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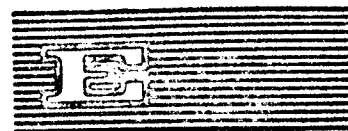


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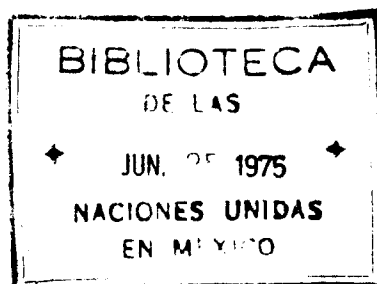
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Agenda item 4

LATIN AMERICAN DEVELOPMENT AND THE INTERNATIONAL  
ECONOMIC SITUATION

SECOND REGIONAL APPRAISAL OF THE INTERNATIONAL  
DEVELOPMENT STRATEGY

ABRIDGED VERSION<sup>x/</sup>



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## INTRODUCTION

The Second Regional Appraisal of the International Development Strategy prepared for the sixteenth session of ECLA contains a formidable bulk of information, unavoidably compartmentalized by sectors of social and economic activity and conditioned by the differences in types of data and tools of analysis available in each sector. The following pages attempt to summarize this material, at the risk of excessive over-simplification of complex and inadequately understood processes. What important general conclusions and policy guidelines emerge?

The most striking conclusion is at first sight paradoxical: Latin America as a whole during the early part of the 1970's has experienced more dynamic economic growth than in the past, exceeding the 6 per cent minimum target for annual increase in GDP set by the IDS, and its economic and social structures are changing significantly. The growth and change, however, have not responded to implementation of the international trade and financing commitments of the IDS nor to national achievements in planning. They have not brought about any alleviation of concern over present shortcomings and future dangers in the prevailing style of development, and they have generated new strains on the capacity of the countries to face new challenges unitedly.

Three different but overlapping stages can be detected during the short period since the beginning of the 1970's, with the situations of many individual countries shifting markedly during the two latter stages owing to factors almost entirely outside national or regional control. First, from the late 1960's through 1972, relatively steady growth predominated, with industry and construction the dynamic elements, but with a slump in agricultural production in 1971-1972, owing largely to climatic factors, constituting a serious handicap. Second, in late 1972 and 1973 the terms of trade for various leading products of the region began to improve with remarkable vigour (even if these improvements did

no more than compensate for deterioration during the previous decade), the export-oriented branches of agriculture responded to the price stimulus, as did other export-oriented activities, and the economic growth rates of several countries rose. Then, mainly in 1974, various repercussions of the well-known world crises struck the region: bringing large immediate gains to countries able to export oil; raising the prices of a few agricultural and mineral products still higher while sharply depressing the prices of others; threatening curtailment by the world centres of Latin America's rising exports of manufactures; drastically raising prices of imports, especially for countries lacking domestic oil supplies; intensifying the strain on balances of payments by combined import costs, debt amortizations, and remittances of profits; generating rising rates of inflation and consequent social tensions in almost all countries of the region. While these factors have not as yet been reflected in falling economic growth rates for the region as a whole, they are inducing sentiments of insecurity concerning the future and alarm over the self-productive measures of the world centres that contrast sharply with the optimism of the years immediately preceding.

A second important general conclusion refers to the accentuation of pre-existing differences between the developmental achievements and capabilities of the Latin American countries. In chapter after chapter of the Second Regional Evaluation one finds that averages for Latin America are dominated by three or four of the countries with the largest populations and territories, comprising about three fourths of the regional population, with two or three of the smaller countries conforming to the averages for special reasons. The remaining countries, which although much more numerous only comprise less than a fourth of the regional population, were in lower positions according to most indicators at the beginning of the decade, have since lagged behind in rates of growth and in indicators of structural change, and appear to be particularly vulnerable to the present crises.

The individual countries in both groups naturally differ from one another in important respects that cannot be discussed here but that can be traced in the full text. A few countries, because of radically different development strategies or unique internal political and economic crises, cannot be identified with either group. In the first group, the fact that the exceptional economic dynamism of the most populous country of the region is particularly influential in the averages, does not mean that there were great differences in the performance of the countries, since the group as a whole possesses relatively large internal markets, varied natural and human resource endowments, important pre-existing industrial bases permitting recent diversification into the more basic branches of industry, and relatively low dependence on agricultural exports as well as agricultural imports. One or two countries somewhat less well-endowed with these advantages are able to more than compensate by their export surpluses of oil. These first-mentioned countries have been able to maintain relatively high rates of investment and internal saving, and their capacities to cope with the difficult immediate international prospects are relatively strong. At the same time, these countries are not succeeding in overcoming internal structural heterogeneity or reducing significantly the dimensions of extreme poverty and under-utilization of their human potential. Most of them have enormous rural populations that are still growing in numbers in spite of rapid urbanization and that remain marginalized from opportunities for livelihood or participation in the national societies. The present trends of change in their social stratification and the strengthening of the "consumer society" for urban minorities associated with their styles of development, along with the nature of the role of the transnational corporations in their industrialization processes, stand in the way of their achievement of the kind of integrated development called for by the IDS and the Quito Appraisal.

/The majority

The majority of the remaining countries have lower per capita income levels, while their incomes are just as unevenly distributed as in the countries of the first group. The internal markets are small and they have been unable to advance to any significant extent beyond lines of consumer-goods industrialization. Their efforts to compensate for small domestic markets through sub-regional economic integration have had only limited success. Their dependence on agriculture is high, but they are less able to feed their people adequately than are the large countries, and for many of them meagre land resources combined with underemployment rural majorities mean that modernization of agriculture and concentration on agricultural export products can have a high cost in terms of food production for the domestic market and livelihood levels for marginal rural labourers and small cultivators. In general, their rates of population increase are even higher than in the first group of countries, the rates and levels of urbanization are much lower, and the likelihood of significant declines in fertility in the near future more problematic. Although their output of professionals and skilled personnel is lower than in the first group of countries in relation to population size, they are also less able to hold the qualified personnel their educational system produce; they are particularly affected by the so-called "brain drain".

These relative disadvantages are not new, but it is ominous that they seem to have become more pronounced for most of the small countries during the early 1970s in spite of general recognition of the need for special measures to redress the balance and determined development efforts on the part of many of the countries. Within the prevailing style of development of the region, the very fact that the larger countries are achieving more dynamic economic growth and diversification makes it harder for the remainder to compete for external financing and technology, except at the price of concessions and sacrifices that the more favoured countries do not need to make.

/In fact,

In fact, for all the differences indicated above, the present conjuncture confirms that the development of both groups of countries remains excessively conditioned by short-term changes in the economic situations and policies of the world centres.

Recent events have confirmed the soundness but also thrown into relief the difficulties of application of the recommendation in the Quito Appraisal concerning integrated development. Progress toward reconciliation of high economic growth rates and the achievement of a more just social order has been less than could have been hoped. During the years of favourable economic growth rates and rising export prices the well-known predisposition to postpone structural reforms in the expectation that economic growth would eventually open the way to an easier solution of social problems once more came to the fore. During the more recent period of insecurity, while the need to relieve social tensions and act on unemployment and poverty has become more inescapable, the capacity of the governments, especially in the smaller countries, to subordinate their actions to an integrated development strategy and allocate resources on the basis of long-term plans is overwhelmed. Continually changing critical situations force them to devote much of their attention and resources to coping with shortages of essential imports, surpluses of export products that do not find an adequate market, and financial imbalances of many kinds among which price changes stand out.

At the same time, the objectives of redistributing incomes and enlisting full participation in decision-making that are central to the Quito Appraisal's concept of integrated development encounter an apparently inexorable need to centralize decision-making to control unstable situations that discourage production, stimulate speculation, and encourage the strongest groups in the population to advance their immediate interests at the expense of the rest.

The most dynamic opportunities for economic growth in the medium-term seem to be associated with a new international division of labour emerging under the aegis of the transnational corporations, and this also presents complex challenges for the unity and autonomy

of development strategies, at the regional as well as national level. Nationally, the formulation of an integrated development strategy enjoining broad understanding and support becomes an essential means of controlling the impact on patterns of production, consumption, investment and resource use. Regionally, an integrated strategy becomes an essential instrument to achieve a more equitable new international economic order.

The following summary of the Second Regional Appraisal has been divided into two parts. The first describes economic and social development in Latin America, focusing on the period 1970-1974 and coming as close to the present as possible, although many important categories of data are still lacking for the more recent years and in some sectors it has not been possible to do more than set forth trends identifiable from 1960 and 1970 census data. The second part describes recent international economic trends and their repercussions in Latin America, and endeavours to show to what extent the present changes in the international economic plane are of a transitory nature and to what extent they constitute the seeds of major long-term transformations in the structure of international economic relationships.

## I. ECONOMIC AND SOCIAL DEVELOPMENT IN LATIN AMERICA

### A. HUMAN DEVELOPMENT AND SOCIAL CHANGE

The high population growth rate characteristic of Latin America - about 2.8 per cent annually for the region as a whole - will persist throughout the 1970s, although probably beginning to decline appreciably by the end of the decade, as declining fertility in an increasing number of countries begins to outpace the slow continuing decreases in mortality rates. The predominant youthfulness of the population, with more than 42 per cent in the dependent age group 0-14, will not change significantly during the 1970s except in a few countries. Neither will the high overall rates of urbanization nor the very uneven spatial distribution of population. In 1970, 40 per cent of the regional population lived in centres with more than 20,000 inhabitants. In 1980 a majority will be living in such centres. During the 1970s, the cities will grow by 75 millions, 40 millions being absorbed by cities that will have passed the one million mark by 1980. The overall population increase means that the more densely populated areas are growing in size and merging with one another to form continuous belts rather than islands, and that the practically uninhabited parts of the region are shrinking, but the spatial redistribution of population is very limited in comparison with the volume of urban growth; although the population in the half of the South American continental territory that was nearly empty in 1950 more than doubled by 1970, this half contained less than one twentieth of the continental population in the latter year.

The individual countries continue to show wide differences in demographic patterns and trends, and these differences are associated significantly with wider differences in their societal characteristics and the developmental problems they now confront: (a) Four countries, with about 15 per cent of the regional population, have either completed a demographic transition to moderate rates of population

/increase or

increase or are in the midst of such a transition; one or two other small countries may be on the point of joining this group. In three of these countries 60 per cent or more of the population was urban in 1970; the rural minority has ceased to grow in numbers and can make only a moderate contribution to future urban growth. The rate of urbanization is thus slowing down. (b) Five large countries account for 68 per cent of the regional population and thus dominate regional averages. All of them have rates of population growth at or above the regional average, but most of them show incipient declines in fertility and have a reasonable expectation that by the end of the 1970s their population growth rates will begin to decline, although remaining high for some time to come. All of them are experiencing rapid urbanization; between 1960 and 1970 urban growth accounted for nearly 70 per cent of their overall population growth, although in only one of them did the rural population cease to grow. Their relatively dynamic processes of urbanization, industrialization, and social structural change are the main reasons for expecting corresponding shifts in their demographic patterns, although several of them have embarked on population policies designed to promote lower fertility. (c) The eleven remaining Latin American countries comprise about 16 per cent of the regional population. Eight of them have growth rates above the regional average, in most cases these rates rose somewhat during the 1970s, only a very few show any indications of incipient fertility decreases, and in several relatively high mortality rates indicate that even higher population growth rates can be expected if mortality drops. These countries are more predominantly rural than those in the first two groups: in 1970 slightly less than one fourth of their combined population lived in centres with more than 20,000 inhabitants. Between 1960 and 1970, their combined rate of urban growth was over 5 per cent annually, but the rest of the population increased at a rate over 3 per cent, so that the urban centres absorbed only 37 per cent of total population growth. While these countries differ widely among themselves in the ratio of land and other resources to population

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and in other relevant factors, it can be concluded that in most of them demographic pressures are more immediately threatening and the likelihood of spontaneous adjustments in the course of development smaller than elsewhere. Thus it is not surprising that Governments in this group of countries have been particularly receptive to population policies incorporating targets for reduction of birth rates. It is too early, however, to appraise the effectiveness of these policies. d) The Caribbean countries, comprising less than two per cent of the regional population, differ among themselves, but a number of them are experiencing demographic pressures rather similar to those of the other small countries, conditioned by the greater importance of emigration as a safety-valve and the earlier adoption of measures promoting lower fertility; their overall population growth rate is now about 2 per cent, well below the Latin American average.

The above demographic trends and differences between countries have been evident since the 1960's or earlier; they have not changed very much except in continual increase in dimensions of the phenomena, and only a few countries comprising a quite small part of the regional population have shifted markedly in their demographic patterns. International migration as an aspect of demographic change, however, has acquired renewed importance in Latin America since the early 1960's. Its predominant traits have changed completely since earlier periods, and these changes constitute symptoms of major shortcomings in the capacity of the prevailing style of development to incorporate the human potential. First, Latin America is now a region of net emigration. Second, migration between adjacent countries, primarily composed of unskilled workers from rural areas endeavouring to escape from extreme poverty and under-employment, is reaching considerable size. This type of migration, the largest numerically, is really an internationalization of the typical internal migratory flows, to the cities and to unoccupied land. Third, emigration to the countries of North America, Europe and Oceania (and to a lesser extent from the poorer

/to the

to the more developed countries of Latin America) comprised of professionals, technicians, and skilled workers needed for the development of their own countries, has increased steadily. The world situation and increasing unemployment experienced by the rich and the developing countries alike suggest that the pressures stimulating these different types of migration will grow even stronger, while most countries' readiness to receive immigrants may decrease abruptly, causing tensions between countries and within the countries of emigration as this safety-valve is blocked.

The social stratification and the life-styles of Latin America have changed markedly during the 1960's and early 1970's, in ways that can be only partially and provisionally deduced from existing statistical evidence. The changes are most pronounced in the larger, rapidly urbanizing countries with relatively dynamic and diversified economic growth, but they can be identified, with differing salient features, in nearly all countries of the region. Assessment of the different dimensions of change through statistical indicators reveals significant inconsistencies that can be attributed to the capacity of structurally heterogeneous styles of development to afford some kinds of participation more easily than others and also their inability up to the present to meet the basic needs of large parts of the national populations:

School enrolment at all levels has grown markedly during the 1960's and early 1970's, but middle-level and higher enrolment has grown much more rapidly than primary, and the share of public financing received by middle and higher institutions has also grown disproportionately. Primary education in most countries has not yet attained universality, and a good deal of the elementary education offered, particularly in rural areas, is too brief and poor in quality to accomplish the minimum objective of functional literacy. The pre-school institutions and supplementary programmes needed to offset child malnutrition and family settings unfavourable to education remain very limited in scope. In 20 countries between 1960 and 1972 or 1973 primary enrolment increased from 25 millions

to 44 millions; middle-level enrolment from 3.7 millions to 12.3 millions; and higher enrolment from five hundred thousand to 2.1 millions. During the early 1970s annual increases in higher enrolment in some countries have climbed above 20 per cent. The huge size of the group now graduating annually from the middle schools, mainly from university-preparatory courses, indicates that the pressure for mass higher education will become even more intense during the remainder of the 1970s.

The proportion of the economically active population in urban occupations that can be classified as "upper" and "middle" in status (roughly non-manual occupations ranging from employers and professionals to salaried employees and sales personnel) has also increased markedly, but not so phenomenally as middle and higher education. The increases in these occupational categories have practically offset the decreases in percentages of active population employed in lower-stratum positions in the primary sector (mainly manual labour in agriculture). In the majority of countries, the percentages of population in urban lower-stratum (manual) occupations have grown only slowly or remained constant, although the absolute numbers have increased because of the rapid overall growth of the urban labour force (see table 1 for data actually available for nine countries). These trends suggest several important conclusions, although these conclusions can be offered only provisionally in view of the shortcomings in reliability and comparability of the data. First, the data do not bear out predictions of an overwhelming relative growth of an urban sub-proletariat or "marginal population", fed by rural migration to the cities. The urban societies seem to have been capable of offering channels for upward mobility absorbing the greater part of the growth in their labour force. Second, the processes of upward mobility have produced urban occupational structures containing high proportions of persons who contribute only indirectly, if at all, to production, many of whom are employed by the State. These occupational categories undoubtedly include many roles

Table 1  
OCCUPATIONAL STRATA, 1960-1970

	Argentina		Brazil		Costa Rica		Chile		Ecuador		Panama		Paraguay		Uruguay		Venezuela	
	1960	1970	1960	1972	1963	1970	1960	1970	1962	1968	1960	1970	1962	1972	1963	1970	1960	1973
<b>I. Middle and upper strata (other than primary occupations)</b>	31.4	32.2	15.0	23.3	33.6	46.2	20.3	27.8	25.0	39.8	16.4	21.8	11.8	13.2	50.2	45.8	23.2	26.8
(a) Employers	8.2	4.3	1.9	4.1	3.0	6.0	1.5	2.4	1.7	4.1	1.3	1.0	1.2	1.4	8.4	5.6	1.8	3.6
(b) Self-employed with own commercial establishments	2.4	4.4	0.2	1.6	4.4	3.1	3.7	4.9	9.1	12.1	0.9	1.3	2.7	3.1	3.0	3.8	5.4	7.0
(c) Independent professionals and semi-professionals	0.7	1.2	0.7	0.5	0.5	0.3	0.6	0.6	0.7	1.3	0.3	0.3	0.6	0.6	2.5	1.5	0.4	0.6
(d) Dependent professionals	4.7	5.5	2.6	4.3	9.4	11.0	4.0	6.2	5.3	7.2	4.3	5.4	2.6	3.1	7.5	7.3	4.8	8.2
(e) Managerial personnel	1.1	4.2	2.6	12.8	1.9	3.4	1.4	1.2	0.4	1.1	1.7	2.4	0.3	0.4	1.3	0.8	1.0	1.3
(f) Employees, sales personnel, auxiliaries	14.3	12.7	7.0	12.8	14.4	22.4	9.2	12.5	7.8	14.0	7.9	11.3	4.4	5.3	28.2	26.8	10.5	16.1
<b>II. Lower strata in secondary sector</b>	30.8	34.0	22.7	20.1	32.4	31.3	32.4	31.9	38.2	24.7	16.6	23.7	21.3	23.5	30.1	26.1	26.0	20.2
(a) Wage workers	26.5	27.5	15.2	14.6	25.1	26.1	26.1	25.2	19.2	22.5	12.5	18.4	11.2	13.0	25.0	29.5	19.3	22.5
(b) Own-account workers and unpaid family workers	4.3	6.6	7.5	5.5	7.3	5.2	6.3	6.1	19.0	12.2	4.1	5.3	10.1	10.5	5.1	6.6	6.7	7.7
<b>III. Lower strata in tertiary sector</b>	8.2	9.2	7.1	7.2	16.5	15.7	13.4	12.0	14.8	17.7	10.9	12.7	7.8	7.7	14.2	14.3	11.4	12.6
(a) Wage workers in services	8.3	9.1	6.7	6.5	15.2	15.0	12.3	10.9	12.4	13.9	9.5	10.7	7.2	6.8	13.9	12.7	10.0	10.7
(b) Own-account workers and unpaid family workers in services	0.6	0.9	0.4	1.4	1.3	0.7	1.1	1.1	2.4	3.9	1.4	2.0	0.6	0.9	1.0	1.6	1.4	1.9
<b>IV. Middle and upper strata in primary sector</b>	3.4	1.3	0.1	0.1	1.3	1.1	0.5	0.8	1.2	1.0	0.6	0.2	1.3	0.6	0.2	0.6	0.2	1.0
(a) Employers in agriculture and extractive enterprises	3.4	1.3	0.1	0.1	1.3	1.1	0.5	0.8	1.2	1.0	0.6	0.2	1.3	0.6	0.3	0.6	0.9	1.0
(b) Rural wage workers	14.2	13.1	50.2	40.2	12.6	4.8	29.2	24.4	18.9	6.1	43.5	36.2	51.0	48.2	0.5	1.4	22.7	19.1
(a) Own-account workers and unpaid family workers	9.5	7.8	14.2	11.8	8.3	3.9	21.7	16.5	10.6	3.9	6.3	6.8	11.0	9.3	0.4	0.5	11.6	7.1
(b) Other (unclassified residual, probably mainly in primary sector)	5.4	5.3	36.7	28.4	4.3	0.9	8.2	7.9	8.3	2.2	37.2	30.1	40.0	39.6	0.1	0.9	21.1	12.0
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Argentina: 1960 and 1970, samples from censuses for whole country.  
 Brazil: 1960, sample from census for whole country; 1972, sample surveys in 6 regions. There may be a sampling error in the very low percentages for middle and upper strata in the primary sector.  
 Costa Rica: 1963 and 1970, sample surveys covering urban zones.  
 Chile: 1960, sample from census; 1970, census. Whole country in both years.  
 Ecuador: 1962 and 1968, sample surveys covering urban zones.  
 Panama: 1960 and 1970, samples from censuses for whole country.  
 Paraguay: 1962 and 1972, samples from censuses for whole country.  
 Uruguay: 1963, sample from census; 1970, sample surveys. Montevideo only in both years.  
 Venezuela: 1960, census; 1973, sample surveys. Whole country in both years.

essential to the functioning of a modernizing urban society, but the rates of increase and the internal composition seem to have been determined more by the unbalanced growth of the educational systems than by societal needs that might be deduced from the national styles of development. Third, since middle and higher educational expansion has been more rapid than the expansion of the corresponding occupations, the formal educational requirements for admission to these occupations have continually risen. Around 1960, as various educational studies have pointed out, the holders of middle and upper occupational positions tended to be under-educated for them. Now they tend to be over-educated. While the pressures for further expansion of middle and higher education and for jobs corresponding to the expectations of the products of such education are both bound to increase, it is unlikely that the past rates of expansion in either area can be maintained much longer, except by a few countries with unusually abundant public-sector revenues. It follows that both of the two main safety-valves relieving pressures for upward mobility within the urbanizing and modernizing societies will lose their capacity to carry out this function at manageable cost.

Income distribution data suggest a higher degree of concentration of gains from development than do the educational and occupational data. After more than a decade of national policies aimed at more equitable distribution of incomes, incomes in Latin America remain more concentrated than in most other parts of the world, and the gap between groups near the top and groups near the bottom of the income ladder has widened. At the same time, in the majority of countries, the relative size of the groups at and near the top that have made disproportionate income gains seems to have increased, while overall national income rises have been large enough so that the groups near the middle of the income ladder have gained something in absolute terms even if their share of total personal income has declined.

The processes of urbanization, modernization and monetarization of consumption affect the meaning of the monetary income gains for income-receivers at all levels. In the upper-middle strata consumption aspirations have undoubtedly risen faster than incomes, in particular through the manifold repercussions of the automobile and television on ways of life. In the lower-middle strata, and to some extent down to the lowest strata, aspirations for modern consumer goods and expenditure needs deriving from the complications of urban life exert pressures on incomes that divert resources from the needs generally assumed to be basic, even the need for an adequate diet. The modest gains in monetary incomes in these strata thus do not necessarily mean higher levels of well-being, either objectively or subjectively. Since 1973, moreover, inflation, previously chronic in only four countries of the region, has almost everywhere been introducing new sources of tension and insecurity in the struggle for a larger share of income, even for the groups that are able to hold their own or better.

The exceptionally uneven distribution of incomes and the persistence of mass poverty derive partly from the distribution of power in the societies and partly from inability of the prevailing style of development to incorporate a large part of a rapidly growing labour force into occupations productive enough or enjoying enough social demand to afford adequate incomes. Attention has centred on the rates of growth of employment in modern industry, generally lower than the rate of growth of the urban labour force even where industrial production has expanded at satisfactory rates, on the practically stationary demand for labour in agriculture, and on the relatively rapid growth of employment in services. Frequent assertions that the prevailing style of development inevitably brings about increases in the relative importance of under-utilization or "marginalization" are not supported by the weight of evidence, but neither has it been demonstrated that this style can lead to significant reduction in under-utilization. It now appears, mainly from a series of national studies carried out by the Programa

Regional del Empleo para América Latina y el Caribe (PREALC) that the main shortcomings in most local settings are not open unemployment of male family breadwinners nor underemployment in terms of abnormally short worked periods, but full-time employment affording very low or fluctuating incomes, and inability of youths to find jobs matching their expectations.

The foregoing information shows that large population groups which suffer extreme poverty in the form of acute physiological deprivation are placed in an extremely disadvantageous position, in both relative and absolute terms. Although admittedly the proportion in this situation in Latin America is smaller than in extensive areas of Asia and Africa, the problem affects large representative sectors of the population.

In any case, it can be asserted plausibly that the larger, more dynamic national societies, along with the longer-urbanized societies, now have the material capacity to eliminate acute physiological deprivation, providing for all diet and shelter meeting minimum requirements for health, plus a minimum of universalized educational and health services and an upgrading of productive capacities, without an unmanageable diversion of resources to the poor or radical transformation of the style of development.

The great reservoir of extreme poverty remains in the countryside. For all the diversity of rural social and economic changes in recent years, with capitalist modernization of agriculture progressing vigorously in some zones, exploitation by commercial intermediaries taking new forms in others, co-operatively oriented agrarian reforms predominant in a few, one element seems to be nearly universal, increasing marginalization of the weakest parts of the rural population (landless labourers, minifundio cultivators) from access to productive or income earning activities. Some of the resulting poverty is transferred to the cities or to zones now being opened to settlement, but the poorest groups probably have less propensity to migrate than other parts of the rural population, because of their greater lack of education and skills. Their poverty may thus be nearly invisible to the rest of the society, receiving no services and exerting no pressures.

/The deficient

The deficient nutrition of children under five years of age has emerged as the most alarming and intractable facet of the problem, in view of the long-term implications for quality of the population and the particular difficulties of getting the right foods in adequate quantities where they are most needed. Malnutrition in children is usually due not only to a deficiency of protein but more particularly to a combination of low energy intake coupled with inadequate protein utilization.

Moreover, although improving the adequacy of food supplies to the lowest-income families is essential, it is nevertheless insufficient, since protein-energy malnutrition of very young children derives partly from culturally determined patterns of distribution of food within the family. Thus, the prescription for "treatment of the total environment of the child" is unavoidable, but hard to realize within settings of extreme poverty.

The chronically low standards of housing associated with rural or urban poverty have neither improved nor deteriorated very much. In the smaller towns and cities the main change has been the marked improvement in the infrastructure associated with housing: electrification, water supply and sewerage. In the larger and more rapidly growing urban centres conventional mechanisms for the organization of house-building have continued to respond to the needs of the urban upper-income strata. In addition, the prevailing unit costs dictated by inefficient and high-profit construction industries had narrower limits than was expected, even with public subsidies and generous terms of payment.

B. ECONOMIC TRENDS AND THE DOMESTIC EFFORT

1. Economic growth

Latin America's economic growth in the years 1970-1974 enabled it to attain and even exceed the overall growth targets laid down in the IDS, with increase of about 7 and 4 per cent annually in the total and per capita product, respectively. These improvements, however, were accompanied by an accentuation of the heterogeneity in the rates and styles of development of the various countries which had been observable at the end of the 1960s. The countries' uneven growth was due to factors that had different and even conflicting features in the different economies, and which have been brought to light by the international economic situation in recent years.

The countries with the most important economies and the biggest population have shown an extraordinary capacity for growth which is accompanied and supported by a greater degree of integration of their economies. At the same time, because of the greater attraction they represent for the developed countries, they have obtained easier access to external financing, technology and markets. The potential of their installed capacity and resources has enabled them to take full advantage of their opportunities and face the challenges of the present international situation without unduly critical pressures.

The oil-exporting countries were very soon favoured by the exceptional increase in the price of hydrocarbons, and had to face problems hitherto alien to the region, i.e., the search for adequate internal and external means of channelling their huge financial resources. In addition to achieving satisfactory rates of growth for the first few years of the decade, their prospects of future growth are extremely bright. A few small countries have also been able to take advantage, though on a much smaller scale than the previous group, of favourable international market conditions to achieve sustained growth at rates close to and in some cases even higher than those proposed in the IDS.

/In contrast

In contrast with the developments in these seven or eight countries included in the above-mentioned groups, (comprising approximately 75 per cent of the total population) the majority of the Latin American countries have not managed to attain satisfactory growth rates and, an even more serious state of affairs, have made no progress towards acquiring the necessary characteristics for self-sustained growth (see table 2 and figures in the annex).

