own output of other industrial goods. Needless to say, spontaneous market forces could not lead to solutions of this kind in default of an integration policy. A precedent already exists which perhaps may not be of great numerical significance but does carry some weight: transnational corporations carrying on their activities in Latin America have in several instances planned the division of industrial labour in this way. But this has generally been done without the government's having clearly drawn up the policy to be pursued.

30. The time has come to establish Latin American multinational corporations which, within a framework established by the governments, would put into effect a policy of this kind. Thus envisaged, such Latin American multinational corporations could play a very important role in integration, by participating in the restructuring of production and ensuring the attainment of reciprocity objectives. In this last connexion, the fact of working in several countries, combining their capital and pooling their natural and technical resources will facilitate the balancing-up of benefits, which as experience shows, is a difficult task in the case of isolated enterprises. Of course it will not always be possible to distribute the production of one industry among the various countries; in such an event, reciprocity would have to be sought on the basis of other industrial products. Moreover, all the countries are bound to be interested in taking part, in order to secure opportunities and make sure of obtaining adequate supplies.

31. The promotion of Latin American multinational corporations might also be a task for the project promotion mechanism referred to above. A few years ago the Inter-American Development Bank (IDB) endorsed a proposal to establish a kind of subsidiary branch through which resources could be channelled to enable private and public enterprise in Latin America to invest capital in the formation of corporations.

/This idea

This idea had no success at the time, but it is encouraging to know that it is now in the point of being put into practice. The 500 million dollars with which Venezuela has endowed a trust fund in IDB could partly be used for the suscription of capital in multinational enterprises of the type described.

This capital would subsequently be transferred to the public or private sector of the participating countries. Of course, the resources mentioned would not be sufficient in themselves to give the requisite impetus to the creation of multinational corporations.

32. These new multinational corporations should not be of a closed nature. The essential point is that the Latin American countries, in addition to the experience they will be gradually acquiring in this field, should be able to rectify the obvious inequality of the footing on which they stand in relation to foreign enterprise. They will thus be in a better position to negotiate, as and when necessary, the participation of the transnational corporations established in the industrial centres, either with capital, with technology or with a combination of both. There are vast possibilities in this direction, but it will be necessary to draw up rules of the game at the regional level which will obviate the drawbacks that have become apparent in the operations of transnational corporations, and at the same time will strengthen the positive advantages they offer.

Another argument in favour of opening up the Latin American multinational corporations to the outside world is that nothing could be said against, and a great deal for, attempting to attract surplus funds from other oil-exporting countries, besides those of Latin America.

Stress should therefore be laid on the need for projects to attract investment from outside the region.

33. Before this section on regional action is concluded, it should be mentioned that the concept of reciprocity in inter-Latin American trade must not be confined to the specialization or division of labour referred to above, but should be extended to all intra-regional trade relations. Experience shows, however, that the direct negotiation mechanisms which have been used in the existing institutional contexts

/are not

are not enough. The multilateral payments mechanisms which are already in operation, although on a limited scale, must be given greater strength and scope, and must be made not only monetary instruments, but also means for encouraging trade on bases of reciprocity.

With this end in view, it is of great importance that payments mechanisms should promote the active circulation of resources from countries with surpluses throughout Latin America as a whole, as a means to the multiplication of trade operations. The lack of machinery of this kind has perhaps been one of the factors that have tied LAFTA's hands. If those Latin American countries which are rapidly expanding their exports could be induced to switch over an increasing proportion of their export earnings to additional imports from within the region, great impetus might be given to reciprocal trade. In a recent United Nations report, consideration has been given to this problem.^{6/}

IV. NATIONAL ACTION

34. In the present report attention has been devoted, on the one hand, to the immediate problems deriving from the present world crisis, insofar as it affects Latin America, and, on the other hand, to longer-term problems and to some of the measures that would have to be discussed with a view to tackling their solution.

As regards immediate problems, it may be asserted in general terms that the Latin American countries - with the exception of the oil-exporting countries and a few others whose external situation is favourable - now have more or less serious external deficits. These deficits are becoming larger in consequence of the recession in the industrialized centres and the deterioration in the terms of trade, which is intensified in some countries by the rise in petroleum and food prices.

^{6/} "The triangular recycling of financial resources from oil-producing countries and the structure of world trade", A/C.2/294, 7 December 1974. Part of this document is reproduced as an annex to the present report.