Thus, they have not succeeded in improving the degree of internal integration, their levels of accumulation, their access to external markets and financing and, worse still, they have in general made no progress towards the regional integration of their economies. The present international situation has brought into focus their vulnerability to the variations in external trade and financing.

As regards the various sectors of the economy, manufacturing, construction and basic services grew more rapidly than the rest, while agriculture is among those showing a low rate of growth. In the years 1971-1972, these low rates tended to confirm what had already become a traditional deterioration. However, 1973 and especially 1974 marked a more rapid growth, largely as the result of a rapid and flexible reaction to the increase in international prices of agricultural commodities. There was also a considerable expansion of the area harvested. Both these factors combined to show that the low level of prices was hampering the sector's considerable unexploited potential.

These overall sectoral trends conceal significant differences between the various countries. In those of greater economic and demographic size, the industrial sector has played a key role in development, and great strides have been made in the internal integration of industry. In these cases, considerable progress is noted in the production of intermediate and capital goods. This industrial growth, in its turn, has created a not insignificant market for the agricultural sector and was able to supply it with

Table 2  
 LATIN AMERICA: TRENDS OF SOME MACROECONOMIC VARIABLES, 1970-1974  
 (Percentages)

	Group I a/	Group II b/	Group III c/	Total
Growth of the gross domestic product (1970-1974)				
Total	7.4	5.5	4.4	6.7
Per capita	4.4	2.3	1.8	3.9
Agricultural sector	4.1	2.9	2.7	3.7
Manufacturing	8.8	9.2	4.7	8.0
Exports of manufactures in relation to total exports of goods (1973)	29.3	1.5	11.4	18.0
Share of output of intermediate, capital and durable consumer goods in total manufacturing production (1971)	61.0	46.0	37.0	
Annual increase in area harvested (1970-1974)	3.1	-0.6	0.8	2.5

Source: ECLA, on the basis of official figures supplied by the countries and FAO.

a/ Argentina, Brazil, Colombia and Mexico.

b/ Dominican Republic, Ecuador and Venezuela.

c/ The rest of the countries, except Cuba.

/inputs when

inputs when the international situation created exceptional conditions for certain crops. Thus, the links between the two sectors could be strengthened in support of a more integrated overall growth.

At the other end of the scale, the economically and demographically small or medium-sized countries have also, generally speaking, increased the relative size of their industries, but without being able to make any appreciable progress in the intermediate and capital goods industries, and the process is characterized by discontinuities in the rates of growth. In many cases agriculture, even in the most dynamic countries, continues to be heavily dependent on the external sector and achieves low levels of integration with the rest of the economy, its fluctuations being closely in keeping with world market trends (see table 2 and the figures in the annex).

In the period 1970-1974, and particularly in the years 1973-1974, there has been a recrudescence of inflation, which has spread to practically the whole region. Since 1972, four countries have had very high rates of inflation, involving increases of over 40 per cent annually in the consumer price index and reaching levels, in certain periods, which are among the highest in their experience. In six other countries in which the pace of inflation was more moderate, increases were recorded which took place more slowly, at rates varying between 20 and 30 per cent in 1973. The rest of the countries, in many of which prices had remained relatively stable in the 1960s, that year suffered a general process of inflation at rates ranging from 15 to 20 per cent, which are much higher than ever before. In 1974, the rate of inflation continued to be rapid, but did not exceed the former high levels.

There were great differences between individual countries, with respect to both the intensity of inflation and the motive factors behind it. The salient features of the inflationary situation, however, were its widespread nature and the paramount influence of external factors. The higher prices of imports have had a direct

/and important

and important effect. The increase in prices of export commodities which may also be destined for the domestic market, has triggered an increase in domestic prices, despite the efforts made by some countries to keep them down. International inflation has in various ways affected the countries' balance-of-payments situation and hence the evolution of the money supply. In differing degrees, each country has suffered the effect of these external factors. Some have to face higher prices for their imports without experiencing the effect or the benefit of a similar increase in the value of their exports. In other countries, both these influences have acted together, with better effects on economic growth, but creating a more complex situation from the angle of inflation, owing to the relationship between the domestic and external prices of their exportable products. The oil-exporting countries are facing the original problem of productively absorbing their foreign exchange surpluses in order to prevent their expansionist effects on domestic prices. The countries recording lower rates of growth are the most affected, since they have to centre their efforts on arresting inflation, thereby accentuating their problems of expansion.

The most significant changes during this period took place in Latin America's external economic relations. The value of exports of goods rose from 14,880 million dollars in 1970 to 44,053 million in 1974, and imports from 14,040 to 40,220 million between the same years, the biggest increases being in 1973 and 1974. In both cases, this is mainly attributable to the upswing in prices, since in the period 1970-1974 the volume exported increased by only 3.3 per cent annually, and the volume imported by 12 per cent.

The countries were affected in very different ways by the change in international prices, according to the structure of their foreign trade and their capacity to react to the situation. The prospects for the next few years are also very different (see table 3).

Table 3  
LATIN AMERICA: EXTERNAL SECTOR TRENDS, 1970-1974

	Group I a/	Group II b/	Group III c/	Total
<b>Exports of goods</b>				
Rate of increase in volume				
1965-1970	4.7	2.5	2.9	3.6
1970-1974	5.9	-2.3	3.0	3.3
<b>Imports of goods</b>				
Rate of increase in volume				
1965-1970	10.6	4.5	6.6	8.1
1970-1974	14.9	12.1	7.0	12.0
<b>Unit value:</b>				
Of exports in 1974				
(1970=100)	203.0	577.0	181.0	260.0
Of imports in 1974				
(1970=100)	188.0	163.0	188.0	182.0
Of exports in 1973				
(1970=100)	158.0	200.0	141.0	162.0
Of imports in 1973				
(1970=100)	132.0	131.0	128.0	131.0
<b>Trade balance (millions of dollars)</b>				
1973	158.0	2 175.0	-709.0	1 624.0
1974	-6 380.0	10 750.0	-1 836.0	2 534.0
<b>Interest and profits (millions of dollars)</b>				
1973	-2 481.0	-1 859.0	-796.0	-5 135.0
1974	-3 260.0	-4 875.0	-1 105.0	-9 240.0
<b>Balance-of-payments balance on current account (millions of dollars)</b>				
1973	-2 323.0	316.0	-1 504.0	-3 511.0
1974	-9 820.0	5 875.0	-2 761.0	-6 706.0

Source: ECLA, on the basis of official statistics.

a/ Argentina, Brazil, Colombia and Mexico.

b/ Dominican Republic, Ecuador and Venezuela.

c/ The rest of the countries, except Cuba.

The four oil-exporting countries saw the price of their main export commodity rise at an average rate which almost doubled the high rate of increase in the prices of other primary products, and the prospects for the next few years are definitely more favourable. In view of the vigorous growth in 1974, the value of these countries' exports rose by an average of 47.3 per cent annually between 1970 and 1974, despite the slight contraction in the volume exported. Since the increase in import prices was far below this, the rise in the purchasing power of exports soared (27 per cent annually).

The major countries of the region witnessed increases of approximately 6 and 20 per cent, respectively, in the volume and unit value of their exports. In these countries, in addition to the boom in the prices of primary commodity exports, the rapid increase in exports of manufactures also played an important role. This favourable situation, combined with other factors, enabled them to step up the rate of increase in the volume of their imports (14.9 per cent against only 10.6 per cent in the period 1965-1970), and thus sustain the growth of their economies.

If the major countries and the three countries benefiting most from their external rate are excluded, the rest of the countries experienced less significant positive changes and even some negative consequences. Their exports grew by about 3 per cent, in volume, and their imports by around 7 per cent, the trend being aggravated with the increase in the unit value of imports over and above that of exports for this group of countries (see table 3).

External trade presented an exceedingly favourable situation in 1973 and the first half of 1974, which subsequently tended to deteriorate. This change in the situation was determined by two factors. First, by the uneven evolution of export and import prices. Secondly, the substantial increase in the volume of imports, which was based financially on the conjunctural situation in 1973-1974, and which, inasmuch as it presented an essentially structural basis of support for the growth of the whole economy, is difficult to curb without affecting economic growth.

/On the

On the whole, the increase in export prices took place ahead of that of import prices and lasted until mid 1974, except in the case of petroleum. In the second half of that year, the prices of several important agricultural commodities (except sugar, vegetable oils and cereals) started to drop, thus apparently putting an end to the period of general increases, while prices of metals plummeted. On the other hand, unit prices of imports underwent a considerable increase in the last few years. The characteristic feature of this trend is that it continued at the end of 1974 as a result of international inflation, and the prospects are that it will continue at least during 1975 and 1976.

The physical volume of imports has been increasing more and more, the average rate being 12 per cent for the region as a whole, although the larger countries contributed most to this trend. In all but the oil-exporting countries, the increase in the value of exports has derived largely from the general world situation together with a temporary increase in prices which has already started to go into reverse. At the same time, the value of imports has risen rapidly as a result both of the substantial increase in volume and the higher prices, which seem more likely to continue to rise than in the case of exports. Thus, the trade balance, which had improved in 1973, ceased to do so in 1974 and will tend to deteriorate in the next two years. In this respect, 1974 was a turning point and suggests the possibility of future trade balance problems for most of the countries.

At the regional level, the trend of foreign trade was such that 1973 and 1974 saw a return to the kind of surplus that had been experienced in the second half of the 1960s, when the average balance was 1,300 million dollars. In 1973 and 1974, the trade balance surplus was 1,624 million and 2,534 million dollars respectively, compared with the poor performance in 1970-1972 when there was either a very small surplus or an actual deficit (220 million dollars in 1972). However, the deficit on current account continued to grow, mainly because of the rapid increase in payments of interest and

/profits, which

profits, which made up 21 per cent of the total value of exports in 1974. This deficit, which stood at 4,580 million dollars in 1972 (more than twice that of the average figure for 1966-1970) reached 6,706 million dollars in 1974.

In most of the non-oil-exporting countries, the inflow of capital in 1974 was greater than the payments of profits and interest, and thus facilitated the large real increase in imports, albeit at the expense of a larger external debt.

In the four oil-producing countries, on the other hand, there were large balance-of-payments surpluses on current account; the largest oil producer in fact became an exporter of capital.

The payments of profits on direct foreign investment and the interest on loans contracted by these countries rose very quickly, from 1,890 million dollars in 1973 to 4,350 million in 1974, largely as a result of the participation of foreign enterprises in the production of petroleum (except in the case of one country where the enterprise is State owned). Such payments were higher than in the remaining 19 countries of the region. Nonetheless, they showed a surplus on current account, which in the case of the principal exporter of petroleum was 3,080 million dollars and, in the case of the other three countries, somewhat lower.

One of the main questions facing the oil-exporting countries, which continued to have serious development problems and shortcomings in their productive structure and standards of living, is how to use the new resources efficiently.

As a result of these far-reaching changes in the external situation of the region, net foreign currency reserves increased by 7,900 million dollars (4,200 million of which correspond to 1973) over 1970.

## 2. Domestic effort

During the period 1970-1974, the volume of resources mobilized to increase production capacity rose; between 1970 and 1973, gross domestic investment reached an average of almost 22 per cent of the

/gross domestic

gross domestic product. A number of reforms were also introduced at the institutional level in order to ensure a more efficient organization of production and solve the serious problem of distributing the benefits of growth.

The increase in the investment coefficient at the regional level is particularly significant in view of the fact that there are two very different groups of countries. On the one hand there are the large and the oil-producing countries, together with three small countries where external financing plays a major part, whose gross domestic investment is equal to or higher than the regional figure of 22 per cent of the gross domestic product.

On the other hand, there is a group of seven countries whose coefficients vary between 7 and 14 per cent, which is so low that it bodes ill for their future growth. The differences are even more striking if one considers the structure of investment. In most countries, construction continues to absorb most of investment; although there was an increase in overall average investment in the purchase of machinery and equipment, this is largely accounted for by the large increases registered in two of the largest countries (see table 4).

There was also an increase in gross domestic saving which, on average, stood at about 20 per cent of the gross national income, thereby permitting the financing of about 90 per cent of gross domestic capital formation - a slight improvement over the previous five-year period. The relatively high level of this coefficient is largely attributable to the value registered in the relatively more developed countries, the principal oil-exporting countries and one or two small countries. These countries, which already have high levels of savings and are in a better economic situation, find it relatively less difficult to increase them and suffer less from the problem of financing their investments caused by fluctuations in the external savings they receive.

Table 4

LATIN AMERICA: TOTAL GROSS INVESTMENT COEFFICIENT IN TERMS OF GROSS DOMESTIC PRODUCT

(Percentage based on values at 1970 prices)

Country	Decade 1961- 1970	Second quinquen- nium 1966- 1970	1970	1971	1972	1973	1974
Argentina	18.0	18.0	19.9	20.8	21.6	19.8	20.6
Bolivia	15.1	15.9	15.6	14.9	13.9	16.8	18.8
Brazil	19.8	19.6	20.6	22.1	23.1	24.9	26.3
Colombia	20.5	20.6	21.5	22.4	20.1	19.9	20.9
Costa Rica	17.7	17.8	20.5	22.5	20.2	22.1	25.4
Cuba	...	...	...	...	...	...	...
Chile	16.0	15.9	17.0	15.6	13.6	...	...
Ecuador	13.3	14.3	19.5	25.9	21.9	22.5	24.4
El Salvador	14.7	14.6	13.3	15.5	12.8	16.2	16.4
Guatemala	12.3	12.8	12.8	14.0	11.1	12.2	14.0
Haiti	5.8	5.7	7.0	7.5	8.0	8.4	8.7
Honduras	17.1	19.2	21.9	16.4	15.1	17.3	22.4
Mexico	20.5	21.0	21.5	20.0	21.1	22.8	23.7
Nicaragua	17.5	18.2	17.3	17.0	12.3	17.2	23.4
Panama	21.4	23.5	26.4	27.6	29.8	27.9	28.9
Paraguay	14.0	15.3	14.7	14.8	16.2	20.6	21.4
Peru	15.0	14.5	12.2	14.0	13.2	14.0	16.0
Dominican Republic	14.2	15.9	18.8	19.7	22.1	23.5	24.8
Uruguay	10.8	10.2	11.4	12.4	11.1	10.7	10.4
Venezuela	25.8	26.5	27.7	28.1	31.1	32.7	...
<u>Latin America</u>	<u>19.1</u>	<u>19.3</u>	<u>20.3</u>	<u>20.7</u>	<u>21.4</u>	<u>22.3</u>	<u>23.7</u>

Source: ECLA on the basis of official statistics supplied by the countries.

In the other countries, the national savings coefficient is considerably lower (between 8 and 14 per cent). In most cases, owing to their lower level of development, the problem of channelling resources into investment is greater and they are therefore very dependent on external savings (see table 5).

These differences in the capacity to increase domestic savings and in the degree of dependency on external financing are an important factor and should be taken into account in arrangements for international financial co-operation.

The institutional reforms that were attempted during the period fall into three categories; those designed to modernize state administration, those that attempt to reinforce national ownership and decision-making ability in relation to that of the large transnational enterprises, and those that seek to modify the internal distribution of the benefits of production.

It has so far proved impossible to tackle all three kinds of reform while simultaneously increasing the domestic investment and savings coefficients.

Most countries made progress in the modernization of state administration. Planning offices have redoubled their efforts to link their medium- and long-term strategies both with their priority projects and programmes and with general economic policy, particularly in the light of the current situation. In keeping with the recommendations contained in the International Development Strategy and Quito Appraisal, efforts were also made to apply an integrated approach to development.

The increase in production of some of the faster-growing countries derived from far-reaching reforms of the financial and tax system. As regards the financial system, there was a tendency to create flexible capital markets capable of mobilizing vast quantities of financial resources. As regards taxation, more modern methods were introduced in order to increase revenue while simplifying tax collection and improving control.

Table 5

LATIN AMERICA: GROSS DOMESTIC SAVINGS COEFFICIENT IN TERMS OF GROSS NATIONAL INCOME

(Percentage on the basis of constant values at 1970 prices)

Country	Decade 1961- 1970	Second quinquen- nium 1966- 1970	1970	1971	1972	1973	1974
Argentina	17.7	18.1	19.4	19.4	20.8	21.9	20.7
Bolivia	10.0	11.4	13.4	11.4	10.0	13.7	(20.6)
Brazil	19.2	18.8	19.3	19.7	20.7	22.7	21.3
Colombia	17.8	17.5	17.4	17.3	18.4	19.9	20.4
Costa Rica	11.6	11.4	12.9	12.0	12.8	15.4	14.2
Cuba	...	...	...	...	...	...	...
Chile	14.8	15.4	16.5	13.1	8.6	...	...
Ecuador	10.2	10.0	12.2	15.6	15.4	19.4	(24.2)
El Salvador	13.0	12.4	13.4	13.5	13.5	13.3	(10.1)
Guatemala	10.7	11.5	12.9	12.3	10.5	12.6	11.7
Haiti	3.4	4.4	5.7	6.4	7.1	5.9	5.5
Honduras	13.4	13.9	12.8	13.7	14.4	14.2	14.0
Mexico	19.0	19.1	18.6	18.1	19.2	20.4	20.0
Nicaragua	13.4	12.3	12.7	12.8	11.8	14.0	10.8
Panama	16.7	19.1	20.3	21.3	21.9	20.2	18.4
Paraguay	9.7	9.9	11.6	10.8	14.9	18.0	18.3
Peru	14.4	13.5	14.8	13.2	12.1	12.5	9.6
Dominican Republic	9.7	9.1	10.4	12.5	19.7	19.6	18.6
Uruguay	10.7	10.1	9.4	9.8	11.5	11.0	7.8
Venezuela	28.8	27.7	28.5	29.1	30.3	34.8	45.3
<u>Latin America</u>	<u>18.3</u>	<u>18.1</u>	<u>18.8</u>	<u>18.5</u>	<u>19.4</u>	<u>21.0</u>	<u>21.6</u>

Source: ECLA on the basis of official statistics supplied by the countries.

On the whole, these reforms have encouraged investment but this alone is not sufficient to strengthen the power of decision of the countries or to improve the distribution of the benefits of growth.

Reform designed to increase the national decision-making power has made great strides in respect of the ownership of national resources. In this field, great progress has undeniably been made which, generally speaking, has led to a great improvement in the tapping of income for the region. As regards industrial ownership, progress has been more varied and less satisfactory.

Finally, there have been more serious problems and less progress in respect of the domestic redistribution of income and ownership. The countries that have introduced the more ambitious reform have come up against serious problems and mostly face low levels of domestic investment and savings. Special reference in this connexion must be made to reforms relating to agricultural production and ownership.

In most Latin American countries, agrarian reform laws have been passed and the appropriate machinery set up. In the 1960s, an estimated annual average of 100,000 rural families benefited from agrarian reform, more than half of this figure corresponding to just two countries. This annual average would appear to have doubled in the 1970s thanks to the speeding up of the process and the taking of new steps in other countries. In regional terms, results are far from satisfactory considering the vast number of potential beneficiaries and the increase in the rural labour force. By and large, there has been little change in ownership and use of land. The experience gained, however, has been valuable and provides guidelines for increasing the effectiveness of agrarian reform, and this is indispensable for the development of the countries of Latin America.

An attempt has also been made to modify the supporting institutions for agricultural production and progress has been made in agricultural research and experimentation. To some extent, this is apparent in the achievements of the last two years. However, some

/problems continue

problems continue to exist, such as the instability of personnel and the divorce that exists to some extent between the supporting institutions and the real problems facing the agricultural sector.

There has been an extensive reorganization of agricultural services so as to cover a wider field and benefit large groups of rural workers, and this has led to new methods designed to promote the latter's participation through their associations.

Other services, such as credit and technical assistance, have been more limited in their effect and are used mostly by the medium-sized and large commercial farms. More resources and a revision of traditional banking machinery are required if this effect is to be multiplied and if they are to reach the most needy sectors. The public sector has increased its participation in agricultural financing and investment, particularly as regards infrastructural works and the provision of credit for agricultural marketing and operations, but it is still insufficient, above all in terms of medium- and long-term investment financing.

One of the most promising institutional reforms in the agricultural sector is the creation of producers' associations and co-operatives, most of which are made up of medium-scale and small producers. There are few organizations of wage-earners and poor rural workers.

Primary education is the only social service that is tending to improve in the rural environment, although it is still inadequate in content.

It has proved impossible to overcome the traditional anarchy that exists in State agencies, the weakness of the ministries of agriculture, the lack of co-ordination of functions and the generally excessive bureaucracy. The positive achievement of having set up agricultural planning offices in most countries is neutralized by their failure to tackle variables that have a decisive influence on the sector and by the great distance that separates them from the executive levels of agrarian policy.

## C. SECTORAL DEVELOPMENT

### 1. Industrial development

The production of the region's manufacturing industry showed an annual growth rate of 8 per cent between 1970 and 1974, thus attaining the target proposed by the IDS. This is a continuation of an upward trend over a long period, for during the 1950s and 1960s the average rate was approximately 6 and 7 per cent respectively. This growth in industry is mainly responsible for the overall growth of the Latin American economy and, in turn, its growth is determined by overall growth. Trends in the period under review have shown the influence that domestic market potential has on expansion and the degree of industrial integration.

However, from the level achieved by the overall growth rate, it can be seen that only 6 countries exceeded the set target, the highest growth rate being achieved by the country with the densest population. The remaining countries did not attain the target, and their average was lower than 8 per cent. It ought also to be mentioned that the growth rate of many small countries was meagre (see tables 2 and the figures in the annex). This heterogeneity is accentuated if the degree of industrial integration is examined. Whereas the relative importance of the consumer goods producing industry is decreasing, and that of intermediate and capital goods is increasing significantly in the large countries, the remainder of the countries seem to face irremovable obstacles to such transformation. It is for this reason that some countries achieve an increasing degree of industrial integration which facilitates their access to technology, capital and external markets, whereas the remainder have had to pay a high price for less progress in this direction. (See table 6.)

The situation of Latin American industry in the world context leaves much to be desired. The share in the generation of the world manufacturing product, both at overall and per capita levels, has remained at a relatively low level. (See table 7.)

Table 6  
LATIN AMERICA: PRODUCTIVE STRUCTURE OF THE MANUFACTURING SECTOR

(Percentages)

	1960			1971		
	A	B	C	A	B	C
Argentina	44.5	26.8	28.7	33.9	31.9	34.2
Bolivia	89.0	7.9	3.1	89.3	7.2	3.5
Brazil	41.2	29.4	29.4	30.3	32.7	37.0
Central America	86.1	9.6	4.3	73.5	18.2	8.3
Colombia	63.4	27.2	9.4	58.8	29.1	12.1
Chile	61.2	29.1	9.7	57.8	33.2	9.0
Ecuador	75.0	23.1	1.9	63.1	31.0	5.9
Mexico	53.7	35.5	10.8	47.6	38.4	14.0
Panama	65.7	34.3	...	62.1	37.9	...
Paraguay	81.1	13.5	5.4	80.8	13.5	5.7
Peru	63.6	28.7	7.7	80.3	28.0	11.7
Dominican Republic	78.4	18.7	2.9	71.0	26.9	2.1
Uruguay	61.1	20.8	18.1	60.7	25.8	13.5
Venezuela	63.5	29.4	7.1	49.8	40.6	9.6
<u>Latin America</u>	<u>56.5</u>	<u>26.1</u>	<u>17.4</u>	<u>50.8</u>	<u>30.0</u>	<u>19.1</u>

Source: ECLA, on the basis of information provided by the countries.

Notes: A: Branches producing mainly consumer goods; foodstuffs, beverages, tobacco, textiles, footwear and clothing, wood and cork, furniture and furnishing parts, printing and publishing, leather and leather products, miscellaneous industries.

B: Branches producing mainly intermediate goods; paper and paper products, rubber and rubber products, chemical products, oil and coal products, non-metallic minerals, basic metal industries.

C: Branches producing mainly capital goods and durable consumer goods; metal products, machinery excluding electrical machinery, electrical machinery, transport equipment.

Table 7  
PER CAPITA INDUSTRIAL PRODUCT

	1960	Index	1970	Index	1975 <sub>a/</sub>	Index	1980 <sub>a/</sub>	Index
World <u>b/</u>	171	1.00	271	1.00	341	1.00	429	1.00
Canada and United States	717	4.19	1 021	3.85	1 219	3.56	1 617	3.77
Western Europe	318	1.86	498	1.83	624	1.83	781	1.87
Latin America <u>c/</u>	84	0.49	123	0.45	161	0.47	212	0.49

Source: ECLA on the basis of United Nations data, Monthly Bulletin of Statistics and The Growth of World Industry 1969, August 1972.

a/ 1975 and 1980 projections were made on the basis of trends observed between 1960 and 1970; for Latin America, on the basis of trends observed between 1970 and 1973, which were higher than those of the previous decade.

b/ Excluding Albania, China, Mongolia, The People's Republic of Korea, and Viet-Nam.

c/ Excluding Cuba, Jamaica, Barbados, Guyana, and Trinidad and Tobago (dollars at 1960 prices).

The IDS target for the developing countries would not bring about appreciable changes in the acute imbalance indicated, and, prospects of achieving a reduction in existing industrial inequality, one of the major objectives of this strategy, are poor for these countries. Resolutions 3201 (S-VI) and 3202 (S-VI) of the General Assembly of the United Nations, which form an integral part of that strategy, give high priority to the need to increase the share of the developing countries in world manufacturing production. The above confirms the forecast made by ECLA on the need for Latin American countries to set more ambitious objectives in respect of industrial growth, by taking advantage of the potential capacity of the region.

The achievements of this seems more feasible, over the medium-term and long-term, owing to the combination of several factors. Some developed countries are seriously considering the desirability of transferring productive activities to developing countries, owing to the increasing difficulties they are facing in installing new plants and expanding existing ones in their own countries as a result of, among other reasons, the shortage and costs of energy resources, water and other natural resources, as well as the thorny problems of environment pollution. In the developing countries not just a few cases of comparative advantage in the manufacture of certain materials, and basic products, have been strengthened by the position of these products in international trade. The persistence of this situation could favour conditions conducive to more favourable negotiations to increase the degree of industrialization of their economies. Furthermore, there is greater awareness that industrialization strengthens national sovereignty over natural resources.

In the period under review there was a marked increase in the value of exports of manufactures from the region. Over the period 1970-1974, this value increased, the figure for 1974 easily tripling that of 1970. The rate of increase was 37 per cent per year, double the corresponding rate for the last five years of 1960, this being determined by the sharp increases in international prices. The

/growth rate

growth rate shown is higher than that of total imports, as in the five year period 1965-1970, and as a result the share of manufactures increased from 9.5 per cent in 1965 to 18 per cent in 1974, making this sector an important component of external sales. The major advances made were in the sectors which are new to external trade, such as the metal-engineering industry - particularly transport equipment and non-electrical machinery - the paper and cellulose industry and, among the most traditional exports, the textile, leather and leather products, and foodstuffs industries.

This growth was mainly due to achievements by the more industrialized countries, which showed a growth rate of 43 per cent per year in the period 1970-1974, accounting for almost 80 per cent of the total exports of these goods in 1974. The intermediate developing countries showed a growth rate similar to that of the region as a whole, maintaining their relative share (11 per cent) in this total, whereas the remaining countries, which consist of the relatively less developed ones, saw their relative importance diminish in spite of the fact that the rate of growth, taken separately, was satisfactory. This unequal pattern of growth was also apparent in the shift in the flow of industrial exports outside of the region, particularly to the United States and the EEC countries, as a result of which the proportion of intra-regional trade decreased.

These results are of relative significance if used as a means of comparing the flows of world trade in manufactures, and the degree of access to world trade of the industry of the developed countries. However, what is noteworthy is that there was an improvement, even though small, in this area, and that exports are considerable in certain branches of industry, particularly in the larger countries, thereby setting a real development example for them.

The main question is whether this strong upturn in exports of manufactures will continue, at least for these branches, or is simply a result of the current economic situation. This gives rise to two considerations. First, trends in recent years have been the result of far-reaching efforts made by the countries in export promotion,

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and the search for greater access to markets, etc., as well as the use made of the international situation, which has played a favourable role in this. Secondly, it is apparent that the preferential treatment established by industrialized countries have had very little effect on the increase in exports.