35. The external deficit does not affect all the non-oil-exporting countries in an equal degree. There is one group, comprising mainly small and medium-sized countries, whose difficulties have become extremely acute, since the influence of the world crisis has been superimposed in other problems that had already arisen at an earlier date. These are countries which, besides being burdened with external debts, often with strict repayment deadlines, usually have no great possibilities of rapidly increasing their exports or taking other steps to wipe out the deficit. They may be able to do so through the transformation of their structure of production, but this will necessarily take time.

36. Clearly, this is a situation at the opposite pole from the comfortable financial position of the petroleum exporters. Between the two extremes are to be found countries which, although they also have a serious external deficit, are better equipped than the foregoing group to cope with it, whether by virtue of a more flexible and diversified export structure, of a certain reducible margin of imports, of sound monetary reserves, of proven access to the international financial market, or of petroleum prospects which will ease them through temporary difficulties.

37. Another possible recourse is reciprocal trade, especially in the case of countries which have made most progress in industrialization or possess facilities for expanding their agricultural exports in the immediate future. In other words, if in order to tackle their external difficulties they have to pursue a selective policy in respect of imports from the industrialized centres, they might obtain part of these imports from other Latin American countries instead; always providing that the production capacity of the latter allowed them to make additional exports while their structure of production was in process of transformation, in such a way as to generate new trade flows, as explained above. In any event, it would be desirable to make a survey of these immediate possibilities of additional trade and of payments mechanisms to support reciprocity.

/These countries

These countries are, therefore, in a much better position to pursue a moderately expansionist economic policy than those in the hard-beset group mentioned above.

It is of great importance for them that they should do so, since a marked slackening of their rate of development would have very grave economic and social consequences.

38. If that might be the case in such countries, it is not difficult to imagine the seriousness of the repercussions in that other group at the lowest extreme. The countries forming it, with very few exceptions, do not figure in the United Nations emergency programme, nor have they the same facilities as the larger countries for making use of international credit. Their situation is really not so much precarious as tragic. It is a matter of urgency, in relation not only to international but also to regional co-operation. As is common knowledge, however much these countries were to step up their internal efforts, they could not do enough to provide a satisfactory solution for their pressing problems.

39. When reference is made to the regional effort, what is particularly in mind is the type of co-operation which, as explained elsewhere, Venezuela has recently provided to lighten the heavy burden of petroleum imports. It would be advisable, as was also pointed out, to look into the possibility that other oil-producing countries might participate in such operations, and that these might be extended to the other affected countries in Latin America.

But regional solidarity should not be confined to operations of this sort. The more developed countries of Latin America could also make an effective contribution to the aid required. They are already producing capital goods, intermediate goods and essential consumer goods which could meet the needs of the worst-situated group. They might conceivably supply such goods on the basis of concession of appropriate credits, without its weighing too heavily on their balance of payments, if the products chosen were those in which the import coefficient has fallen very low.

40. From another standpoint, the rise in import prices will aggravate inflation and thus intensify internal pressures. It will therefore be necessary to devise measures to prevent its bearing unduly hard on the social strata which are particularly affected by the consequences of inflation. If in the recent past use was made of instruments of fiscal policy, together with monetary instruments, in order to make the impact in question more socially equitable, it will be all the more necessary to do so now, when conditions are more difficult than they were at that time.

Among all these pressures, petroleum prices have, of course, special significance. If, as a palliative, prices are kept much lower than on the world market, consumption will not diminish and the external deficit will increase; and if in order to reduce energy consumption and relieve the deficit prices are raised, the internal pressures referred to will become severer still. It is a dilemma from which the only way of escape is to resort to internal measures of an expansionist type which will mitigate unemployment and the consequences of the imported recession.

There is, then, some risk of the aggravation of serious internal disparities which have already been causing concern in Latin America, while at the same time the inequalities between countries are also becoming more marked.

41. Apart from the immediate problem which the rise in oil prices has brought in its train, there is a pressing need to formulate a long-term energy policy. The developed countries are already trying to lay its foundations. In the Latin American countries, too, increasing concern with the problem is observable. Nevertheless, this concern has not always been reflected in specific measures designed to economize consumption, especially in the case of petrol, and to promote the development of other internal sources of energy. It is more and more clearly recognized that to attain this latter end, whatever may prove to be the trend of world oil prices, internal prices will have to be higher than in the past.