Employment in the Latin American industrial sector increased in the period 1970-1973, by approximately 4 per cent per year, a rate slightly higher than those of the previous decades (2.7 per cent between 1950-1960 and 3.8 per cent between 1960-1970), and somewhat higher than the rate of increase of the labour force. The share of industrial employment in total employment increased from 14.7 per cent in 1960 to 16.4 per cent in 1970. Trends in industrial employment were unsatisfactory, if account is taken of the rapid increase in the urban population. One of the reasons for this was the inadequate growth of industry in the majority of the countries of the region. Another is the incorporation of highly capital-intensive technology in the process of industrialization, as this has limited the absorption of manpower.

As regards future prospects, if the target for industrial employment was fixed at a rate equal to the one obtaining for the urban population, on the basis of an urban employment/product elasticity of 0.50 (approximately that recorded in the period under review), the industrial product should grow at rates higher than 10 per cent throughout the decade. This aim is compatible with the growth rate required for Latin American industry to increase its share in the world manufacturing product.

The Ministers of Industry, and the delegates of the countries participating in the Latin American Conference on Industrialization convened by ECLA in Mexico, in November 1974, adopted a Declaration of Principles and a Plan of Action, which lay down a series of industrial policy measures.<sup>1/</sup> In this Declaration it was proposed

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<sup>1/</sup> The industrialization of Latin America: principles and plan of action, resolution approved at the Latin American Conference on Industrialization (Mexico City, 25-29 November 1974).

that the industrialization process should help in improving the external economy of the countries and the regions, by giving special attention to export promotion and the conditions under which capital and technology are transferred. This very viewpoint is the basis for the stand taken to increase the value added of raw materials processed and exported, to ensure that the incentive to industrialization does not discourage primary activities, and in keeping with this, to try to give to the development of the import substitution process a greater degree of efficiency at international level, so that protection does not prove excessively onerous and so that they can compete on suitable terms in international markets.

The need was also affirmed to achieve a suitable distribution of income which, among other factors, helps to expand domestic markets rapidly, thus helping to raise the standard of living and to reduce marginalization and unemployment.

Special importance is given to co-ordinated action on the part of the countries of the region in the field of industrial development, which aims at achieving intimately related objectives: on one hand, the strengthening of existing economic integration schemes, and on the other, the organization and co-ordination of economic policies - particularly in the industrial sector - and the improved use of possibilities of industrial complementarity, taking account of economies of scale and specialization. As regards the last objective, specific mention was made of the creation and strengthening of Latin American multinational enterprises and the corresponding financial support machinery, regional import substitution programmes, programmes for the production of staple foods, and for the supply of energy and other scarce raw materials, and lastly, the joint use of the productive resources of the border regions of neighbouring countries. In all of these aspects attention should be given to the establishment of differential treatment in favour of the relatively less developed countries.

## 2. Agricultural development

The agricultural sector, both on account of the problems it faces as well as the features of its development, shows smaller differences between the countries of the region than those observed in industry. The most marked difference however, underlining developments in industry, resides in the fact that the relatively more developed countries of the region have achieved - or are on the way to doing so - a higher degree of agricultural integration in the domestic market, whereas the smaller countries continue to channel an important part of their production towards the external market which they do not control.

In the majority of the countries the structural problems of agriculture have not been basically understood, in spite of the action taken so far. On the whole, the systems of land tenure and land use have changed little and a backward agrarian structure continues to exist with its sequel of sharp imbalances in income, underemployment of the rural labour force and, primarily, a situation of subsistence agriculture. The important advances observed in the technification and modernization of this activity has not changed the picture of general technical backwardness which is summed up in the low level of productivity of labour and of land, which reflected in turn in the low level of agricultural income. In this context, the improvement of technology has been restricted mainly to the more modern and larger farms whose structures are such that the already serious employment problem is made worse.

The agricultural sector continued to display high dependence on changes taking place in international markets, as was shown by events throughout the current decade. The growth in production has been lower than the targets set, and has followed a trend of marked fluctuations which reflect, in particular, the changes in external conditions (see table 2 and the figures of the annex). In the first two years low international prices together with unfavourable climatic conditions in 1972 were factors which exercised a decisive influence on the very scant growth of production. In 1973 and 1974,

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owing to the incentive provided by the rapid increase in international prices, agricultural production showed a sharp upward trend - particularly in the last year - reaching, in the period 1970-1974, a rate of growth of approximately 3.7 per cent per year, a rate similar to that of the average for the 1960s.

The sluggish growth recorded from 1966 up to 1972 meant that the per capita agricultural product remained stagnant in those five years. The estimated growth for the last two years would mean a slight improvement in the performance for the decade. The results by countries have been relatively poor, and only seven of them were able to exceed the growth rates of 4 per cent fixed by the IDS, and another 4 with lower weighting in production, showed rates of increase of between 3 and 4 per cent. The remainder showed rates lower than 2.5 per cent per year, and in some production decreased.

On the basis of performance in 1973-1974 it is calculated that, in general, agricultural production showed flexibility in taking advantage of favourable situations in external markets. The changes recorded in the composition of agricultural production show its capacity for rapid adaptation. Among them, mention should be made of the relative increase in animal products and, in the case of crops, that of cereals and oil seeds, - particularly maize, sorghum, and soya - whereas the share of coffee, cotton and tobacco decreased. The greatest increases occurred in countries whose price policies have been sufficiently flexible, and where possibilities existed for the rapid increase of the area under cultivation and for sowing crops with a short growth cycle. (See tables 3 and 9.) This trend shows that agriculture had, for a long period, faced a price situation which prevented full use from being made of its productive potential. In many cases these prices continue to depend on the policies and markets of the developed countries, highlighting the partial responsibility of these countries in the deterioration which Latin American agriculture suffered.

Table 8  
LATIN AMERICA: AREA HARVESTED, 1970 TO 1974

	Area harvested (thousands of hectares)		Annual growth rate 1970-1974
	1970	1974	
Argentina	15 232	15 655	2.3
Barbados	23	22	-1.1
Bolivia	771	888	3.6
Brazil	33 906	40 971	4.8
Colombia	3 580	3 997	2.7
Costa Rica	352	358	0.4
Cuba	2 026	1 817	-2.8
Chile	1 425	1 312	-2.1
Ecuador	1 678	1 644	-0.5
El Salvador	614	689	2.9
Guatemala	1 491	1 809	5.0
Guyana	77	79	0.6
Haiti	931	957	0.7
Honduras	599	682	3.3
Jamaica	170	172	0.4
Mexico	13 971	14 632	1.2
Nicaragua	705	715	0.4
Panama	449	478	1.6
Paraguay	622	742	4.5
Peru	1 894	1 809	-1.2
Dominican Republic	667	676	0.3
Trinidad and Tobago	78	76	-0.7
Uruguay	1 035	1 073	0.9
Venezuela	1 727	1 659	-1.0
<u>Total</u>	<u>84 023</u>	<u>92 913</u>	<u>2.5</u>

Source: ECLA estimates on the basis of data provided by FAO.

Table 9

LATIN AMERICA: PRINCIPAL CROPS, AREA HARVESTED

	Area harvested (thousands of hectares)		Annual growth rate 1970-1974
	1970	1974	
Cereals	46 362	50 580	2.2
Roots and tubers	4 147	4 437	1.7
Vegetables	839	898	1.7
Oil-bearing seeds	6 479	9 352	9.6
Saccharines	4 872	5 628	3.7
Fruit	2 353	2 498	1.5
Beverages and tobacco	6 763	7 160	1.4
Vegetable fibres	5 157	5 154	0.0
Pulses	6 958	7 117	0.6
<u>Total</u>	<u>83 930</u>	<u>92 864</u>	<u>2.6</u>

Source: ECLA estimate on the basis of data provided by FAO.

It is the increase in the area harvested, which continues to be a decisive productive factor of the increase in regional output, which to a large extent has made it possible to make the most of the new conditions of the market. In 1974, the area harvested amounted to 93 million hectares, giving an increase of 9 million hectares for the period 1970-1974 thanks to the increased intake of marginal land and to variations in the use of the land. Of these 9 million hectares, 7 million were accounted for by a single country, and more than 5 million by the farming year 1973/1974. Access to modern technologies in possession of some countries and entrepreneurial sectors made it possible to increase the area harvested, thus opening up a possibility which had long been considered exhausted in the case of Latin America.

The region's agriculture continued to absorb modern technologies for the work of production. Important progress was made in improving the infrastructure for technological development. The modernization process has meant a rapid absorption of technological inputs, especially of improved seeds, fertilizers, pesticides and mechanized equipment. There is still a certain amount of concentration of the users of new technologies to be found, closely associated with existing agrarian structures and the technological packages available.

As from 1973, the scarcity or absence of fertilizers, pesticides and fuels has had substantial repercussions on production costs and on the methods of using land. No particularly critical situations would appear to have occurred in the region in connexion with stocks of inputs previous to the end of 1974, although the high growth rate of the use of such inputs observed up till now may be reduced in the short-term, with the consequent effects on the programmes for improving yields.

Technical progress in agriculture against the background of an agrarian structure based on the latifundium-minifundium complex, with its familiar effects on employment and income distribution, has aggravated the already serious problem of employment in Latin America. These are the main causes of the under-utilization of human resources in the sector, numbers of which for 1970 were estimated at around

17 million underemployed agricultural workers throughout the region, i.e., unemployment equivalent to 7 to 10 million wage-workers. Labour requirements have been sharply reduced and rapid increases have been achieved in production and reductions in costs, generally in the largest estates, thus shifting the small producers out of the market. These workers are obliged to depend increasingly on the unproductive employment of their small plots of land, to accept the working conditions and wages imposed, or to emigrate to the cities. It is hardly appropriate to use labour-saving techniques in countries which have obvious difficulties in providing employment for their human potential, and it is inconsistent with their endowment of resources and with the idea of integrated agricultural development.

In 1973, 40 per cent of Latin America's population had a share in agriculture, while this sector only accounted for 15 per cent of the gross domestic product, and reflected the low level of the per capita product in this activity. This combined with the sector's traditionally negative intersectoral terms of trade is reflected in low agricultural wages. Although in recent times the increases in international prices have reversed this trend in the terms of trade, the benefits have not gone entirely to the producers. The price policy followed by some governments, the increase in the costs of agricultural inputs and the income retained by the marketing channels, constitute factors which prevent these increases from taking the form of similar benefits for the producers. Existing agrarian structure do not make it possible for this improvement to be extended to the rural population as a whole. In view of the fact that commercial agriculture would appear to have profited most from the present economic situation, since it had the capacity to make the most of market opportunities and respond to incentive policies, the precarious situation of subsistence agriculture, which is where agricultural unemployment is concentrated, would, relatively speaking, seem to be deteriorating continually and progressively.

The situation of Latin America appears less critical than other developing regions as far as food is concerned. Daily per capita supply of food, expressed in terms of energy (calories) and proteins (grams)

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situates the regional average above the world average and relatively close to that of some developed countries, such as Japan. Daily consumption in the region in 1969-1971 (2,530 calories and 64 grams of proteins) was 14 per cent higher in the case of calories and 16 per cent higher in the case of proteins than average consumption in the developing countries during the same period.

The situation of the countries shows that the region does not constitute a homogeneous whole in terms of food consumption. While in some countries average levels may be considered satisfactory, in others they are exceedingly low.

In each country, the main feature of the food situation is the pronounced imbalance in the distribution of food among the different socio-economic groups. An experiment to measure the effect of low incomes on the diet of the region's population shows that the food shortage affects a large proportion of the population.

Against a changing and still uncertain setting, the prospects of the international agricultural markets for the next few years prove to be less unfavourable for the exporter countries of the region.

Except for a very few products, prices have tended to decline. The benefits accruing from the high levels achieved tend to be relative, on account of the price increases in imports of agricultural inputs and because of restrictions on international demand for foodstuffs and agricultural raw materials, both of these as a result of the impact of the present economic situation affecting the most developed countries. The situation emerging may also involve the repetition of the traditional agricultural cycles whose effects are so damaging for the economy of the developing countries. The repercussions on agricultural output should not be so serious for countries where agriculture is more an integral part of the domestic market and shows a greater capacity of adaptation, on account of existing natural and human resources and its organizational structure. However, those countries which cannot depend on such possibilities in the short-term and whose agriculture depends very heavily on the external market may find themselves seriously affected.

### 3. Natural resources

This chapter analyses the features of the utilization of natural energy and mining resources in Latin America, dealing both with the present use of the region's existing potential and the prospects glimpsed for the next few years. A study is also being made of the reciprocal influences linking up these sectors of production with the different conditions in the domestic and external markets. Lastly, reference is made to the changes taking place in the degree of control of such activities by the national States.

#### (a) Energy

Latin America possesses a vast potential of energy resources, of which more and more use is being made. The consumption of commercial energy (excluding energy generated by vegetable fuels) increased by over 7 per cent annually between 1970-1973, and in this last year reached over 200 million tons of petroleum equivalent (p.e.). This meant that per capita consumption, which in 1970 was 46 per cent of the world average, increased to 48 per cent in 1972. However, these levels show how much remains to be done in respect of the utilization of available energy potential.

The present relative share of the sources of energy in the consumption of commercial energy is: petroleum 62 per cent, natural gas and hydroelectricity slightly over 16 per cent each, and mineral coal nearly 5 per cent. Compared with other areas, it is Latin America which makes most use of hydrocarbons.

The tremendous energy potential available to the region is distributed unevenly among the countries. Generally speaking, hydroelectric resources are distributed in a more balanced fashion, although little use is still made of them, while the production potential of hydrocarbons is concentrated in a small number of countries and is being exploited to a larger extent.

The production of commercial fuels (hydrocarbons and mineral coal) and hydroelectricity throughout the region accounted for nearly 400 million tons of p.e., in 1973, amply exceeding consumption,

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but if the five countries exporting petroleum are excluded, the situation is reversed, giving a deficit situation for the rest of the countries. Of these, fourteen depend entirely on imports of petroleum which indeed constitutes the main source of energy of their economies. A further three countries depend on petroleum for between one-third and three-quarters of their consumption and only two countries among the most developed of the region, have almost complete self-supply. The marked imbalance which may be observed in the majority of the countries between consumption and present capacity to satisfy it using local energy resources, has increased the negative effects of the increase of the price of petroleum on their balance of payments or on their regular supply. Future projections of this situation based on known petroleum reserves at the present time show similarly differentiated situations. The countries with a petroleum shortage will have to make major efforts to reduce the wastage of fuels and to achieve a better utilization of hydroelectric and coal resources and new sources of energy. The high costs of this investment and the relatively long maturity period do not make it possible to anticipate significant changes in the situation in the short-term, which means that the adverse effects will continue for the next few years. This is all the more serious since the majority of the less developed countries are in this position. For those countries which have large oil resources, the increased development of their hydroelectric potential and of other sources of energy may allow them broader margins for petroleum exports, to conserve their reserves, to have a more balanced and hence more flexible energy structure, and to use their petroleum for local processing in the petrochemicals industry and other sectors of industry of importance for the future of the national economy.

In hydrocarbons, regional output of crude oil in 1970-1974 decreased at an annual rate of 0.4 per cent. This was mainly due to the trade policy and the policy for conserving reserves followed by the region's main producer. Excluding this country, the output

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of the remaining countries increased at an annual rate of 5.8 per cent; of particular note is the performance of one country which recently began to develop its reserves on large scale, with an annual average growth of nearly 300 per cent. Since the regional rate is lower than the world average, as in the previous five-year period, a substantial recession in Latin America's share in world output has been recorded, from 16 per cent in 1965 to 12 per cent in 1970 and 10 per cent in 1973.

Following a decrease in the second half of the 1960s, the region's proven reserves of crude oil increased slightly during this period. These reserves could grow significantly if measurements in recently discovered oilfields in several different countries give satisfactory results. Latin America's share in proven world reserves showed a slight increase in 1973 to 5 per cent, following a drop from 7 per cent to 4 per cent between 1965 and 1970. In 1973 the reserves/production ratio of the region reached 17 years, while the world average was 29 years. The re-emergence of exploration activities was given impetus by the high prices of petroleum which made it possible to counterbalance the increase in costs implied in this work.

Petroleum refining capacity in Latin America increased by nearly 4 per cent, which was slightly less than the growth of the previous five-year period, although the situation varies greatly from one country to another.

Other resources are abundant in nearly all the countries, but, generally speaking, they have not been very much developed. It was estimated that the hydroelectric energy which it was economically possible to generate in Latin America before the sharp rise in petroleum prices was about 25 times the total generation of hydroelectricity in 1973. With the above-mentioned increase, this potential has grown, as have also the possibilities of increasing the use of this source of energy. Other energy sources are used on a small scale despite their potential importance, although their distribution is more localized. Known reserves of natural gas are

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plentiful, and two-thirds of these reserves are to be found in three countries; but since output is generally associated with petroleum production, it cannot be brought into line with consumption, and this causes tremendous wastage. Although there exist large known reserves of mineral coal, they are to be found only in a few countries and present production is limited. New sources of energy, such as geothermal and nuclear energy, have begun to be developed recently in two countries, although their possibilities have not been duly quantified in the rest of the region. With the exception of hydrocarbons, these resources are used mainly in the form of electrical energy, and any increase in their use will require the expansion of the market for electrical energy.

The generation of electrical energy increased at an annual rate of nearly 10 per cent between 1970-1973, continuing the rapid growth trend; this may also be observed if it is expressed in per capita and per unit of real product terms. The levels achieved by these indicators, however, not only reveal the great distance which still separates Latin America from world averages, but conceals the major differences between the countries of the region, conditions in the majority of which are precarious in this connexion. Despite the progress made, which enabled the percentage of the population supplied with electrical energy to increase from nearly 46 per cent to slightly over 50 per cent of the total population of Latin America between 1970 and 1973, these figures reflect the size of the deficit, which is mainly concentrated in rural areas.

During these years, the tendency towards direct state control in the ownership and administration of the electrical enterprises has become more pronounced. Three states have nationalized the major enterprises operating in their territories and have come to control national production of electricity nearly entirely. Throughout the region, around 1973, slightly over 8 per cent of all the installed capacity of the public service was under private and in particular foreign control.

(b) The development of mining

Mining activity at the regional level has experienced no major changes and its growth continues at a slow pace, so that its share in Latin America's total production and in the world supply of mining products has gradually declined, in spite of the region's vast potential resources. Although the share of mining in regional production and exports is fairly low, in the so-called mining countries (Bolivia, Chile, Guyana, Jamaica, Peru and Surinam) it is considerable, especially in the composition of exports; hence, its performance is of crucial importance for the development of those economies.

In the first three years of the present decade, output grew at a rate of 2.7 per cent annually, which is lower than the average for the second half of the 1960s when production was encouraged by an increase in demand as a result of the economic boom in the industrialized countries and of armed conflicts, particularly in south-east Asia. In the course of the present decade, low prices predominated for the majority of mining products, except in 1973 and the first half of 1974 when unprecedented levels were recorded, after which they steadily declined. These marked fluctuations affected production, which was shown to be highly vulnerable to changes in prices and external market conditions and, in particular, to the situation currently affecting the developed countries.

Although the countries with a long mining tradition know the extent of their principal mineral resources, such knowledge is insufficient in other countries and there is no general inventory of known reserves in the region, so that estimates at that level are none too reliable. Merely as an indication of the probable order of magnitude, it is estimated that Latin America's present share in world reserves of the principal mining products is as follows: copper, 25 per cent; bauxite, tin and iron, around 6 per cent; and manganese, lead and zinc, about 7 per cent. Steps will have to be taken to promote a better knowledge of these reserves and of the feasibility of their economic exploitation.

A characteristic feature of the known reserves and, even more so, of the present output of the main mineral resources is that they are concentrated in a few specific countries. In 1973, 90 per cent of the production of bauxite was concentrated in Guyana, Jamaica and Surinam, and copper in Chile and Peru; over 80 per cent of the silver, lead and zinc was produced by Mexico and Peru, and about 85 per cent of the tin by Bolivia. Practically all the iron is produced by Brazil, Chile, Mexico, Peru, and Venezuela and another two (Cuba and the Dominican Republic) produce nearly all the region's nickel. This may well mean more favourable conditions for the conclusion, jointly with other world producers, of price stabilization agreements in order to protect themselves from the sharp cyclical fluctuations affecting them and constituting one of the major problems of the sector.

The main feature of the marketing of copper, lead, zinc, nickel and tin is a notorious price instability. The Inter-Governmental Council of Copper Exporting Countries (CIPEC), grouping the four major copper exporters, was set up - among other objectives - to regulate copper prices. The appreciable differences in production costs in the various countries, the heavy dependence of their balances of payments on copper exports and the fact that fixed costs constitute a large share of total costs would seem to constitute the greatest difficulties encountered by these countries in regulating production and prices. The fluctuations in tin prices have been somewhat milder, which could be attributed to the action of the International Tin Council, an agency grouping the main producer and consumer countries - except the United States - and operating on the basis of five-year agreements.

Contrary to the case of other mining products, iron ore showed greater price stability, since the main role was played by transactions subject to long-term contracts and transfers between integrated enterprises. The depression in demand, rather than in prices, led to the difficulties met with by the independent producers in placing the ore. The marketing of bauxite (and alumina) from

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the region has no real market in the strict sense of the word, since in fact it consists of transfers between subsidiaries of major international enterprises producing aluminium so that the prices are established nominally.

The value of Latin American mining exports has been determined by the trend of market prices and conditions rather than by any significant variation in the volume exported. The rapid growth in the late 1960s, which was due to the high prices reached by the principal metals and the increase in the market for some commodities - especially bauxite and iron ore - was followed by a contraction in the value of total exports in the first two years of the present decade, when those factors took a downward turn, particularly for copper and iron ore producers. The upswing in prices in 1973 and part of 1974 led to an appreciable increase in foreign exchange earnings under this head, which are now tending to decline. Therefore, the overall result was that the average increase in the value of exports was somewhat below the average for the previous decade.

Most of the production goes to countries outside Latin America. Only a few metals are consumed on a fairly large scale in the region, basically in the relatively more developed countries: over 20 per cent of the copper, lead, zinc and tin, and 17 per cent of the iron ore. By contrast, Latin America's consumption of aluminium is greater than the region's production, although it represents only 4 per cent of the metal content of the bauxite produced.

Progress continued to be made although somewhat more slowly, in the regional processing of metallic ores. Mainly owing to the increase in the production of ores, there was a drop in the proportion of blister and refined copper in the major producing countries, which indicates that the installed capacity of the smelting and refining plants was being fully utilized or else that temporary bottlenecks had occurred in those stages. The new investment and new processes envisaged will soon bring an increase in the value added in copper. The most important advances were those made by the

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principal tin-producing country, with an increase in refined products from barely 2 per cent of total output in 1970 to nearly 25 per cent in 1973. It is estimated that a new refinery which began operating in 1971 will enable this proportion to be stepped up to 50 per cent in the next few years.

Two of the main bauxite producers (Jamaica and Surinam) have managed to increase their output of alumina derived from calcined bauxite, processing about 50 per cent of their production in 1973, and both Surinam and Brazil have achieved the complete integration of part of its mineral production, i.e., producing aluminium from bauxite. The other main producers of aluminium import the alumina they need.

In 1972, nearly 20 per cent of the production of iron ore was concentrated, compared with 16 per cent in 1966, while agglomeration in the form of sinter and pellets also increased. Part of this processed output is exported, although the major proportion of exports is made up of iron ore. There are good prospects for large-scale exports of semi-finished steel products, since a number of industrialized countries have shown interest in purchasing such items instead of producing them locally, because of pollution problems and the high price of fuels.

As regards other ores, the degree of processing has not changed much, although large-scale investments are being made in some countries. On the whole, the more developed countries have a high degree of integration for certain ores, even though they are not among the major producers in the region. In spite of the progress made, considerable margins still remain for the processing of mining products, which would allow an increase in the value added in the exports of these and in import substitution.

Net cumulative investment in the mining sector in 1970 was estimated at between 3,000 and 3,500 million dollars. In the same year, the book value of United States enterprises in the Latin American mining sector was a little over 2,000 million dollars, while the main investments of Latin American origin, largely made by State

/enterprises, were

enterprises, were estimated at no more than 700 million dollars, the rest being made by other developed countries. In the 1970s, foreign investment grew more slowly than in other regions, being channelled particularly to mining areas in the more developed countries. The growth rate of investment promises to be considerably higher in the 1970s since, judging from projects that are completed, under way or programmed, total investment in the sector is expected to be around 6,600 million dollars, mainly in the production of copper, iron ore and aluminium. The tendency towards increasing State intervention in these activities places greater financial demands on fiscal resources, so that more efficient investment policies are necessary.

During these years, the countries have consolidated their sovereignty over their natural resources and production, the ownership and control of which have in several countries been transferred to the public sector, and at the same time the State exercises greater control over the conservation of mineral resources. In some countries the creation of semi-public companies with the participation of foreign enterprises and national capital, whether of State or private origin, has been fostered. State intervention is emerging at the present time as the dominant feature of mining policy in Latin America.

## II. LATIN AMERICA'S EXTERNAL ECONOMIC RELATIONS AND THE INTERNATIONAL ECONOMIC SITUATION

### A. THE EXTERNAL SECTOR IN LATIN AMERICA: PRESENT SITUATION AND PROSPECTS

Developments in recent years may have given grounds for believing that the external sector trends in many Latin American countries had changed so radically that the limitations imposed by the external bottleneck on economic development would be considerably reduced.

The value of exports rose at a virtually unprecedented rate. There was also, particularly in some countries, a sharp increase in external financing, which even exceeded service payments and financed a substantial trade deficit. The combination of these two factors made for a notable increase in imports which, besides making the economies of many countries of the region more open, enabled them to achieve a high growth rate for the product, in comparison both with past trends and with the goals laid down by the international community in the International Development Strategy.

For an accurate appraisal of these developments, however, it is necessary to examine not only the causes of this trend and its possible duration, but also the prospects for the next few years.

It is also true that the volume of exports of primary commodities is still increasing at a consistently slow pace.

Exports of manufactures, which have reached fairly high levels in some countries and in which intra-area trade plays a highly important part, constitute an important element of structural change in the external sector. Although manufactures do not yet account for a significant share of total exports, they exercise an appreciable influence on the overall rate of growth. In spite of the effect of these sales, however, the total volume of Latin America's exports is increasing at a rate of less than 4 per cent annually, which in the next few years may be subject to the adverse impact of the present international economic situation.

/Another element

Another element of structural change is the action of producers of some raw materials to defend the prices of their exports. A notable example is petroleum, the prices of which, by agreement among the exporters, were substantially raised. In some Latin American countries, this led to a radical change in the basic conditions governing their international economic relations and the operation of their external sector. They have obtained the capacity to step up imports at a rate consistent with their development needs, and one of these countries (Venezuela) possesses surplus resources to invest abroad. This surplus is also an important factor for the region as a whole, since it makes it more feasible to consider measures for regional co-operation and for increasing reciprocal trade.

The developments in connexion with petroleum also set an important precedent for other commodities. Encouraged in some degree by the results obtained by the Organization of Petroleum Exporting Countries (OPEC), some incipient and partial measures have already been taken to defend export earnings from certain raw materials. Although obviously the possibilities of defending export earnings are not the same for all commodities, and the organization of the various commodities requires time and persistence, there is clearly an important possibility here of structural change. Many developing countries have already realized this. In addition, there has been a certain change of attitude on the part of the developed countries, which have started to attach importance to security of supply. These facts could contribute to increasing the possibilities of agreements between producers and consumers of raw materials, with a view to fairer and more stable treatment for developing exporter countries.

In addition to these structural elements, some circumstantial - and therefore temporary - developments have taken place which largely account for the increase in the value of exports. The prices of primary commodities experienced an unprecedented boom, in terms of both magnitude and the number of products affected. This was due to specific factors in the case of each commodity, connected with both supply and demand, which not only are not of a permanent nature

/but began

but began to change markedly since the middle of 1974. In the last few months of the year, a number of basic commodities started to drop in price; some, like metals and agricultural raw materials, fell swiftly and sharply; others, like foodstuffs, dropped more gradually but with prospects of declining further in the course of 1975 and 1976.

What is less noticeable at first glance is that the prices of imports of the non-oil-exporting countries of Latin America, which in 1972 and 1973 lagged behind export prices, rose faster than the latter in 1974.