/42. At

42. At a meeting of experts convened by ECLA the need to step up exploration of new sources of energy was acknowledged. It is encouraging to note the discovery of new oilfields in Brazil, Mexico and elsewhere. Immense coal and hydroelectric resources also exist, which might reduce the growth rate of demand for petroleum. The possibilities of using nuclear energy should also be examined, as is already being done in some countries. If the problem is viewed as a whole, it would seem to be less serious in Latin America than in other developing regions.^{7/}

43. Energy policy of course falls within the sphere of long-term development strategy. Much has been written on this subject in ECLA, and the present brief report is not the place to bring it up again, however strikingly the crisis has thrown the need for radical changes into relief.

Among these changes, consideration has been given, especially in the preceding section, to those relating to the structure of production, which must attain regional dimensions, extending beyond the confines of national frontiers; and stress has been laid on the important part that might be played in this restructuration by the investment of surplus resources from oil.

There is another aspect of long-term strategy which has also acquired special significance in the present crisis. This is the problem of agriculture.

44. Herein lies one of the greatest obstacles to development, since production is not expanding to the extent necessary to provide a rapidly increasing population at least with what is considered a minimum diet. There is considerable potential demand which is not being met. More will be needed to satisfy it than an improvement in productivity through technical progress, in which respect, generally speaking, agriculture has so much leeway to make up. The per capita income of the lower strata will also have to be raised, so that potential demand may be converted into real demand.

^{7/} See "Report of the Technical Symposium on Latin America and the Current Energy Problems", ST/CEPAL/Conf.50/L.4/Rev.2, 5 December 1974.

45. Incidentally, the technical progress of agriculture requires the support of industrialization. Industry will have to supply its inputs, including fertilizers, the use of which was fast increasing in Latin America before their prices rose and shortages set in. Hence, there is all the more reason to give high priority to fertilizer production on principles of region-wide scope and of specialization.

46. Consequently, the question of agriculture must be dealt with not in isolation, but as an integral part of the overall development problem in which industrialization has to play a leading role, with respect to the absorption of both the production increment and redundant manpower.

V. FINAL REMARKS

What has just been said of national action once again reflects the conviction that the solution of development problems is basically incumbent upon the countries themselves. The attainment of the objectives pursued will depend essentially upon their own efforts, but it should never be forgotten that the lack of a vigorous international co-operation policy has been a formidable obstacle in relation both to foreign trade and to financial co-operation.

It must be recognized, however, that Latin America's own efforts have been manifestly inadequate in very important aspects of its development. It is true that the great industrialized centres have not been capable of encouraging the development of Latin American exports by appropriate measures, but it is equally certain that the Latin American countries, as a rule, have taken only limited advantage of the great possibilities of transforming their structure of production at the regional level, and exploiting the immense intra-regional trade potential which this would generate. Today they are faced not only with the opportunity but with the imperative necessity of doing so, in order to overcome the consequences of a rate of development in the industrialized centres which will be slower than in the past, during what remains of the present decade.

/Everything suggests

Everything suggests that Latin America and the other developing areas are becoming clearly aware of the need to seek new patterns of reciprocal co-operation. Their awareness should be translated into terms of specific action. Hence the emphasis placed upon this need in the present report.

47. The considerable shift of financial power in the world might give decisive impetus to specific action of this kind. The channelling of surplus resources from oil into the investment of the large sums required for transforming the structure of production is of great significance, since these new financial flows could play a dynamic role that the industrialized centres have not adequately discharged up to now.

It is reassuring to note that, as has been pointed out elsewhere, within Latin America itself new forms of financial co-operation have been started. These could gain much more momentum if those non-Latin American countries could participate which are in a position to do so because it is to them that financial power has shifted.

48. Thus new patterns of interdependence are emerging at the world level. In the present report emphasis is placed on what the triangular recycling of financial resources from oil would mean for the industrialized centres. It would be an adequate method of solving their deficit problem by expanding their exports of capital goods and of other production goods, instead of piling up debts. The same might be said of the implications of an enlightened commodities policy. It is particularly satisfactory that financial operations have been begun in support of so important a commodity arrangement as is the coffee agreement. It is to be hoped that this will be only the first step towards a commodities policy.