This was partly due to the increases in the prices of petroleum, foodstuffs and other imported raw materials, and particularly of manufactured products purchased from the developed countries. The inflationary process in the developed economies was transferred to the developing countries through the increased prices of industrial equipment and intermediate goods. What is more important is that these increases in import prices are not likely to drop as in the case of Latin America's raw material exports, but in all probability will continue to rise rapidly for a few years owing to the persistence of the inflationary process in the developed countries. Consequently, in the next few years a significant deterioration may be expected in Latin America's terms of trade, which can only be lessened by energetic co-operative action by the developing countries to defend the purchasing power of their export commodity prices.

Moreover, encouraged by the accelerated growth of the value of exports and by the external financing obtained, the volume of imports has in some cases reached high rates of growth. In many Latin American countries, not only has the growth rate of imports in the past 10 years been 1.2 to 1.9 times that of the product, but in the last two years, coinciding with the boom in raw material prices, the increase has been even greater. This is partly due to the fact that some of these countries have been implementing an economic policy aimed at changing over from a fairly closed economy to one which is more open to the international market. Other important factors of a different kind also influenced this trend. The structure of demand gradually

/changes as

changes as per capita income rises, incorporating an increasing content of goods in the production of which a larger proportion of imported intermediate and capital goods is used; the shortcomings of Latin American industrialization, in which the production of intermediate and capital goods has systematically lagged behind, is mainly responsible for this situation. Owing to the limited facilities for the creative adaptation of technology, a significant quantity of goods resulting from technical innovations have to be purchased abroad, and this pushes up import requirements.

A large proportion of imports consists of essential goods for industrial production and capital formation, so that although there may be some margin for curtailing imports, this cannot be carried beyond certain limits without affecting internal economic activity, living levels, employment and economic development itself. Although the product-elasticity in relation to imports is not at present a serious problem for some oil-exporting countries, for many others it is a source of considerable concern, since, in the face of the unfavourable trade prospects referred to above, it may become necessary to modify their policies and even, perhaps, to lower their growth rates.

The year 1974 marks a period of transition, since the prices of some basic commodities were still rising in the first half of the year but several of them started to drop in the second, although this is not yet reflected in the average for the year. In 1975 and 1976 this drop will be more evident and will have severe effects on the countries' economies.

In consequence, the trade deficit of the non-oil-exporting countries soared from a little over 600 million dollars in 1973 to some 80,700 million dollars in 1974. With the addition of the net sum of interest and dividends on foreign investment and other non-factor service payments, the total balance-of-payments deficit on current account reached about 13,000 million dollars in 1974, i.e., more than half the value of exports. There were many countries in which the deficit increased several times over in relation to the preceding year, and some in which it exceeded 50 per cent of their exports.

/These figures

These figures are sufficiently eloquent of the magnitude of the external-sector problems.

The four oil-exporting countries showed increases in their export values in 1974 which ranged from 100 per cent in the case of Ecuador to 176 per cent in that of Venezuela, in relation to the 1973 figures. Significant differences can be noted between these countries as regards the growth of imports, which, although vigorous in all of them, was on a more moderate scale in Venezuela's case whereas it boomed in one or two other countries, which spent a substantial proportion of the increment in their earnings on external purchases. For these countries one of the main problems at the moment seems to be that of efficiently utilizing the additional resources accruing from the higher oil prices, and availing themselves of this opportunity to make appreciable headway in solving some of the serious problems still besetting them in relation to unemployment, underemployment, and the low levels of living of large sectors of their population. Another feature observable in these countries is the heavy incidence of service payments in respect of profits on foreign investment, whose rising trend parallels the growth of their petroleum exports.

A country-by-country analysis of the outlook for 1975 and 1976 also reveals the marked difference between the oil exporters and the other countries of the region. The former, which enjoy prospects of a much better balance-of-payments position above than that of the average oil-importing country, will still have possibilities of financing the imports necessary for a reasonable rate of growth. Most of the non-oil-exporting countries, on the other hand, are confronted with serious potential trade gaps ranging from 30 per cent to a little over 100 per cent of exports, on the assumption that it is proposed to attain growth rates similar to the International Development Strategy targets. The ratio of the shortfall in external resources to exports will remain the same in 1976 as in 1975, and in some instances will even increase. This means that the countries in question will have difficulty at least over the next two years, in

/maintaining reasonable

maintaining reasonable growth rates, comparable to those recently achieved. The inevitable corollary is the question: What relation may exist between a possible reduction of the growth rate on the one hand, and the relief of economic and social pressures, which can be more easily faced up to by an economy in process of dynamic expansion than by one in a state of stagnation?

The relative impact of external-sector problems during 1975 and 1976 varies greatly from one country to another, and there are also considerable potential differences in the means the countries will have at hand for dealing with these problems. In the study "Latin American development and the international economic situation", the potential situation of each of the countries of the region is projected, and the possible magnitude of the deficit is determined for each.

The potential balance-of-payments deficits in the next two years are related to the downward trend of prices of primary commodities; to the additional efforts which will have to be made to maintain exceptionally high rates of expansion of exports of manufactures in the context of a sluggish world economy; and to the substantial rise in the prices of imports linked with world inflation and with the high product-elasticity coefficient of import growth, which reflects trends in recent years. Influence in the same direction will be exerted by the lower growth rate to be expected in the developed economies and the stepping-up of competition among the industrialized countries themselves, in face of torpid markets. The possibility is even envisaged that access to the markets of some developed countries may be restricted by the measures they may adopt to cope with their immediate difficulties. Furthermore, two developments should be stressed as important causal factors whose effects on the region call for analysis: firstly, the preferential trade arrangements made by the European Economic Community (EEC) with a group of

45 developing countries, which have considerably expanded the area of its special relations: and, secondly, the United States Trade Act, which contains provisions restricting United States imports from oil-exporting countries and possibly from other developing countries as well.

It is clear from all this that the influence of the international situation on national economies is extremely unequal. Some countries, especially the oil exporters, are enjoying an exceptional spell of prosperity. Others are facing potential difficulties, but even in this group significant differences are observable; whereas in some cases, the problems are apparently not on so a great a scale as to be unmanageable, in others the violence of their impact and the lack of room to manoeuvre will probably give rise to hardship, at least in 1975 and 1976. Co-operation among Latin American countries is now more necessary than at any time in the past decade, not only because the differences in their situations make such co-operation feasible, but also because the countries of the region may find in it a valuable instrument with which they can strengthen the ties between them instead of allowing the marked disparities in their economic circumstances to constitute a factor of disunion.

The question of whether a country has or has not a heavy backlog of external debt, with servicing commitments that are high or low in proportion to its exports, is important for determining the various countries' possibilities of resorting to increased external borrowing. The situation in this respect varies considerably from one country to another.

From one case to another, too, the Latin American countries' conditions of access to the international financial market differ appreciably, being particularly favourable for such countries as Brazil and Mexico. From another point of view, a consensus of opinion is growing up in the international community in favour of succouring the countries most seriously affected by existing

/international circumstances

international circumstances, rather than assisting other developing countries. But this principle of aid to the most needy, the justice of which is undeniable, should not be carried so far as to leave the Latin American countries entirely to their fate, since most of them, although not included in the most distressed group, are nevertheless beset by extremely serious internal development problems.

In the next few years the international financial and monetary system in its turn, is likely to display certain characteristics which merit careful attention. In the first place, the floating of the currencies of the industrialized countries is one of its most significant features at the present time. The developing countries are bound to link their currency to that of some developed country, inasmuch as their financial markets are too small and underdeveloped to permit of separate floating operations. Thus the external sector of the developing countries is exposed to additional uncertainties, since it follows the fluctuations of the currencies to which its own is linked.

A second vitally important development is that temporarily at least there has been a change in the basic factor that supported the transfer of financial resources from the developed to the developing countries: namely, the developed countries' balance-of-payments surplus on current account, with which they financed investment and financial co-operation in the developing countries. The targets set up for official external financial co-operation, which were not being attained, are now in danger of becoming more unrealistic still. The contribution of external financing to the development of Latin America will probably not be made in the same way, or through the same channels, or on the same terms as in the past.

Since Latin America's intra-regional trade is more dependent than its extra-regional trade on the will of the countries of the region themselves, it may on this account, and up to a point, play

/a stabilizing

a stabilizing role in the near future, by maintaining a rate of expansion more like that recorded in recent years, even if the international economy loses dynamic impetus. This underlines the importance of Latin American co-operation as a means of helping to overcome the difficulties that may lie ahead.

The seriousness of the balance-of-payments problems, and the nature of the solutions that may be adopted, are closely linked to the possible duration of the period of difficulties. Should the recession in the developed countries be relatively short, emergency measures can be adopted - including a substantial increase in supplementary external financing - to which it would not be feasible to resort in the same way or to the same extent in face of a more lasting situation, because of the subsequent effects that some of these expedients might produce.

These prospects for the Latin American countries' external sector present themselves in the context of inauspicious circumstances in the developed countries which constitute the region's leading customers. The data and projections issued in December 1974 by the Organization for Economic Co-operation and Development (OECD) indicate, for the group of countries forming this organization, some of the important features of development in 1974 and 1975. The conclusions reached by OECD showed that these two successive years would witness a stagnation in the growth rate, a rapid rate of inflation and a high balance-of-payments deficit on current account. The stagnation is linked with an increase in unemployment, although foreign labour is proportionally harder hit by the decrease in employment. This overall situation covers differences between one country and another, some having to face critical difficulties, and others finding themselves in relatively easy circumstances. But in any event it is obvious that the economies of the industrialized countries are going through troubled times.

/B. SUGGESTIONS

## B. SUGGESTIONS FOR ACTION

In face of the changes that are coming about in the world economy, and in response to the problems with which many of the Latin American countries may be confronted, action can be taken to seek ways of overcoming the difficulties of the present juncture through international co-operation. In the past, important positive decisions have often been adopted in times of stress which have thus paved the way for noteworthy phases in the development of the Latin American countries. The industrialization process itself and economic integration are two significant cases in point.

The emphasis laid here on certain measures which can be taken through international co-operation is in no way intended to detract from the importance of the decisions which basically fall within each individual country's sphere of competence. Since this is a study designed for intercountry discussion, it seemed appropriate to focus attention on those aspects of the problems in which international action can make outstanding contributions to their solution.

Such international co-operation may take place at the regional and/or the interregional or world level.

At the regional level, whether it be that of Latin America as a whole or that of groups of countries within the region, various forms of action can be adopted, both through the integration machinery already existing and through other new or ad hoc mechanisms based on integration processes but not limited or constricted by them. Economic integration, conceived in the broadest sense of the term, can do much to assist in dealing with the external problems in question. It seems obvious, too, that besides stepping up the integration processes in their present form and making more thorough use of their existing instruments, it is essential to improve them by introducing appropriate adjustments in the light of present circumstances and of the experience already acquired. Paradoxical as it may seem the difficulties shared by a large number of the countries may prove vital incentives to the political decision needed for these changes

/and adjustments

and adjustments. Furthermore, specific co-operation measures can be put into practice complementarily and compatibly with the formal integration processes. Regional collaboration depends exclusively or essentially on the will of the Latin American countries themselves. Hence its importance in face of a situation in which it is indispensable to act with resolution and speed.

At the interregional or world level, Latin American countries can take action in co-operation with the developing countries in other regions and with the developed countries. Co-operation with other developing countries is a sine qua non for the definition of common policies in respect of relations with developed countries and vis-à-vis such problems as the reform of the international monetary system and the organization of commodity markets, inter alia. Dialogue among the Latin American countries is a valuable step towards better-organized and more fruitful procedures for seeking dialogue with countries outside the region.

In relations with the developed countries, interdependence and complementarity are major determinants of the need for negotiation, understanding and co-operation. The construction of a more equitable system of economic relations between the developing and the developed worlds is more necessary than ever at the present juncture, when the international economic order is undergoing transformation and when potential difficulties are looming up which, while they may affect the level of living in the case of the developed countries, may jeopardize the very survival of large population sectors in Latin America and the developing countries as a whole. In these circumstances, Latin American co-operation is essential, so that the voice of the region may make itself heard in the international decision-making forums. The developed countries themselves - in Europe for instance - are seeking to define common positions as a means of increasing their participation in the decision-making process, despite the fact that their relative importance and means of action are already substantially greater than those of the Latin American countries.

/The solutions

The solutions to be adopted must embody a combination of short- and long-term measures: the former, to cope with the immediate effects of the existing situation and enable the economies to continue operating on normal lines; and the latter, to create better conditions for the future so as to ensure an unremittingly dynamic evolution of these countries' external sectors over the long term.

The Latin American countries have already launched some valuable initiatives, such as action - in some instances still incipient - in relation to selected commodities (bananas, coffee, copper, bauxite, iron ore) and the new-style agreements on oil sales concluded by Venezuela with Peru and with the five Central American Common Market countries and Panama. These measures may be susceptible of application in a wider sphere - speaking both geographically and in terms of products and problems - and, furthermore will need in many cases to attain a depth and maturity with which only time and perseverance can endue them.

In the present summary no attempt is made - nor perhaps, would it be practicable - to present a more or less complete list of the principal forms of action possible for Latin America in the fields of intra-regional and interregional or world co-operation. It is thought preferable, rather, to put forward a few ideas on which discussion may usefully be centred with a view to their more detailed study and possible application. Subsequent meetings may afford favourable opportunities both for going into these ideas more deeply and for considering others. The presentation of a deliberately limited number of measures should be no obstacle to the suggestion of alternative possibilities or the definition of other focal points for action which may prove opportune or expedient.

As has already been said, the solutions to be adopted must combine short-term measures - quicker to yield results - with others of a longer-term character. Both types are necessary. Those presented here are mainly measures of the second kind, inasmuch as it is they

/that may

that may form part of the basic structure of the future international economic order, either because they relate to its main institutional aspects, or because they introduce substantial and lasting changes in the system of economic relations between the Latin American countries and the rest of the world.

1. Regional co-operation policy

This policy should be directed towards the development of major sectors of economic activity through the promotion of investment, production and intra-area trade. One of its top-priority concerns should be the basic industries, although this must not imply neglect of agriculture and the traditional industries and infrastructure projects of multinational interest in Latin America.

These basic industries are marked by the following characteristics: (i) they produce capital and intermediate goods which represent the bulk of Latin America's imports; (ii) their development is systematical lagging behind that of other sectors of the economy; (iii) they have important economies of scale, and frequently entail an immense technological and financial effort, which hampers their efficient and rapid development within the narrow confines of each individual country's market, even in the case of the larger countries of the region.

These activities should be developed with a view to meeting domestic demand in each country and at the same time exporting; intensive advantage should be taken of sales possibilities outside Latin America, but in any event intra-regional trade would provide more dynamic bases for growth, even if the international economy underwent difficulties.

A minimum of concerted formulation of development policies by the countries of the region is required in order to define the activities in which each is to specialize in the context of a regional market that will permit the gradual construction of a larger,

/sounder, and

sounder, and more dynamic economy, endowed with bargaining capacity. In so far as industrial development follows a trend towards specialization at the intra-sectoral level, i.e., mainly at the level of goods or groups of goods within each industry and not at that of one industry or another, this specialization can be reconciled with the achievement of a diversified structure of production and trade for each of the individual countries; in this way, and with the help of this co-operation, they will all create the right conditions for more advanced and thriving industrial and technological development. The recent examples of specialization afforded by the motor-vehicle industry and other metal-manufacturing and machinery industries which has divided the production of spare parts among various Latin American countries, although modest in scope, are of some significance, and indicate that such concerted specialization is viable and realistic. It is essential to prevent initial differences in the degree of development of the various countries from conducing to a division of labour whereby some are left mainly with the more traditional and less dynamic sectors while others specialize in the branches of industry using more advanced technology, with greater external economies that spread throughout the whole of the industrial structure and help to train more skilled and better paid labour; and to that end it is necessary to apply programming, technical co-operation and financing measures, in the case of countries whose levels of development are very unequal. The concerted action referred to would be carried out on flexible and pragmatic lines.

This policy should be implemented through the integration processes under way in the region, for which purpose these must be given powerful impetus where the liberalization of intra-regional trade is concerned and above all in respect of sectoral agreements. Besides stimulating and utilizing these processes to the maximum, the region should seek flexible formulas which would enable progress to be made in specific projects and activities concerted between two or more Latin American countries, on lines compatible with the aforesaid integration movements.

A general framework is required for assessing the contribution that this set of integration processes and specific co-operation actions make - at regional and country level - to the basic objectives of development, as well as to the solution of such problems as structural unemployment, low standards of living in the lowest income levels, chronic external bottlenecks, and a deficient productive structure. A framework of this kind makes it easier to perceive the achievement of the balance between countries and to pursue it more systematically. It also provides a reference point rather than a rigid setting for actions; it will be open to periodic review and will serve to control the general progress of the co-operation process, by appraising the real potential results of actions and decisions adopted in the light of the more general development aims pursued, and so gearing new decisions to more rapid progress and to whatever corrections, may be needed while ensuring that the decisions and agreements adopted are still firm and stable enough to provide security for the investments arising out of them. Construction of sound regional and national economies takes time and integration and co-operation activities will carry on for a number of years; they are not the result of a single set of decisions taken at given time.

Instruments for applying this co-operation policy may include the following, which are complementary:

(a) Intensifying and strengthening the integration processes under way in the region, particularly LAFTA and the Central American Common Market, and promoting relationships among them; greater consistency between the Cartagena Agreement and the remaining LAFTA member countries; careful examination of prospects of co-operation among countries of the Caribbean Basin in its broadest sense.

(b) A Latin American regional mechanism to promote co-operation projects and actions having to do with investment, production and trade among integration processes, and among countries or groups of countries. It is not only a matter of providing part of the financing

/for these

for these projects and contributing to obtain part of the balance, but also of looking at technical aspects and handling arrangements throughout the period prior to implementation, including obtaining the agreement of the participating public and private organizations and national agencies. Mobilization of resources from oil-exporting countries in the region and promotion of associations among governments and enterprises of different Latin American countries, based on these projects, would be significant elements in operating the mechanism.

(c) Latin American multinational corporations associating several countries in activities of common interest, in order to attain greater capacity for mobilizing financial, technical and human resources that will permit envisaging larger projects and improving bargaining power vis-à-vis extra-regional multinational corporations for purchasing technology on favourable terms. Such corporations can also fill a major role in mobilizing financial resources from oil-exporting countries of the region and from other extra-regional ones. In addition to productive activities, corporations of this type may handle commercial operations to promote regional trade and integration, and to export outside Latin America, especially non-traditional commodities.

(d) Regional payment arrangements. The main objective would be to promote intra-regional trade. It would operate through the multilateral compensation of balances and financing of part of non-compensated balances with the use of funds obtained from oil-exporting countries and countries with surpluses. Provisions encouraging countries with a surplus in the intra-regional trade to spend part of their credit balances on purchases in the region can contribute substantially to achieving the main purpose. The possibility of having funds available that will allow suitable terms to be set for payments on debts is important for the effectiveness of this mechanism as a means of promoting intra-regional trade.

## 2. Action on the international plane

In addition to co-ordination within Latin America, global or international co-operation requires agreement with other developing countries and with developed countries, as the case may be. Two fields for discussion may be singled out: (a) policies on basic commodities; (b) policies on international financing.

### (a) Policies on basic commodities

In this field three items or topics may be identified as having priority interest for international co-operation:

#### (i) Outline of a new policy on international commodity agreements

The establishment of the producers' associations has aroused the interest of developing countries, following the relative failure of the policy based on the negotiation of traditional commodities agreements. Producers' associations may also be looked on as a form of commodity agreement, open to adjustment to the production and marketing characteristics of individual products or of several products simultaneously. The developed countries - on the whole - have frowned upon such associations. However, the need is being felt to adopt a new approach to the policy on international commodity agreements so that they can be negotiated more rapidly and operate more effectively; the establishment of producers' associations of major interest to developing countries should also be studied, either alternatively or simultaneously.

#### (ii) Financing of national and international buffer stocks.

Present facilities for external financing of international buffer stocks are quite limited. Moreover, the evolution of markets for basic commodities in the near future will probably require the setting up and operation of buffer stocks, both internationally and in the developing exporter countries. Consequently it is essential to examine the reforms that may be introduced into existing mechanisms or possible new financing arrangements, in order to face the possible establishment of buffer stocks for a certain number of products or groups of products, in addition to going further into the study of the various ways of operating such stocks.

/(iii) Indexing

(iii) Indexing of basic commodity prices. Although policies concerned with price maintenance, guaranteed prices and parity prices have been long included among the economic instruments of developed countries, their international equivalent has not been found. Furthermore, for a long time the need has been recognized for drawing up principles and guidelines on an international pricing policy covering basic commodities, although the efforts displayed and the consensus attained (on resolution 73 (X) of the Trade and Development Board, for example) cannot be termed satisfactory. One of the most interesting of recent ideas is price indexing, that is to say, the linking prices of basic commodities exported by developing countries to a price index of a group of imported commodities, in order to ensure the relative stability of the purchasing power of the former. This would permit practical application of the recommendations on pricing policy adopted in the International Development Strategy.

(b) Policies on international financing

Regarding international financing two points must be made: promotion of the link between the SDR's and financial assistance to development, and triangular recycling of funds from oil-exporting countries.

The link, which has been widely debated, need not be discussed further here. It should be pointed out, however, that, if no SDR's are issued in the coming years, the link could not be made effective. New arrangements would have to be designed involving the issuance of SDR's, and this would require concerted action on the part of the developing countries.

Triangular recycling would involve three groups of countries: oil exporters, industrialized, and non-oil-exporting developing countries.

Part of the funds composing the surplus of the first group of countries would be transferred to the countries of the third group on very soft terms. The role of the oil-exporting countries

/would be

would be linked to the volume of the funds. The role of the industrialized countries would focus on the concessional element. They would undertake to subsidize the interest rate on these operations and take part in a system of guarantees ensuring proper fulfilment of obligations. The amount of such subsidies would not weigh too much on the balance of payments of the industrialized countries. The larger volume of resources received under very favourable conditions would allow the developing countries to keep up a high product growth rate as well as an adequate import growth rate. A major portion of these imports would be composed of equipment and intermediate goods purchased from the industrialized countries, thus contributing to a dynamic world economy. The industrialized countries would receive this portion of the funds coming from the surpluses of the oil-exporting countries in the form of increased trade instead of in the form of investments. This would give greater stability to their balance of payments since, as is well known, the behaviour of external trade is more regular and reliable than that of capital movements; the cost of the subsidy on interest rates would be offset by a reduction of the debt-servicing problems of industrialized countries and of the adverse effect of such service payments on costs, and hence on inflation.

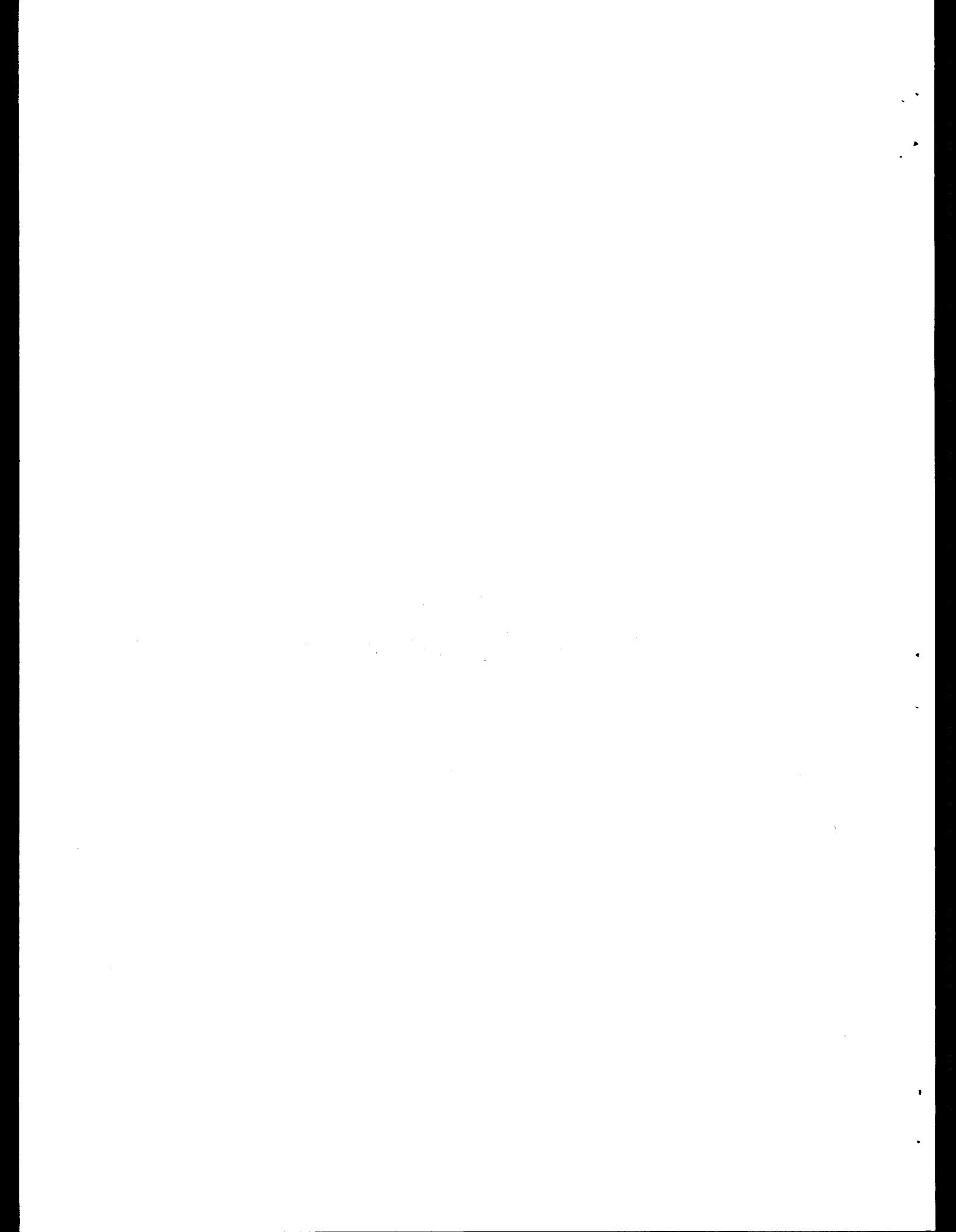
The following table shows the results of the experiment. The first column is the number of trials, the second column is the number of correct responses, and the third column is the percentage of correct responses.

Number of trials	Number of correct responses	Percentage of correct responses
10	7	70%
20	14	70%
30	21	70%
40	28	70%
50	35	70%
60	42	70%
70	49	70%
80	56	70%
90	63	70%
100	70	70%

ANNEX

FIGURES

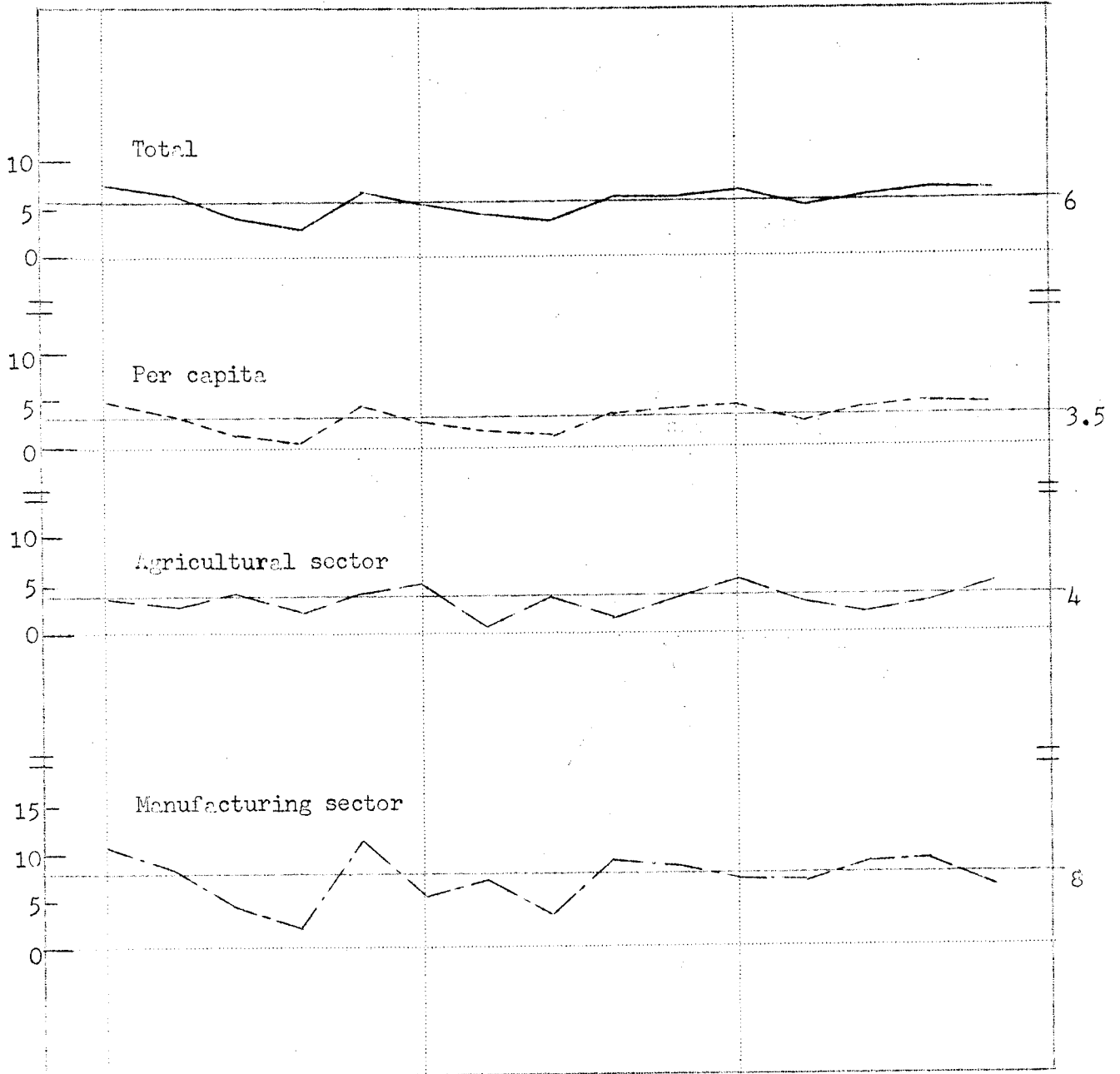
ANNUAL GROWTH RATES OF SOME MACROECONOMIC  
VARIABLES, 1960-1974



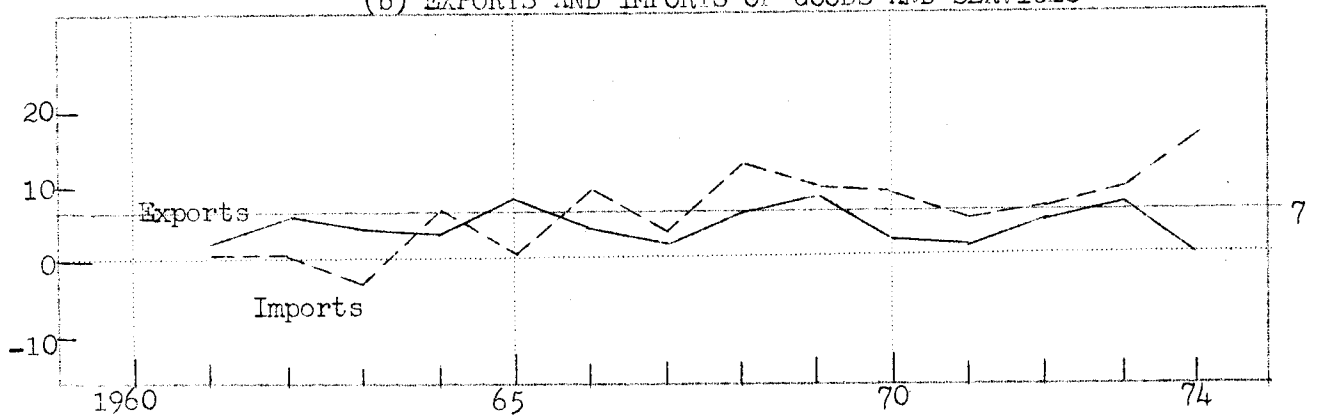
LATIN AMERICA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



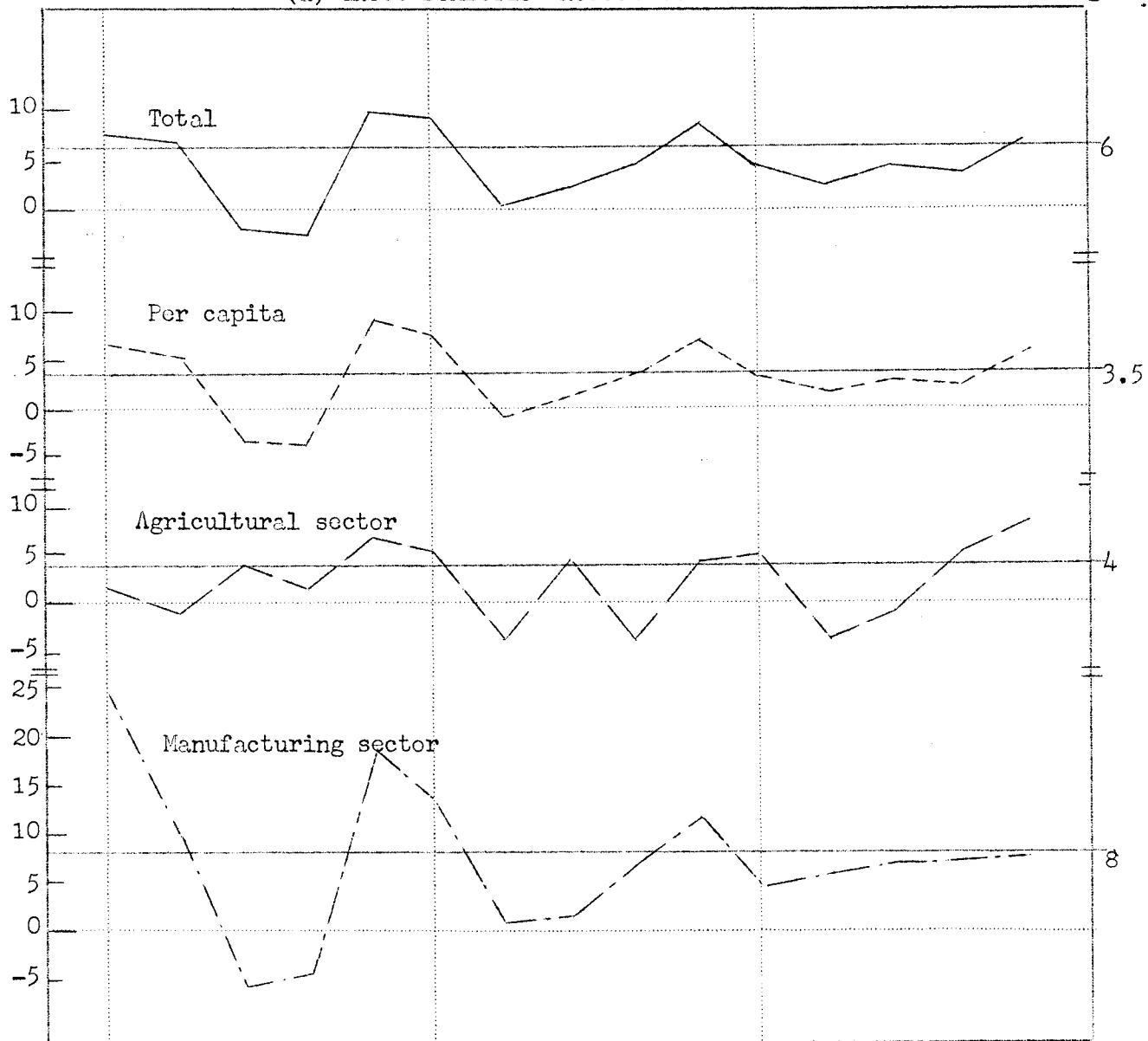
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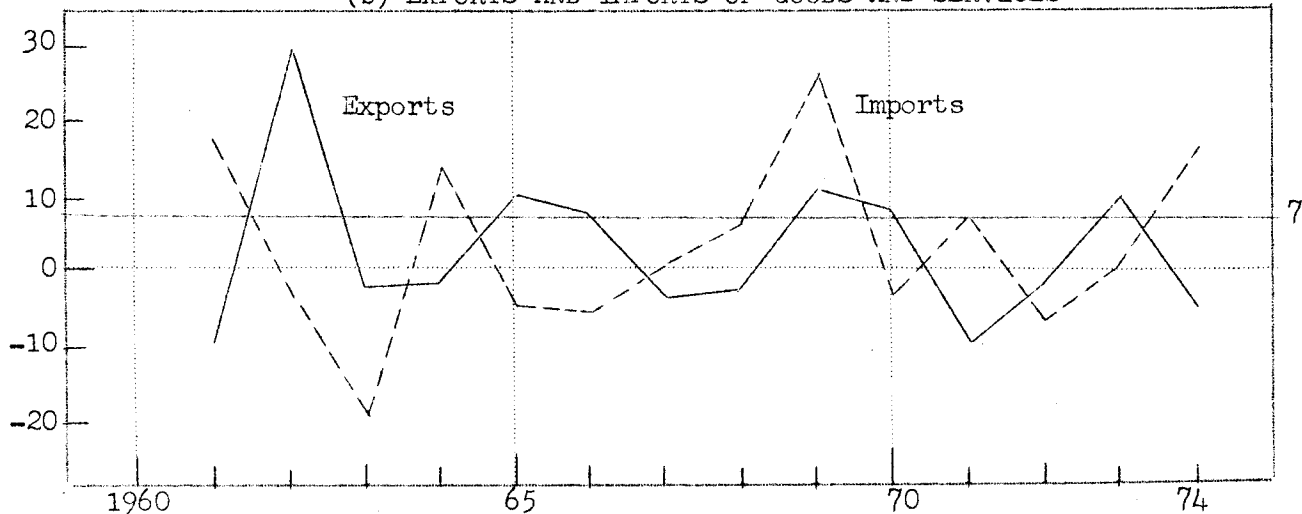
ARGENTINA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

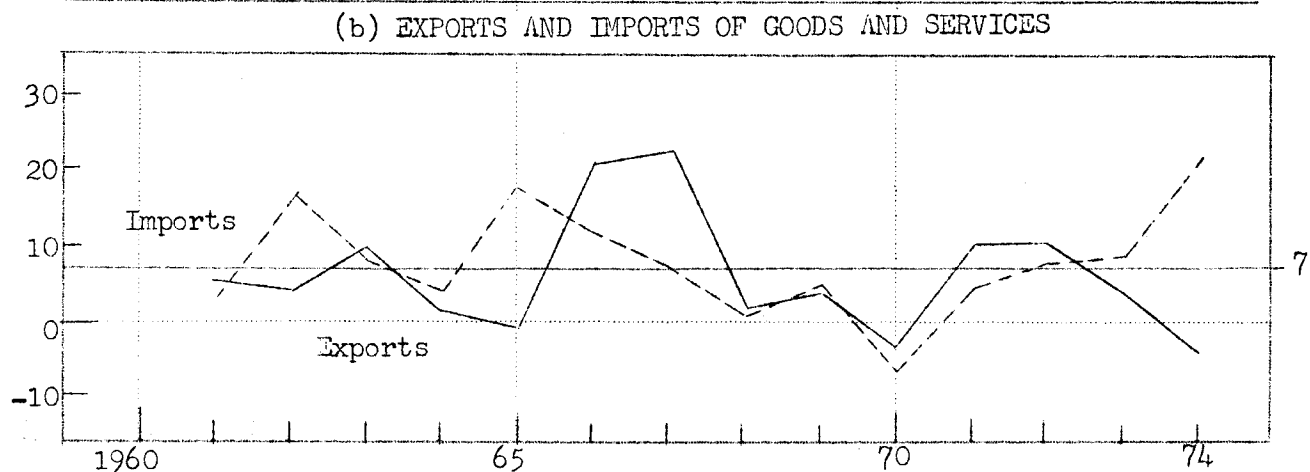
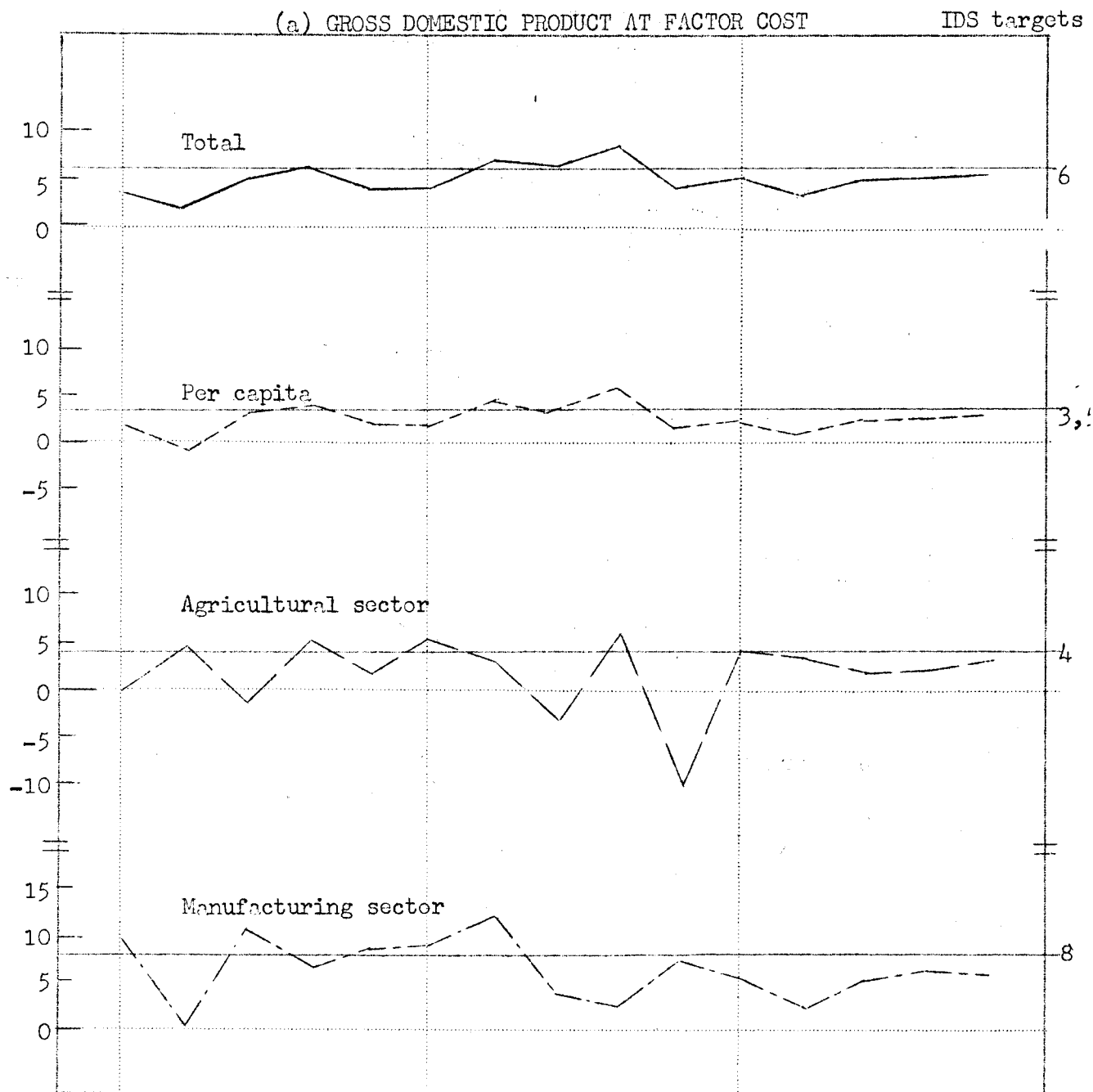
IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



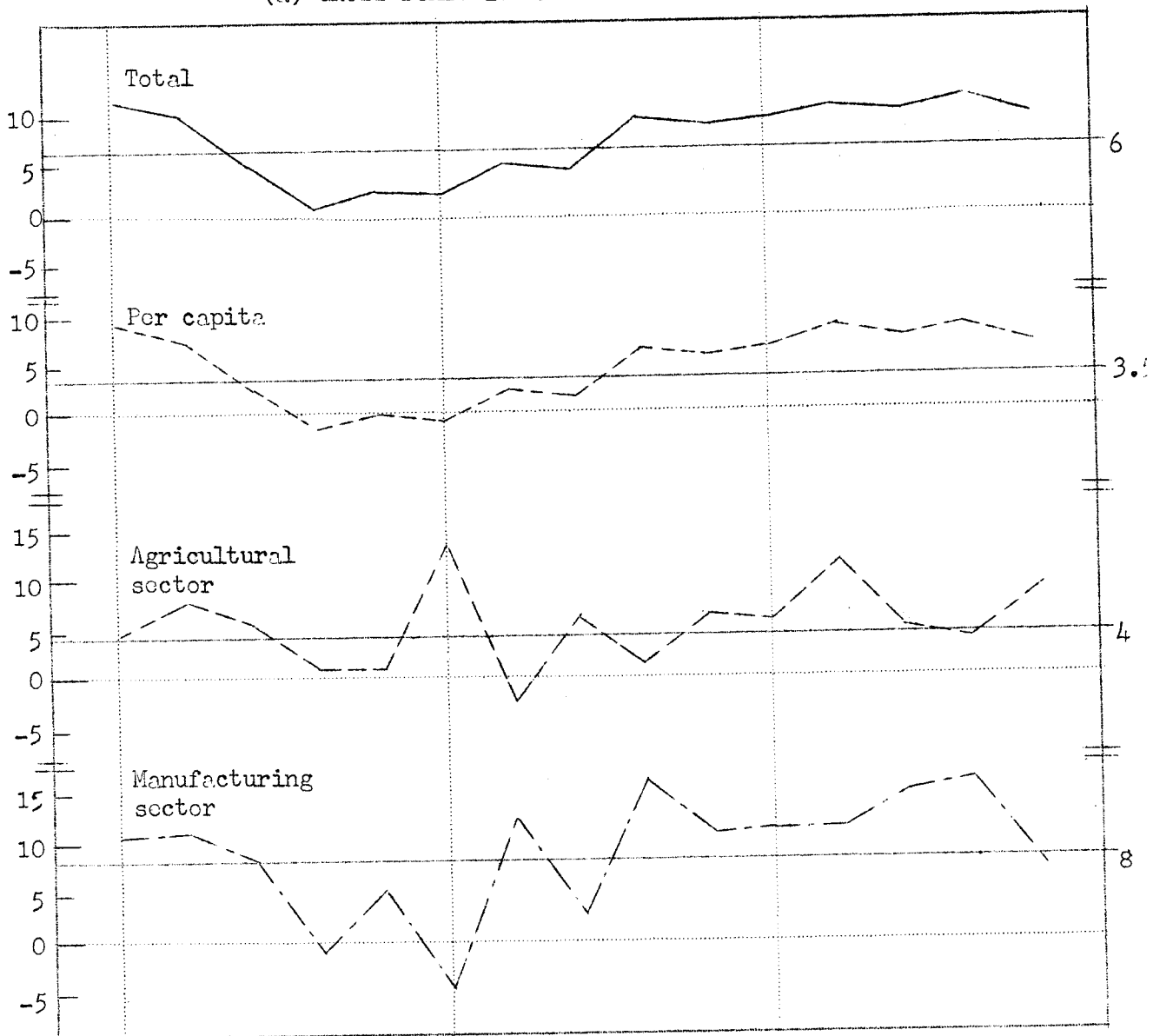
BOLIVIA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale



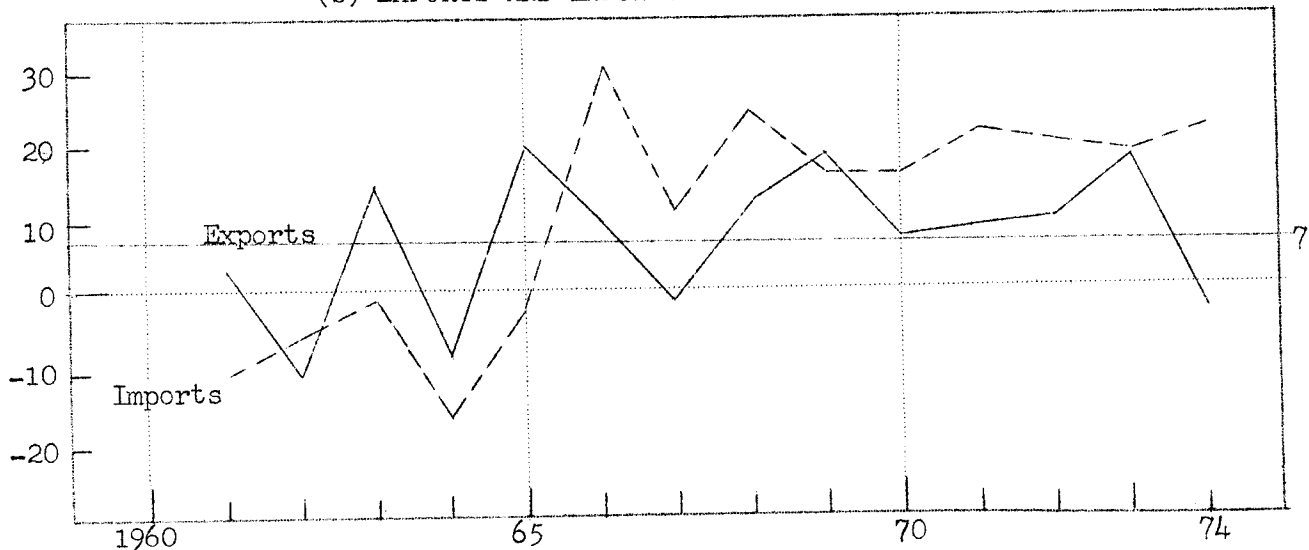
BRAZIL: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



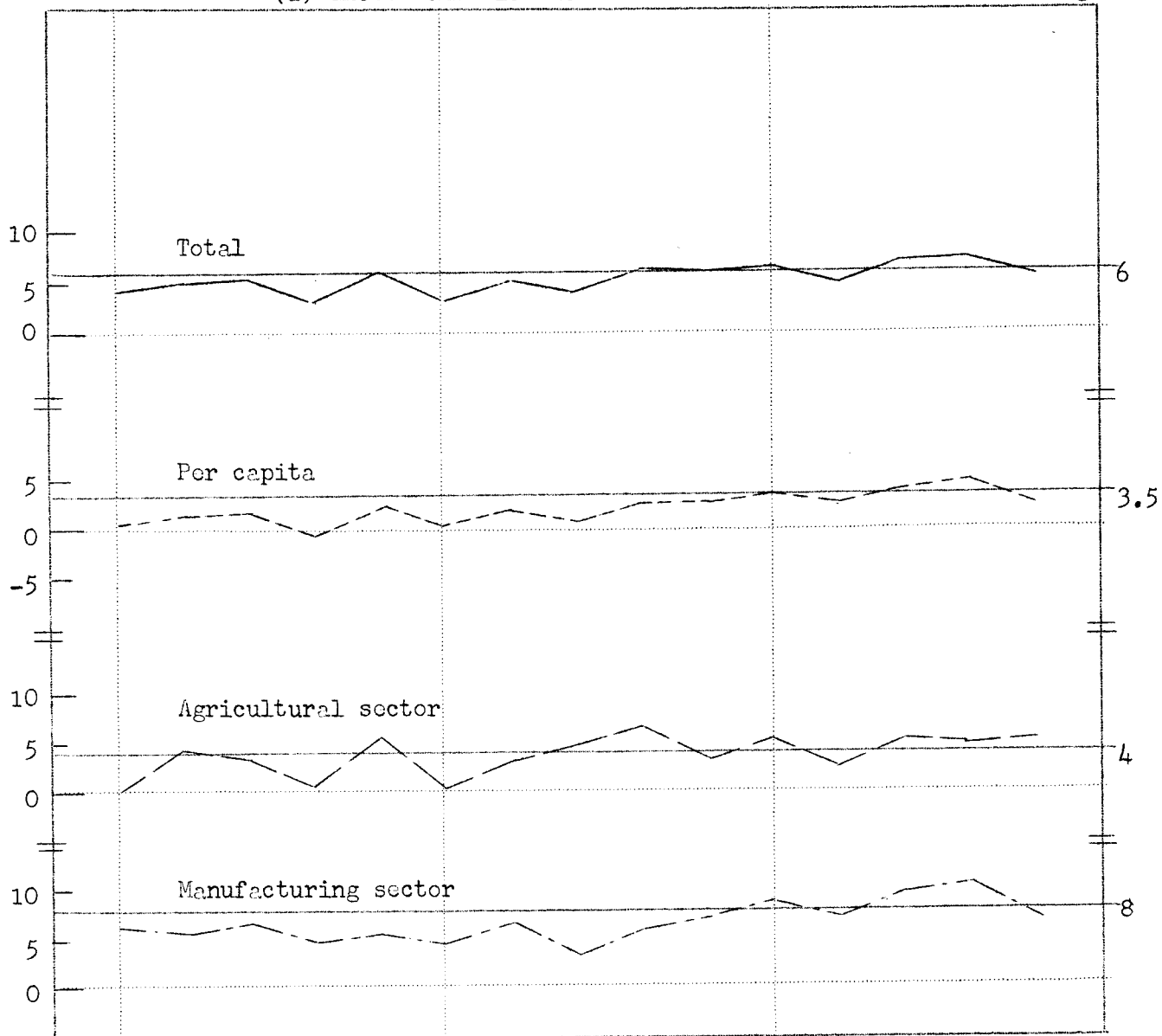
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



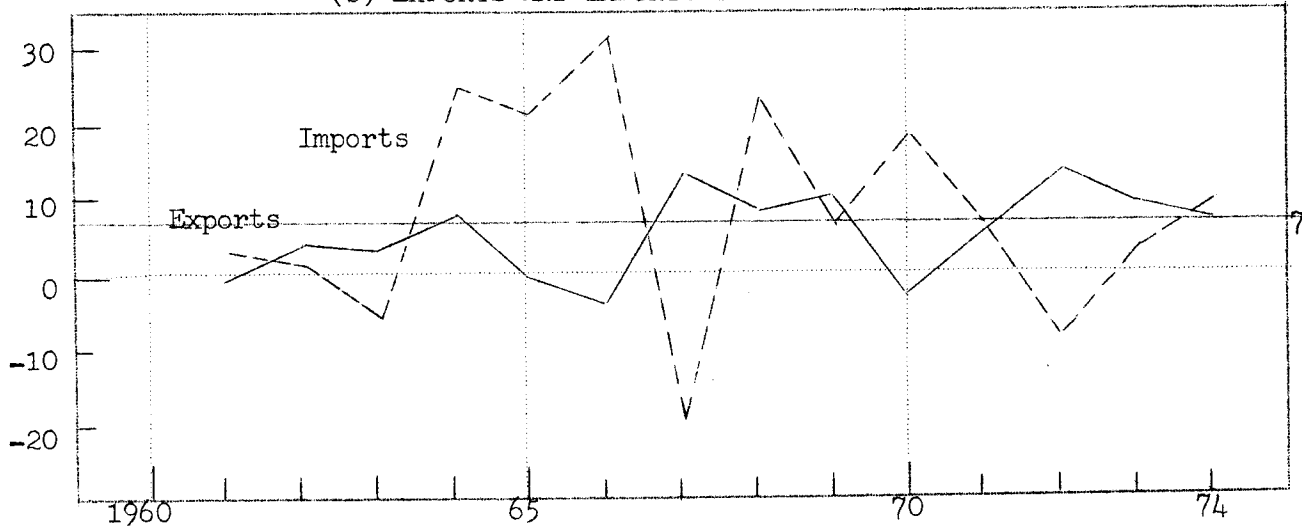
COLOMBIA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



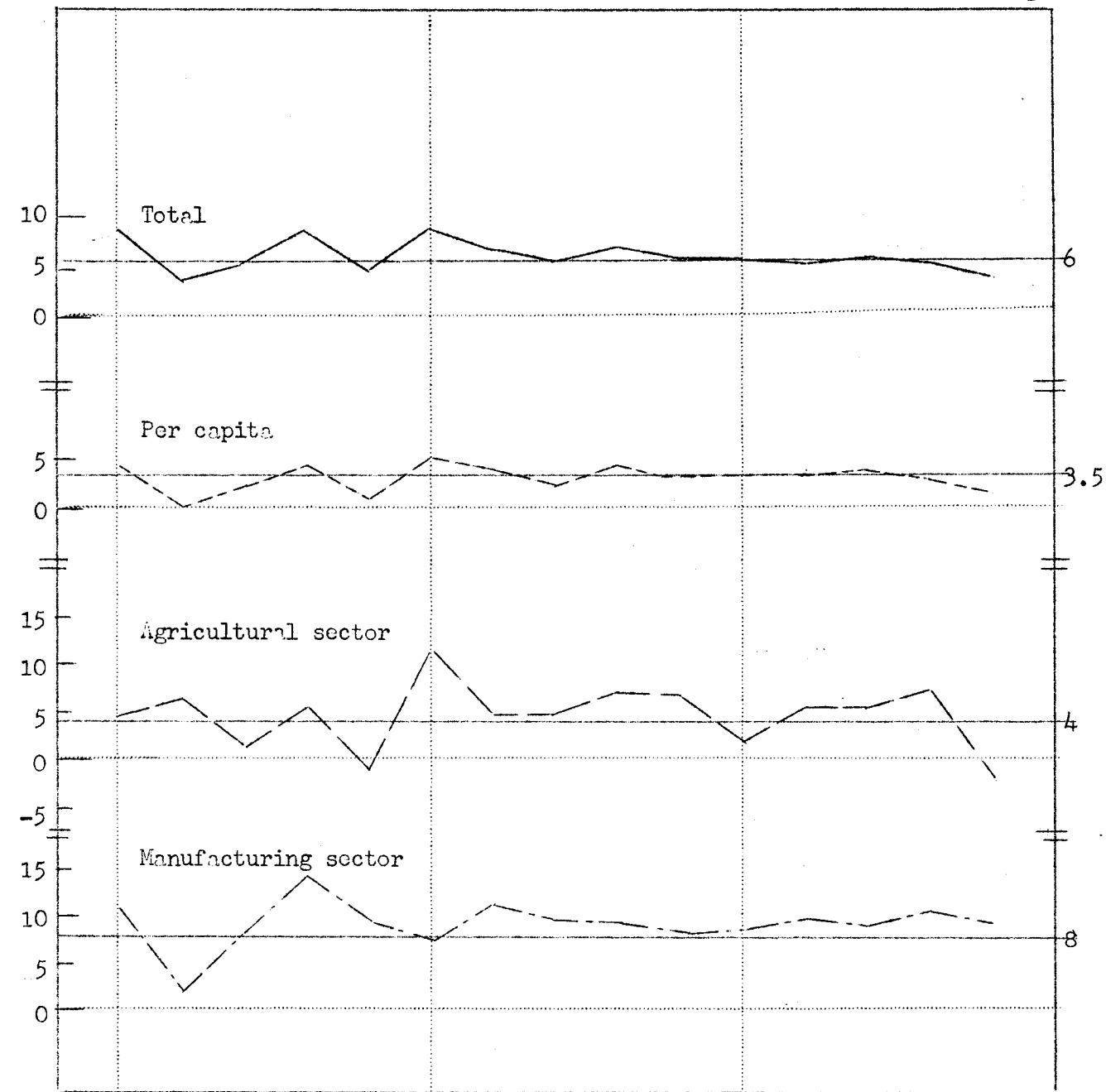
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



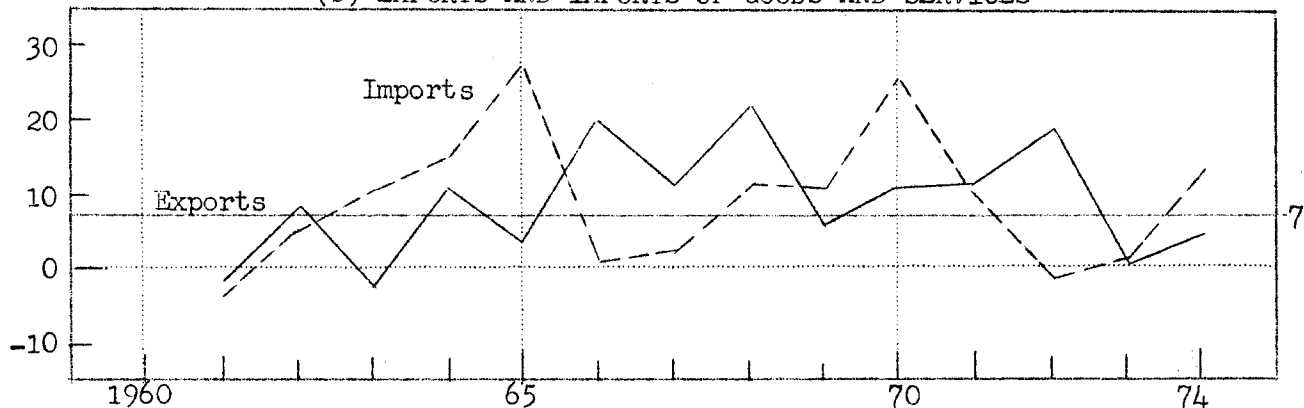
COSTA RICA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



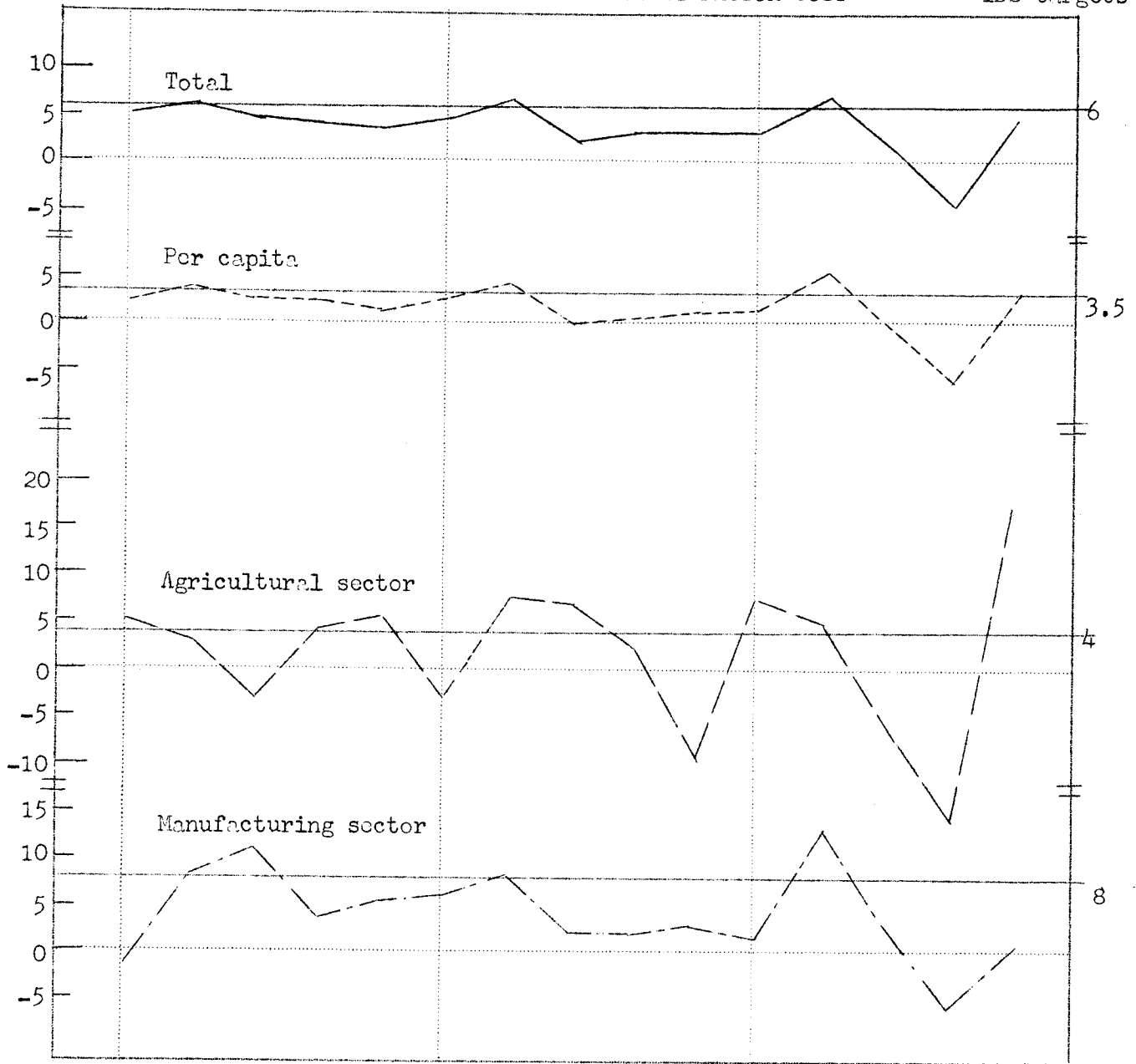
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



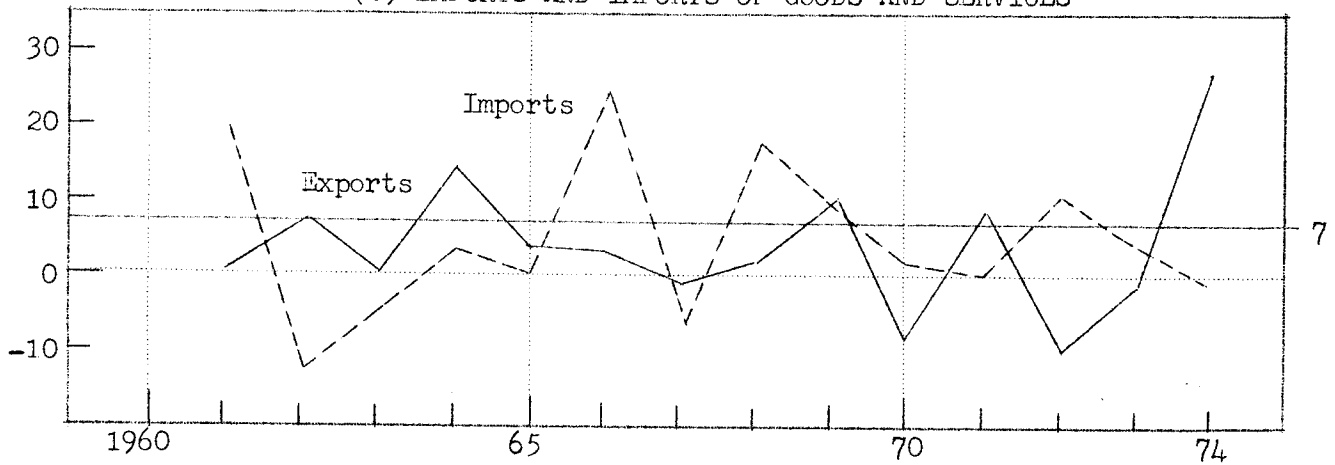
CHILE: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

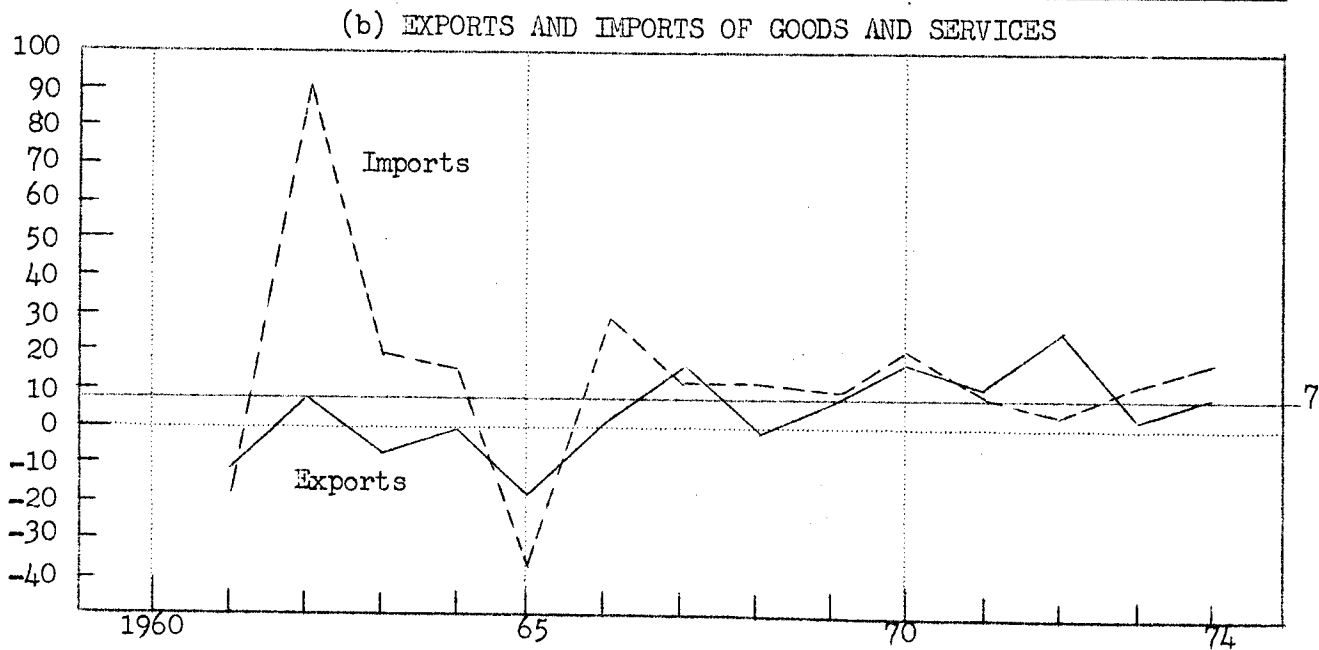
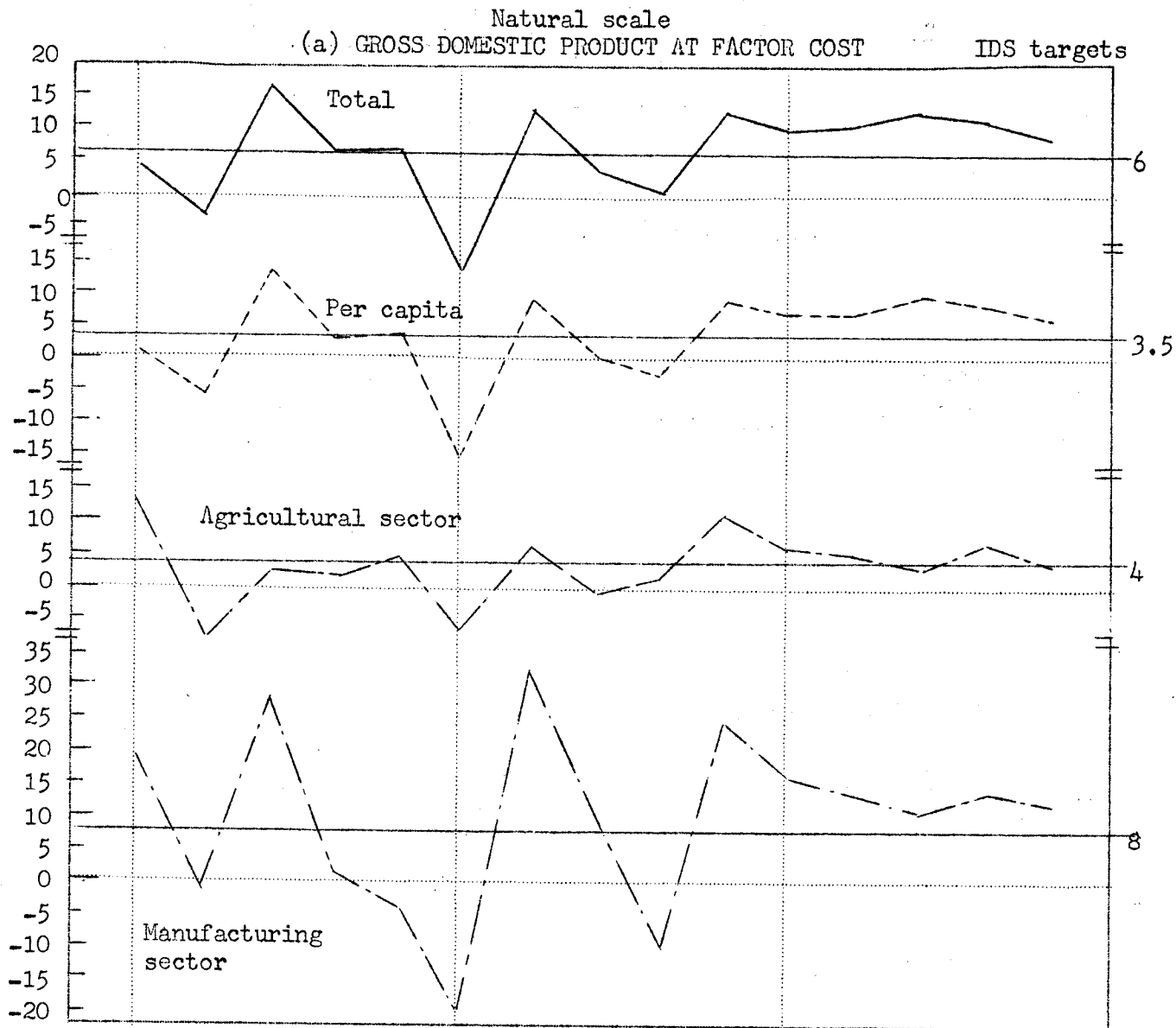
IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



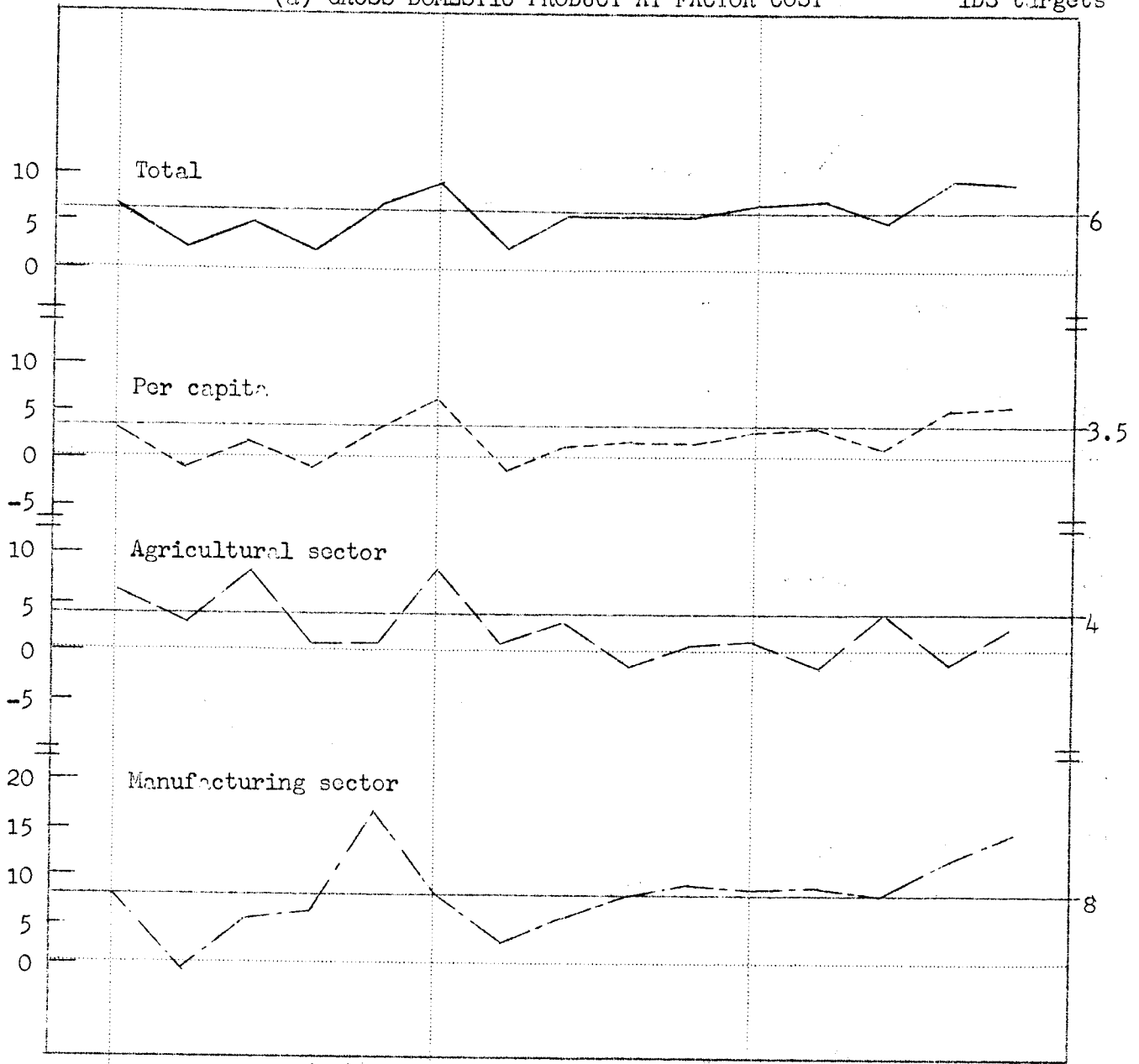
DOMINICAN REPUBLIC: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)



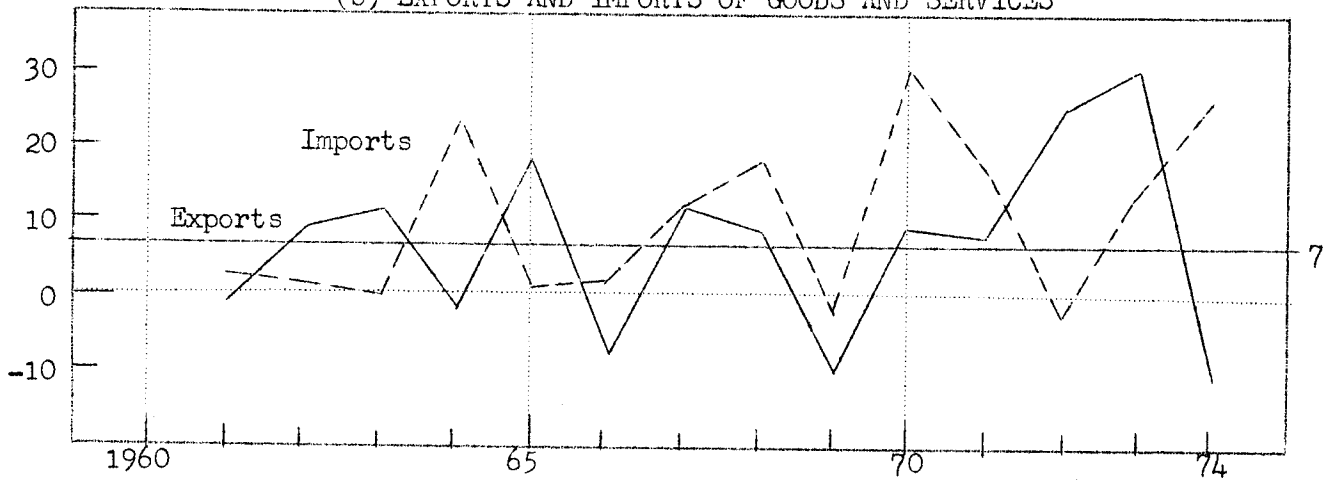
ECUADOR: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



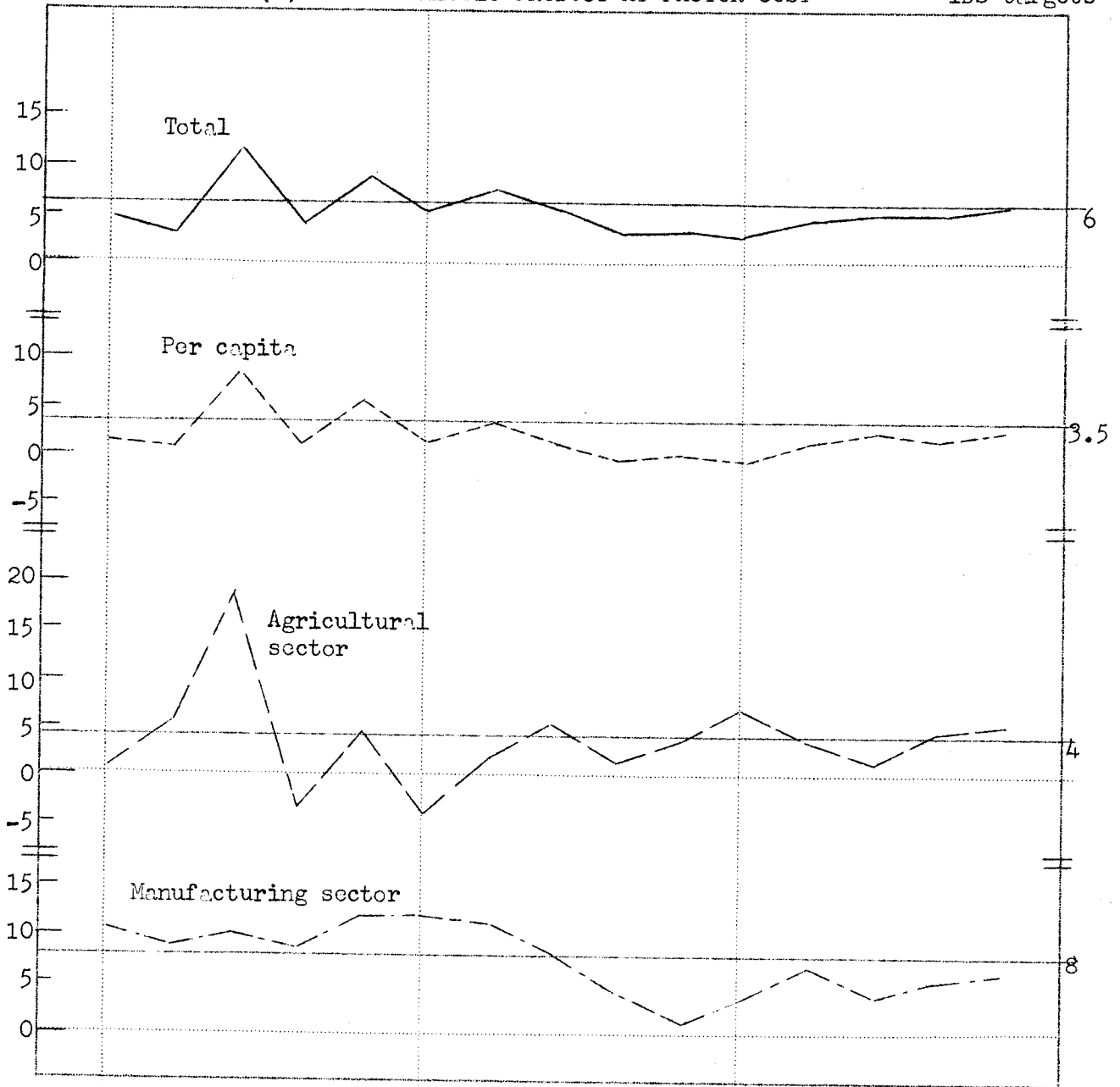
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



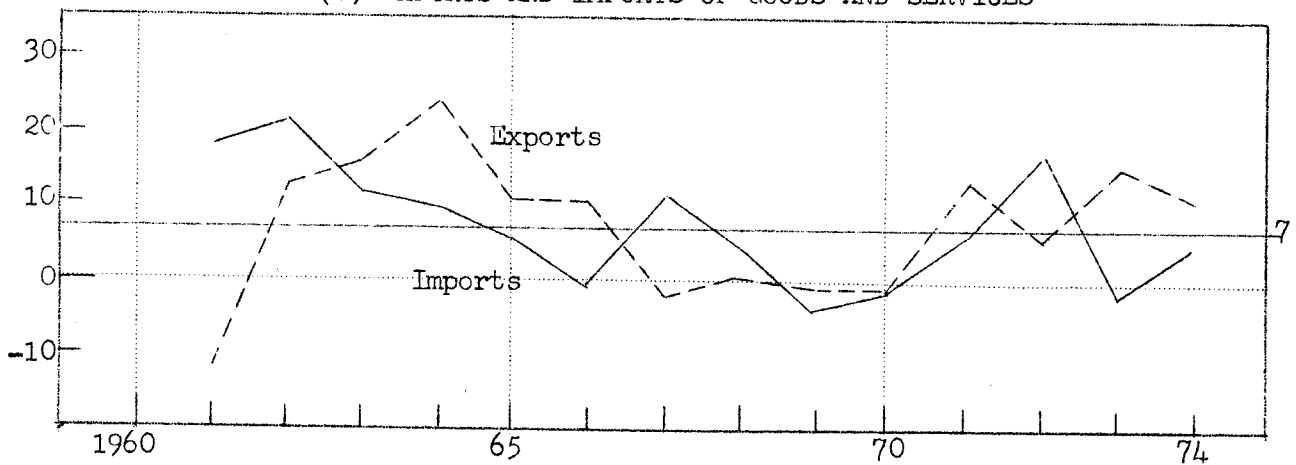
EL SALVADOR: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



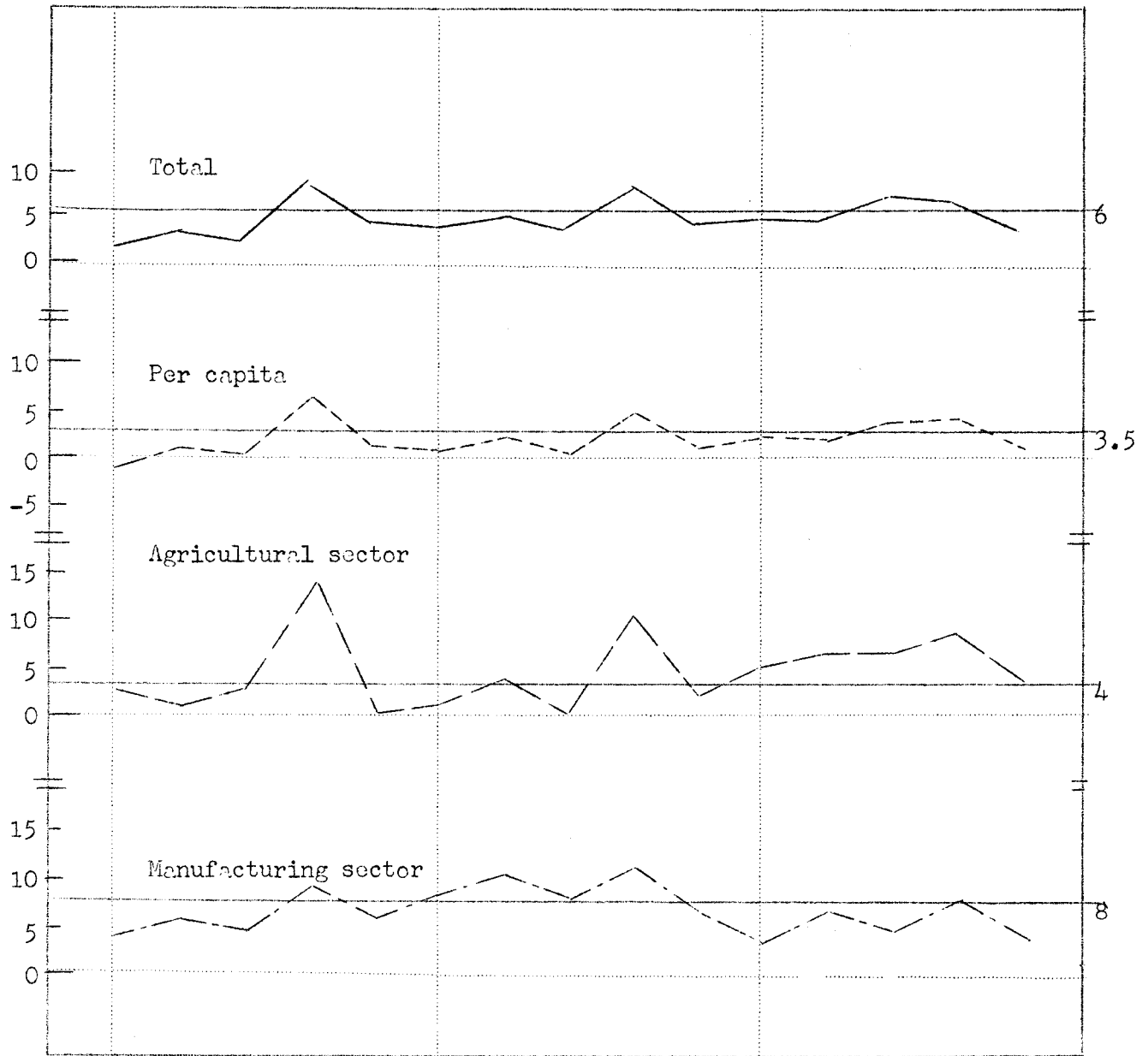
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



GUATEMALA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

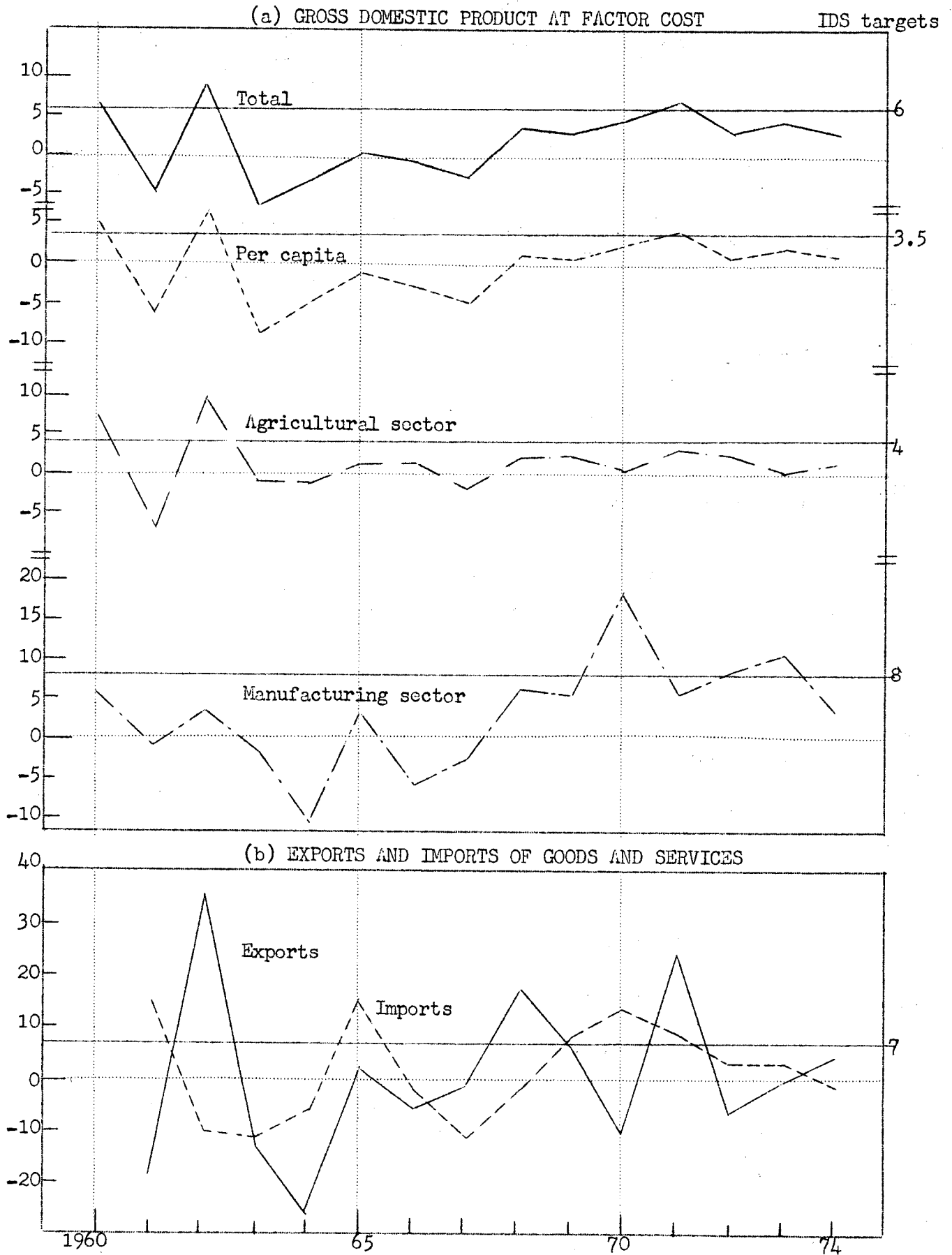
IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



HAITI: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

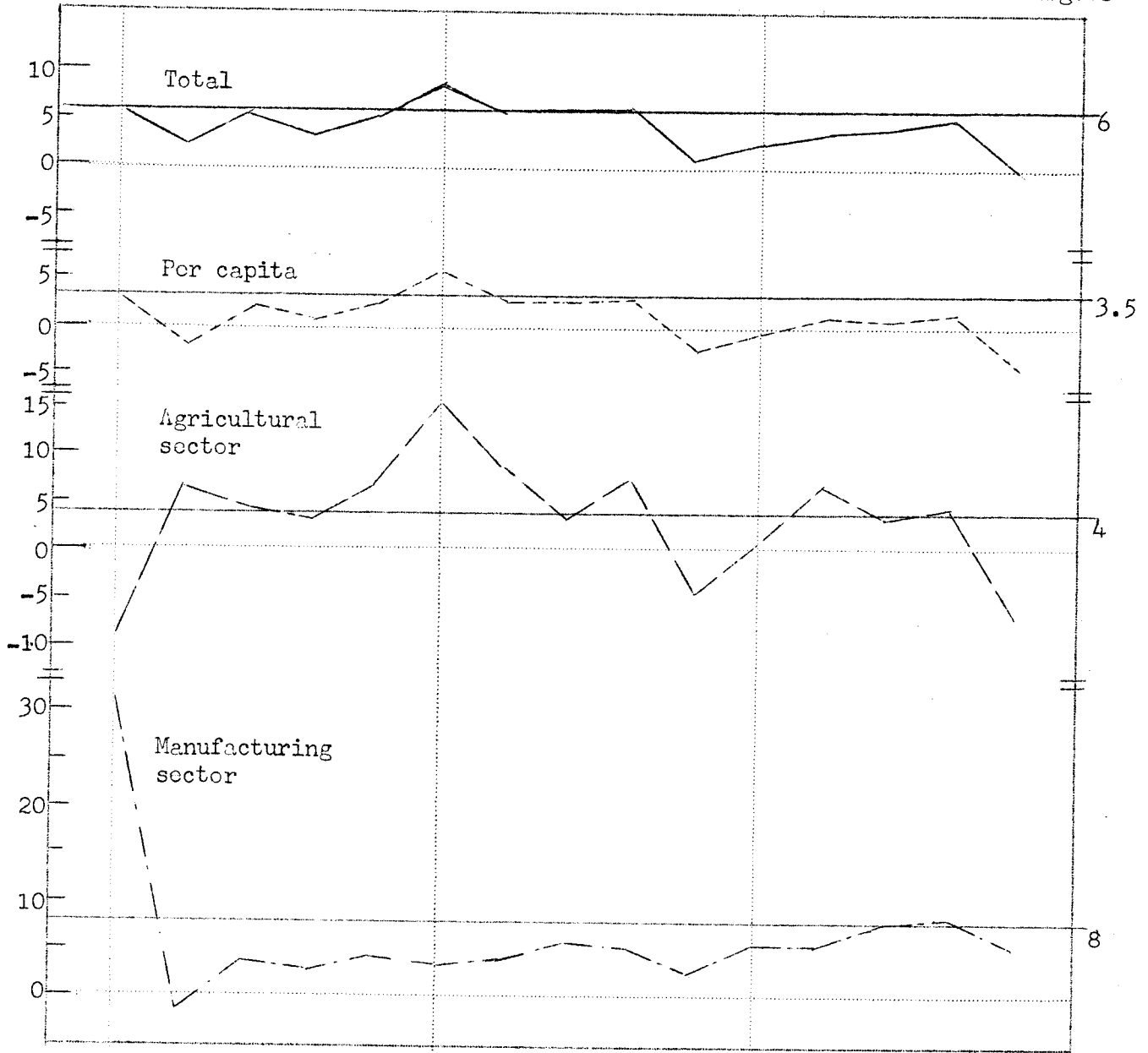


HONDURAS: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)

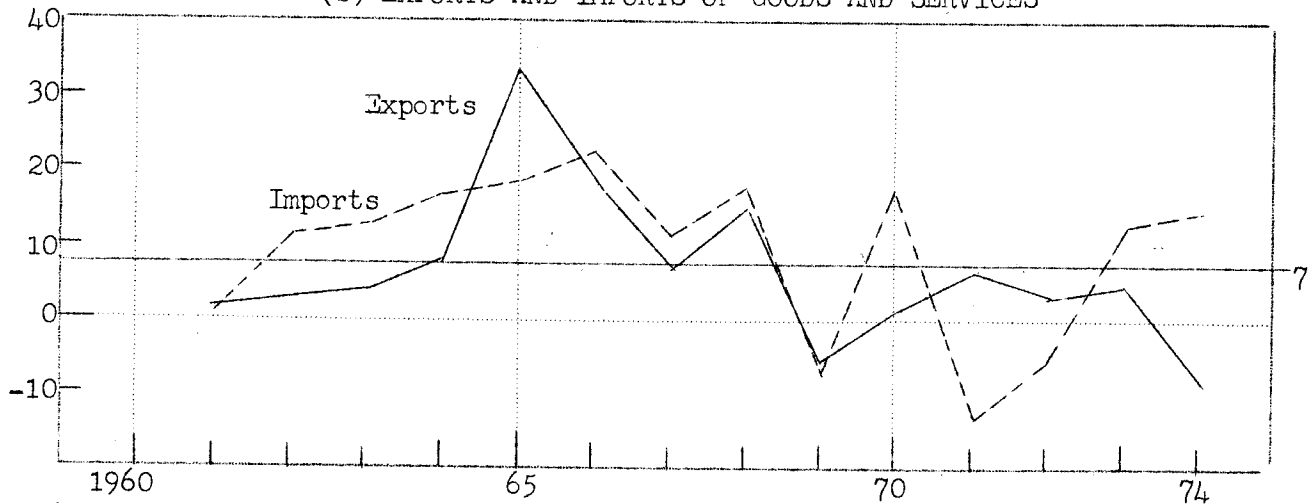
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



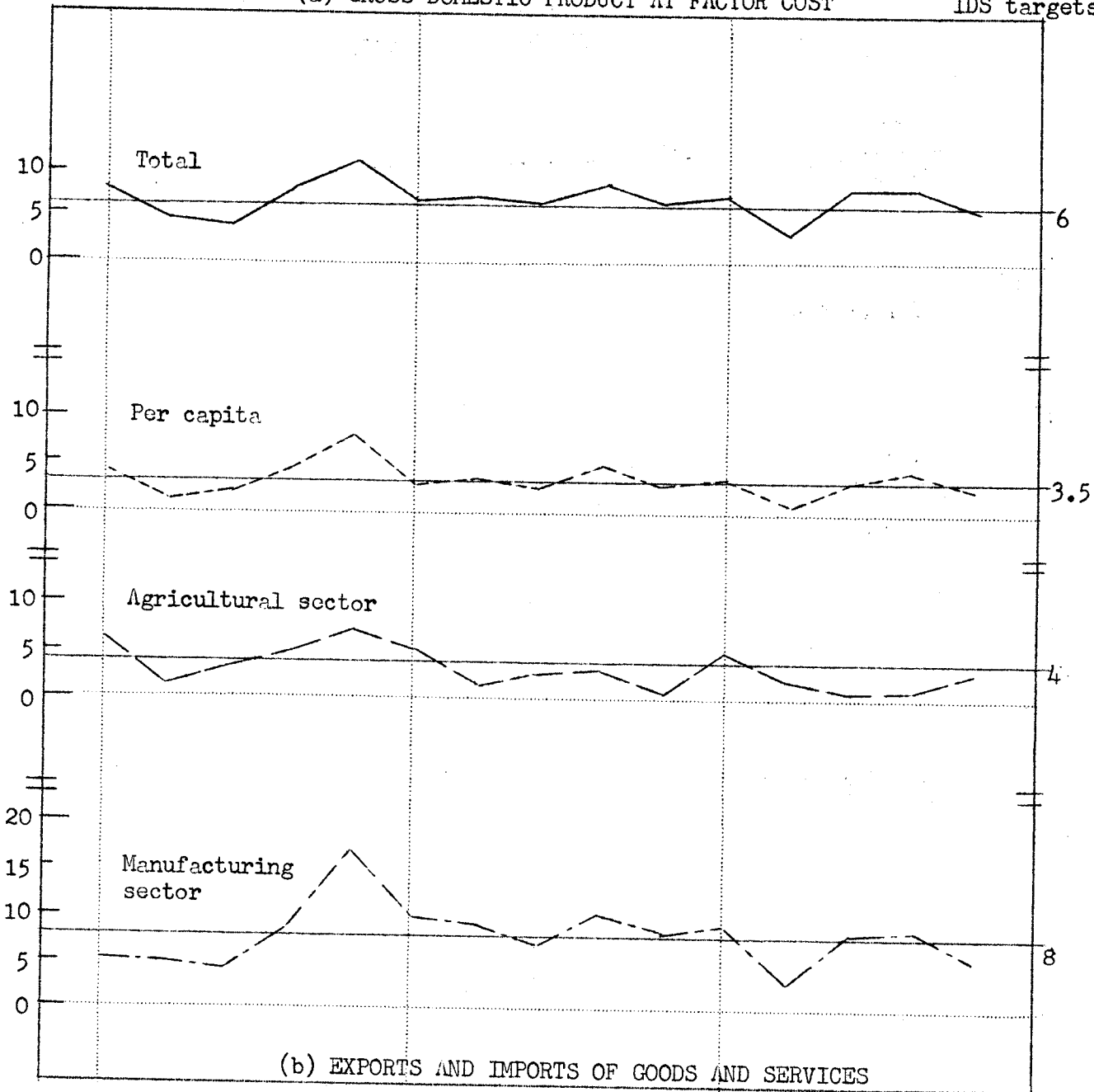
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



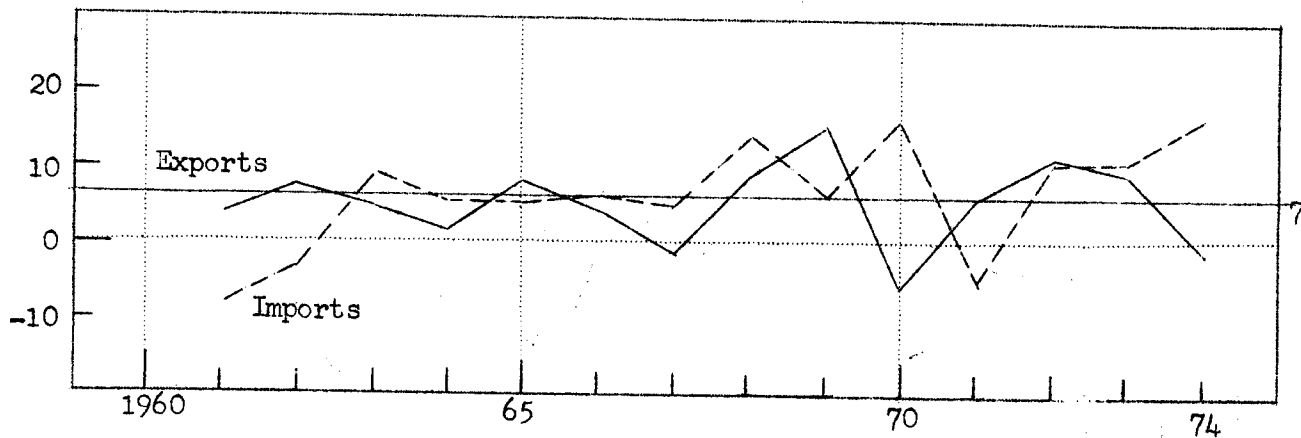
MEXICO: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



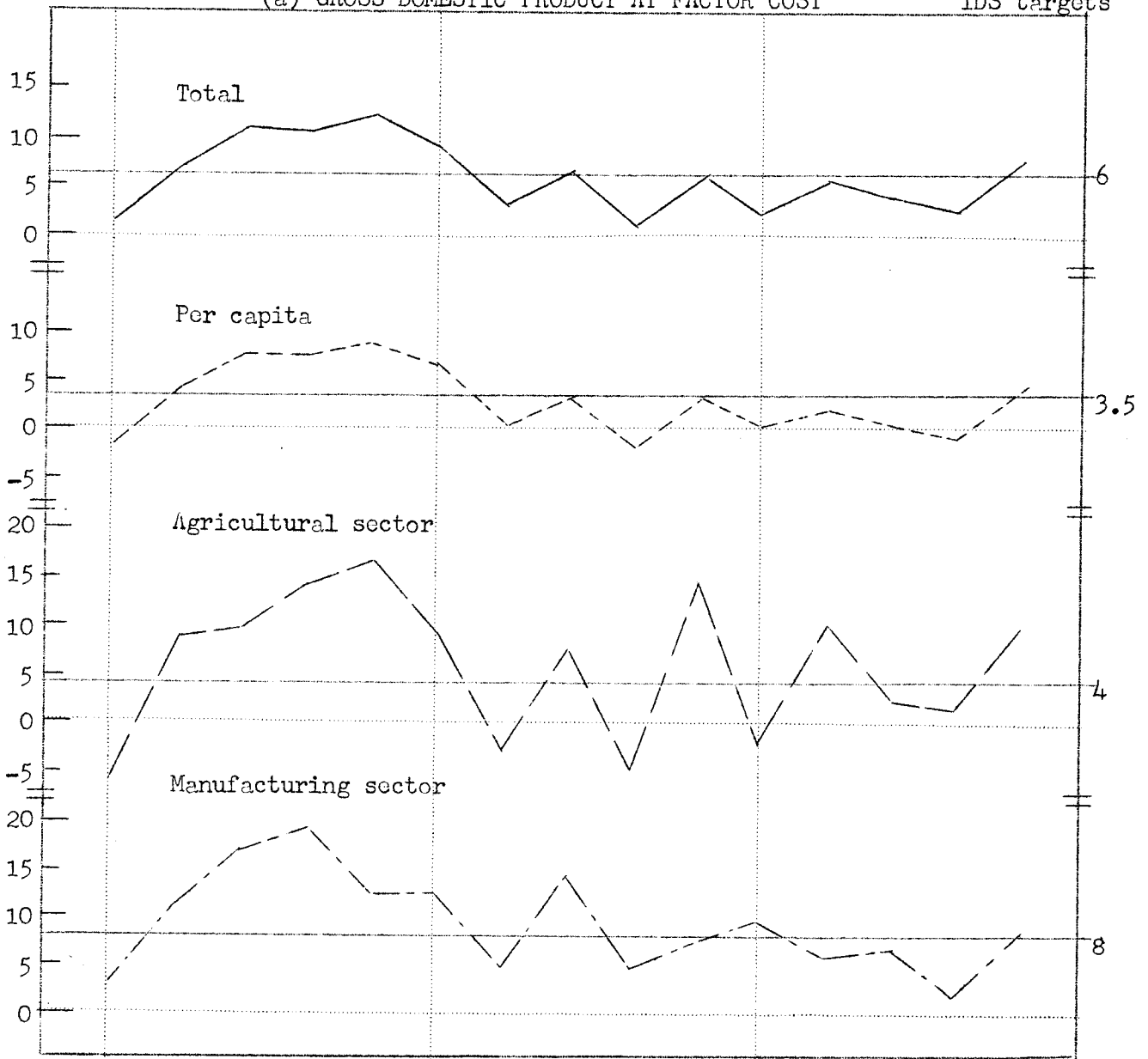
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



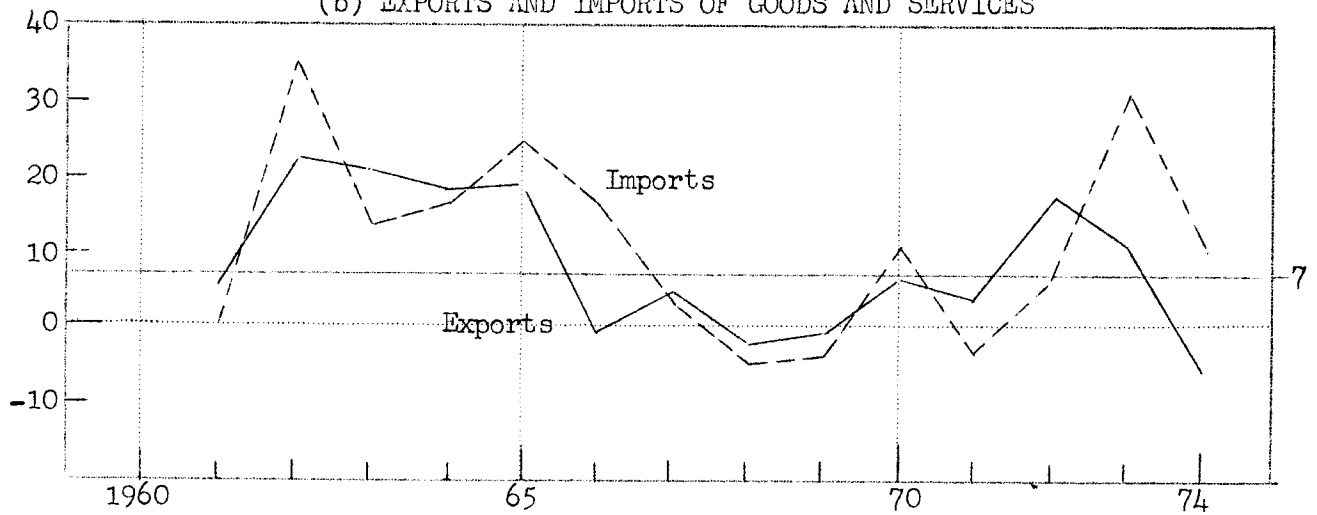
NICARAGUA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



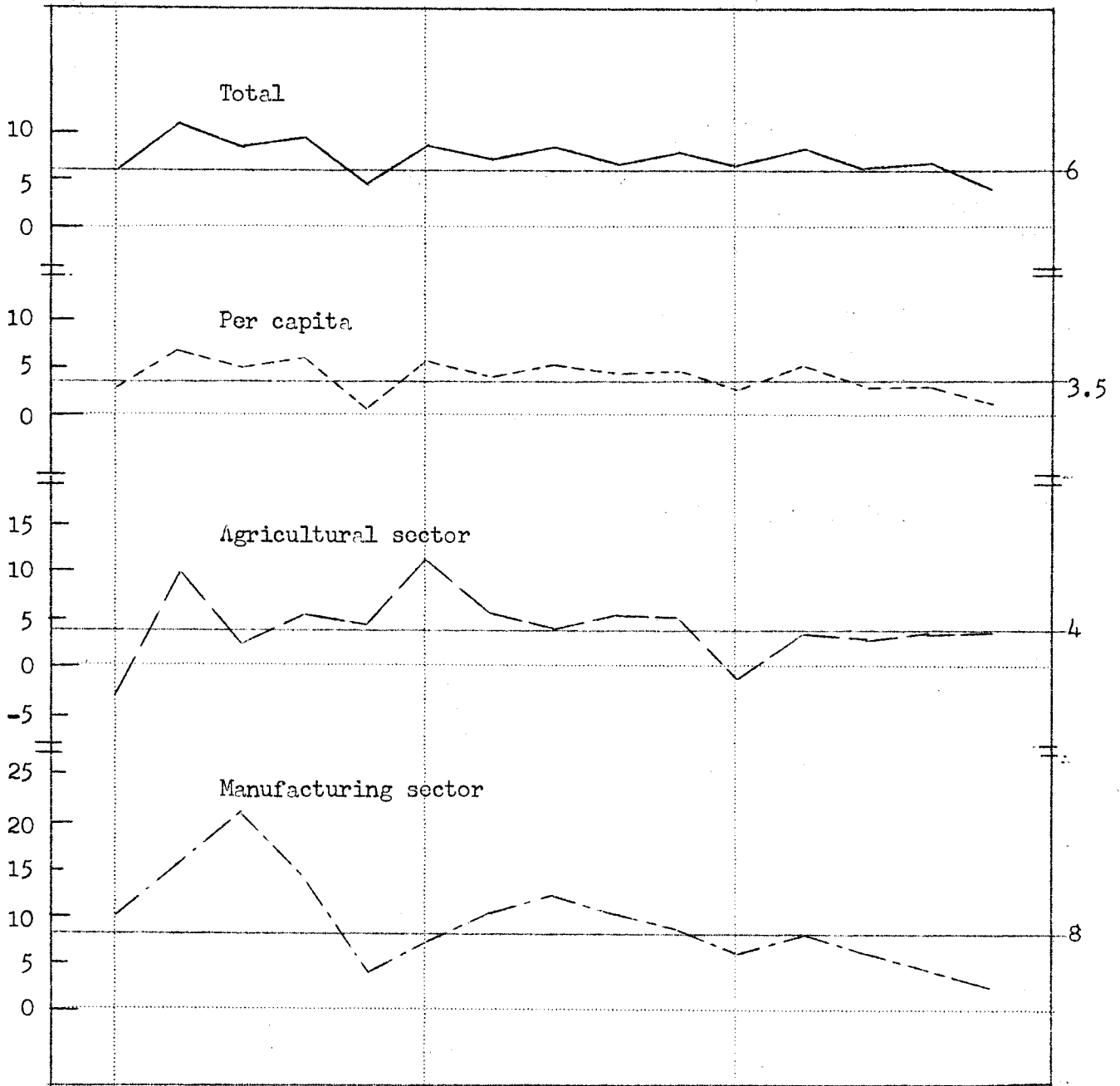
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



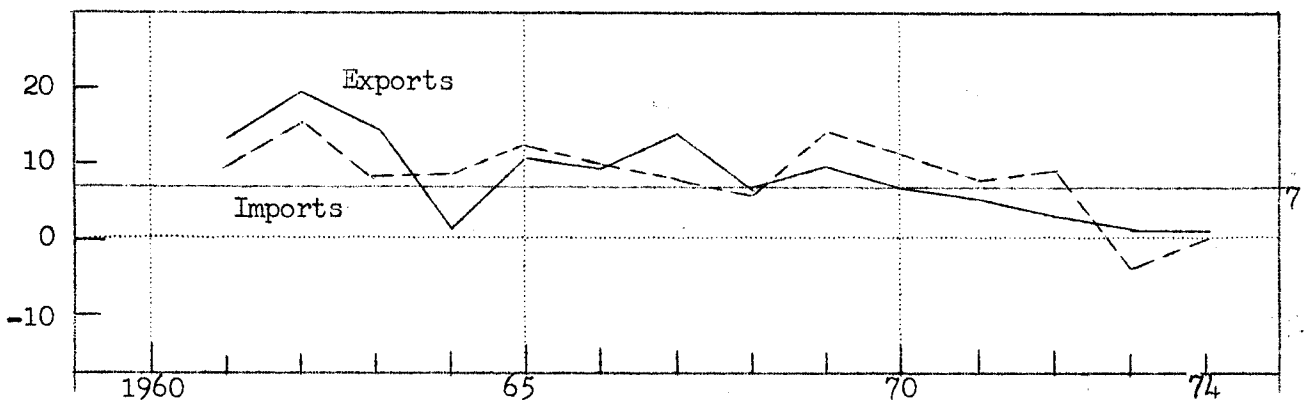
PANAMA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
-Natural scale

(A) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



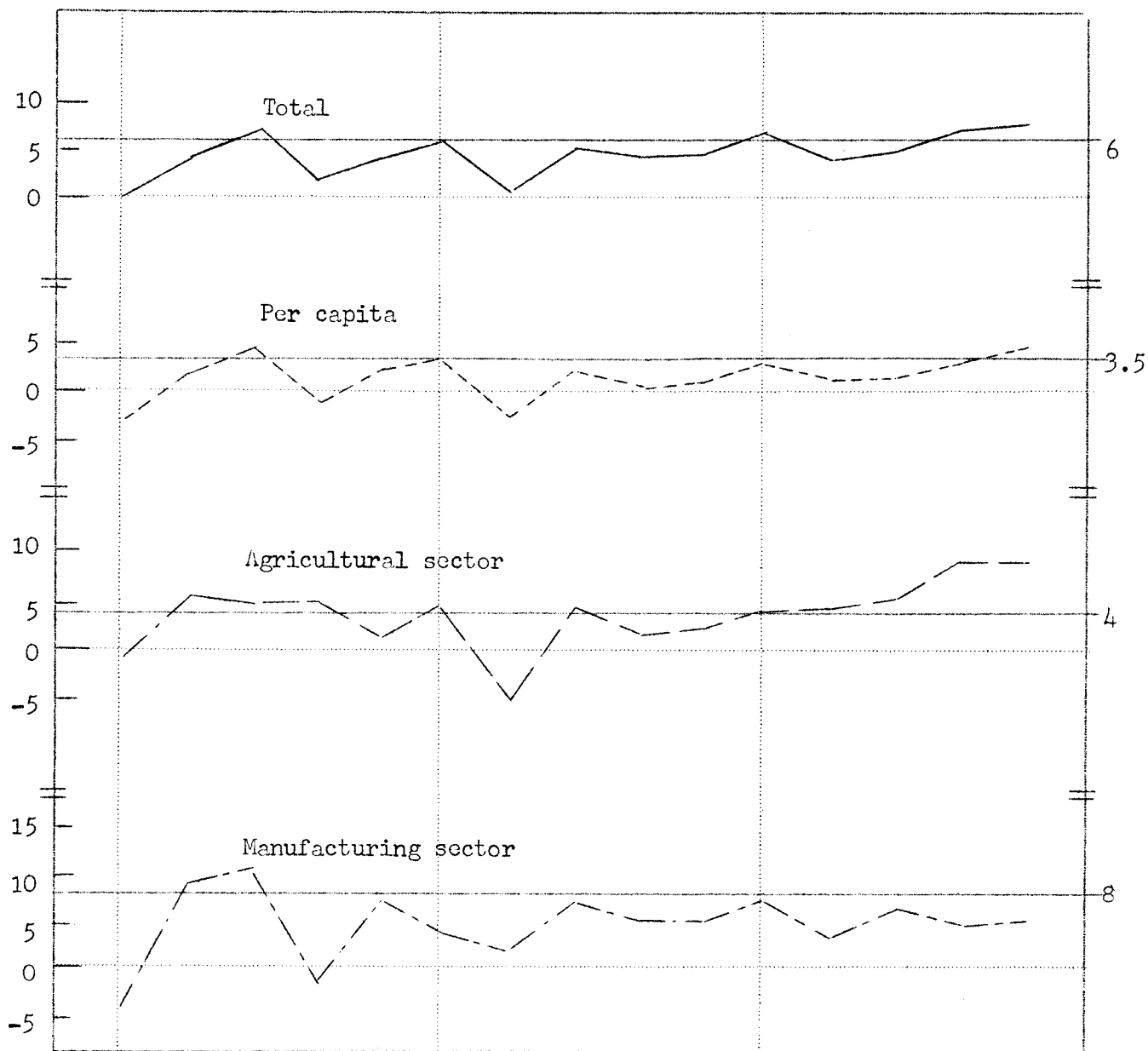
(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



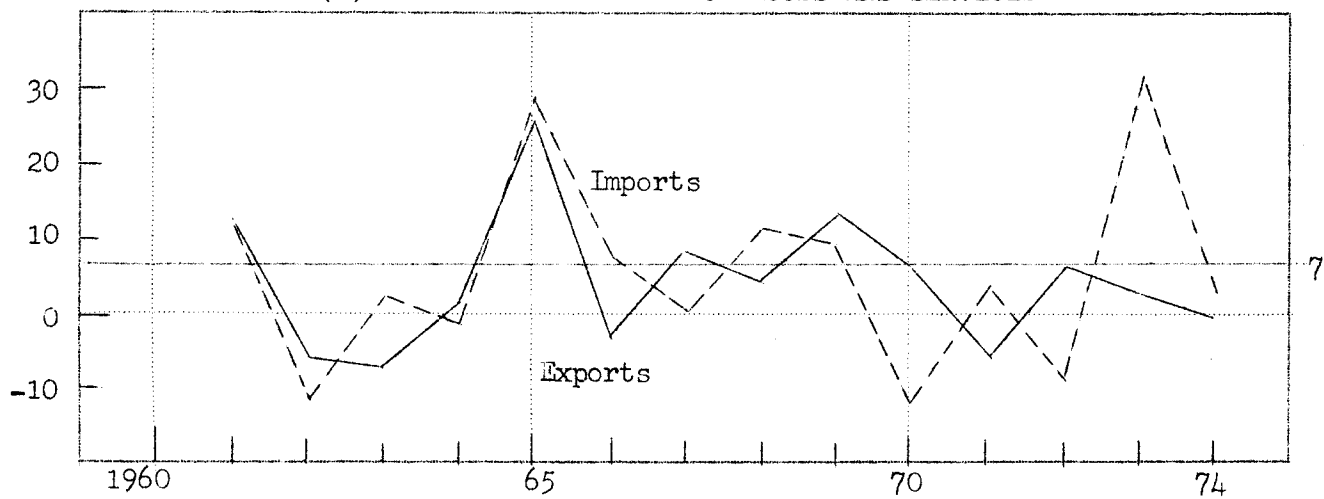
PARAGUAY: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)  
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES

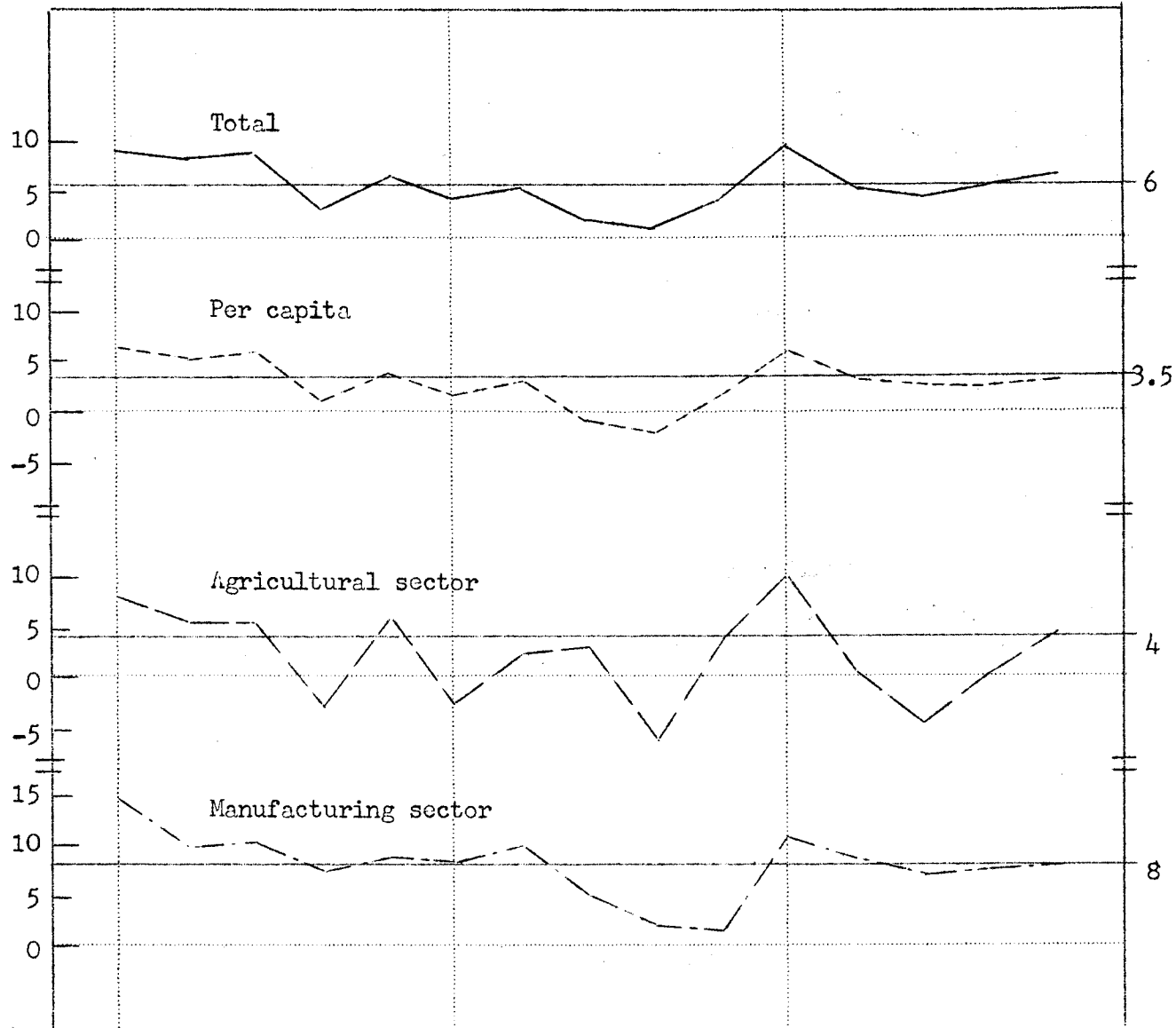


PERU: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)

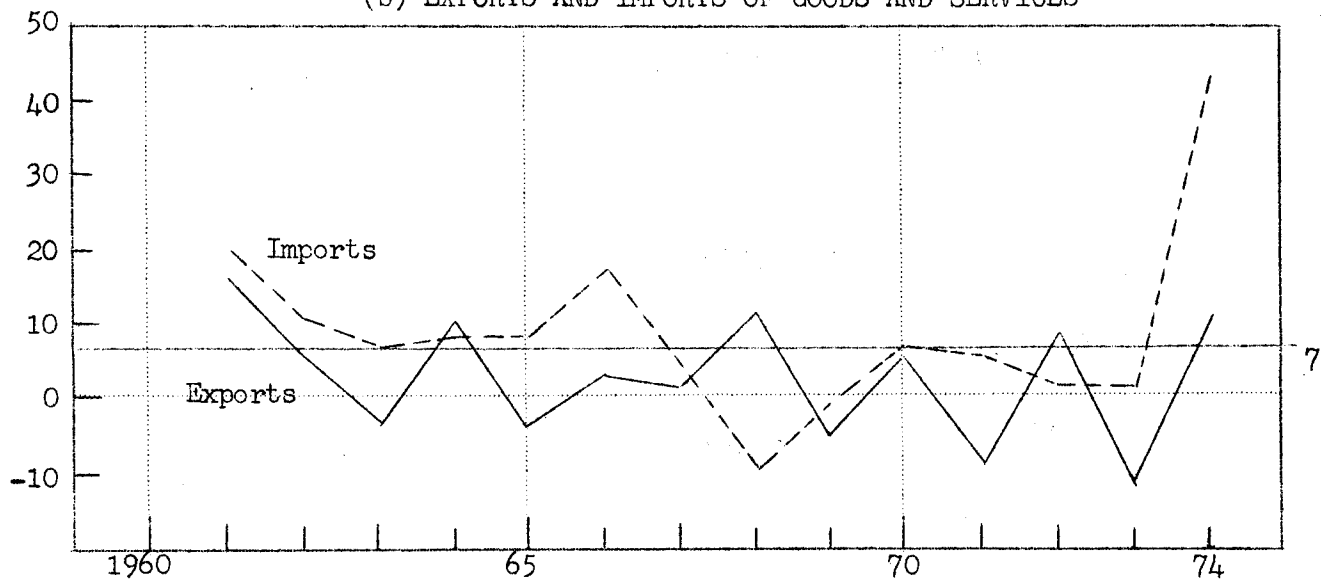
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES

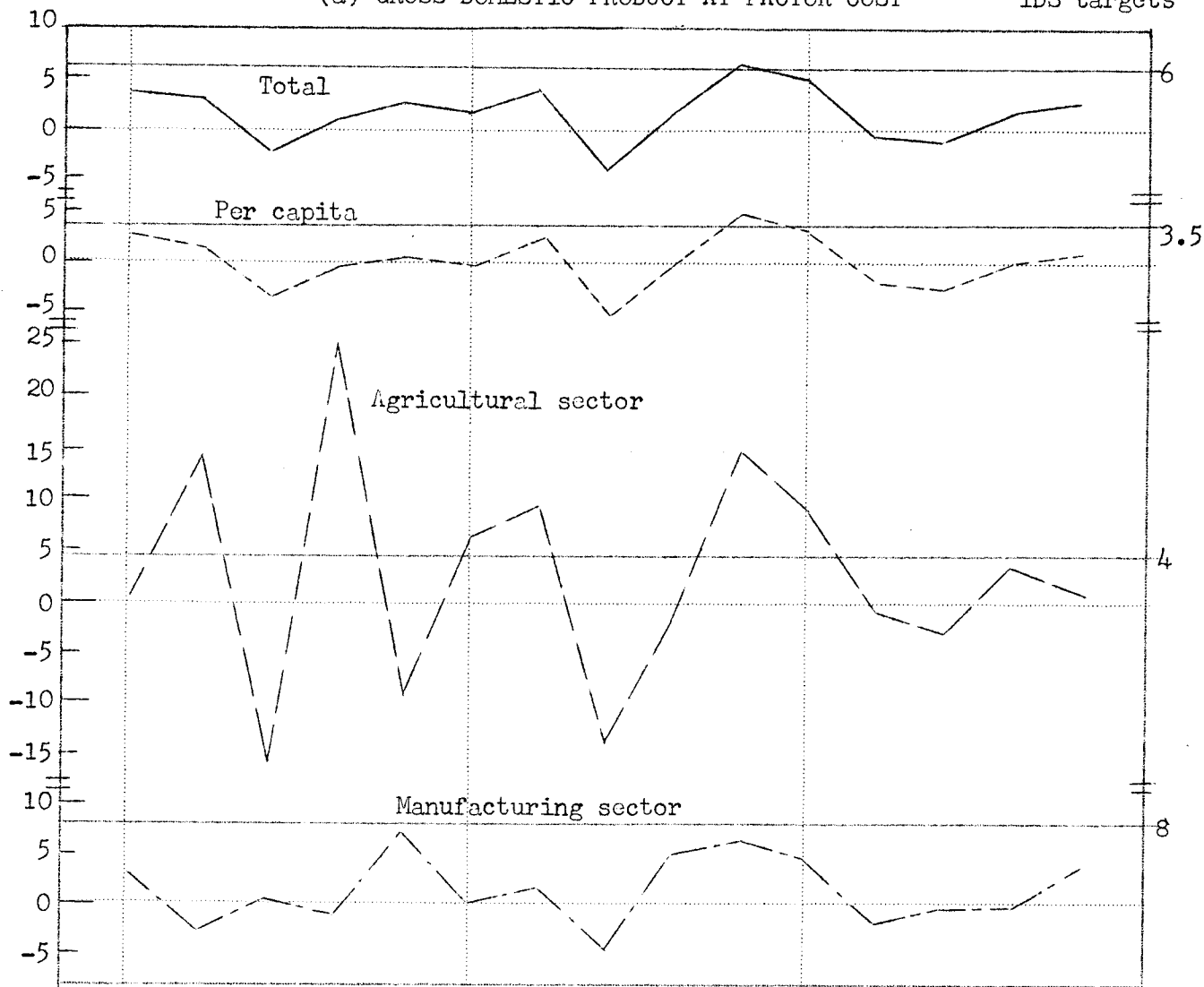


URUGUAY: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)

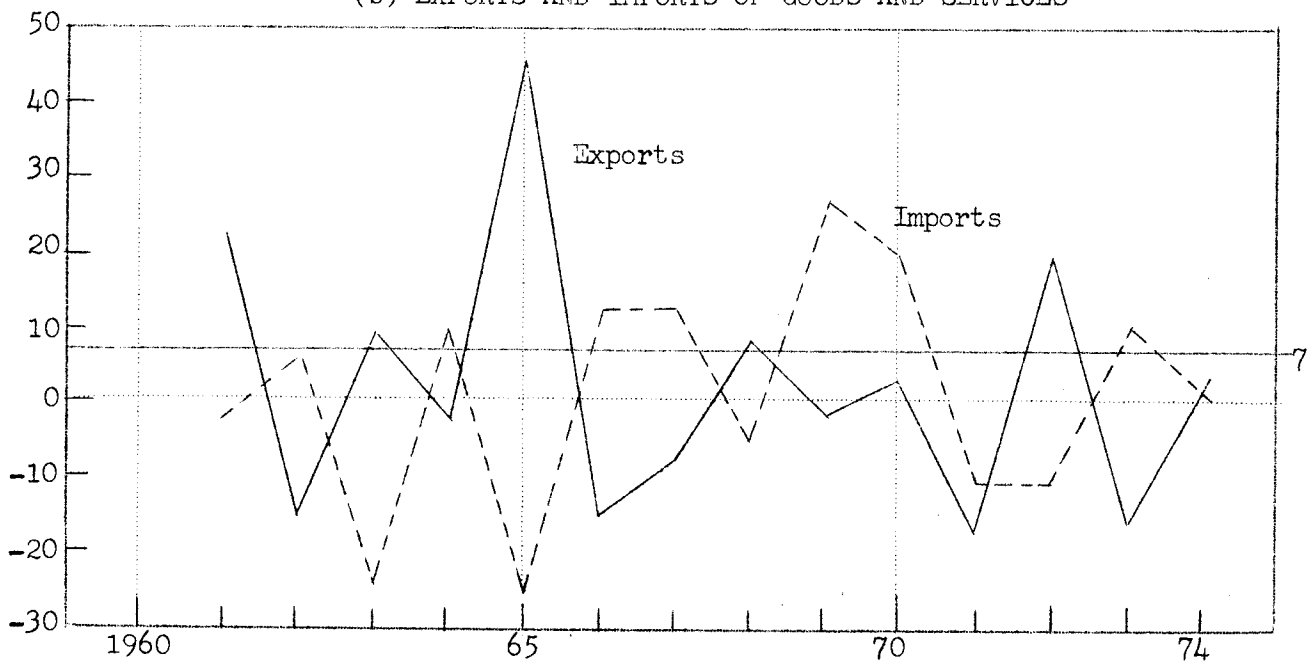
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES

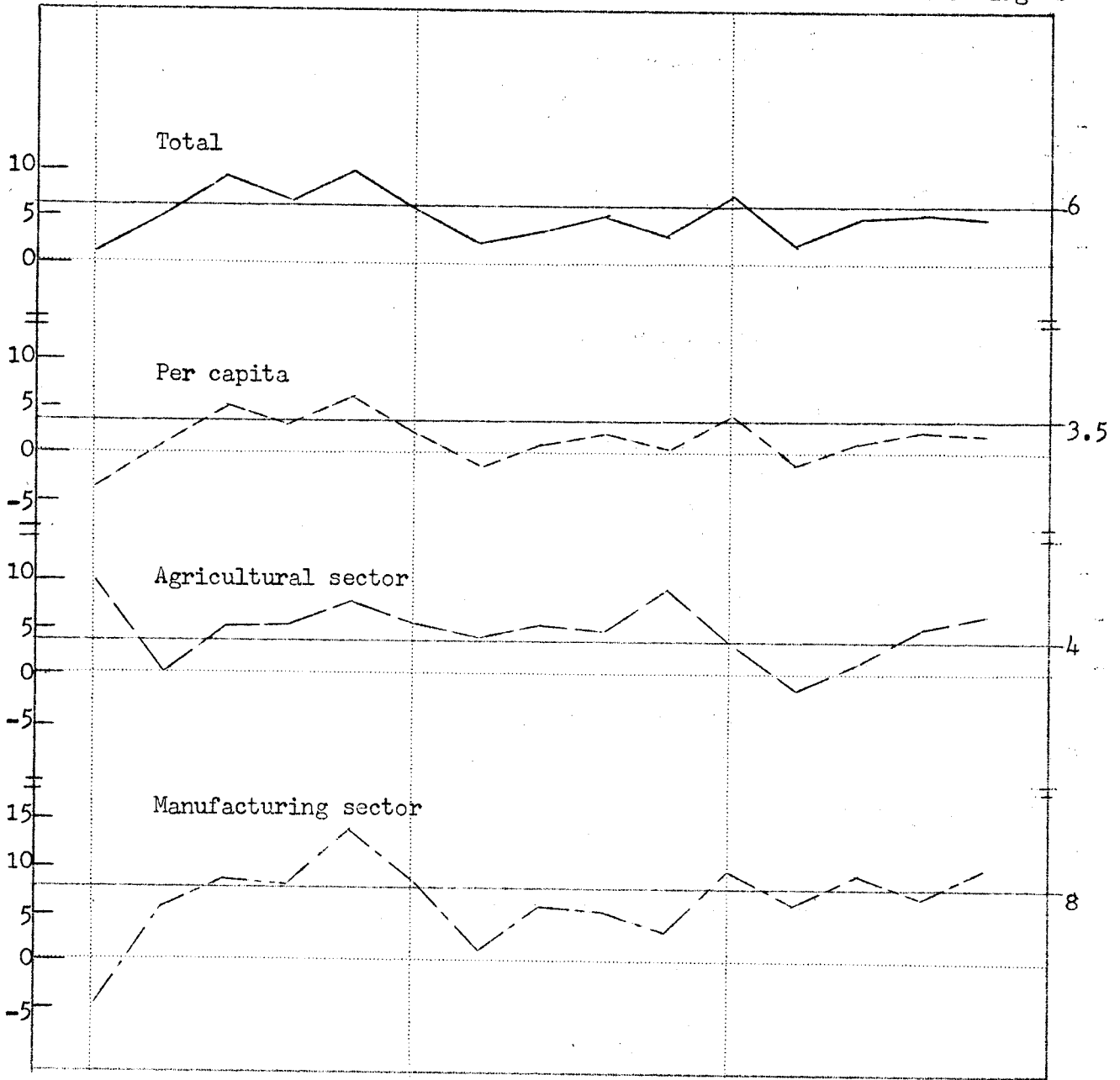


VENEZUELA: ANNUAL GROWTH RATES OF SOME  
MACROECONOMIC VARIABLES, 1960-1974  
(Percentages on the basis of values expressed at 1970 prices)

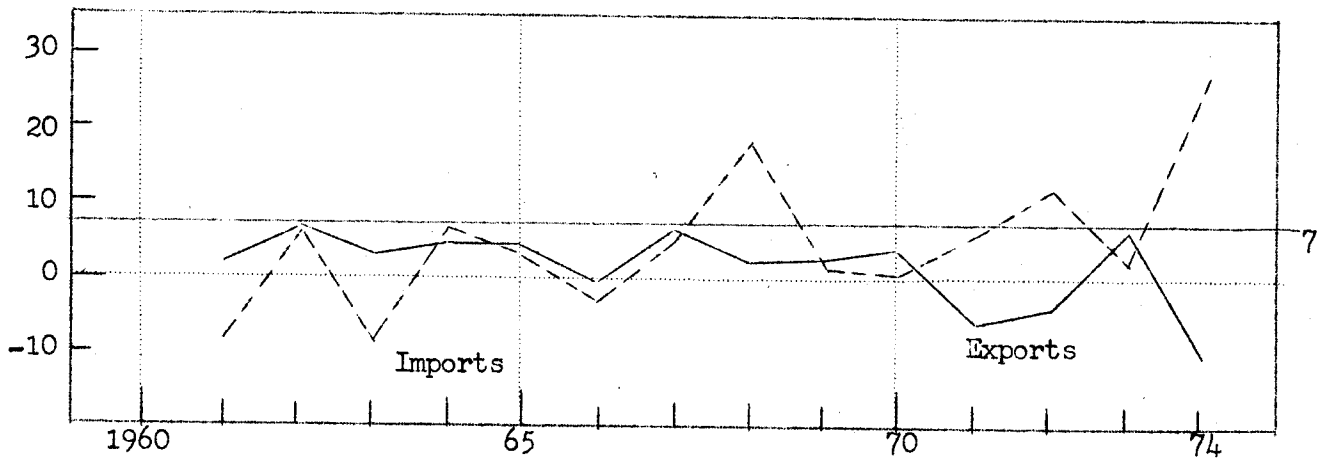
Natural scale

(a) GROSS DOMESTIC PRODUCT AT FACTOR COST

IDS targets



(b) EXPORTS AND IMPORTS OF GOODS AND SERVICES



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