49. The advantages represented by this new pattern of interdependence of interests would justify the co-operation of the developed centres in the restructuring of Latin American production in respect of measures designed to speed up the region's development. Admittedly, however, the difficulties currently experienced in combating inflation and at the same time counteracting the recession are very great. It

/will not

will not be easy to obtain from the developed countries now what could not be obtained from them in times of prosperity. But the lessons of the present crisis and the aforesaid new concept of interdependence leave room for hope that radical changes of attitude may take place, which, even though they may not always be reflected in immediate results, may at least lead to the formulation of co-operation plans that may bear fruit once that present difficulties have been overcome.

50. The developing world is at a turning-point in history when the coincidence of all the countries' basic interests should prevail over what might be a source of divergences. This coincidence of interests is manifest in the case of investment of surplus resources from oil. If the quickest way of securing results might be to concentrate such investment in the industrial centres which already have a very great capacity for capital formation, it is equally true that the spreading of such investment over the vast geographical field of the developing countries would have much more beneficial effects from the standpoint of the world economy. It would, in fact, strengthen the weakest parts of the system, which are precisely those that offer the most promising opportunities for improvements in productivity and the generation of new trade patterns. All this apart from political considerations, which it is to be hoped may also tend to favour such a geographical distribution. As is stated in the United Nations report quoted above, "in the future play of power relationships, it will make a very great difference whether the surplus resources from oil are concentrated mainly in the centres or whether they are spread more and more over the periphery. This is the present option for oil exporters: concentration or plurality".

51. There are manifest and increasing disparities in the development of the world economy. These disparities are logically combined with disparities in power. The bargaining power of the developing countries vis-à-vis the industrial centres has always been and still is relatively weak, except recently in respect of petroleum. The transnational corporations have revealed new forms of power disparity.

/These corporations

These corporations represent a very efficacious instrument of development and of promotion of world trade, but on bases of inequality which cannot be ignored. Herein lies another of the possibilities which the shift of financial power in the world has brought to light. If an increasing proportion of surplus oil earnings could be channelled into the developing countries, a gradual advance might be made towards a better balance of power. Such is the significance that Latin American multinational corporations might acquire, in addition to their important role in the restructuring of production and in the development of new patterns of trade at the regional and international levels.

52. The ECLA secretariat is fully convinced of the opportunities for action which have been very briefly reviewed in this report. It holds itself responsible for outlining these opportunities in the hope of paving the way for specific proposals, if the governments deem it appropriate. As an integral part of the United Nations Secretariat, this secretariat has always borne it in mind that a world strategy must also clear the way for a progressive rapprochement between regions, not only in the field of commodities and in that of utilizing reciprocal trade opportunities which should not be confined within a single region, but also in the matter of technological and financial co-operation.

Annex

THE TRIANGULAR RECYCLING OF FINANCIAL RESOURCES FROM
OIL-PRODUCING COUNTRIES AND THE STRUCTURE
OF WORLD TRADE

III. The triangular recycling of surplus earnings from oil

23. Developed countries are making great efforts to have the surplus earnings from oil flow back to them in order to face their external payments deficit. Given the seriousness of this situation, it is in the interest of all countries for this aim to be achieved. Moreover, it is to be hoped that the progressive reduction in this deficit will enable the developed countries to play a more active role in helping developing countries to solve their present difficulties.

24. It is quite clear, nevertheless, that the basic solution must be of another kind. As stated above, the developed countries have a great capital-formation potential and do not need to import capital in order to continue their development. Their need of capital is of a temporary nature, for the period during which they are unable to increase their exports to compensate for the higher cost of imports.

25. But let us have in mind this simple fact: industrial centres cannot solve this problem by trying to expand their exports to each other. This goal can be reached only through more exports to the rest of the world:

First, to respond to the increasing import needs of the oil exporters themselves, for their own development;

Secondly, to the developing countries, if they are able to attract an increasing proportion of the surplus resources of the oil-exporting countries. These resources, supplied to the developing countries in the form of loans and investments, will allow them to increase imports from the industrial centres of capital and other goods necessary for their development. Therefore, the recycling would not take place directly but indirectly, through additional exports of goods needed by developing countries.

26. This would be the soundest form of recycling and its advantages are obvious:

Developing countries would have at their disposal additional financial resources to face the increasing needs for imports, required by their development;

The industrial centres would receive resources flowing to the oil-exporting countries by means of an increase in their exports rather than through the inflow of financial resources involving continued indebtedness;^{1/}

The oil-exporting countries would find a wide and diversified productive outlet for their financial surpluses that would give them a permanent source of future income.

27. Very understandably, due to the pressure of circumstances, developed countries lay stress on the direct recycling to them of the earnings from oil and have not considered this other form of indirect or triangular recycling. It has to be recognized however that this triangular recycling requires time and careful preparation. It is also justifiable that the oil producers prefer at present to start the recycling of these resources, in one form or another, to the developed countries, where there is a whole financial infrastructure ready to receive them up to a certain limit.

28. Direct recycling is of fundamental importance in a period of transition as it was said before. But if it were to be extended for a long time, a great opportunity would have been lost for contributing to the change in the international economic order.

29. The fulfilment of the objective of General Assembly resolution 3202 (S-VI) makes it necessary to formulate a new policy of co-operation both in trade and in finance, as well as in technology.

30. The extraordinary shift of a large part of the world's financial power to the oil-exporting countries offers a great possibility for promoting this change.

31. The oil-exporting countries thus have a historic opportunity to participate actively in the building of a new order. But they could not be asked to do this if this change was not clearly and effectively consistent with the interests of their own development. This is a point of the utmost importance which must be clarified.

32. The oil-exporting countries, with great foresight, are thinking of their future, of their own transformation. They are very well aware that the oil reserves will go on diminishing and are preparing to cope, sooner or later, with the reality of their ultimate exhaustion as well as with the appearance of new forms of energy and the improved

^{1/} We have to have in mind that the increase in exports of developed countries does not necessarily correspond to their balance-of-payments deficit. This is a matter which concerns the fluidity and efficiency of the world monetary system and it has been the subject of considerable discussion in international forums.

One way would be to grant an interest rate subsidy, not only in their own operations but also in the operations carried out with surplus resources from oil. The impact of this subsidy on their balance of payments would be relatively small in relation to the positive effect of the triangular recycling;

Another would be to participate in a system of guarantees, especially in the case of the weakest developing countries or those undergoing periods of great strain.

42. I do not intend to elaborate on this at this moment, but to underline that the main thing is to arrive at a three-sided policy on this subject which would combine the efforts of all the parties involved: the developed countries, the oil-exporting countries and the developing countries.

43. So far as the last-mentioned countries are concerned, one major preoccupation should be mentioned. While it is true that international financial co-operation has been very precarious, it is no less true that the developing countries in general have not played a very outstanding role in the mobilization of their own resources. Indeed, those countries that could have done so have not sufficiently used their potential for capital accumulation. The consumption society is spreading in developing countries through the imitation of the consumption patterns of the industrial centres. This happens not only in the upper but also in the intermediate social strata which has growing aspirations of consumption. All of this is detrimental to the domestic capital formation required in order gradually to eliminate the society of under-consumption in which a considerable part of the population has been left behind. The domestic capital-formation potential must therefore be included in the triangular effort to finance development.

44. Summing up what I have said in this section, there is an important role to be played by the three groups of countries in mobilizing resources to maintain and accelerate the rate of growth of developing countries, and to fulfil an objective that has not been obtained before. The financial resources in the hands of oil exporters make possible a larger transfer than in the past to developing countries. This is however not a simple problem. Yet, at the international level as well as at the regional and subregional levels considerable experience has been gained in this matter and there is also a growing consciousness of some of the shortcomings of this experience. Owing to the nature of this report, I have not entered into this aspect nor into the role that the Special Fund may play.

45. In relation to the transfer of financial resources from oil, let me mention the importance for developing countries of having this source independent from the transnational corporations. Here there is a great opportunity for strengthening the now very weak bargaining power of developing countries. Indeed, the latter and oil exporters may form joint ventures, either through private

initiative or government participation, or a combination of both, for the exploitation of natural resources and the establishment of basic industries. Industries that could play an important role in exports of manufactures for the promotion of reciprocal trade between developing countries and for export to the centres. In all this, the latter could have an important role to play either through participation in these joint ventures giving them the true multinational character that they now lack, or through service contracts, or through special forms of transfer of technology. One may conceive therefore different ways of three-sided co-operation.

46. As is well known, oil exporters are now entering into very interesting agreements with developed countries to obtain the proper transfer of technology geared to their own development needs. This should be welcomed, and if this is extended in one way or another to the developing countries, it would contribute towards paving the way for these new forms of three-sided co-operation.

47. The soundness and security of these new forms of three-sided co-operation, in which different interests converge, will depend not only on the basic terms on which they are made but also on the establishment of new ground rules for avoiding the mistakes and abuses of the past, especially as regards the exploitation of non-renewable natural resources. This has been a matter of great concern in recent times to the United Nations.2/

2/ I must mention in passing that the possibility of the transnational corporations dominating the market has also been a negative factor in the advance towards a Latin American common market.

use of present forms in consuming countries. This foresight is manifested in two main forms. First, oil producers propose actively to promote their agricultural production and industrialization, together with the relevant infrastructure. Secondly, they are bent on finding productive uses abroad for their surplus resources which, with the passage of time, will compensate for the weakening of their oil exports.

33. If we look towards the future we will see that the geographical spread of loans and investments from oil earnings over the wide range of developing countries is extremely important, because it involves new power relationships that are very different from those of the past. There is no doubt that the oil-exporting countries have acquired considerable power. But this power would diminish as the global dependency on oil imports lessens in the future. Certainly there will be no return to the previous state of affairs, but in the course of time, power relationships will most likely favour the industrial centres. This brings out clearly the importance of the option now open to the oil-exporting countries to diversify their financial operations. In the future play of power relationships, it will make a very great difference whether the surplus resources from oil are concentrated mainly in the centres or whether they are spread more and more over the periphery. This is the present option for oil exporters: concentration or plurality.

34. If it were possible to channel a growing amount of the surplus resources from oil to the developing countries, some headway will have been made in solving a problem which, like others connected with international co-operation, has long remained unsolved and indeed grown worse. I am referring to the transfer of financial resources from the developed to the developing countries. As was frequently remarked in the early 1970s, when the General Assembly recommended an official net transfer equivalent to 0.7 per cent of the gross national product of the developed countries, the proportion was 0.51 per cent. In 1973 it had dropped to 0.30 per cent.

35. The pressure for internal redistribution of income which inflation has brought in its train in the developed countries and their external payments deficit gives us little reason to hope for an early and substantial improvement in this situation. But this objective should in no way be forgotten. This should not be interpreted as meaning that the co-operation of the developed countries would cease to be necessary in the next few years. Quite the contrary. It may be very important.

36. It was stated above that the developing countries most affected by the crisis will continue to need financial assistance until they can raise the level of their exports in order to cover the higher prices of their imports. It was also said that the other developing countries, while not experiencing serious balance-of-payments difficulties for the moment, would not be free from them much longer.

Thus, whereas in the past it was necessary to include elements of concessionality with respect to interest and amortization to the most needy developing countries, this will be much more necessary in the future, at least for an extended period of time.

37. Furthermore, certain operations being carried out in one form or another with surplus resources from oil (directly or through the International Monetary Fund and the Eurodollar market) are for periods of time which, because of their relative shortness, are bound to create a serious problem in many cases. It will be necessary to consolidate these debts by granting long repayment periods and low rates of interest to face critical situations.

38. The same comment applies to loans for financing development plans or projects. It is common knowledge that a large number of developing countries are overburdened with heavy amortizations in addition to other financial outlays. No matter how this problem may be solved, care would have to be taken to prevent the mistakes and lack of foresight of the past from recurring in the financing of the next few years.

39. So we come back to the surplus resources from oil. The emergency operations being carried out with these resources contain substantial elements of a concessional character, but this aspect should be considered with equanimity. The oil-exporting countries are not rich countries. They have ahead of them tremendous problems of development and, taking a realistic view of the future, they are concerned about the yield from the surplus earnings they lend or invest beyond their frontiers. They cannot therefore be expected to be the only ones to carry the burden of concessional aid to the neediest developing countries, both with regard to balance-of-payments aid and long-term economic development financing.

40. Here is where the co-operation of the developed countries could play an important role during the next few years without detriment to the target of 0.7 per cent. It was stated above that the triangular recycling of surplus resources from oil - through the developing countries - would help progressively to cover the external deficit of the former countries with the growth of their exports. The relationships of interdependence at the international level are very clear here.

41. The developed countries will be able to solve the serious problem of their deficit in the only sound way of doing so and it is therefore legitimate to ask them for their co-operation. It is thus conceivable that, while adverse circumstances may make it temporarily difficult to reach the 0.7 per cent target, nonetheless they may be able to co-operate in other ways: