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NOTES AND EXPLANATION OF SYMBOLS

The following symbols have been used throughout this Survey:

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

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

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

A plus sign (+) indicates an increase.

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

A slash (/) indicates a crop year or fiscal year, e.g. 1966/67.

Use of a hyphen (–) between dates representing years, e.g., 1960–65, normally signifies an annual average for the calendar years involved, including the beginning and the end years; growth rates refer to the cumulative annual rates for the whole period, including the beginning and end years.

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

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

Part One

BASIC ASPECTS OF LATIN AMERICAN DEVELOPMENT STRATEGY

Introduction

THE UNITED NATIONS AND THE SECOND DEVELOPMENT DECADE

The United Nations is engaged in formulating an action programme to speed up the economic growth and social progress of the developing countries in the next decade. During the first Development Decade, marked progress was made in identifying problems and in understanding the factors that hold back or distort the development process. Within the United Nations system, the resolutions of the General Assembly, the Economic and Social Council, the regional commissions and the specialized agencies have contained ideas, statements and proposals that certainly cover the essential objectives that must be pursued, especially at the international level, to promote development for the two thirds of mankind who lead such a hand-to-mouth existence. Moreover, there have been certain changes for the better in the policies of international agencies, and new bodies—UNCTAD for example—have been established to tackle specific problems, and have made a decisive contribution to the efforts to identify and understand the problems.

When all these efforts—which are both intensive and wide-ranging—are compared with the trends of the world economy, however, their actual results give cause for a certain feeling of frustration and pessimism. The real results for the low-income countries are negligible. The gap between them and the industrialized countries in terms of living conditions and rates of growth is widening. The feeling of frustration is becoming more acute because the developing countries have been unable to achieve any effective and concerted action, and because the developed countries have not evinced the necessary willingness to make policy changes and adopt decisions which will satisfy the legitimate interests and aspirations of the developing countries. Their reluctance to do so is in sharp contrast to the speed with which the industrialized countries reach agreements to promote their own economic expansion.

Scientific and technological progress has made great strides in recent years, but it has concentrated the benefits of economic growth for the most part in the countries which already had the highest income levels, such as Japan and the socialist countries. In contrast, only a handful of developing countries have shared in this progress. The peripheral position of the vast majority has been further accentuated by the fact that the developing countries have little or no influence on the major decisions in international financial and economic policy, and they benefit only indirectly.

Latin America has been no more fortunate than other developing areas in the world and in important respects is still relatively worse off than other countries on the periphery. Admittedly, the countries of the region were formerly in a better position than other developing areas: most of them won their independence during the first quarter of the nineteenth century; they appear to be better endowed with natural resources; and fifty years ago or more some of them were already remarkable for their thriving economies and high income levels. These countries, however, fell from their favoured position, and now all the countries of the region are on the periphery. Average per capita income in the region as a whole is one seventh of that of the United States, one fifth of that of Western Europe and probably less than half that of the Soviet Union, while the regional rate of growth is lower than in all these areas and even lower than in other developing countries.

Economically and technologically, Latin America is lagging further and further behind. The region is to all intents and purposes excluded from the development that is taking place in the great centres. It is not assimilating the scientific and technological advances flowing out of the great development centres, or disseminating them properly, either in its economic activities or geographically; nor is it making any innovations of its own. And Latin America is thus in the position of becoming increasingly dependent, financially and politically, in the international context, while at the same time declining in economic importance.

This, then, raises the question of what the scope and nature of a United Nations action programme to promote development in the coming decade should be, and what part ECLA should play in carrying it out.

The lessons learned from the present decade must be used to prepare a more effective programme for the next one. It is now clear that there are four basic points to which consideration must be given: (*a*) the major decisions by countries with regard to the mobilization of domestic resources and the establishment of the institutional, economic and social framework needed for development; (*b*) the changes that must be made in international economic and trade policy to foster the progress of the countries on the periphery; (*c*) international financial and technical assistance in carrying out national development plans; and (*d*) what kind of institutional organization and machinery will be required to give impetus to the action programme for the Second Development Decade, assess how far the programme is meeting its objectives, evaluate problems and suggest practical solutions.

During the 1960s, international and regional agencies have fixed over-all and individual targets for various aspects of economic and social development and made proposals on the most diverse topics. The fact that there has been no proper cohesion between all these diverse targets and no real co-ordination of national planning has often led to allocations of resources and policy decisions in individual countries that have not always met the most urgent needs or led to investment in the most strategic and urgent areas.

The host of recommendations, agreements and commitments adopted by the United Nations, and especially by UNCTAD, with a view to reorganizing trade and providing more effective external financial assistance for the development of the countries on the periphery, have not been translated into action. It is very important to examine the experience acquired in the regional programmes implemented during the past decade in connexion with the Alliance for Progress, because they represent the first attempt at international co-operation for development. It must be recognized that at the end of the 1960s, although some progress had been made in significant areas, the target had not been achieved; and social conflict and tension have been increasing because the fundamental internal and external problems of Latin American development, far from being close to solution, have been getting more serious.

It would therefore be pointless to formulate a programme for the Second Development Decade that would do nothing more than fix new targets and make statements and proposals that would largely be a repetition of those already made. It is urgently necessary to attack the fundamental problems, present them clearly, and examine possible solutions and practical measures to achieve them. The targets which are eventually fixed will then be closely related to basic decisions in both the internal and the external spheres.

The examination of Latin America's experience should therefore serve to gain a deep understanding of the real nature and scope of the development problems it now faces, to appraise the economic and social effectiveness of the structural framework in which its development is taking place and of the policies that are being applied, and, on this basis, to determine the basic components of a new strategy.

It might be argued that the United Nations action programme for the coming decade should focus mainly on the problems of external trade and international financial co-operation, since national policy decisions obviously are the exclusive responsibility of governments. However, it must not be forgotten that the effectiveness of external co-operation and the advantages derived from any eventual expansion of trade will depend primarily on the decisions taken by each developing country. In this respect, the United Nations, and ECLA in particular, have an important part to play in supplying governments with data and information on the basic philosophies underlying the development policies, among which they will have to choose.

Chapter I

DEVELOPMENT IN THE PAST DECADE: EXPERIENCE AND PROSPECTS

1. Experience in the past decade

Various developments and trends are characteristic of Latin America's experience in the 1960s. It is not easy to summarize them from an over-all standpoint, since they present features which are often contradictory, and they reflect progress and favourable changes side by side with obvious weaknesses and deficiencies.

Certain general points are fairly clear, however.

One is that the rate of growth of the region, and of most of the countries' economies, has stayed more or less at the levels reached in previous periods, and has not caught up with that of the more dynamic economies. This fact stands out all the more in the light of the population increase, as a result of which Latin America has shown one of the least favourable trends, only those of Africa and east and south-east Asia being still less favourable.

The over-all picture naturally conceals marked disparities between the various countries (see table 1). Only six attained the Alliance for Progress target of raising per capita income by 2.5 per cent annually.

Another all-important point relates to the general trend of Latin America's foreign trade. Although the increase in regional exports was by no means insignificant, particularly in the last years of the decade (see table 2), it reflects only partly the exceptional growth of world trade during that period. Furthermore, Latin America's share in the volume of trade declined in relation to that of the more dynamic regions, such as the European Economic Community (EEC), the United States and Japan.

In addition, this trend was accompanied by other important factors, such as the deterioration in the terms of trade; little diversification of exports, which still consist mainly of a few primary products; the region's marked dependence on imports of capital goods and basic inputs; and a high degree of concentration in the geographical distribution of trade.[1]

Table 1. Latin America: average annual rate of growth of the gross domestic product at factor cost, 1960–1969

(Percentages)

	Total product	*Per capita product*
Argentina	3.5	1.9
Bolivia	5.4	3.0
Brazil	5.5	2.6
Chile	4.5	2.0
Colombia	5.0	1.5
Costa Rica	7.0	3.1
Cuba	—	—
Dominican Republic	3.4	0.1
Ecuador	4.5	1.1
El Salvador	5.6	2.3
Guatemala	5.2	2.2
Haiti	1.5	−0.8
Honduras	5.3	1.8
Mexico	6.9	3.3
Nicaragua	6.3	3.2
Panama	7.7	4.3
Paraguay	4.5	1.1
Peru	5.1	2.0
Uruguay	0.6	−0.6
Venezuela	4.7	1.3
Latin America	*5.2*	*2.2*

SOURCE: ECLA, on the basis of official statistics.

Another point which must be mentioned is that the external financial position of the Latin American countries is highly vulnerable and is becoming more so. Their indebtedness has more than doubled, and service payments absorb an excessive proportion of their exports, to the point where remittances of profits and interest, and amortization and other payments on foreign capital, have come to represent over 35 per cent of the current value of exports of goods and services for the region as a whole.[2]

[1] See ECLA, *Economic Survey of Latin America, 1968*, (United Nations publication, Sales No.: E.70.II.G.1), chapter III.

[2] *Ibid.*, table 55.

Table 2. Share of principal regions and countries in total world exports, 1960 and 1968
(*Millions of dollars f.o.b.*)

	1960		1968		Value of exports in 1960–68	
	Value	Percentage	Value	Percentage	Percentage increase	Annual growth rate
Total	*126,340*	*100.0*	*237,200*	*100.0*	*87.7*	*8.2*
Developed regions and countries	81,001	64.1	159,296	67.2	96.7	8.8
United States	20,412	16.1	34,227	14.4	67.7	6.7
Canada	5,554	4.4	12,556	5.3	126.1	10.7
European Economic Community	29,740	23.5	64,190	27.1	115.8	10.1
European Free Trade Area	18,480	14.6	31,050	13.1	68.0	6.7
Japan	4,055	3.2	12,973	5.5	219.9	15.6
Oceania[a]	2,760	2.2	4,300	1.8	55.8	5.7
Developing regions	26,212	20.7	42,399	17.9	61.8	6.2
Latin America	9,012	7.1	12,959	5.5	43.8	4.6
Asia	7,630	6.0	11,060	4.7	45.0	4.7
Africa	5,300	4.2	9,750	4.1	84.0	7.9
Middle East	4,270	3.4	8,630	3.6	102.1	9.2
Countries with centrally-planned economies	13,240	10.5	25,200	10.6	90.3	8.4
Other regions and countries	5,887	4.7	10,305	4.3	75.0	7.2

SOURCE: United Nations, *Monthly Bulletin of Statistics:* for 1960, vol. 22, No. 6 (June 1968): for 1968, vol. 23, No. 10 (October 1969).

[a] Australia and New Zealand.

Another matter of grave concern is the volume and the spread of private foreign investment in the acquisition of Latin American enterprises engaged in traditional economic, financial or other activities, without there being any technical or other justification for these foreign take-overs and the weakening of Latin American enterprises.

There are, however, some important positive developments, which include the advances made in economic and social research; the efforts to integrate development problems in a more fruitful interdisciplinary context than in the past; a firmer and more widespread conviction of the need for institutional and structural changes; a greater understanding and practical knowledge of development problems; and the technical competence that Latin America has shown in its attempts to organize planning and the preparation of plans, notwithstanding the difficulties and lack of previous experience in this field.

Attention must also be drawn to the progress made in public sector planning, the firmer action in curbing inflation, the launching of agrarian reform programmes in some countries, and the extension of social services in respect of education, health and housing.

Outstanding developments at the regional level were the policy decisions which set in motion the regional integration processes and the institutions designed to promote development, including the Inter-American Development Bank (IDB). Particularly significant was the co-ordinated action of the Latin American Governments in the discussions of foreign trade and financing, especially in relation to UNCTAD's activities.

The financial and technical co-operation programme of the Alliance for Progress represented the first attempt at organization to ensure the external co-operation required for national development plans, although it was eventually frustrated by a combination of factors. Particularly during its initial stage, this programme gave impetus to planning; it established economic and social development goals; and it encouraged the channelling of external resources towards the participating countries.

While there is no denying these and other advances, there is still a feeling of profound disquiet regarding the ultimate course of Latin American development, founded on the fact that social unrest and conflict have been aggravated, and on the realization that the long-standing obstacles to economic growth have taken on new dimensions and characteristics. In actual fact, at the close of the 1960s, the regional economies were far from having established the basic institutions and structures that would ensure more definite and stable progress. There is therefore a growing conviction that the effectiveness of the growth model and of national economic and financial policies needs to be evaluated, and the shortcomings of international co-operation and the severe limitations which the industrial countries' policy places on the development of the Latin American countries must be recognized.

For a more accurate view of Latin America's situation it seems essential to examine some

particular features and consequences of the development process, which show the sharp disparities or disequilibria that have arisen.

It is not easy to generalize in Latin America because of the different stages of development and the wide range of economic and social structures to be found in the countries of the region. Some aggregate figures may be considered, however, since they are indicative of essential aspects of the economic and social situation prevailing in the Latin American countries. The precarious conditions they indicate may be worse than they really are in a few countries, but at the same time they err on the side of understatement about the conditions prevailing in the others.

The over-all magnitude of Latin America's economic and technological backwardness is reflected in the estimated figure for the average product per person employed, which is barely 1,400 dollars. This productivity ratio is one quarter to one sixth of that recorded in industrialized countries like the United States and those of Western Europe. The low average is undoubtedly determined by the minimal productivity of a large proportion of the economically active population which may be regarded as structurally unemployed. The scale and nature of this backwardness stand out even more clearly, however, when they are considered in the light of the fact that probably less than 10 per cent of the labour force is employed in enterprises or units which may be termed relatively up to date in Latin America, and which produce about 50 per cent of total output, while at the other end of the scale one third of total employed manpower accounts for possibly less than 10 per cent of the aggregate product.

These differences in productivity levels, which were observable in the past between rural and urban activities, are becoming more and more pronounced in all economic sectors. In the more advanced industrialized economies there are also sizable disparities in the product per person employed in different economic activities, but in those countries they occur at much higher levels and are not so marked as they are in the Latin American countries, nor do they affect such large sectors of the population, particularly in the rural subsistence sectors and marginal urban activities. Moreover, in the region they are linked to other factors that make up the stereotype of economic and social backwardness.

Productivity increases very slowly and very unequally in different sectors, and even in different strata of the same economic activity. Thus, in the rural subsistence sectors and in various urban services, the product per employed person is virtually at a standstill or is even diminishing, on account of the pressure of surplus manpower. The course of events has been very different in the industrialized countries, where there is a tremendous dynamism which extends to all activities. The growth rate of Latin America's over-all productivity is half that of many industrialized countries, and even less than half that of those of Japan and some of the socialist countries. These disparities are particularly striking in the agricultural sector, whose backwardness is one of the most serious problems of Latin American development.

Productivity is a highly complex problem in Latin America. In the industrialized countries, increases in productivity are constantly being favoured—in broader and more diversified markets—by the improved techniques which they themselves develop; in the developing countries, any long-term improvement depends fundamentally on capital formation, better manpower training and organization, the expansion of domestic markets, and access to external markets.

The weakness of the Latin American economic process is apparent in its inability to absorb the working population in productive employment. This is undoubtedly due to the slackening of the economic growth rate since the mid-1950s and the fact that the population growth rate is the highest in the world. Other factors which are bound up with the conditions and structure of the Latin American economies and the patterns of income distribution have had a particular influence on structural unemployment, as will be seen later in this survey.

A study of the position in 1960, the conclusions of which are no doubt still valid, showed that about 40 per cent of Latin America's economically active manpower was underemployed, openly unemployed, employed in what are to all intents and purposes unproductive services, or in minimally productive activities. This section of the labour force included workers on sub-family agricultural units, artisan-type workers and the superfluous staff employed in trade and general services. This was the state of affairs in agriculture, in trade and other services, including government, and, on a lesser scale, in artisan-type industry and construction.

The low average product per person employed, the marked disparities in productivity in all economic activities and the scale of structural unemployment are three inter-

related factors which account for the low average level of income prevailing in the region. Together with the other factors connected with income distribution, they also explain the extreme inequality in the distribution of income and, consequently, of consumption. Although there are appreciable differences between countries—Argentina having the highest income and the least inequitable income distribution—the over-all figures are useful in assessing the magnitude of the problem. In real terms, average per capita personal income is only about 410 dollars a year; but while for half the population the per capita average is probably some 120 dollars, for the upper strata, representing 5 per cent of the population, it is 2,600 dollars.

Consumption in the low-income strata comprising 50 per cent of the population represents only two tenths of total consumption, while three tenths are absorbed by the upper 5 per cent. In other words, while the bulk of the population subsists under the unsatisfactory material and cultural conditions shown by these indexes, a relatively small proportion has attained a level and range of consumption similar to those found in countries with much higher incomes. Although these figures cover differences in income and consumption between the countries of the region, in some of which these disparities may be less pronounced, and although they are the result of preliminary estimates based only on the incomplete data available, there is no doubt that they indicate orders of magnitude that bear out the seriousness of Latin America's economic and social problem.

2. The basic causes of the lack of economic dynamism and the social disequilibrium

The lessons of the 1960s have again shown that the basic causes of Latin America's economic and social backwardness are deeply rooted in the operation and structure of the economy. Unless something is done to remedy them, it will be impossible to speed up the process of development and achieve a more equitable pattern of income distribution which will, after a reasonable lapse of time, enable the "other half" of the Latin American people to join actively in the production process, appreciably improve their living conditions and find a place in an effective plan for social development.

It is not proposed here to describe in detail the economic, social and institutional factors that are blocking the development of the Latin American countries, but rather to draw attention to the more generalized structural factors, even though they differ in degree from one country to another.

(a) *Political and institutional conditions*

The basic causes of Latin America's lack of dynamism and economic and social backwardness must be sought largely in the organization and functioning of the Latin American societies. These causes consist essentially in the slow pace of political and social change and the opposition to the establishment of new institutional conditions that would facilitate the key decisions required for development, and also in the sluggish reaction to changing conditions of international trade. All this is highly significant because, although the possibility exists of adopting fundamental development measures, the determination to carry them through on the necessary scale is lacking.

Experience in the 1960s has been illuminating in regard to the decisive importance of these factors for development. For example, national planning, which was initiated so enthusiastically, has not been so effective as could have been desired, because in practice it merely represented an added official administrative component of a traditional political and social decision-making structure in which there was no substantial change. In fact, progress was made only in administrative matters. Although the technical efficiency of governments improved, major decisions were not pushed through so rapidly or so comprehensively as was required, simply because the conditions that would make them feasible did not exist. This is illustrated by the slow progress of agrarian reform programmes; and the vacillation and opposition with which they have met; the failure to adopt bank and financial reforms and to introduce substantial changes in the existing tax systems; the absence of national policies with respect to foreign investment, which, among other results, is opening the way for foreign take-overs and the weakening of national enterprises; and, lastly, the obstacles to the expansion of intra-regional trade and to the establishment of a more competitive and more efficient economic system arising from the situations created. In fact, what are generally considered as obstacles to development are largely the outcome of those circumstances, and political and institutional changes are necessary if they are to be overcome.

(b) *Spread and concentration of technical progress*

The marked contrasts in productivity levels in the economic structure of Latin America may be ascribed to the varying degree of technical progress and absorption of new techniques in the different economic sectors and branches of activity.

Absorption of technical know-how has never been a widespread process in Latin America, nor has it reached all sectors of activity or all strata of the labour force. Throughout the range from the traditional exporter enclave to the newly created industrial production units, technical progress has usually represented a limited form of modernization which, with the productivity and income it is capable of generating, has given shape to a modern sector that is separated by a great gulf from the rest of the economy.

For such a system to be effective over the long term, the modern sector would have to expand progressively and incorporate an increasing proportion of the active population; but this process has not been sufficiently intensive in Latin America.

As the productivity and income gap between the modern sector and the rest of the economy has widened, other factors which accentuate that disparity have gradually been strengthened. In other words, the very dynamism of the process tends to strengthen this pattern of growth, and it is superimposed on other factors which are characteristic of earlier phases in Latin American development. For example, from this point of view there was no great difference between what has been called outward-directed growth and inward-directed growth; when exports were the main stimulus to growth, the modern sector expanded principally on the basis of export activities and supplementary foreign trade services, which had little effect on the rest of the economy. Subsequently, the prevailing trend towards import substitution mainly favoured industrial development, but again through the establishment of new modern units which were superimposed on a whole slowly evolving economic structure. For the same reason, the transition from the first to the second stage did not change but rather consolidated the high degree of geographical concentration of economic activity, since the major urban centres became the most suitable locations for the installation of new modern activities.

(c) *Capital formation and income distribution*

For economic and social development, the essentials are an immediate increase in the product per economically active person and a structure which is capable of absorbing manpower while stepping up the growth rate of productivity and income, especially in the social sectors which are lagging behind. These aims can be achieved only by accelerating capital formation, spreading modern technical know-how and introducing more efficient forms of production, training the labour force and ensuring that resources are allocated for specific economic and social ends.

In Latin America aggregate capital formation is relatively low. During the 1960s the coefficient of gross fixed investment was 17 per cent, which is less than in countries with a higher economic growth rate, but is quite high given the average level of income in the region. There is such a high concentration of income in the upper social strata, however, that the coefficient could be much higher were it not for the high consumption levels in those strata. Moreover, if the high relative prices of capital goods compared with consumer goods are adjusted, and investment is calculated at its true value, the gross investment coefficient will probably not be more than 12 per cent.

This coefficient would seem to indicate that the capital-output ratio is more favourable in Latin America than in other developing areas. It signifies an average historical gross marginal ratio of 2.5, whereas it is more than 3 in many developing countries. While this index undoubtedly reflects the general shortage of capital resources in relation to the labour force, it has also been influenced by the distorted economic structure in Latin America, in which a large proportion of the social product derives from the abnormally high absorption of surplus manpower in trade, financial services and other general services, including government activities.

Apart from the shortage of capital, there is another fundamental problem connected with its sectoral distribution, that is, with the structure of investment. The large proportion accounted for by consumption in the high-income groups has an impact on demand for goods which come into the category of luxury items in comparison with the average living level of the vast majority of the people, particularly in so far as durable consumer goods are concerned. This distribution of resources limits the subsequent extension and magnitude of the potential social effects which the development process should be producing at the stage it has reached in Latin America. It is essentially a cumulative process in which the concentra-

tion of income stimulates demand for certain items and keeps demand for consumer goods low in the poorer population groups.

The resources which are directly or indirectly assigned to satisfying the needs of the high-income groups reduce the amount available for investment in the traditional industries producing consumer goods in popular demand, such as food and clothing, and for expanding the social services that should be provided by the State, namely, housing and education. They also curtail production and imports of essential intermediate and capital goods which would raise productivity in the more backward sectors of the economy and permit more manpower to be employed.

The establishment of durable consumer goods industries, which has proceeded apace, especially in the countries with a more advanced industrial sector, has undoubtedly had a multiplier effect on other economic activities to some extent or other, depending on the proportion of domestically produced inputs used, and has created a wide variety of new lines of activities which have had their effect on the industrial skills available in the Latin American countries. However, the point at issue here is whether the potential economic and social effects would not have been greater if such resources had been earmarked for the other purposes envisaged or for building up an industrial structure capable of competing on the world market for manufactures and semi-manufactures.

If those resources had been used in other ways, as suggested, they would have provided the national economies with a broader base for expansion, made income distribution more equitable and helped to eliminate, or at least ease, the external bottleneck through which development must force its way.

(d) *Agricultural production*

The institutional, social and economic conditions prevailing in the agricultural sector are one of the most formidable obstacles that Latin American development has had to face. In spite of the shift of population towards the towns, a large proportion of the structural unemployment that exists is still found in rural areas, and this, added to low wage levels, keeps the annual per capita income of two thirds of the economically active rural population down to the tiny sum of 275 dollars.

In recent years, the growth rate of the agricultural sector has shown signs of quickening. However, it has not done so sufficiently to satisfy domestic demand, although this has been increasing very slowly on a par with income, and the inflexibility of agricultural production has often created inflationary tensions that have reduced real wages. Moreover, opportunities of developing certain exports have been lost, and it is necessary to import large quantities of agricultural commodities which could be supplied by expanding local or at least regional production.

Because of its very nature and magnitude the economic and social problem of agriculture is a built-in and significant part of the problem of Latin American development as a whole. Its fundamental causes are well known: the land tenure system, technological backwardness, low productivity and the small volume of investment. The land reform programmes launched in various countries are meeting with serious obstacles and opposition of different kinds. More far-reaching, generalized and prompt action must be taken to sweep these obstacles away, since only in this way can rural income be raised and its distribution improved, and the national economies fired with greater dynamism.

(e) *Import-saving industrialization*

The industrial growth that has been taking place in Latin America has provided the impetus for development in the last ten or fifteen years and has played a decisive part in shaping the economic and social structure of the Latin American countries. Much has been gained in the way of experience, knowledge and industrial skills and it is clear that these countries now have a much sounder foundation on which to build up a more efficient economic and social development policy. This must be recognized even though the process of industrial development may be attacked from every angle, and these attacks may, in fact, be justified, since it has obvious defects which are obstructing the future development of the Latin American economies.

Indiscriminate import substitution under the shelter of much too high tariff walls has led to an extensive industrialization which, at its present stage, is characterized by a distorted structure of production that is both costly and inefficient in some vital aspects. Efforts have been made to produce the goods that are most profitable from the standpoint of the national or foreign private entrepreneur in the light of market requirements. Durable consumer goods industries have thus been developed, in the more advanced countries in particular, instead of strengthening strategic development activities such as steelmaking, and the chemical,

petrochemical and machinery and equipment industries. The establishment of a large number of plants of unsuitable sizes has meant a squandering of capital and low productivity. Where economies of scale could be meaningful, they have not been achieved, and much of the capacity is under-utilized. Lack of specialization in industrial plants helps to keep costs up. Traditional family-type management is another barrier to the modernization of enterprises. Their technical shortcomings have thus been compounded with financial weakness, particularly in the inflation-ridden countries. These, then, are the factors that partly explain why more and more Latin American firms are passing into foreign hands.

This type of industrial structure has been determined by the lack of an industrial policy with clear-cut development goals, and by production purely for national markets. It will be no easy task to rectify this structure, and gradually introduce a climate of competition into Latin American industry that will lead to greater efficiency in the use of the resources and production capacity available. This may be done much more easily if a fresh impetus is given to industrial development, which seems to have been flagging in the last few years. In a development strategy, two things are clearly essential: to strengthen national markets and to make industry export-oriented. The absorption of surplus labour in productive activities, a policy of income redistribution and a programme of land reform will immediately help to do the former. Integration and the sale of industrial goods outside the region will bring with them the advantages of a broader market and the incentives for continuing the process of industrialization in a more efficient way.

(f) *Inflation and its consequences*

Inflationary pressures, with the resulting disruptions, persist in many countries of the region, slowing down Latin American development and limiting its social scope.

This is not the place to examine the immediate or indirect causes of inflation or to go into its many consequences, but it is useful to recall its obvious links with the problems analysed above, both because they help to set off the inflationary spiral, and because they are aggravated by it and obstruct its cure.

It must not be concluded from this vicious circle that until certain structural features or deficiencies are remedied no steps can be taken to curb or control inflationary pressures. This is borne out to some extent by the different effects inflation has had on economies with very similar characteristics.

Inflation is a serious stumbling-block preventing countries from framing and maintaining economic development policies or decisions. There is no doubt that an inflationary situation checks and hampers any important or far-reaching decision that should be adopted on such vital matters as income and prices, exchange rates, public income and expenditure, etc.

These are among the most costly—and not always properly appreciated—effects of inflation, and they have had considerable influence on the sluggish and irregular development of some countries.

(g) *External structural factors*

The origin and nature of the external bottleneck in the Latin American countries, and the way it makes the development process undynamic and vulnerable, are well known. A policy centred largely on import substitution, and the want of effective measures to make the necessary adjustments to produce a structure of economic growth that would be geared to the more dynamic international trade activities, keep these countries dependent on primary commodities and their traditional markets, with all the limitations and instability that this implies.

For reasons which are only too well known, import substitution has failed to remedy the chronic deficit in the balance of payments and has established external relations that are extremely inelastic in that imports have been confined to essential intermediate goods and capital goods, although more flexible conditions do exist, especially in the countries that have made least progress with import substitution. External borrowing, the other remedy that has been tried, has made the situation even more inflexible and has increased the vulnerability and dependence of the Latin American economies because of the tremendous burden placed on them by debt and investment servicing and the close connexion that has been established between the growth rate and external indebtedness. Things have now come to such a pass that, if their external capital inflow were to diminish, many countries would be faced with an insoluble problem, since, in order to service their external debts and investment, they would have to slash imports to an impossibly low level.

Although export income has been growing more vigorously in recent years, the external bottleneck is still very much in evidence. It is

all too well known that the economic growth rate of many countries would have been much higher, even with current policies, if there had been no such obstacle. This is confirmed by the improvement in the growth rate achieved by those countries which have had fewer external difficulties to grapple with, and by the immediate response of the growth rate in every country when there is an expansion of exports or of external purchasing power, except when stabilization policies are being applied.

It may not be out of place to go further into another aspect of the influence of the external bottleneck on economic trends, namely, its repercussions on the mobilization of domestic savings. When the potential trade gap is greater than the potential domestic savings gap and a country has to borrow to cover its balance-of-payments deficit, it is highly probable, as Latin American experience has so often demonstrated, that the economy will eventually adapt itself by creating idle capacity or reducing the domestic saving coefficient. In both cases, domestic resources are squandered and future development is undermined by the burden of debt servicing. Adaptations of this kind are even more undesirable when the relative increase in consumption takes place, as it is most likely to do, in response to the pressure of demand from the high-income groups, thus accentuating the concentration of resources in the production of certain lines of durable consumer goods and widening the consumption gap between those groups and the lower income strata. The results are similar when the potential savings gap is closed by external loans, even if the export and import situation happens to be more favourable. This does not mean that external contributions are unnecessary or necessarily harmful. What must be made clear is that an effective policy is needed to ensure that any such resources fulfil their true purpose of facilitating the mobilization of domestic resources for productive ends, and that the only sound and lasting remedy for the external bottleneck is essentially to develop exports.

(h) *The lack of an effective foreign trade policy*

Latin America has never had a vigorous foreign trade policy reflecting a clear conception of regional development. Confronted with balance-of-payments problems, the region has resorted to the easiest and most immediate solutions, namely, borrowing and import substitution, which have ended by aggravating the problems themselves. For want of such a conception, trade policy has been instrumental in determining an internal structure and a level of efficiency that are impeding the further development of the Latin American economies. It is obvious from its action in the international sphere that Latin America has not been strong enough to forestall or influence the adoption of decisions that have proved increasingly prejudicial to its interests, and that it has failed to act with the rapidity and vision necessary to adjust to the changes that have been taking place in international trade as a result of the economic and technological progress of the industrial centres.

The industrial countries have developed their trade to a remarkable extent by incorporating the new products created by the unceasing advance of technology, and this helps them to diversify their patterns of consumption. Such trade has been a factor of paramount importance in their economic growth. Strangely enough, this trend of development has been accompanied by an upsurge in their production of major primary commodities, with the result that they have ousted Latin America from its traditional markets and placed difficulties in the way of its entering other areas. In varying degrees but to an ever-increasing extent, the industrial countries have now become major exporters of primary commodities. This is very largely the consequence of a highly protectionist policy, of technological advances in methods of agricultural production which have led to a spectacular increase in the product (side by side with a decline in the economically active population in rural areas) and in those countries' power to finance more costly exports.

The evolution of the Latin American economies has been entirely different. Great strides have been made in industrialization, although to different degrees in the large, medium and small countries; but the ensuing changes in the internal structure of production and improvement in the management of the economy have had virtually no effect on exports. Under the pressure of the economic policy of the major centres, the technological innovations that herald new substitute products, and the low elasticity of demand, exports still consist in the main of primary commodities. In their foreign trade, the Latin American countries, even those with the most advanced industrial sector, perpetuate the traditional pattern of the international division of labour, of which they have to bear the unhappy consequences.

These countries have preserved their ties with the traditional centres in an attempt at

self-defence that has ultimately proved unfruitful for them. Owing to lack of vision or difficulties of other kinds, they have failed to diversify their commodity markets. They have not reacted promptly to the changing conditions of international trade, which would undoubtedly require a more efficient and competitive type of industrialization. It is a well-known fact that the measures they might have taken to escape from this situation were severely curtailed by a certain group of interests. It is equally certain, however, that they have taken an isolated stance in their foreign trade in defence of a position that has gradually been undermined, and have failed to summon the energy and drive required for a sounder and more lasting solution.

3. Prospects and possibilities for economic development in the 1970s[3]

An analysis of projections of the prospects for economic growth will help to give a more comprehensive picture of some of the important points raised in the preceding section relating to the basic causes of the economic and social backwardness of the region, and to provide criteria on the basis of which the nature of the problems and the basic objectives of development policy and strategy can be defined more precisely. The projections cover four fundamental components of the growth rate: (*a*) population trends; (*b*) the mobilization of domestic resources, with special emphasis on savings; (*c*) external trade requirements; and (*d*) external financing. The section ends with an examination of the effect of the growth rate on the problem of structural unemployment.

(a) *Population trends and projections*

The population of Latin America has been growing at an amazing speed over the last fifty years. Its annual growth rate, which was only 1.8 per cent at the beginning of the century, has now risen to 2.88 per cent. If this rate continues, the population will increase by 95 million to a total of 379 million for the region as a whole by the end of the 1970s. The factors underlying this population growth are the development of health care, and medical discoveries, which have reduced mortality, in combination with a birth rate that has remained relatively high.

Population growth is far from uniform in all the Latin American countries. In some, such as Argentina and Uruguay, growth is slow, and the urban population very large. In others, like Bolivia and Haiti, with lower income levels, high mortality is still keeping growth down. But in the majority of the countries, which account for more than 80 per cent of the total population, the population increase is over 3 per cent annually, and the rural population constitutes more than 40 per cent of the total for these countries.

This population trend is very important for development policy and has its own special characteristics in Latin America. If the region is considered as a whole, it will be seen that average population density is low, that the ratio of population to resources is rather better than in other areas, and, what is highly significant, that the geographical distribution of the population is extremely uneven. Major urban centres and certain rural areas are heavily populated, while vast tracts of land in the interior are almost uninhabited.

It is only in two of these countries, which achieved a relatively high income level a long time ago, that the process of urbanization has been accompanied by a reduction in the birth rate. This has also started in Cuba and Chile.

Elsewhere the population is growing even more rapidly despite intensive urbanization in the last twenty years. This can be attributed to the large numbers of people living in rural areas, where the birth rate is higher, and to the failure of migrants to the towns to adapt themselves in any real sense to the living conditions, customs and habits of the urban population. It is also due to the fact that the people's knowledge of and ability to obtain the means of birth control are limited by their lack of information and financial resources. Moreover, it is unlikely that the process of urbanization will influence the birth rate quite so quickly, relatively speaking, as mortality has been reduced.

There are, however, unmistakable signs that population development will be passing through a transition period in the next decade. Trends in recent years and an analysis of projections to 1985 point to the following conclusions: (*a*) the growth rate of the population has been increasing at a slower pace in the last thirty years; from 2.37 in the 1940s it rose to 2.80 in the 1950s and to no more than 2.88 in the 1960s; (*b*) the projection of current trends

[3] The document entitled "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831) contains the basic analysis and technical information relating to the topics discussed in this chapter. New studies on projections are being carried out, on the basis of updated information and alternative hypotheses. Naturally they will give rise to new estimates, which may differ from those included in this section but will do nothing to alter the basic conclusions for the purposes of this analysis.

indicates that the growth rate will not be more than 3 per cent in the next decade; (*c*) if these trends are assessed in relation to factors that may reduce the birth rate, the lowest hypothesis postulates a population growth rate of 2.7 to 2.8 per cent for the next fifteen years. If, on the other hand, birth rates remain high, the steady drop in the death rate will mean that the population will grow at a higher rate—3.1 or 3.2 per cent—during that period.[4]

In short, it appears that: (*a*) the trend of the economically active population during the next decade has already been determined and will be unaffected by the course of the birth rate in the next few years; the population will tend to grow rather more than before, at an over-all rate of 3 per cent for the region and of 3.5 per cent or even more in many countries; (*b*) the proportion of young children and children of school age (up to fifteen years old) may vary with the birth rate, although the anticipated decline in mortality will play an important part in offsetting any reduction that may take place; it is only if the birth rate grows at the lowest possible rate in accordance with the most extreme hypothesis, that there will be a decrease of any appreciable size in this population group compared with the present trend; and (*c*) the growth rate of the total population may rise in those countries where mortality is still relatively high.

It is still too early to predict what effect the spread of birth control may have on the trend of natality during the next ten years, and possibly the 1980s as well. So far, there have been indications of a policy of birth control only in a few isolated cases, but in at least one country—Argentina—a definite policy of population expansion has been officially decided upon. However, it appears that, in any case, population rates will range between a minimum of 2.7 to 2.8 per cent and a maximum of 3.1 to 3.2 per cent, with substantial variations from country to country.

(b) *The potential domestic savings gap*

Technical studies of eighteen Latin American countries show that, despite the high concentration of income in certain strata, not enough savings are being generated to raise the current economic growth rate to any significant extent. Unfortunately, an analysis of this kind inevitably has serious limitations, since no studies exist showing the sources of savings, their movements and shifts, and their uses in Latin America. Hence, any analysis has to be based on the savings that eventually become investment capital. Nevertheless, despite these limitations, it is useful to discuss this topic because of its important implications for development policy.

It might be expected that as income increased, the savings coefficient would rise and thus speed up the rate of capital formation, but this does not appear to be the case in Latin America. It is clear that the external bottleneck, as a result of a number of factors, makes it difficult to use domestic savings productively, but other components of the economic and social structure are also responsible for this phenomenon. Recent experience in Latin America includes cases in which a relatively high growth rate, stimulated by external financing, has resulted in an increase in investment and in the domestic savings coefficient. These relationships favour development, since the external debt then has the effect of strengthening productive capacity and of increasing the mobilization of domestic resources, which, in turn leads to a self-sustaining growth rate. This is the exception to the rule, however, and in many countries this process has not led to any significant rise in the savings coefficient.

Therefore because of external factors, the consumption pattern of the high-income groups, or the extremely low income level of the vast mass of the population, two facts stand out as being significant for future economic development. First, the savings-investment process does not have the flexibility in Latin America that it has in the industrialized countries; and, secondly, it cannot be said that the process is self-sustaining in the sense that an increase in income, even if the result of external financing, automatically leads to increases in the savings coefficient. This depends on structural changes and on deliberate action rather than on the free interplay of the variables involved.

Turning to the analysis of growth rates and savings trends in eighteen countries, the projections for the 1970s show that if the ratio of savings to investment remains unchanged, the amount of domestic savings generated in sixteen countries will not be sufficient to finance the investment needed to sustain an annual growth rate of 6 per cent. In 1975, eight of these countries are expected to have a savings gap of between 10 and 30 per cent of gross fixed investment, six a gap of 30 to 40 per cent, and two of more than 40 per cent. In the region as a whole, the savings gap is expected to total some 5,600 million dollars in 1975 and 7,200 million in 1980, representing

[4] See ECLA, "Social change and social development policy in Latin America" (E/CN.12/826/Rev.1).

in each case more than one fifth of the value of total investment. These amounts are equal to the amount of net external financing that will probably be needed to sustain an annual growth rate of 6 per cent. The seriousness of the problem stemming from these potential savings gaps is evident if it is remembered that the maximum amount of external financing received by the region as a whole has not exceeded 2,000 million dollars in recent years. Only two or three countries account for a large proportion of the totals, and the estimates, which relate to investment trends and not to the amount of savings that may actually be generated in these countries, in some cases exaggerate the true size of the potential savings gap.

Assuming a growth rate of 6.5 per cent, seventeen countries are expected to have savings amounting to 8,000 and 11,000 million dollars in 1975 and 1980, representing in each case close to one fourth of the total value of investment in these countries. Assuming a 7 per cent growth rate, all countries of the region would have potential savings gaps, which would total some 10,500 million dollars in 1975, or 27 per cent of the value of investment. In brief, irrespective of the effect of disparities in the distribution of the savings gap between countries and of technical limitations of the figures already referred to, these estimates do give an idea of the huge problem involved in mobilizing domestic resources to speed up economic growth.

In many cases the savings gap is greater than the balance-of-payments deficit resulting from the trade gap, as will be seen in a later section. Moreover, the gaps are more pronounced in the initial stages of speeding up the growth rate. If in these hypothetical circumstances the savings gap were to be covered by external financing in order to attain the growth target fixed, the economy would adjust itself by stimulating imports over and above anticipated requirements. Moreover, it is most likely that there would be an increase in imports of luxury or non-essential consumer goods or the imports would take the place of goods which might be domestically produced. In addition, a policy of this kind would tend to act as a disincentive to export expansion programmes.

This analysis is more than a mere academic exercise. A careful examination of trends in several countries of the region would show cases in which restricting the potential growth rate has more effect on domestic than on external factors. Moreover, at least part of the external financing used is needed, not because of a lack of capacity to import but because of the lack of savings for investment. In such cases the external debt functions more as a substitute for domestic saving than as an essential complement to it.

Two variables must be considered in order to assess the possibilities of reducing the potential savings gap: one is the capital-output ratio, which determines the amount of investment, and the other is the ratio of savings to income, which provides the bulk of the resources for domestic financing. The first point to be considered is the possibility of reducing investment needs by raising the capital-output ratio.

Much is to be gained by making more efficient use of capital, and this should become a basic objective of development policy. There is idle capacity in several branches of industry; productivity and production in the agricultural sector can be increased considerably without any heavy capital investment; a well-designed policy for investment and the replacement of machinery, and the adoption of technologies more in line with the Latin American productive process and environment, are other general points which show the great potential for increased efficiency. In addition, a change in the productive structure could save capital, while the new economic and social environment established by development policy would encourage the direct employment of labour in rural and urban areas in capital-saving construction and public works of various kinds for the infrastructure.

Nevertheless, these savings, however large, will probably not be enough to offset the relatively greater increase in the amount of investment required to speed up economic growth and social development. The infrastructure must be expanded in such fields as energy, transport and communications, which have long lead times and low capital-output ratios. The same is true for housing construction and the expansion of public services. It must also be remembered that producing essential intermediate goods and capital goods requires modern methods of production and comparatively more capital. Hence, it may well be that the current aggregate capital-output ratio will remain the same or even rise over the long term, given a different and more efficient structure.

Furthermore, if the capital-output ratio for the economy as a whole is lowered, this should not be taken as a sign that there is less need for savings, but as evidence that the rate of growth can be speeded up even further, in

which case, as is clear from the projections, there would again be a savings gap.

In brief, in terms of the savings gap, the possibility of speeding up the growth rate depends on the efficiency with which capital is allocated and used, the comprehensiveness of institutional reform, and the effectiveness of the policies required to increase the amount of investment capital. A relatively large increase is needed in the investment coefficient in order to change matters. For example, the savings coefficient, which now stands at 16 per cent for the region as a whole, would have to rise to 20 or 24 per cent to sustain an annual growth rate of 6 or 7 per cent. In no case can it be expected that this increase would be financed by external borrowing. Quite apart from the feasibility or rationality of such a course, suffice it to recall that, even in the years when it was at its maximum, net external financing was never as much as 2 per cent of the product. In the final analysis, speeding up economic and social development will require restraints on the growth of personal consumption, at least in the initial stages, the brunt of which will be borne by the high-income groups. Hence, the possibility of significantly raising the growth rate depends upon the feasibility and comprehensiveness of the policies adopted.

(c) *The potential trade and balance-of-payments gaps*

The other basic factor to be considered in this evaluation of the projected growth rate relates to foreign trade needs and, in particular, the economy's ability to finance the minimum amount of imports required to attain specific growth targets. This analysis is therefore based on three main variables: projected exports, import requirements and service payments on the external debt and foreign investment. In broad outline, the study of the group of eighteen countries shows that, under present conditions, unless there are substantial changes in world economic and trade policy, or active export promotion programmes are carried out at the national level, current foreign exchange receipts will increase much more slowly than imports, resulting in sizable potential deficits in relation to the growth targets of 6 to 7 per cent under consideration. The situation looks even blacker when the interest and returns on the debt and foreign investment are considered, because of the size of the potential balance-of-payments gaps. The most striking conclusions drawn from the technical analysis undertaken are given below.

Latin America's export prospects are frankly unfavourable. The analysis of each of the eighteen countries indicates that, unless radical changes are made in the international economic and trade policy of the major industrial centres and in national policies, the growth of Latin America's exports will slacken in the next decade, and foreign exchange earnings will drop even further if the terms of trade continue to deteriorate. Under existing conditions, it seems reasonable to consider three possibilities for exports: a relatively low annual growth of 3.2 per cent for the region as a whole, a more favourable rate of 4.7 per cent, and an intermediate rate of 3.7 per cent.

These three possibilities are based on present trends, an evaluation of the prospects for the various exports in each country, and the promotion programmes currently under way. The most favourable assumption relates precisely to the results that might be expected from those deliberate policies. These assumptions do not, however, take into account the ultimate effects that are likely to accrue from a more rapid development of regional trade or from radical changes in the flows of primary and industrial products to traditional markets, socialist countries or other developing regions, since the aim here is rather to evaluate the potential foreign trade gap in relation to the prospects envisaged for the predominating trade flows and patterns.

A rise in the economic growth rate would call for a substantial increase in imports, especially in the initial stage, because of the expansion of investment with a high import content. Imports of intermediate products in the region as a whole amount to about 5 per cent of domestic income, and external purchases of machinery, equipment and other goods destined for capital formation absorb 20 per cent of total investment. Thus, if the past trends of the various import items are projected in relation to the product and domestic investment on the basis of an over-all growth rate of 6 per cent, it will be seen that the value of imports would grow at an average rate of 5.3 per cent, and if the product rose 7 per cent in the next ten years, imports would increase by 6.2 per cent annually.

A comparison of the intermediate assumption for export projections (3.7 per cent) with import needs corresponding to a growth of 6 per cent for the domestic product shows that, by 1975, fifteen of the eighteen countries studied would have a potential trade gap of 1,600 million dollars. By 1980 the gap would have increased to some 2,800 million dollars for sixteen

countries. If, for purposes of illustration, consideration is given to the assumption that those trade gaps would be completely covered by increased borrowing under the same conditions as those ruling at present, the resulting potential balance-of-payments deficit would be 3,800 million dollars in 1975 and 6,600 million in 1980. The size of the problem represented by these deficits can be appreciated if it is recalled that the highest balance-of-payments deficit recorded in the last few years was about 2,000 million dollars. These estimates show the exceptionally heavy burden represented by external service payments, even without computing the amortization of the present and possible future debts.

The analysis also shows that, of the seventeen countries that would present balance-of-payments deficits in 1975, only four would have a deficit of less than 10 per cent of export income, in eight the proportion would range from 10 to 40 per cent, and in five it would be more than 50 per cent. These proportions would follow an unfavourable upward trend up to 1980, since the potential balance-of-payments deficit tends to grow more rapidly than export earnings.

The great influence of exports in determining the potential deficit is revealed by a comparison of external income on the most favourable assumption (4.7 per cent) with import requirements corresponding to the growth target of 6 per cent. In this case a trade gap would occur in only nine countries in 1975 (700 million dollars) and in eleven countries in 1980 (1,600 million dollars). The remaining countries would show a potential surplus which would exceed those deficits. If the potential profit and interest payments on the deficits and the cumulative debt were computed, the balance-of-payments deficit would increase to about 1,600 and 3,600 million dollars, respectively. The growth of exports by 1 per cent more per year would considerably reduce the potential deficit and in this case holds out brighter prospects for a more dynamic economy. In other words, the most favourable export assumption implies the feasibility of a significantly higher growth rate for the domestic product than that deriving from the past trend. This inference must be taken only as a general indication, since the projections for each country would have to be examined to provide a basis for more specific conclusions.

The effect of a projected over-all growth rate of 7 per cent in relation to the most favourable rate of expansion of exports must now be considered. The potential trade gap would extend to fifteen countries in 1975, amounting to about 2,900 million dollars, and to sixteen countries in 1980, totalling a little over 5,000 million dollars. Only three countries would account for 70 per cent of that gap, however. These gaps would double if account is taken of actual and potential interest and profit payments on investment and on the external debt that would eventually be incurred. Once again service payments (even without counting amortization) show the extent to which they are instrumental in limiting ultimate economic growth. It must now be determined what are the main possibilities that would reduce such gaps to tolerable proportions. In principle, there are three points on which to work: imports, exports and servicing.

It does not seem feasible, in principle, to lower the import coefficient still further and thus reduce foreign exchange needs, particularly if import substitution continues to be confined to domestic markets, not on account of technical difficulties but because of the greater economic efficiency required in each country's industrial development. Obviously, fairly extensive saving is possible in respect of imports, especially of goods and inputs which are directly or indirectly destined for luxury or deferrable consumption and which in one way or another contribute to the potential gap projected on the basis of past trends. It would be impracticable, however, to curb imports of essential intermediate products or capital goods, particularly in the first stage of speeding up economic activity. Moreover, situations might well arise where it was necessary to increase external supplies of popular consumer goods over and above those projected. These limitations of import substitution are much more severe in the case of the small and medium-sized countries of the region.

The expansion of exports clearly represents the soundest and most effective solution. The projections show the considerable importance of the growth of exports in reducing the potential gap, because of its effects on the trade balance and servicing. With a larger volume of exports it may be expected that the growth rate will be higher and that conditions for a more efficient industrial policy may be established. In this respect, external financing is not an alternative to the expansion of exports. The latter is an essential objective and the former a supplementary recourse. The possibilities of increasing export earnings depend on the specific results that may be obtained from international action in the field of primary

products, and on the ability of the Latin American countries to break into world trade in manufactures. Regional integration once again emerges as one of the fundamental instruments of national development because of the immediate contribution it can make towards bridging the trade gap and achieving a more rational structure of the Latin American economies, by enabling import substitution to continue in a broader market and exports to expand through reciprocal trade.

(d) *Future trends of structural unemployment*

This analysis should be rounded off by a few words on the future trend of structural unemployment, which has reached such alarming proportions that it must be a key issue in every development strategy. There are obvious signs that the population trend will enter a transition stage in the 1970s, but that the labour force will be increasing more rapidly than in the 1960s. It is estimated that the annual growth rate of the economically active population in the region as a whole will rise from 2.8 per cent to 3 per cent. In a large number of small countries this rate will be as high as 3.5 per cent, and only in Argentina and Uruguay will the growth of the labour force be relatively small.

Hence, if the rate of economic growth continues to be the same as in the past, the problem of structural unemployment will become even more acute and will assume extremely serious proportions because of its social repercussions. According to statistical estimates for the region as a whole, employment has grown more slowly than the active population; consequently, open unemployment has gradually increased, while at the same time the problems of underemployment and employment in unproductive activities have become more acute. Underemployment and unproductive employment are generally at least as serious as open unemployment, if not more so. In all probability, 40 per cent of the total labour force is underemployed, employed in activities with minimal productivity, overtly unemployed, or employed in services, which may be regarded as unproductive activities. It is estimated that open unemployment represents about 10 per cent of the economically active population. Since during the 1970s the active population is expected to increase by 3 per cent annually, if employment continues to grow at no more than its present rate of 2.5 per cent annually, open unemployment is bound to double by 1980, when it will represent more than 14 per cent of the active population. This gap between the labour force and actual demand will continue to widen. Moreover, if domestic production retains its present growth rate of about 5 per cent, the situation with respect to unproductive employment and underemployment, which were not taken into account in the above figures, will also worsen.

If structural unemployment is to be reduced, employment must grow much faster than the active population and the per capita product must also rise more rapidly than in the past. The first condition directly affects the use of redundant manpower, and the second is an indication that this labour is being productively absorbed.

If employment were to increase by 3.5 per cent yearly, open unemployment—which is assumed to cover 10 per cent of the active population—would still represent over 5 per cent of the active population in 1980, and the proportion would come close to normal levels only in the course of the 1980s. In order to solve the other aspect of structural unemployment, it would be necessary to step up the growth of the product per person employed. Assuming that productivity were to grow by 3 per cent instead of at the present rate of 2.6 per cent, the over-all product should increase by an average of 5.5 per cent over the whole decade.

On the other hand, if unemployment were assumed to cover 15 per cent of the active population—which is nearer to the actual situation in many countries—even if employment grew by 4 per cent, open unemployment would have risen to more than 6 per cent by 1980, and the over-all product would have to reach an average growth rate of over 7 per cent for productivity to increase by 3 per cent.

This is a much more serious problem for those countries with high unemployment coefficients whose population is increasing by more than the average rate of 3 per cent yearly which was applied in the above calculations. In these cases, a much higher over-all growth rate would be required to reach the employment targets assumed in the present analysis.

These rough projections illustrate the huge effort that must be made to tackle the structural unemployment problem, and state the great problem of Latin American development in unequivocal terms. On the one hand, there are the heavy limitations placed on economic growth by the potential savings and balance-of-payments gaps, and, on the other, there is the urgent need to speed up such growth in order to find productive employment for a rapidly growing labour force and to eliminate

the extensive structural unemployment that has accumulated.

If present trends persist, that is, if nothing is done to reduce the potential balance-of-payments gaps or to apply a policy that would radically alter the mobilization of financial and real domestic resources during the 1970s, unemployment will increase and income distribution will become even more uneven, thus adding to the vast numbers of people who are now living from hand to mouth. This will happen even if the Latin American economy continues to grow at its present tempo. The prospects may of course vary from country to country, since the problem of employment will be less critical in some, but in others it will be even more acute than the over-all figures for the region would suggest.

(e) *Basic conclusions to be drawn from the analysis of the projections*

The following conclusions can be drawn from the analysis of the projections described in the previous sections: (*a*) unless the necessary structural changes are made to mobilize investment resources on a larger scale, it will clearly be impossible to step up the present rate of growth, increase productive employment and improve income distribution; (*b*) a technically feasible growth target of 7 per cent for the regional domestic product in the 1970s would entail radical changes in economic policy and the production structure; (*c*) the restrictions that would have to be imposed on consumption in order to raise productive investment could apply only to consumption in the higher income groups; (*d*) the possibilities of achieving a more dynamic rate for productive investment will depend on the rapid growth of export income; (*e*) the expansion of regional trade through the integration processes now under way and other potential agreements offers immediate possibilities of achieving the specified development objectives; (*f*) contributions of external resources are needed, especially to solve the problem of the potential external deficit; and (*g*) external financial co-operation of this kind will have to be provided on highly favourable terms because of the heavy indebtedness of the Latin American countries.

Chapter II

THE OBJECTIVES OF THE STRATEGY AND THE MEANS OF ATTAINING THEM

1. General consideration of the objectives

(a) *General definition*

It is impossible to envisage a standard development strategy and policy for the Latin American countries. This cannot be done even for each of the traditional groups (large, medium-sized and small) into which the countries are generally divided for purposes of analysis, because there are considerable differences between the countries which they comprise. Nevertheless, just as structural development problems and obstacles have been identified as prevailing, in differing degrees, in the region, it is also possible to define essential features of development strategy which are fairly broadly applicable, although their practical implementation would depend on the particular conditions in each country and on the decisions of their Governments.

The main objectives that should be set for a Latin American development strategy are evident from the discussion in the preceding chapters.

The first objective must obviously be to raise and speed up the growth rate, so that it rises steadily and continuously. This objective, which is of a quantitative and general nature, must be complemented by others that relate more directly to the nature and content of the development process.

The second objective, therefore, is to ensure a more equitable distribution of the benefits of increases in production. This presupposes sweeping changes in several fields, which include: (*a*) absorbing the unemployed, the underemployed and those whose employment is really disguised unemployment into genuinely productive activities; (*b*) disseminating technological progress in order to even out the imbalances characteristic of Latin America's development, which have become more acute with the passage of time. This involves not only reducing the differences between urban and rural productivity, which is of key importance in many countries, but also correcting the imbalances within each of the sectors of economic activity that exhibit a markedly uneven absorption and dissemination of technical know-how; (*c*) improving the distribution of resources among the main regions in each country, in order to prevent economic activity and social progress from being concentrated in too few areas, to take full advantage of the development potential inherent in some areas and thus to benefit their inhabitants who have little opportunity to move to more dynamic areas; (*d*) ensuring the functional and personal distribution of the income generated by the process of economic development so that each social group receives its fair share of the available goods and services.

(b) *Objectives for the external sector*

The strategy, however, must consist of more than mere changes in the intensity and content of internal development. Internal objectives must necessarily be related to objectives for the external sector. On the one hand, there are problems—as noted in the preceding chapter—that must be overcome if the vulnerability and dependence of national development is to be reduced or eliminated. On the other, in order to fulfil this objective it is of decisive importance to expand external trade substantially and to improve the terms of trade.

Consequently, another basic objective of development strategy must be to reduce or eliminate the factors that make for dependence and vulnerability in the external sector and to establish a more favourable framework or system for trade and co-operation within Latin America itself and vis-à-vis the rest of the world, especially the industrialized countries. Of obvious importance in this respect are such matters as the expansion and diversification of exports, regional integration and external financial co-operation.

(c) *Consistency of the objectives*

It might be thought that these objectives

were interdependent and that the speeding up of economic growth, for example, would suffice to solve the employment problem, improve the distribution of income among the social strata and promote integration of the national economies. While there is undoubtedly some interrelationship between all of these, their effects have not been rapid or far-reaching enough. Moreover, as has been seen in reviewing the internal obstacles to development, there are factors inherent in the structure of the Latin American economies which limit the economic and social effects of the evolution of those structures. What is more, unless a suitable strategy is adopted, in tune with the conditions peculiar to each country, those objectives may conflict with instead of supporting each other. This fact is illustrated below.

The productive absorption of redundant manpower and of the additions to the labour force deriving from population growth does not depend exclusively upon the rate of economic growth. Other vital factors are the structure of that growth, the sectoral and regional allocation of investment, and production techniques in so far as the participation of capital and manpower is concerned. Thus, the objective of raising productivity may be incompatible with that of increasing employment. An income redistribution policy which results in the expansion of total public and private consumption may slow down the ultimate rate of economic growth and create acute inflationary pressures unless proper attention has been paid to the formation of productive capacity or steps have been taken to correct the structural factors limiting production in specific activities, such as agriculture. Likewise, the acceleration of the growth rate, left to the free play of the forces implicit in the present economic structure, may merely accentuate regional disparities and the unequal distribution of income. Further, it may so happen that deliberately chosen regional development aims are not compatible, in a given period, with the over-all objective of attaining maximum growth in that period. In short, the problem that must now receive full consideration in national planning is that of achieving compatibility between these different essential objectives. Some aspects of this subject are dealt with later.

(d) *Development policy and population*

Before discussing the basic economic and social objectives in detail, it may be useful to relate them to a more general point examined in chapter I, namely, population growth.

It is quite clear from chapter I that the basic aspects of development strategy cannot be allowed to depend upon natality trends in the 1970s. There is no doubt, moreover, that the implementation of the fundamental changes and reforms necessary for development will contribute to the process of population change which is beginning to make itself felt in Latin America. This can, of course, be strengthened by measures specifically designed to give people knowledge about and the means of effective family planning. It is obvious, however, that it must not be assumed that a reduction in the birth rate will free resources and thus make the need for institutional reforms and the policies of mobilization envisaged rather less pressing than at present. A reduction in the birth rate would, of course, improve the living levels and educational possibilities of young people much more rapidly, and would also help to raise the average consumption level of the population as a whole; but the nature and magnitude of development problems in Latin America are such that the urgently needed economic explosion must come, and it cannot even be conditioned by the fact that the population explosion may taper off in the coming years.

Now that the salient aspects have been brought out, it may be useful to dwell further on some of the considerations expounded. It is obvious that the average level of per capita consumption could have been higher over the last twenty years or so if the birth rate had grown less rapidly. A decline in the birth rate would to some extent make it possible to achieve the essential objective of improving the living levels of the masses in a shorter space of time. This is particularly important for countries with a high rate of population growth. However, the situation varies so much from one part of Latin America to another that it does not lend itself to generalizations.

In any event, a population policy cannot be exclusively concerned with quantitative aspects. It must take into account problems relating to the distribution of population between rural and urban areas and between large and small towns; and, above all, it must concern itself with the qualitative aspects of the full economic and social integration of the people. By doing so, it will enable the family to take conscious and responsible decisions about family size and other important aspects of its economic, social and spiritual life.

2. Speeding up the rate of growth: possibilities and requirements

(a) *The growth targets*

It is outside the scope of this document to

determine the economic growth target that Latin America may attain in the 1970s. It is impossible to do so on the basis of a general analysis such as this; a more specific study must be made of the conditions and prospects in each individual country. Moreover, the rate of growth will depend on how intensive and far-reaching are the measures it is decided to adopt to remove internal structural obstacles, and on how successfully the problem of the external bottleneck can be solved. Broadly speaking, the analysis of projections has provided useful criteria for clarifying this problem. It shows, on the one hand, the severe obstacles, represented by the potential savings and foreign trade gaps and, on the other, the need for a vigorous and large-scale drive to absorb the labour force.

If an attempt was made to put forward a general estimate, in the light of these data, regarding the growth target for Latin America in the 1970s, two considerations would be relevant. First, a growth rate of less than 6 per cent would be unjustifiable, since several countries have already achieved such a rate and the region as a whole came near to it in some years, such as 1968 and 1969. Secondly, if the employment problem is taken into account, the target should be higher for many countries; but in evaluating the structural factors, and especially the external bottleneck, it may be concluded that a target of 7 per cent for the region as a whole would perhaps be the best working hypothesis, although it might prove somewhat ambitious for several countries.

Consideration should, however, be given to the region's economic and technological backwardness and to the seriousness of the social problems that are threatening to become even more acute for half the Latin American population. The question must be asked whether, in view of this situation, the Second Development Decade should not be translated, in essence, into a firm determination on the part of the Latin American countries and a specific commitment on the part of the industrial countries and the international community to adopt the major decisions that will enable Latin America to double its aggregate income by the end of the 1970s, through the full utilization of its resources and a more equitable distribution of income among the different social strata.

There is one important aspect of strategy which relates to the movement of the growth rate over time. It is usually suggested that the rate should be raised in stages, starting from the current regional level of approximately 5.8 per cent and moving up gradually until a specific target rate is attained at the end of a fairly long period.

A more effective alternative, however, would be to speed up the tempo of economic activity, which for the sake of convenience and brevity can be referred to as the growth rate, as soon as possible. There are two reasons for doing this: first, the urgent need to give employment to the vast mass of labour available, and, secondly, the fact that the increase in the growth rate brought about by higher employment and other factors makes it easier to institute the changes, structural reforms and adjustments that are needed, particularly with respect to income redistribution. A strategy of this kind will be easier to implement precisely because the labour force is larger, because of the significant and immediate effect of action to increase productivity and efficiency, and because of the large amount of idle capacity existing in the essential and consumer goods sectors.

Account should also be taken of the great flexibility shown by the Latin American countries in speeding up their growth rates, especially as they free themselves from external restrictions. Admittedly, the implementation of this strategy would require external financial assistance, most of which would have to come in the initial stages up to the time when the external bottleneck may be expected to ease or disappear.

(b) *Social implications of growth*

It is relevant to consider what are the conditions that are required in order to speed up the growth rate, given that this will necessitate raising the savings and investment coefficients, and also what impact this will have on the welfare of the population, especially the vast underprivileged majority. This clearly involves consideration of how the benefits of development should be distributed among the social strata.

In this connexion, and without claiming in any way that the figures represent a quantitative programme, some alternatives may be considered to illustrate the nature of the problems which have to be tackled.

For example, taking an over-all growth rate of 6 per cent, it is possible that the poorer half of the population would increase its per capita consumption by 4.2 per cent annually, while the middle-income groups would increase theirs more slowly. If this happened, the consumption of the high-income strata would contract initially and then, after a

certain time, begin to return to its former level. On this assumption, the poorer half of the population of the region would raise its present annual per capita consumption of 150 dollars to 300 dollars by the end of a seventeen-year period, while the middle-income groups would need twenty years to double their current consumption. If, however, average per capita income grew by 7 per cent annually, it would be possible for the poorer half of the population to increase its consumption more rapidly, and for the middle and high-income groups to do so as well.[5]

Another alternative to be considered is that of a per capita growth rate approaching 4 per cent with the poorer half of the population improving its per capita consumption by 4.7 per cent annually and the richer half increasing its by 2 per cent annually, or more, depending on the over-all growth rate. According to this alternative, the poorer half of the population could double its consumption in fifteen years. In other words, the higher the economic growth rate, the easier it will be to provide productive employment for the labour force and to raise the level of consumption, and also the more feasible it will be to carry out the process of income redistribution referred to above.

Austerity programmes or restraints on consumption affecting the high-income groups are basically designed to increase the productive capacity of the economy. They are in no way an attempt to make a merely nominal redistribution of income—which in the final analysis would not achieve its objective—but to mobilize the potential resources that exist as a result of the high concentration of personal income, and transform them into investment.

The immediate effect of this kind of income redistribution policy would be a change in the structure of demand, since demand for mass consumption goods would increase relatively more rapidly. On the basis of the working hypothesis discussed above, the over-all consumption of the low-income groups would grow by 7.8 per cent annually, their consumption of agricultural goods by 5.6 per cent and of non-agricultural goods and services by 8.9 per cent, while the over-all consumption of the remainder of the population would rise at slightly over 5 per cent annually. Hence it is clear that there have to be changes in the structure of production and in the way resources are allocated to the various sectors.

This kind of process, which affects the structure of demand, would have two effects of special significance: it would broaden domestic markets, creating strong incentives for the expansion of industrial and agricultural production, and, as the structure of production changes under the effect of this new approach, another very important factor for the absorption of labour would be added to the growth rate, since it is well known that the traditional industries are the most highly labour-intensive.

The process would also influence the composition or at least the distribution of imports, although, as seen in the preceding chapter, there would certainly be a considerable increase in the need for imports of essential and capital goods. This again means that these essential objectives of development strategy are dependent to a large extent on covering the potential balance-of-payments deficit, and hence that external financial assistance, especially in the initial stages, is of vital importance.

(c) *Mobilizing domestic resources*

Speeding up the pace of economic growth and absorbing structural unemployment will—as noted above—require an unusually large amount of real investment directed towards clearly defined ends. It has been estimated that gross fixed investment, which now stands at some 15,000 million dollars in the eighteen countries studied, will have to exceed 28,000 million dollars by 1975 if an average annual growth rate of 6 per cent is to be sustained, and 35,000 million dollars if the rate is to be 7 per cent.[6] These investment needs will have to be covered by increased industrial production and by imports.

Basic intermediate goods and capital goods production has been one of the most thriving sectors of industry in recent years. It will have to grow much faster still, however, to attain the targets discussed in the present document, and this cannot be achieved unless the maximum possible amount of resources is channelled into the production of such goods. This means that the installation of capacity for the production of certain types of non-essential or luxury goods for public and private consumption will have to be curtailed. It may even be necessary to consider the possibility of shifting the allocations of resources to some extent, for example, away from the production of consumer durables.

Studies show that the large and medium-

[5] See Raúl Prebisch, *Towards a dynamic development policy for Latin America* (United Nations publication, Sales No.: 64.II.G.4).

[6] See ECLA, "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831 and Add.1).

sized Latin American countries could substantially increase their production of investment goods, and also of machinery and equipment. Even the smaller countries could increase production of some of these items. It is well known, however, that the production of capital and intermediate goods is seriously restricted by the size of markets, the amount of investment needed, or by technical requirements. A well-designed industrial policy would lay down guidelines for a rational allocation of resources in this area. Regional integration and subregional agreements have a very important part to play in placing Latin America in a better position to increase its production of essential intermediate goods, equipment and machinery. The recent figures for trade in manufactures—which include some capital goods—among the countries of the Latin American Free Trade Association (ALALC), while still comparatively low, are a promising indication of what may be achieved in the future.

Despite the progress that must be made in the domestic production of capital goods, and the impetus to development provided by integration, it is clear that Latin America will need a relatively large volume of imports, especially during the first half of the 1970s, if it is to implement a development policy that is likely to attain the desired goals. It must be borne in mind that imports of various types of capital goods and of some basic intermediate goods for capital formation account for roughly 20 per cent of the value of investment. While this proportion is somewhat lower in Argentina, Brazil and Mexico, it is higher in the majority of the less developed countries. The share of imports in the production of machinery and equipment is much higher, ranging from 30 to 80 per cent or more, depending on the degree of development of the country concerned, the average for the region as a whole being approximately 40 per cent. These figures show how very vulnerable Latin America's development is and how much any policy to mobilize resources depends on external factors.

Two conclusions can be drawn from a comparison of the high import content of real investment with the large potential balance-of-payments deficit: (*a*) that import policy must complement an over-all domestic policy that assigns resources to productive and useful investment strictly in terms of development objectives; and (*b*), that, since the minimum of imports of essential and capital goods create a trade gap, external financial assistance is imperative.

(d) *Mobilizing idle capacity*

Statistics indicate that there is idle capacity—in some cases on a considerable scale—in various branches of industry, especially those producing essential intermediate goods and consumer goods. Irrespective of the reason for this—limited power supplies, shortage of complementary goods, or institutional factors relating to the organization and management of enterprises—it is evident that Latin America cannot afford to let these resources go to waste. If idle capacity exists because of limitations in demand or shortages of complementary goods, raising the growth rate of the economy will tend to take up the slack. On the other hand, if it is due to institutional or organizational factors in either the public or the private sector, development policy will have to include appropriate measures to overcome these obstacles. Using installed productive capacity to the fullest extent possible, which might even be done by increasing the number of work shifts, would help to raise the capital-output ratio and have a direct effect on the absorption of unemployed labour.

(e) *Mobilizing the labour force*

The vast reservoir of manpower which is available could be tapped to increase production and investment. Without going into details, which would involve consideration of the specific circumstances of individual countries, some general points are worth noting. Naturally enough, the absorption of manpower will depend, in principle, on economic expansion and on the practical results of a policy for the utilization of capital and the adoption of production techniques that will not necessarily put men out of work while maintaining efficiency and productivity. In this connexion, it has been found that the number of employment opportunities will have to increase at an appreciably faster rate than the labour force, and that the product per person employed will have to grow more rapidly than hitherto, if the unemployed section of the labour force is to be provided with genuinely productive employment. It may be appropriate at this point to consider some aspects of the absorptive potential of certain economic sectors.

First in importance is the absorptive capacity of agriculture, because a good deal of the structural unemployment is in this sector, and also because it is essential in many countries for agriculture to continue to increase its rate of employment to a significant extent. Its capacity to absorb labour mainly depends on the availability of land, the methods of culti-

vation and production techniques. With regard to land, the research done by the Inter-American Committee for Agricultural Development (CIDA) is particularly enlightening. The following conclusion was reached in a study of six countries: if, in minifundia areas, land and labour factors were suitably reallocated, the number of workers would have to fall from 4.4 million to 700,000. In contrast, if the same labour-land ratio that exists in minifundia areas were to be applied to half the land belonging to large estates, the ownership of which is highly concentrated, 25 million members of the labour force could be absorbed.

Improving the low levels of living of the Latin American population will require an expansion of the cultivated area, increases in production for domestic consumption, and diversification of agricultural production. This would result in higher levels of productive employment, especially with respect to structural unemployment. There must be no delay in initiating an examination of agricultural production technology as it relates to the rational use of land, labour and capital to promote greater absorption of manpower thanks to efficient operation and rising productivity. While it is urgently necessary to modernize farming methods and increase productivity, a mechanization that frees labour from certain activities may be a waste of capital if the resulting unemployment is not absorbed by other activities or if machinery is not used to capacity. This is in no way an attempt to lay down rigid rules, but rather to draw attention to the need to formulate policies that take account of the type of crops, the size of farms, the various techniques applicable to given circumstances and population pressures on the land, which all vary widely from country to country, and even within a single country. This topic has been given virtually no study in Latin America, especially as it relates to development strategy. Public works, such as the opening up of virgin land, and building access roads and irrigation works, provide many opportunities for the direct employment of rural manpower. Lastly, all these aspects of the use of production techniques and the efficiency of the rural economy should be properly planned within agrarian reform programmes.

With respect to non-agricultural activities, the main possibilities for absorbing manpower reside in mobilizing idle capacity, increasing new investment, and selecting methods of production bearing in mind the employment opportunities they provide. An economic growth rate approaching 7 per cent annually would require a considerable increase, as noted earlier, in investment and infrastructure, since basic services would have to expand at the same or a higher rate, while industrial activities would probably have to grow by 9 per cent annually. Furthermore, any policy that is aimed primarily at improving the living conditions of the lowest income groups must promote the development of production in traditional activities and housing construction, both of which are highly labour-intensive. Similarly, expanding social services with the same aim in view would stimulate the absorption of the structural unemployment existing in the government sector.

(f) *Saving potential*

A policy which is aimed at redistributing income in order to improve the material and cultural conditions in which the mass of the population live, a policy that is based essentially on the mobilization of national resources, must define precisely what institutional reforms and what economic, financial and tax measures will promote a sustained and relatively steady mobilization of those resources. It is imperative to prevent that process from leading to an inflationary spiral which might create serious social disruption and culminate in failure to attain the objectives of development policy.

It must be borne in mind that among the masses the drive towards a more diversified pattern of consumption, stimulated by the habits of the high-income social groups, is as strong as it is legitimate. An essential feature of the above policy must be to establish the conditions and means which will encourage the saving needed to finance the expansion of investment. If large segments of the population harnessed themselves to the saving effort, the result would undoubtedly be a powerful impetus towards increased consumption.

It is therefore necessary to plan the mobilization of potential saving resources along with the mobilization of capital and labour resources. Little is known about the structure of the sources of saving, or about the uses of saving in private enterprise, the public sector and the various social sectors. The lack of research on this question is reflected in the weakness of national development plans with respect to monetary and financial policy. Two factors may be noted in relation to the present saving capacity: (*a*) more savings are probably generated than are actually invested; and (*b*), the total savings in the middle-income and even in the quite low-income sectors of the population are fairly substantial. They are associated with specific areas of investment, such as the construction of dwellings, social

security programmes, especially when they are first introduced, and various kinds of personal insurance. Moreover, the habit of saving is spreading, as is shown by the volume of deposits in commercial and savings banks in many countries.

As stated previously, the present volume of savings measured in relation to investment, is larger than that indicated by the saving coefficient of about 16 per cent recorded for the region as a whole. Several important factors combine to reduce this volume through the saving and investment process. While inflation may in some cases have contributed to forced saving temporarily and at a high social cost, it has had a pernicious effect on the saving-investment process, as is borne out by experience in many countries.

Domestic production of durable consumer goods has led, moreover, to the development of promotion and financing machinery which tends to absorb a sizable margin of resources that might have provided capital for essential activities. Another influential factor has been the effort to replace imported capital and intermediate goods by domestic production, since, although there is no denying the positive aspects of this trend, the higher cost of the domestically produced goods undoubtedly reduces the real value of savings.

Lastly, the severe external bottleneck affecting most of the Latin American countries, and in particular, the deterioration in the terms of trade, have had adverse repercussions on domestic income, the capacity to save and the possibility of finding adequate financing for the import component of investment. Moreover, the growing amount of transfer payments under the head of debt servicing and payment of interest on domestic investment, to which must be added outflows of national capital that may be sizable in some cases, have also reduced the resources available for domestic investment.

Clearly, therefore, a policy designed to reduce the external bottleneck, plan import substitution with an eye to reducing costs, rationalize public expenditure, thus increasing its efficiency and curtailing unnecessary or deferrable consumption, promote greater financial stability, organize capital markets, and adopt measures for channelling resources into productive investment for economic and social purposes would ensure that present savings were put to better use.

This would not suffice, however; a considerable increase is required in potential investment resources, and there are potential savings that must be mobilized. These resources would have to come mainly from the high-income groups, without of course excluding the contribution to be expected from the population at large as a result of the better conditions brought about by development. The potential savings that can be mobilized immediately are found precisely in the income that is concentrated in the upper strata, which account for probably three tenths of total consumption. What must be done, therefore, is to apply an effective policy that will act simultaneously on demand and supply, so that the resources absorbed by those consumption patterns—notably durable manufactures and luxury housing—will be reduced or at least restricted.

(g) *The function of external co-operation in the mobilization of resources*

Considering that the Latin American economies are heavily dependent for essential goods on external supplies and that the export prospects are unfavourable, it is necessary to secure external financial co-operation if the goals of stepping up investment and promoting the productive absorption of the labour force are to be achieved. This financial co-operation cannot be even a partial substitute for the mobilization of domestic resources, nor can it represent an alternative to the expansion and diversification of exports. Its fundamental role is precisely to facilitate the mobilization of internal resources, by helping to provide the import component required until such time as domestic production can be expanded for export or for viable import substitution.

If external financial co-operation fulfils this specific function, its effects are of vital importance. An illustration of this point will not be out of place here. If, for example, the direct import content of investment was assumed to be 20 per cent, which is the figure recorded for the region as a whole, and this component comprised essential and complementary goods, 100 additional net external financing units utilized in promoting investment would stimulate an actual mobilization of internal resources equal to 400 units, with the consequent effects on employment.

This multiplier effect would logically increase as the complementary import component of investment diminished. In other words, the rate of growth and the absorption of manpower can be appreciably accelerated through complementary external financing, but only provided that domestic policy promotes the mobilization of the additional domestic savings required. This is the big problem to be resolved by development strategy and policy if a rational

absorption of external financing is to be achieved. It is also necessary, however, for the domestic saving coefficient to grow, so that the rate of economic growth can ultimately be freed from the shackles of continuing external indebtedness. Otherwise, the rate will slacken once again when, through the well-known process the net contribution of external resources is cancelled out, or when, for other reasons, contributions from external sources are cut back.

3. The dissemination of technological progress and the distribution of its benefits among the social strata

(a) *Employment and technological progress*

An examination of the production structure in Latin America, where possibly not more than 10 per cent[7] of the labour force is employed in activities with forms of production and organization that may be regarded as relatively modern, will reveal the complexity and magnitude of the problem of absorbing the structural unemployment and the rapidly increasing labour force that are the by-product of population growth. In the interests of economic development, it is obviously essential for the economically active population to be incorporated in a dynamic process of growth, at reasonable levels of productivity which will subsequently be raised by the workings of that process. If Latin America is not to fall even further behind economically and technologically, it must absorb technical advances with increasing rapidity and disseminate them in every sector of economic activity throughout the region.

This raises two closely interrelated problems: how to increase capital formation and how to devise a policy that would make for the incorporation of technical advances and their dissemination in the backward sectors, while achieving the employment objectives which are a key piece in the strategy envisaged.

The first aspect has already been considered; it remains to point out that, under the conditions now prevailing in Latin America, the basic premise must be that the greater the mobilization of potential investment resources, the greater will be the possibilities of progressing technologically and raising productivity. However, this will not immediately change the terms in which the problem of a shortage of capital compared with the volume of available labour presents itself today.

From a broad standpoint, it may be said that the absorption of the labour force in productive activities depends on four factors: (*a*) the dynamic growth of investment and production in general; (*b*) the sectoral and regional pattern of growth; (*c*) production technologies, from the point of view of the capital-labour ratio in different economic activities; (*d*) the specific measures that should be taken to draw labour into particular rural and urban activities.

The development strategy outlined will be favourable for these factors. The mobilization of domestic resources will raise the growth rate of investment and production well above their present levels. Land reform, as indicated later, will contribute very substantially to solving the problem of structural unemployment in rural areas, and may be expected to create the right conditions for a continued increase in employment. The changes that will take place in the structure of demand as a result of the anticipated redistribution of income will necessitate a more rapid increase in agricultural production and in the production of goods and services in mass demand which are relatively labour-intensive. The expansion in the output of capital goods will also boost the demand for skilled labour, which will be of greater significance than is generally thought. Moreover, the possibilities of employment will also increase with the diversification and expansion of exports and reciprocal trade, which are the other strategic factors involved.

Nevertheless, whatever technological choices are offered within the context of the new structure of production will have to be analysed with a view to deciding on a specific policy for the assignment of capital resources in relation to the productive absorption of labour. In spite of the vital importance of this problem for the developing countries, little attention has been paid to it thus far, either in analyses or in practical action. All that can be done, therefore, is to set forth some general estimates.

In principle, great possibilities may be discerned for improving efficiency and productivity while absorbing manpower, without substantial investment being entailed. Such technological possibilities are to be found mainly in agriculture, construction, and a wide range of services; the problem seems to be more difficult to solve in industry.

There are some key industrial sectors of the economy in which great technological progress is accompanied by a high capital intensity. This is true, for example, of industries using continuous processes, such as the chemical, steel-making and non-ferrous metals industries. In these and other activities, technical progress

[7] This percentage varies considerably from country to country.

raises the minimum scales of production. On the other hand, the situation is quite different in a great many activities which account for a large proportion of manufacturing production. The metal-transforming, textile and consumer goods industries, for instance, are characterized by a greater variety of equipment and slower technological development, and there are possibilities of choosing more labour-intensive and capital-saving techniques. In practice, however, these opportunities are not turned to account. The investment incentives, credit terms, low real interest rates, over-valuation of the currency and other factors prompt enterprises, whether public or private, to use highly capital-intensive techniques.

There is another particularly important factor limiting the choice of techniques: the dependence on external supplies of capital goods, and on the assimilation of foreign know-how. In the industrial countries, unceasing technological progress goes hand in hand with a very high level of capital intensity, and those techniques often relate to an environment and a supply of natural resources which are very different from those that are usually found in developing countries. Nevertheless, their introduction is encouraged by programmes of aid and by systems of external financing, which, moreover, involve very high costs.

These general comments show that, while serious limitations exist, there are also significant possibilities. There appears to be quite a broad field for making progress in the introduction of new technology and raising productivity in the more backward sectors of the economy without necessarily hampering the attainment of certain general employment objectives. It must be remembered, of course, that new technology cannot be introduced into all sectors or activities in the same way, either because of physical limitations or because of the actual mechanics of the process. Hence, increases in productivity in a particular sector may displace labour or curtail its absorption, and this means that the process must promote a dynamic increase in investment in order to prevent unemployment. It is natural that the high-income groups in areas where technology is advancing rapidly will have a propensity to increase their consumption and that the concentration of income will promote demand for certain goods, thus absorbing resources that might otherwise be used to expand employment opportunities. This is where development strategy should come in, through a policy that reaps the benefits of increases in productivity by holding down consumption of luxury goods and promoting over-all saving in order to increase the amount of investment resources available to absorb labour in other areas.

In brief, this is a problem whose solution is of overwhelming importance for development strategy in Latin America. In the light of what has been said above, three general conclusions can be drawn: (*a*) certain activities relating to the production of intermediate and capital goods and to the expansion of exports of manufactures will have to be given priority attention on a scale and with amounts of capital consonant with technological progress; (*b*) there are many activities in which a well-designed policy could lead to better use of capital and greater absorption of labour; (*c*) solutions to the problem must be viewed within the context of national planning so that other important factors are borne in mind. Moreover, technological research will have to be intensified in Latin America, while policy will have to cover such questions as how to adapt imported technology to local conditions and how to stimulate original research. For this to be done, co-operation among the countries of the region and the implementation of joint programmes will be of vital importance, given the general similarity of the circumstances of the different countries and of the problems that have to be tackled.

(b) *Regional imbalances*

A close study must be made of the regional aspects of national development. In recent years there has been a growing concern with technical factors and practical action. Several countries are carrying out large-scale regional development projects, and a fund of experience and know-how is being built up. The most important thing is to work out clear conceptual definitions of regional problems so as to pinpoint more precisely the key elements in development strategy. As regards the practical tools for applying the strategy, it may be argued that these cannot be constructed until the regional objectives related to the economic and social integration of the countries themselves have been studied. Over-all national development plans are obviously weak in this respect. Progress was first made in analysing the productive structure of the economic development process, and the model must now be supplemented by an analysis of the regional structures.

It is essential to translate the major strategy objectives into regional terms and to go beyond the traditional divisions between urban and rural, agricultural and non-agricultural, so as

to study the economic and social structures of the different regions in a country, of the metropolitan areas, and of the big and small towns. It is also necessary to see how the goals of greater production, the absorption of the economically active population and the redistribution of income fit into that picture; how national resources are to be mobilized, land reform carried out, production techniques applied, export trade expanded and Latin American integration speeded up, and what the effect of all these measures will be. It can be seen that when development problems are considered in relation to the geographical location of economic activity, strategy acquires a more vital significance and is more intimately bound up with the future economic and social pattern of the Latin American countries.

It is essential to know whether the economic growth that is envisaged will be taking place in the existing areas and centres, thereby adding to the concentration of resources and exacerbating the disparities, and whether the march of Latin American integration will lead to more balanced regional development within the countries themselves. Finally, it is imperative to formulate a definite regional policy in order to determine the basic features of the policy to be applied to transport and communications and to the location and distribution of energy.

Although uniform principles cannot be laid down for a regional policy covering all the countries in the region, there are some common aspects that may be brought out. If the domestic and foreign factors which have in the past determined the physiognomy of the Latin American economies are discounted, it is obvious that the concentration of resources in particular areas is justifiable in the early stages of a development process as a means of taking advantage of the favourable conditions that determine productivity. However, it would not be advisable to allow this concentration to continue unless the following two conditions were fulfilled: that the resources concentrated in such areas would be more productive than if they were located elsewhere, and that the areas in questions are capable of galvanizing the rest of the system into activity so that a growing number of people can achieve similar levels of productivity and income.

In Latin America, and its big metropolitan areas in particular, external economies have noticeably declined. There is a tremendously high urban concentration, even compared with the more developed countries. The exceptionally rapid population growth, as a result of intensive migration from the country to the town, has outpaced the capacity of the public services and is raising the per capita costs of the infrastructure.

Under these conditions, the advantages perceived from an evaluation of an investment project are usually cancelled out by the growing social costs of any further expansion of the major centres. Moreover, the ability of these centres to act as a tonic on the rest of the economy is limited, or at least less than is required to achieve the necessary economic and social growth, to say nothing of the fact that accumulated structural unemployment creates a problem for the centres themselves.

There are several explanations for the lack of dynamism. One general reason is that when people are absorbed into economic activities in a particular centre, even in unproductive services, they naturally tend to raise the level of consumption, and the high concentration of income increases the demand for new goods, with the result that the increment in productivity is only partly transformed into investment resources, which are largely appropriated by the centre itself.

It is therefore in keeping with the strategy outlined above that there should be a well-conceived policy to draw off some of the increase in productivity to swell investment in other areas, as dictated by the rational principles deriving from a regional policy in the context of over-all national development. This is not an easy problem to tackle, and generalizations are hazardous.

In the last analysis, the solution must be viewed in a comprehensive and long-term perspective. An immediate shift in investment might signify a lower over-all rate of growth than would be obtainable if there were no such shift, since regional programmes need heavy infrastructural investment with fairly long lead times. However, the over-all growth of the economy would no doubt eventually be higher than it would have been otherwise.

What is more, regional programmes obviously have a beneficial effect on employment and income distribution and represent a decisive step towards the economic and social development and integration of the Latin American countries. The new centres would become focuses of growth whose dynamic influence would spread far and wide to other areas as yet untouched. Considerations of national policy or social desiderata may, of course, take precedence over economic criteria in this field, but the latter must always be borne in mind so that the most effective solution can be found when the policy decisions are taken.

(c) *The social aspects of income distribution*

A number of studies[8] have described the peculiar characteristics of income distribution in Latin America, which was discussed in chapter I, and have indicated the main factors underlying the prevailing situation. A knowledge of these factors is obviously a prerequisite for any attempt to formulate objectives and measures to redistribute income in a way that is more favourable to development and the welfare of the community.

These studies clearly show the complexity of the situation, particularly as regards the effect of certain factors that are often discounted or ignored. These include the factors mentioned earlier and also structural unemployment, the distribution of employment and levels of productivity, and technological progress. Quite obviously, in order for people to be able to participate effectively in the process of income distribution, the first essential is for them to have their place in the economically active population and not to be excluded from the productive process, either because production has not yet reached certain sectors or areas, or because some of the labour force is unable to move to or be absorbed in the areas where production does take place.

Realization of such factors makes it possible to go beyond the over-simple concept of what may be termed "redistributionism", which consists of nothing more than transferring monetary or real income among individuals and groups, without modifying the structural factors that are the root cause of the unequal distribution of income among the social strata. Moreover, an appreciation of the root causes helps to give a clearer idea of the close and necessary link between the aim of redistributing income, on the one hand, and development strategy in the strict sense, on the other, as noted earlier in connexion with the basic objective of raising the growth rate.

Nevertheless, however essential it may be to find answers for the problems outlined above, this is not enough in itself, to satisfy the desire for a more equitable sharing of income among the different social groups. The studies cited show that even where technological progress has penetrated and taken root, there is a tendency for there to be similar and even greater imbalances in personal income and in that of social groups, although at higher levels in absolute terms. In other words, the benefits of the increased productivity of activities that are becoming more capital-intensive also tend to be concentrated to a considerable degree, i.e., the process is not enough to ensure a progressive redistribution of income. Hence, consistent and effective action is required if individuals or families and social groups are to obtain a fairer share of income—action that must be considered complementary to, and in no sense a substitute for, any action designed to modify the structural factors mentioned above. Otherwise, its scope will inevitably be limited.

Given the data available, it might be argued that in this latter respect any progressive changes will to a large extent depend on such changes as the following:

(*a*) An improvement in the bargaining power of the underprivileged groups, which means that they must organize themselves much more effectively and that the State must support and push their claims;

(*b*) Definite progress in reducing the all-too-apparent concentration of the ownership of property, which, in certain countries, basically amounts to ownership of agricultural land, but in others is somewhat more complex;

(*c*) A radical expansion of the opportunity system and, hence, greater possibilities for social mobility, especially vertical mobility in the sense of upward movements in jobs and functions. This involves, in addition to changes in the general framework, much more intensive effort and, in particular, selective action to improve access and lengthen attendance at educational institutions, to improve health care and increase the supply of housing and other essential goods and services, in such a way that the benefits go in the first instance to the groups that have hitherto had little or no opportunity to enjoy them.

(d) *Aspects of income distribution policy*

In view of the foregoing, it may be appropriate to consider some of the aspects that will have to be borne in mind in a policy for redistributing income. This will be in no sense an attempt to lay down a strategy for action, but rather to identify the choices available and the complementary measures required in order to clarify the nature of the problem and assess the comparative effectiveness of different approaches. Having said this, it is advisable to differentiate between those aspects which have to do with the dissemination (or concentration) of technological progress in productive sectors,

[8] See, for example, the chapter on income distribution in the *Economic Survey of Latin America, 1969* (United Nations publication, Sales No.: E.70.II.G.7), and *"Estudios sobre la distribución del ingreso en América Latina"* (E/CN.12/770 and Add. 1), submitted to the Commission at its twelfth session.

strata or regions, and those which are linked more directly to the distribution of the product among social groups and individuals.

From the standpoint of the former, it would seem evident that the key question is the amount of the potential and actual savings or surplus generated by the highly productive capital-intensive activities of what may be described as the modern sector, to which reference was made earlier, and to the way in which they are used. The actual surplus is the amount which really goes into investment. The potential surplus, which is very difficult to quantify precisely, is the actual surplus plus the amount of resources used for the consumption of luxury goods or goods with a low socio-economic priority that could be turned into self-multiplying capital.

Understandably enough, the first and most essential objective is to increase the actual surplus to the utmost so that it comes close to potential investment capacity. However important this may be, it is not, nevertheless, the most important point, which has to do with decisions regarding the use or allocation of investment resources by the most highly productive and—presumably—the most profitable enterprises.

The crux of the matter is what proportion of such resources should be assigned to the sector generating them, and what proportion to other activities, or more specifically to the infrastructure, basic services and the sectors or regions that have been relatively or absolutely deprived of investment and modernization and therefore of any increase in productivity.

What is more, it would seem obvious that unless an adequate part of the surplus generated in activities in which technological progress has been concentrated is channelled towards other activities, it will be impossible to level out the imbalances evident at different levels. Quite the reverse—if this is not done, it can reasonably be assumed that the imbalances will become more pronounced. Clearly, this is all subject to the requirements of the modern sector that is in existence or is being formed, which for obvious reasons has priority call on and decision-making power over the use of its own resources (except for the amount which the State pre-empts and re-allocates).

While on this point, and without disregarding what was said in sections (*a*) and (*b*) of this chapter, it would seem essential to differentiate roughly between the possible alternative uses of the investment resources generated by the highly productive activities. On the one hand there are the resources used to modernize and expand the basic development centres and to meet the demand for essential goods and services, including goods and services that might be considered of secondary importance but which are already in widespread use. On the other are resources and investment used for purposes whose economic and social impact is limited and which may be associated with certain consumption patterns or be designed to satisfy the conspicuous consumption demand of high-income groups (luxury building, for instance) or to promote uneconomic overcrowding in metropolitan areas.

It can be agreed that the primary uses of the surplus of the modern sector cannot and should not be affected, since they, in the final analysis, are the basic foundation (actually or potentially) for expanding the system and attenuating internal imbalances, to say nothing of the share required for expanding and diversifying foreign trade. On the other hand, the amount of investment going to secondary uses can clearly be reduced to a greater or lesser extent, depending on how much is earmarked for primary uses.

This leads directly to the basic question of the distribution of investment, and hence to the need to clarify and refine ideas regarding the social and over-all productivity of investment, bearing in mind the impact of income distribution from the viewpoint taken above.

Furthermore, this question is necessarily linked with that of the machinery needed to channel resources for capital formation in the directions outlined above. Although, as noted earlier, this document is not intended to go very deeply into this topic, some comments may be useful.

There are a number of alternative ways of promoting or achieving the desired objective, which are not mutually exclusive but rather complementary. The most direct method would probably be to transfer a large portion of the surplus to the State or public agencies, on the assumption that they would use it for priority investment.

Another method would be to provide a variety of incentives to ensure the same result through the decisions of those controlling the surplus. This is what has happened with a number of regional, sectoral (chiefly in agriculture) and social programmes (the case of investment in low-cost housing) implemented in Latin America, which have yielded valuable lessons that have not yet been properly evaluated.

In addition to these and other measures that aim at affecting or influencing the distribution of investment, there are other measures that

have similar aims but operate mainly by changing the composition of demand. For this it is necessary to look at the problems from the other standpoint mentioned, i.e., that of the distribution of income among social groups and the distribution of personal income.

This situation too, has been very clearly described in the studies cited earlier, it consists in an excessively large share of income—compared with other areas and countries—being concentrated in the top 5 per cent of the income pyramid.

As a rough guide for purposes of discussion, three alternative methods of changing this glaringly obvious situation for the better can be considered. For example, it is possible to imagine procedures for transferring some or all of the income of this top 5 per cent which is in excess of the level of income of the top 5 per cent in industrialized countries; this might mean that as much as 10 per cent of total income, although not in absolute terms, would be transferred to the bottom half of the income pyramid.

Without going into all the serious obstacles and disadvantages that this alternative represents in many respects (operational, political, real, possible effects on savings, etc.), it would seem clear from the above that it would not appreciably or permanently affect the basic determinants of what is known as structural poverty.

A second alternative would be to collect the surplus income, mainly by fiscal means, with a view to providing the marginal population with essential goods and services either gratis or at heavily subsidized prices. Without going into all the arguments against this alternative, it can be stated that it is broader in scope than the first alternative, particularly because of the greater impact and consequences of certain social expenditures such as those relating to education and health. Nevertheless, it is also clear that this alternative only has an *a posteriori* effect on the real reasons for the plight of the underprivileged majority (unemployment, irregular or wretchedly paid work, location in minimally productive regions, sectors or activities, etc.). In brief, by itself, it would turn out to be more of a palliative than a remedy although this is not to say that it cannot be effective or that it is of no value.

The third alternative might consist in allocating or re-allocating the potential savings to purposes that are intended to modify the basic determinants of the income structure. These might range from direct measures (such as the creation of regular opportunities for productive work, and not merely emergency opportunities, which properly belong under the second alternative) to changes in the over-all structure of development, changes in relative social bargaining power and "deconcentrating" the ownership of property.

These different methods are not alternatives in the strict sense of the term, but rather approaches that can be combined together, bearing in mind their relative importance and effectiveness and specific national circumstances, in terms of stage of development and the political and institutional framework.

Income distribution strategy, in brief, requires a coherent blend of the two types of objectives indicated, and their general and specific translation into measures and instruments that will help to bring about the desired changes in the income structure and, in the final analysis in the social content of development itself.

4. The over-all objectives of the strategy with respect to the external sector

It is clear from what was said in chapter I and at the beginning of the present chapter that the general objectives of a Latin American development strategy have to do with three closely interrelated factors and with action on the domestic front. These factors are: (*a*) vulnerability to and dependence on external circumstances; (*b*) the terms and conditions governing trade; and (*c*) the arrangements for external co-operation in national development efforts.

(a) *Vulnerability and dependence*

A development strategy for Latin America must lay down specific objectives and measures to deal with the region's extreme vulnerability and dependence in the external sector, which hamper and restrict its development. While it would be beyond the scope of the present study to go into this topic, because of its diversity and also because it involves decisions which are matters of State policy, some points should be noted which relate more directly to the economic, financial and technological questions discussed here.

First, Latin American development must be based mainly on Latin America's own capacity and the effectiveness of the policy and strategy adopted to mobilize the region's own resources. As noted above, external borrowing is admissible only in so far as it is complementary, and there must be a firm determination to free the future growth rate from its dependence on

external assistance; otherwise, development will be at the mercy of the winds of chance and of all the different international political and financial factors that affect the flow of external resources. Here, the multilateralization of financial assistance for development projects is of primary importance.

Secondly, Latin America's virtually complete dependence on imported technology makes it very difficult to use resources efficiently. It is therefore necessary to study suitable ways and means of introducing new technology selectively and adapting it to fit local conditions and the domestic resources available, and to initiate a regional policy for technological research.

Thirdly, Latin America's high degree of dependence on imports of essential and capital goods is another limiting factor that can be overcome only through an expansion of production and trade.

It will be difficult fully to achieve these and other objectives that affect Latin America's ability to strengthen its development and preserve the sovereign independence of its decisions regarding development if each country acts in isolation, despite the great potential of the larger countries of the region. Stronger and more concerted action must be taken at the international level to promote Latin America's interests, and to solve the enormous problems of the introduction and stimulation of technological progress and the expansion of production, within the framework of effective regional co-operation and a community of interests. Hence, this reappraisal of the problems and obstacles encountered in regional integration is urgently necessary because, as integration becomes more firmly established, Latin America will be able to make its presence felt and increase its development potential within the community of nations.

Mention has already been made of the concern aroused by the growing infiltration of foreign capital in commercial, industrial and financial activities, part of which is used to buy up or acquire an interest in Latin American firms. The technical and other characteristics of these firms seldom make such take-overs justifiable, since neither the technological and organizational requirements, nor even the volume of investment needed, are beyond the powers of Latin American enterprise at its present stage of development.

This trend of events is liable to wreck the contribution which it is hoped that foreign private enterprise will make to Latin American economic development. The technical and financial co-operation that can be obtained from this source is very important, particularly for encouraging the growth and efficiency of Latin American enterprise. Consequently, the Latin American countries must adopt well-defined policies in this area. These policies should have two basic aims: first, the technical and the financial strengthening of national enterprises, whether public or private, and of multinational Latin American enterprises forming part of the integration movement, and, secondly, the framing of a clear foreign investment policy. The ways in which foreign capital can co-operate are through the transfer of technical know-how, the improvement of the organization and efficiency of enterprises, and the elimination of the impediments which cramp Latin American development, as can be done by export promotion.

With these goals, national programmes should determine the areas in which external investment is needed and the ways in which technical know-how and modern forms of organization can be adopted and popularized. The Latin American countries will have to take co-ordinated action to win the co-operation and support of the industrialized countries and of foreign enterprises and investors for their national policies, for new modes of foreign capital participation whereby the investment would be gradually transferred to the national public or private sectors, and for other measures to be taken by the capital-exporting countries to promote and support investment in developing countries. A special effort should be made to explore supplementary or alternative methods of transferring technological advances to the national economies and of ensuring their wide dissemination.

(b) *The basic aspects of trade policy*

With regard to trade policy, it would seem reasonable to start from the assumption that, unless the external bottleneck is removed, the mainspring of economic and social growth in the region will be seriously impaired and may become even weaker than in the past. However, it would be unrealistic to believe that all that needs to be done to increase Latin America's inadequate and even declining share of world trade is to open up the markets, in the hope that the spontaneous growth of exports or competition at home would automatically lead to greater efficiency and a new economic drive forward. In truth, what is needed is a clear definition of the main objectives, accompanied by a firm determination to implement general and specific measures to achieve them,

which in this case obviously cannot be done without external decisions also.

If a comprehensive picture is painted of the essential elements and functions of foreign trade policy, the following broad objectives will emerge: (*a*) expansion of export income as the fundamental remedy for the potential trade gap; (*b*) development of trade with other areas in order to avoid the limitations imposed by traditional markets; (*c*) acceleration of the integration movement; and (*d*) application of an import policy designed to promote greater efficiency in the countries' economic structure and process of growth through the rational allocation of resources. More specifically, this means the ready access of primary commodities to the markets of the industrialized countries, regulation of commodity markets, expansion of exports of manufactures and semi-manufactures, promotion of trade with socialist countries and other developing areas, and the speeding up of the regional integration process.

On the other hand, it is quite clear that of key significance among these objectives is the immediate promotion of exports of manufactures and semi-manufactures. There are three main reasons for diversifying exports in this direction: one, to increase export earnings so as to narrow the current and potential trade gaps; two, to lessen the external vulnerability of the Latin American economies; and, three, to meet the demands of modern industrial development more efficiently than in the past. Regional integration and other means of expanding trade in manufactures and semi-manufactures in Latin America are a decisive step that should be taken immediately to forge the new structure of foreign trade.

The object of exporting industrial products does not in any way mean that the region should slacken its international efforts to improve the conditions and prospects for primary commodities, given their importance for the national economies and the fact that they account for more than 90 per cent of Latin America's export income.

(i) *Commodity exports.* As noted earlier, the prospects for commodity exports are frankly unfavourable. This poses two major problems for the development strategy envisaged. One is the limitations placed on the general process of economic growth by the trade gap, and the other the restrictions on the growth of production and income in the economic sectors concerned. It should be remembered, for instance, that agricultural exports represent 20 per cent of regional production, and the proportion is a good deal higher for some items. The same applies to minerals and fuels, domestic production of which sometimes goes almost entirely to foreign markets.

This creates conditions that hamper the absorption of manpower in productive activities and the achievement of the objectives that will lead to a better distribution of income. Both aspects are of cardinal importance, especially in the agricultural sector, because of the gravity of the problem in the rural areas. If production in certain activities is largely contingent on external demand and this will be growing so slowly, any improvement in income distribution will depend largely on what can be done to raise productivity per person employed, on the extent to which income is redistributed in those same activities, and on the adjustments and transfers that can be made by the rest of the economy to help these sectors. The need to diversify production becomes increasingly urgent, and in extreme cases countries may even be faced with the problem of reassigning resources.

Firm steps must therefore be taken at the international level to improve the prospects for exports of primary commodities. Efforts to achieve co-ordination must be redoubled so that Latin America's legitimate demands can be presented to the industrialized countries in a more effective way. It is more than necessary to consider the changes that should be made by the industrialized countries in their activities on the international plane and to analyse the experience acquired over the last few years, particularly in the discussions and negotiations that have taken place in UNCTAD and GATT, since concrete results have been few and far between, and it has proved impossible to prevent the situation from deteriorating still further or to stop conditions that are prejudicial to Latin American trade from becoming consolidated and spreading.

The major objectives of the international action taken by the developing countries in matters of commodity trade have been defined in UNCTAD. They are the regulation of world markets, easier access to the industrialized countries' markets, market diversification, and the abolition of special preferences.

International commodity agreements and arrangements and the establishment of buffer stocks are the two main instruments for regulating the markets. Little has been achieved as far as the conclusion of commodity agreements is concerned, although there has been some progress, and this augurs better results in the future. There are no other means

available, and it is only to be hoped that concerted action by the Latin American and other developing countries within the policy framework put forward in UNCTAD will lead to an increase in the number of agreements or to more talks leading to the conclusion of agreements of different kinds, depending on the characteristics of the products concerned. Those on coffee and sugar are highly encouraging examples of the development of theory and practice, now that agreements of that kind are seen to be real instruments of market reorganization and planned action in the international sphere.

As has already been said, the establishment of buffer stocks is the other instrument for regulating markets. It is to be hoped that the statement on buffer stocks approved by the UNCTAD Committee on Commodities at the end of 1968, which reveals some advances in the negotiations and a greater willingness on the part of international agencies to help finance such stocks, may lead to more effective action in the near future.

At the second session of UNCTAD, no progress was made in regard to liberalizing trade and gaining access for primary commodities to the markets of industrialized countries. The situation has been deteriorating for some time with the increase in the restrictions, the protective tariffs and the development measures adopted by those countries. In this area, there are two clear-cut aims for the Latin American countries. As regards competitive products, definite commitments must be obtained giving them a specific share in the consumption or in the consumption increment of the industrialized countries. In the case of tropical commodities, the aim is mainly to obtain the removal of the barriers, restrictions and charges which limit their consumption in the developed countries, and the elimination of all discriminatory treatment prejudicial to the Latin American States.

Several procedures have been suggested for the elimination or gradual absorption of the special preferences accorded by some developed countries to certain developing nations, particularly by the European Economic Community to the Associated States. Nothing has been achieved so far, and these preferences are being extended to other countries and products, to the evident detriment of the Latin American region.

The solution to this problem is complicated by the fact that the countries enjoying such preferences grant reverse preferences on imports from the developed countries with which they are associated. The Latin American States have already defined their policy on this question. They whole-heartedly support every kind of help that can be extended to the developing countries in the form of financial and technical co-operation, but they are opposed to any discriminatory treatment of these countries in the developed countries' markets. The fact that such treatment is still being applied is a source of concern to Latin America, and it tends to encourage moves to establish some kind of preferences between the Latin American countries and the United States.

There can be absolutely no doubt that Latin America must persist in seeking a lasting general solution, which can only be the liberalization of trade, since vertical arrangements that might lead to the establishment of regional blocs would ultimately injure vital interests bound up with these countries' future development. As the Latin American countries have maintained, commodity agreements may well be the best instrument for absorbing these special preferences. In their new form, these agreements envisage, *inter alia,* the marketing of products of different exporters at stable and fair prices; they may also provide for the establishment of buffer stocks, and for technical and financial assistance in the implementation of national programmes for diversifying production. Commodity agreements therefore seem an appropriate instrument for protecting the interests of the countries enjoying preferences in industrialized countries, which may even gain by the change.

The other aspect of the promotion of commodity exports is the geographical diversification of markets. This should be a fundamental aim of Latin American foreign trade policy. In essence, it consists in eluding to some extent the restrictions imposed by the traditional markets of industrialized countries and in achieving more stable and dynamic conditions for foreign trade. For example, Latin American exports to the United States show little momentum, notwithstanding the economic and financial co-operation programme that was launched in the 1960s. Market diversification is required not only for primary products but also for industrial exports, for which new possibilities must be opened up. Consideration is therefore being given to the advisability of promoting the expansion of trade with the socialist countries and with other developing areas, and particularly to the necessity of accelerating the tempo of reciprocal trade in Latin America through regional and subregional integration, without

excluding other agreements or programmes that may lead to the same result.

Some progress has been made in recent years in trade with the socialist countries, and the region is anxious to tighten those links. The practical difficulties involved are well known. New experiments and new forms of agreement and new credit arrangements suggest interesting possibilities which may be of key importance for the expansion of Latin American trade in view of the market potential of the socialist countries. The effect of introducing multilateral formulas in trade with that area would be felt immediately in increased trade.

Latin America's trade with other developing areas is practically nonexistent, and a study should be made of the actual prospects in this field, at least for some primary commodities and for manufactured goods in general. Although the absence of traditional trade relations, and such factors as geographical location, transport costs, etc., are undoubted obstacles to the creation of those new trade flows, some favourable prospects are also discernible. The industrialized countries' support may have to be enlisted in carrying out such a programme, particularly in connexion with items which are included in aid to developing countries or in which trade is promoted by means of subsidies or special concessions.

(ii) *Exports of manufactures and semi-manufactures.* In the traditional structure of Latin American exports, manufactured products contribute only about 5 per cent of the region's total foreign exchange earnings.[9] During the 1960s, exports of manufactures expanded rapidly, at the rate of 10 per cent annually, although they are still below 800 million dollars in value. Over two thirds of this increase is accounted for by intra-regional trade, which indicates, on the one hand, highly encouraging progress in regional integration and, on the other, the scant development of these exports to other areas. One thing that is somewhat surprising is that the more industrialized countries of the region have not shown more interest in the past in gaining access to the world market for manufactures, and that the measures adopted in recent years to promote these exports have produced such insignificant results, when some of the developing countries in other parts of the world have made good progress. Some concern is felt also about the future development of regional trade in manufactures, because the original stimulus came partly from circumstances deriving from the temporary contraction of domestic markets.

As stated earlier, exports of manufactures represent a vital element in a new Latin American development policy. Naturally, the amount and practical possibilities of such exports may differ from country to country; but to export manufactures should be the general aim of all the Latin American countries, large and small. There is a great variety of manufactures, and in each individual case favourable conditions can always be found for promoting the export of particular industrial products. This is shown by the first studies carried out in co-operation with UNCTAD.

Changes have been taking place in the composition of trade in manufactures between the industrialized countries which may pave the way for increased participation by the developing countries. If the industrialized countries speed up the process of specialization in the production of capital-intensive goods requiring a high degree of technology, the developing countries will be able to benefit from trade in more labour-intensive traditional manufactures and in goods which do not fit the specializations of the industrialized countries or their scales of production. While Latin America's industry must prepare itself to take advantage of these opportunities, its export policy for manufactures must not be aimed solely at achieving this dichotomy, particularly in view of the fact that it should gain much in growth and efficiency as a result of integration.

In the short term, the growth potential of exports of manufactures lies mainly in the goods produced by existing industries which are competitive in world markets, and especially goods produced by light industry, in which it may be assumed that Latin America has a certain comparative advantage. However, it is precisely this type of manufacture which is most protected in the developed countries (chiefly through progressive customs tariffs), and hence the growth of such exports also depends on the developed countries' granting easier access to their markets, as called for in recommendations adopted by UNCTAD and GATT.

In the long term, export expansion should not be confined to these manufactures since, unless suitable programmes and policies are adopted to promote the development of more complex industrial exports embodying more advanced technology, the Latin American

[9] These exports include the products in sections 5, 6, 7 and 8 of the Standard International Trade Classification (SITC), excluding division 68 (non-ferrous metals).

countries will not only get little benefit from technological progress, but will have no share in the growth of the most dynamic sectors of world trade in manufactures.

To get the Latin American economies to export manufactures will not be an easy task because of the conditions and habits established by import-saving industry. Nevertheless, the experience that comes from regional integration, the multinational projects that are being developed, and the growing capacity and experience of industry—despite all its weaknesses—give good grounds for hope that, if energetic policies are applied, success will be achieved. In this respect, increasing trade in manufactures and gradually increasing competition within the region will strengthen Latin American industry and give it new opportunities to enter world markets.

It must not be forgotten that any preferences that the industrialized countries may grant will be worth nothing unless the countries of the region are in a position to take advantage of them. The lessons of regional integration are very instructive in this respect, since it has often been found that preferences alone do not promote new investment or increase trade in a larger and protected market. Moreover, margins of preference have gradually been reduced because of the liberalization of tariffs among the industrialized countries. Hence, the incentives that preferences themselves provide will be less effective than was anticipated. This means that it will be more difficult for the Latin American countries to compete, and as time goes on their difficulties will increase because of the extraordinary dynamism of the industrialized countries' trade and also because of the ground gained by other developing countries.

This is an area in which there is a clear-cut need for national and international action to converge so that specific results can be achieved in exports of manufactures. At the national level, studies are needed of each country's prospects of expanding domestic production for export and of establishing new export-oriented industries. In this, and in studies of the market potential of the developed countries, international and regional agencies can provide very valuable technical assistance. In addition, efforts will have to be made to deal with the institutional problems connected with the organization and efficiency of national enterprises, to improve quality and reduce costs, to fix specific priorities for the allocation of resources in development plans, to consider the problems of exchange rates and regulations and the institutional and financial machinery required for subsidies—in a word, to develop a comprehensive export promotion and marketing policy.

At the international level three questions have to be tackled: (*a*) the tariff and non-tariff barriers restricting the access of manufactures to the markets of the industrialized countries; (*b*) the general preferences needed to promote exports of manufactures; and (*c*) the special preferences that affect Latin America's access to the markets of certain developed countries, especially the EEC countries.

The idea of a system of general preferences was accepted in UNCTAD, and it is probable that agreement on this point will soon be reached. A number of different formulas have been considered and one of the important aspects still under discussion is the list of products to be covered by the system. The UNCTAD Special Committee on Preferences is awaiting proposals from the developed countries before continuing its negotiations. Care will have to be taken to see that the system of preferences adopted is not rendered ineffective by the application of non-tariff restrictions or the use of escape clauses. In actual fact, as noted above, owing to the process of trade liberalization, margins of preference have been reduced and the problem of access to the markets of the developed countries is now more a question of dealing with non-tariff restrictions and with a sliding scale of import tariffs, which rise steeply with the amount of processing a product receives.

No progress has been made in eliminating special preferences, especially the EEC preferences for imports from the Associated States, which will tend to be consolidated and extended by the renegotiation of the Yaoundé Convention. This is a matter of justifiable concern to Latin America, not only because it discriminates between developing countries, but because it is an obstacle to the establishment of general preferences. In this connexion, the United States has stated that it will not support any system of general preferences as long as developing countries continue to grant reverse preferences to certain developed countries. Latin America must continue its efforts to establish a system of general and non-reciprocal preferences. The special EEC preferences should be absorbed into the generalized system of preferences, and in this respect consideration might be given to formulas which would not affect the position of the Associated States. For example, the preferences

for products which are not traded to any significant extent between the EEC countries and the Associated States should be included in the generalized system of preferences from the outset. Special preferences for other products, on the other hand, should be gradually eliminated over a reasonable period of time.

(iii) *Import policy*. A rational import policy must be designed and implemented which will be in line with the essential aims of the development strategy. While there has been some recent progress, chiefly in the revision of tariffs, the general trend in Latin America has been one of over-all control of imports, with drastic cutbacks in times of balance-of-payments crisis. In many cases, economic criteria, aimed at making more efficient use of foreign exchange, have been invoked to limit, for example, imports of luxury goods. But in the import substitution process set in motion by the demand for these goods on the domestic market, larger amounts of foreign exchange were soon required to finance imports of the intermediate and capital goods used directly or indirectly to produce the very goods that were supposed to have been restricted.

Careful planning, and increasing competition in the larger markets established by integration agreements and also from extra-regional trade flows, will be of great benefit in promoting efficiency and productivity in domestic production. Undeniably, as exports of goods, particularly manufactures, within the region and outside it increase, and as domestic economic activity gains momentum, Latin America will be in a better position to implement a more flexible import policy and a more selective tariff policy, governed by considerations of economic expediency. The experience of the industrialized countries and of developing countries whose external sector is more dynamic than that of Latin America indicates that much is to be gained by promoting some degree of specialization within the context of a growing diversification of economic activity.

It cannot be over-emphasized that import policy is the basic instrument of the implementation of over-all development strategy. Direct control measures, protection, the structure and level of tariffs, exchange regulations and the various forms of subsidy must all meet the needs of integration and the promotion of exports of manufactures and also be in line with the over-all aim of building up a more efficient industry. The allocation of external resources through imports of goods must be directed towards achieving the essential objectives of increasing investment in production, and agrarian reform, which will raise employment and income levels and redistribute income in accordance with each country's own economic and social goals.

(c) *External co-operation*

It has been seen that, notwithstanding differences in degree, the balance-of-payments situation and prospects are extremely unfavourable and this has a very strong impact because Latin America relies on external capital inflows to maintain the growth rate within the context of the policies it has been pursuing. The projections show that the availability of funds is likely to be severely reduced, and that the cost of financing is rising, not only because of higher interest rates, but also because bilateral loans continue to be "tied".[10]

Latin America will never be able to lay the foundations for its development if it continues to deal with the external bottleneck by adopting palliatives such as increased external borrowing. Undoubtedly, the most positive and effective assistance the industrialized countries should give would be to adopt measures and change their policies so as to facilitate the access of Latin America's exports to their markets at stable and remunerative prices, and to give an immediate boost to its exports of manufactures and semi-manufactures. In the meantime, until these objectives are achieved, financial assistance will be required on terms and conditions that do not lead to the same crises as at present; in other words, what is needed is an increase in the net flows of funds and services and a decrease in the real cost of external financing.

The main objectives that should be set for international action in this respect have been defined in UNCTAD. In brief, they cover the commitments that the developed countries should make to increase their net transfers of resources, changes in the terms and conditions of aid, multilateralization, and the adjustment of servicing payments on the external debt at times of crisis. The various proposals on these points now under discussion are well known, particularly those presented by the Latin American countries through the Special Committee on Latin American Co-ordination (CECLA).

[10] In this connexion, it should be noted that certain measures have been taken recently to improve the terms under which the United States makes loans to Latin American countries.

It cannot be over-emphasized, however, that among the objectives which are of special significance to Latin America at present are increasing the proportion of external financing which consists of aid and of long-term loans at low interest rates and with extended grace periods, providing more flexible conditions for adjustments in times of financial crisis, and more rapid progress towards the elimination of restrictions on the use of bilateral loans.

In terms of over-all development strategy, the growing multilateralization of external financial assistance and the practical application of the principle that development plans should receive financing are of particular significance. Countries must be able to rely on receiving the basic external resources they have budgeted for in their plans, and on supplementary assistance to offset any disruptions caused by unexpected declines in export receipts or by other emergencies; these topics also have been considered in UNCTAD.

Part Two

THE LATIN AMERICAN ECONOMY IN 1969[1]

[1] The estimates for 1969 were prepared on the basis of the data available up to 31 May 1970. They are therefore provisional and subject to revision as and when governments make further data available. Cuba was not included in the country studies for want of sufficient data comparable with those available for the other countries of the region.

A. GENERAL FEATURES OF RECENT DEVELOPMENT

1. MAJOR TRENDS

(a) *An over-all appraisal*

The favourable trend registered in 1968 was maintained in 1969. The domestic product rose by 6.4 per cent in Latin America, compared with the previous year's 6.1 per cent—a considerable improvement on earlier years and on the average for the period 1960–1965, when the increase was 5 per cent (see table 3 and figure I). This makes the figure for the decade 5.2 per cent, slightly higher than during the 1940s (4.7 per cent) and 1950s (4.9 per cent).

The more rapid growth recorded on 1968 and 1969 would seem to be directly attributable to the trend of imports and investment (see table 3).

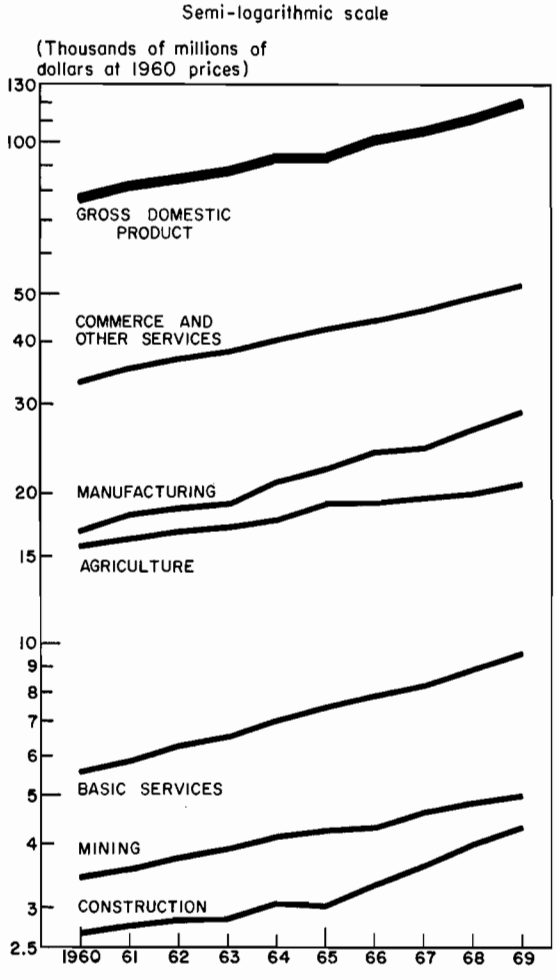
In these two years, the average annual growth rate of imports, which, as is well known, constitute one of the major components of total supply, was around 8 per cent, in sharp contrast with the 1.4 per cent achieved in 1960–1965.

No less significant is the change in the pattern of investment, which rose by nearly 10 per cent in 1968 and 1969, whereas the average annual increase during the period 1960–1965 was no more than 4.3 per cent.

Although not to the same extent, exports also did well in 1969, climbing by 6 per cent in real terms and thereby improving on 1968 and on the two previous years. It should be borne in mind, however, that higher prices were responsible for a 10 per cent increase in the current value of exports.

Government and private consumption also expanded, though their growth rates were roughly the same as in previous years and in the period 1960–1965.

Figure I. Latin America: gross domestic product by sectors of economic activity



(b) *National trends*

The over-all picture tends to cover up the differences—in some cases very considerable—in economic trends from one country to another. By and large, the upswing in 1969 is due to the performance of economies at a relatively more advanced stage of development, which, by reason of their size, also carry most weight in the average for the region. For example, in varying degrees, Argentina, Brazil, Colombia and Mexico all registered growth rates of more than 6 per cent (see table 4).

The more favourable pattern of the past two years was not, however, restricted to this group of countries. There were also some positive results from relatively less developed or smaller countries, such as Costa Rica and Panama, which kept up the momentum they have displayed through most of the decade, or

Table 3. Latin America: Growth of total supply and demand, 1960 and 1965–1969

	1960	1965	1966	1967	1968	1969[a]	Annual growth rates (percentages)				
	Millions of dollars at 1960 prices						1960–1965	1966	1967	1968	1969
Total supply	*94,001*	*118,132*	*124,169*	*129,240*	*137,471*	*146,383*	*4.7*	*5.1*	*4.1*	*6.4*	*6.5*
Gross domestic product	84,688	108,167	113,033	117,863	125,069	133,142	5.0	4.5	4.3	6.1	6.4
Imports of goods and services	9,313	9,965	11,136	11,377	12,402	13,241	1.4	11.8	2.2	9.0	6.8
Total demand	*94,001*	*118,132*	*124,169*	*129,240*	*137,471*	*146,383*	*4.7*	*5.1*	*4.1*	*6.4*	*6.5*
Exports of goods and services	9,461	11,914	12,321	12,665	13,354	14,255	4.7	3.4	2.8	5.3	6.7
Total investment	*16,434*	*20,294*	*21,099*	*21,703*	*23,790*	*26,140*	*4.3*	*4.0*	*2.9*	*9.6*	*9.9*
Total consumption	*68,106*	*85,924*	*90,749*	*94,872*	*100,327*	*105,988*	*4.8*	*5.6*	*4.5*	*5.7*	*5.6*
General government	8,319	10,107	10,802	11,123	11,623	12,140	4.0	6.9	3.0	4.5	4.5
Private	59,787	75,817	79,947	83,749	88,704	93,848	4.9	5.4	4.8	5.9	5.8

SOURCE: ECLA, on the basis of official statistics.

[a] Preliminary figures.

the Dominican Republic, which, like Uruguay, made a striking economic recovery in 1969.

On the other hand, circumstances were against some countries, like Bolivia and Venezuela, which suffered setbacks, while others, like Chile, Ecuador and Peru, failed to improve the rather sluggish tempo of their recent development.

(c) *Outstanding features of the main sectors of production*

Basic services, construction and manufacturing contributed most to 1969's economic expansion. It was the first year since 1962 in which all sectors—with the possible exception of mining—registered relatively high growth rates, above the average for the decade (see table 5 and figure II).

Up to 1968, the only sectors to show a steady expansion were those connected with public investment, i.e., basic services and construction. The pattern in the manufacturing and agricultural sectors was cyclical, with a big upswing one year and a sharp drop the next. As a result, the over-all average growth rate was not very high, between 4 and 5 per cent, and it did not begin to speed up until 1968.

The substantial fluctuations in agriculture were due, for the most part, to the unstable weather conditions that several Latin American countries have suffered from in a number of years, though they can also be attributed to a certain extent, and at least as far as foodstuffs are concerned, to a delayed reaction—one year behind—to fluctuations in the growth of urban income.

The trend of the processing industry strongly reflects the conditions obtaining in Brazil and

Figure II. Latin America: components of total supply and demand

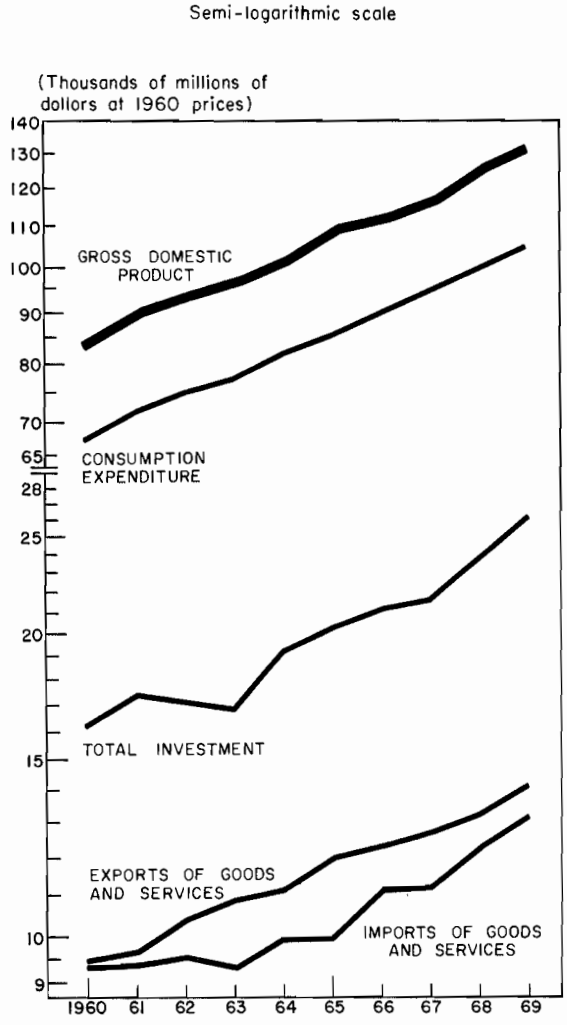


Table 4. Latin America: annual growth rates of the gross domestic product at factor cost, 1960–1965 to 1969

Country	*1960–65*	*1966*	*1967*	*1968*	*1969[a]*
Argentina	3.5	0.3	2.0	4.8	6.9
Bolivia	4.9	6.5	5.6	7.2	4.7
Brazil	4.5	5.1	4.8	8.3	9.0
Chile	5.0	7.0	2.3	2.7	3.0
Colombia	4.6	5.2	4.7	5.5	6.2
Costa Rica	6.3	8.2	6.7	7.8	7.6
Cuba	...	...	...	...	...
Dominican Republic	1.0	12.4	3.3	3.1	7.0
Ecuador	4.4	4.5	4.8	4.4	4.4
El Salvador	6.9	4.7	4.3	3.6	3.1
Guatemala	5.3	5.5	4.1	5.6	5.2
Haiti	1.1	1.9	1.4	1.3	2.5
Honduras	5.3	6.8	5.8	4.9	3.2
Mexico	7.1	6.4	6.2	7.3	6.3
Nicaragua	8.1	3.1	5.3	5.0	3.3
Panama	8.2	7.4	8.4	7.3	8.6
Paraguay	4.8	0.6	6.1	4.5	5.1
Peru	6.6	6.3	5.0	1.4	1.7
Uruguay	0.9	3.2	6.5	1.1	5.3
Venezuela	5.0	2.1	4.3	5.8	3.5
Latin America	*5.1*	*4.5*	*4.3*	*6.1*	*6.4*

SOURCE: ECLA, on the basis of official statistics.
[a] Provisional estimates.

Table 5. Latin America: trends of the major economic sectors, 1969
(*Percentage variations compared with 1968*)

Country	*Agriculture*	*Mining*	*Manufacturing*	*Construction*	*Basic services*	*Other services*
Argentina	5.9	5.7	7.3	13.7	6.6	6.1
Bolivia	3.9	—0.5	5.3	16.0	8.3	2.6
Brazil	6.0	11.7	10.8	7.1	11.5	8.8
Chile	—3.4	3.6	3.5	6.0	4.9	3.4
Colombia	4.6	14.0	7.5	9.0	4.5	6.1
Costa Rica	7.6	—	8.2[a]	9.7	8.9	6.9
Cuba	...	...	...	...	...	...
Dominican Republic	9.6	10.0	9.4	11.8	5.3	4.6
Ecuador	4.6	5.9	4.9	6.0	2.5	4.0
El Salvador	3.0	3.1	2.9	1.2	4.0	4.0
Guatemala	4.0	—	5.6	7.7	7.5	5.4
Haiti	3.0	...	1.5	...	...	...
Honduras	—1.5	6.9	6.5	9.9	5.1	3.4
Mexico	2.3	4.9	7.8	7.5	8.0	6.5
Nicaragua	1.5	1.5	10.2	10.4	7.2	2.6
Panama	5.6	104.8	12.1	9.4	10.5	7.5
Paraguay	3.1	138.1	5.5	10.0	8.2	5.2
Peru	0.4	2.7	1.9	—3.4	3.9	2.4
Uruguay	15.0	—	4.8[a]	—	7.3	2.9
Venezuela	4.0	0.8	4.4	—	8.3	4.4
Latin America	*4.4*	*3.8*	*7.7*	*7.9*	*8.0*	*6.3*

SOURCE: ECLA, on the basis of official statistics.
[a] Including mining.

Argentina, which carry the most weight in the main branches of manufacturing and therefore determine the over-all results for the region. For instance, the sector's higher growth rate since 1967 stems basically from the recovery and subsequent expansion of urban demand in those two countries. This, in turn, was due, *inter alia*, to the steady increase in public investment, the extension and expansion of credit facilities and the improvement in the external sector; in particular the new terms and conditions for loans were helpful to industries producing consumer durables and to civil construction, which have been the most dynamic sectors in these two countries during recent years.

The growth rate of mining production was only modest, although the sector benefited from higher world prices for nearly all its most important products, apart from petroleum.

Considering the main trends in 1969 from the sectoral point of view, the recovery of Argentina's livestock industry and Brazil's coffee production, the effects of the prolonged drought in Chile and poor sugar-cane harvests in Central America stand out as the highlights of the agricultural sector in 1969.

In the mining sector, there was a levelling off of Venezuela's petroleum output, a drop in Bolivia's tin production and a moderate upswing in copper production in Chile.

There was a slight fall in the growth rate of manufacturing for the region as a whole, compared with 1968, owing to the trends in the three largest countries—Brazil, Argentina and Mexico, although these countries did manage to maintain a fairly high growth rate. In the medium-sized countries—Chile, Colombia and Uruguay—manufacturing did better than the year before, as it did in some of the other countries, such as the Dominican Republic, Nicaragua, Panama and Paraguay.

Construction kept up an extremely high tempo in almost every country, and the 8 per cent average growth rate for the whole of Latin America was both the best on record in the 1960s and higher than that of any other sector in 1969.

(d) *Inflationary pressures*

On the whole, there was less tendency towards inflation in 1969; the increase in consumer prices was smaller in eleven countries and greater in eight, while in two countries it was the same as in 1968 (see table 6). It should be pointed out, however, that the figures given are annual averages and may therefore differ from those shown in the sections on individual countries, which are usually for December of each year. Argentina, Peru, Trinidad and Tobago, and Uruguay stand out among the countries which most managed to reduce price increases, while price increases were greatest in Chile and Colombia. Seen from another angle, the rise in prices was close to or more than 20 per cent in three countries—Brazil, Chile and Uruguay—between 5 and 10 per cent in Argentina, Colombia, Ecuador, Jamaica and Peru and less than 5 per cent in the other countries.

(e) *The external sector*

For the second year running, world trade was buoyant; the growth rate for 1969 will probably be no less than 14 per cent, which is even higher than in 1964 and 1968, when it was around 12 per cent.

The trade boom in the industrialized countries pushed up the exports of developing regions by 8 per cent, roughly as much as in 1968. In Latin America, the increase was 10 per cent, twice as high as in 1968. Apart from the general factor referred to above, this was the result of the steady increase in the export prices of some of the region's primary commodities, such as copper and coffee, more attractive prices for others, and a rise in the physical volume of certain exports.

Thanks to a brisk export trade, combined with the steady net inflow of foreign capital—especially short-term capital—imports rose rapidly for the second year in succession (11 per cent in 1968 and 8 per cent in 1969) reaching some of the highest levels of the decade, and thereby helping to push up the economic growth rate of the region as a whole.

Exports increased faster than imports, which improved the trade balance; this offset the further increase in external factor payments and slightly reduced the balance-of-payments deficit on current account from 2,250 to 2,200 million dollars. These are the largest deficits since 1950 and suggest a high rate of external financing, particularly since there was a larger surplus before compensatory financing in the balance of payments in 1969 than the year before (750 as opposed to 430 million dollars).

The net inflow of non-compensatory capital, including error and omissions, rose from 2,660 million dollars in 1968 to 2,950 million in 1969, the highest figure since 1950. In both 1968 and 1969, Mexico had the biggest deficit on current account and also increased its net foreign exchange reserves, with a net non-compensatory capital inflow of some 800 million dollars; Brazil came next, with 400

Table 6. Latin America: changes in the consumer price index, 1960–65 to 1969

(Annual growth rates)[a]

Country	*1960-65*	*1966*	*1967*	*1968*	*1969*
Argentina	23.2	31.8	29.5	16.4	7.6
Bolivia	5.1	7.1	11.6	5.2	2.8
Brazil	60.0	46.7	29.8	24.2	23.1
Chile	27.0	22.9	18.2	26.7	30.6
Colombia	12.4	19.7	8.2	5.7	10.2
Costa Rica	2.4	—	1.0	3.8	2.8
Dominican Republic	3.1	—	2.0	—	0.3[b]
Ecuador	3.8	4.7	3.6	4.3	5.8
El Salvador	0.2	—1.0	1.0	2.9	—
Guatemala	0.4	1.0	—	2.0	2.0
Guyana	...	1.9	2.9	3.7	0.9
Haiti	3.7	8.0	—3.3	1.7	2.5
Honduras	2.8	1.9	—	4.5	3.5
Jamaica	2.9	1.9	2.8	6.4	6.0
Mexico	1.8	3.8	3.6	1.8	2.6
Nicaragua	1.6	2.8	2.7	...	...
Panama	1.0	—	1.0	1.9	1.9
Paraguay	5.3	2.8	0.9	0.9	1.8
Peru	9.4	9.3	9.9	19.4	5.9
Trinidad and Tobago	2.2	3.9	1.9	8.3	2.5
Uruguay	29.7	73.7	89.2	125.5	19.9
Venezuela	—	1.9	—	0.9	2.8

SOURCE: IMF, *International Financial Statistics.*

[a] The changes are between annual averages in all cases.

[b] Estimates based on data for ten months and compared with data for the same period of the preceding year.

million dollars in 1968 and 850 million in 1969. Chile, Colombia and Venezuela maintained a net inflow ranging between 150 and 350 million dollars in the two years. In Argentina, the inflow dropped from some 160 million dollars to 120 million. The other Latin American countries either increased their net capital inflow or maintained it at a very high level, except Peru, which registered a net disinvestment of non-compensatory capital in both 1968 and 1969, and Haiti, Panama and Paraguay, whose capital inflow declined.

2. Economic trends by countries

A more detailed examination of recent economic trends in the individual countries is to be found in the sections which follow, but the main trends in the growth of the gross domestic product and of aggregate supply and demand are described below so as to give an idea of the over-all pattern. Except where otherwise indicated, the figures are in constant 1960 prices. In this way, the relative position of each country, which is lost in the figures for Latin America as a whole given earlier, can be seen at a glance.

In *Argentina*, the gross domestic product increased by 6.9 per cent following the expansion of the manufacturing industry (7.3 per cent) and the recovery of agricultural production, which was 5.9 per cent higher than in 1968. Consumption continued to rise at 5 per cent while gross fixed investment increased its tempo to an estimated 14.8 per cent. The investment coefficient moved up from 19.6 per cent in 1968 to 21 per cent in 1969 and the import coefficient from 9.4 to 10.8 per cent.

At current prices the economy of *Barbados* grew by about 6 per cent in 1969 while the sectoral restructuring of the past few years continued. Sugar production dropped still further, amounting to only 138,000 tons as against 210,000 in 1967; as in previous years, this decline was offset by the development of other branches of industry and the steady growth of construction and of services connected with tourism. Exports fell off once more although foreign sales of fuels did better, as did the tourist trade which brought in 65 million dollars compared with the previous year's 54 million.

The gross domestic product of *Bolivia* rose by 4.7 per cent in 1969, thus maintaining the growth rate of past years, thanks largely to the mining and metallurgy sector and the construction sector, which expanded by 8 and 16 per cent respectively. The 5.3 per cent rise in gross fixed investment led to an increase of 5.1 per cent in imports of goods and services. Owing to a decline in petroleum production, exports

of goods and services remained stationary. The investment and import coefficients maintained the previous year's levels of 17 and 33 per cent respectively.

There was a further sharp acceleration in the growth rate of *Brazil's* gross domestic product, which reached 9 per cent in 1969. All the sectors expanded rapidly, with increases of nearly 30 per cent in coffee output and of 34.5 per cent in that of motor vehicles. Fixed gross investment rose by 7.7 per cent, less than the product, causing the total investment and import coefficients to fall off slightly.

Under the influence of the rapid expansion of the manufacturing sector (7.5 per cent) and petroleum production (14 per cent), *Colombia's* economic growth rate was higher in 1969 (6.2 per cent) than the average for the period 1960–1968. Net imports were up, which resulted in a greater supply of goods and services and relatively large increases of 6.9 and 7.5 per cent in consumption and investment. There was no significant change in the import and investment coefficients.

Costa Rica's economic boom continued, with the gross domestic product up by 7.6 per cent. Both agricultural and manufacturing production rose by about 8 per cent, but manufacturing production would have increased more had it not been for the temporary difficulties which impeded trade between the Central American countries. Fixed investment climbed by 14.6 per cent and pushed up the investment coefficient from 17.6 per cent in 1968 to 18.7 per cent in 1969.

Chile maintained a moderate rate of economic expansion in 1969. The gross domestic product rose by 3 per cent, with mining and manufacturing registering slightly higher growth rates, while construction expanded by 6 per cent and agricultural output dropped by 3.4 per cent. Exports of goods and services increased by 7.2 per cent and imports by 9.6 per cent. Thanks to improved supply, fixed investment was up by 7.7 per cent, which raised the investment coefficient to 16.6 per cent, compared with 15.9 per cent in 1968. Imports followed a similar pattern, the figures being 17.3 per cent for 1969 and 16.3 for 1968.

Ecuador increased its gross domestic product by 4.4 per cent, in which the recovery of the agricultural sector and the boom in construction and manufacturing played an important part. Exports and imports of goods and services, on the other hand, dropped by 14 per cent and 7.1 per cent respectively, but fixed investment nevertheless maintained a high growth rate (12.1 per cent). The investment coefficient therefore rose from 12.1 per cent in 1968 to 13 per cent in 1969, while the import coefficient over the same period dropped from 22.3 to 19.8 per cent.

El Salvador's economic growth rate of 3.1 per cent in 1969 was sluggish compared with the figures for the past five years. The conflict in which the country was involved caused a fall in exports of goods and services (5.8 per cent), private investment (6 per cent) and, to a lesser extent, imports. This downward trend was reflected in the investment and import coefficients, the first of which dropped from 12.8 per cent in 1968 to 11.9 in 1969.

In 1969, *Guatemala's* economy continued to expand satisfactorily, since the growth rate rose by 5.2 per cent despite setbacks in trade with the other Central American countries and bad weather conditions. The growth rates of the productive sectors were lower than in previous years, but the over-all growth rate rose, owing to the expansion of public expenditure and private investment and higher prices for Guatemala's exports on world markets.

Thanks to improvements in the sugar-cane harvest (17 per cent) and mining production, *Guyana's* gross domestic product expanded by 8.7 per cent at current prices in 1969. Owing to increased investment in mining, which pushed up production capacity in the course of the year, gross fixed investment rose by 11 per cent, with the result that the investment coefficient rose slightly, after fluctuating around 20 per cent throughout the 1960s. Continuing the previous trend, imports of goods and services, which account for 54 per cent of the gross domestic product, also rose.

There was a slight improvement in *Haiti's* economic situation, the gross domestic product rising by 2.5 per cent. The main factors making for expansion were tourism, exports of handicraft products, and bauxite. Imports of goods and services rose by 2 per cent and exports by 2.3 per cent, the difference between the two providing enough non-compensatory capital to help improve the external payments position.

At 3.2 per cent, the 1969 economic growth rate of *Honduras* was the lowest it had experienced in the decade. The decline was due, first, to adverse weather conditions which caused a drop of 1.5 per cent in agricultural production and, secondly, to the conflict in which the country became involved, which restricted exports to the Central American market. Nevertheless, there was a 10.4 per cent rise in fixed investment, most of which went to the manufacturing sector (which expanded by 6.5 per cent) and to construction. The invest-

ment coefficient went up again (from 18.5 per cent in 1968 to 19.8 per cent in 1969) while there was a downward trend in foreign trade, causing a drop in imports and exports.

At current prices, *Jamaica's* gross product expanded by 9.4 per cent in 1969. Sectoral growth rates reflect the continuing structural changes in the economy, since agricultural production declined again and manufacturing output rose by less than the year before. Mining production, on the other hand, was up by one third and the supply of services maintained its upward trend. Investment and construction once again registered high growth rates. Although exports expanded more rapidly than imports, the trade gap widened and the deficit on current account increased; the deficit was, however, offset by the inflow of non-compensatory capital which strengthened the foreign exchange reserves.

In *Mexico*, the gross domestic product expanded by 6.3 per cent, somewhat less than in previous years, with agriculture up by 2.3 per cent and industry by 7.8 per cent. The rather slow growth of investment (4.4 per cent) is linked with the somewhat sluggish growth of the domestic market. Exports and income from tourism, on the other hand, were up by 12 and 4.3 per cent respectively compared with 1968. Imports rose by 5.5 per cent, with the import coefficient remaining unchanged. The coefficient of total investment, in contrast, fell from 21.1 per cent in 1968 to 20.8 per cent in 1969.

Nicaragua's economic growth rate was again sluggish in 1969, with the gross domestic product up by only 3.3 per cent owing to the continuing decline in the external sector. Exports fell by 3.9 per cent and imports by 5.8 per cent, with the deficit on current account remaining unchanged; but there was a parallel reduction in fiscal income. Investment increased by only 2.6 per cent, despite the 10.4 per cent expansion of construction. While the investment coefficient remained close to 17 per cent, the import coefficient dropped from 36.3 per cent in 1968 to 33.1 per cent in 1969.

The revival of *Panama's* economy was reflected in an 8.6 per cent increase in the gross domestic product in 1969 and was the outcome of a 63.6 per cent rise in public investment and a 13 per cent increase in external demand. Imports of goods and services rose by 9.1 per cent, which meant that the import coefficient remained at about 39 per cent in 1968 and 1969. The investment coefficient also rose, from 20.1 per cent in 1968 to 21.9 per cent in 1969.

Paraguay's 5.1 per cent economic growth rate in 1969 reflected the expansion of manufacturing (5.5 per cent), especially the wood industry (30 per cent). None the less, aggregate supply failed to keep pace with the product and the supply of goods diminished, as an 8.6 per cent increase in exports of goods and services coincided with a 1.1 per cent decrease in imports. The 27.6 per cent upswing in fixed investment therefore suggests a decline in consumption (2.3 per cent). The import coefficient dropped a little but the investment coefficient jumped from 19.1 per cent in 1968 to 23.2 per cent in 1969.

For the second year running, *Peru* registered a slow economic growth rate in 1969 (1.7 per cent). This is essentially the outcome of the policy introduced in 1968 to curb inflation, the results of which were felt throughout the economy, including a drop of 8.8 per cent in fixed investment and of 4.1 per cent in imports of goods and services. The decline of the import coefficient was relatively small (from 26.6 per cent in 1968 to 25.1 per cent in 1969), but the investment coefficient shrank from 16.1 to 14.4 per cent during the same period.

The *Dominican Republic* enjoyed a period of rapid economic growth in 1969, when the gross domestic product expanded by 7 per cent as a result of a 9.6 per cent increase in the agricultural product and a substantial influx of public and private capital. The Government's austerity policy prevented general government consumption expenditure from growing by more than 2.7 per cent but produced a rise of 8.9 per cent in capital formation. Exports improved by 8.9 per cent and imports expanded by 3.9 per cent, which meant that the import coefficient dropped from 32.3 per cent in 1968 to 31.4 per cent in 1969.

Uruguay's gross domestic product rose by 5.3 per cent in 1969, thanks to production increases in agriculture (15 per cent), manufacturing (4.8 per cent) and commerce (6.1 per cent). Commerce benefited from the simultaneous expansion of exports (12.2 per cent) and imports (20.9 per cent). Thanks to the rise in real salaries, consumption climbed by 3.5 per cent. The improved supply of goods and services was in turn reflected in a 32.3 per cent upswing in gross fixed investment. The investment coefficient therefore rose from 12.2 per cent in 1968 to 15.3 per cent in 1969, and the import coefficient from 15.4 to 17.1 per cent over the same period.

Venezuela's economic growth rate in 1969 (3.5 per cent) was lower than in previous years. Generally speaking, the growth of all sectors, with the exception of commerce and to some

extent manufacturing, was sluggish, especially that of construction, which did not expand in 1969, compared with an annual growth rate of 9.3 per cent in the period 1966–1968. Exports were up by only 1.9 per cent, largely as a result of difficulties in selling crude petroleum, while imports rose by 4.7 per cent. There was little change in fixed investment compared with 1968, although it did move upward by 3.5 per cent, so that the investment coefficient was the same as for the previous year. The import coefficient also rose slightly.

3. Major sectors of economic activity

(a) *Agriculture*

The agricultural product grew by about 4.4 per cent in 1969. This over-all figure disguises very different situations resulting mainly from differing weather conditions. Circumstances were favourable in Argentina, Bolivia, Colombia and Ecuador; they varied in the different areas under cultivation in Brazil and Venezuela; and they were frankly unfavourable in Chile, Mexico and the Central American countries, except Costa Rica. The growth rate was 6 per cent or more in Argentina, Brazil, Costa Rica, Dominican Republic, Panama and Uruguay. At the other end of the scale were Chile, Honduras and Nicaragua, whose production fell in absolute values.

Among the River Plate Basin countries, agricultural trends were favourable in Argentina, Bolivia, Brazil and Uruguay. Argentina showed increases in maize, flax, rice, alfalfa and sorghum, while its crops of wheat, oats, sunflower and grapes declined; livestock production increased significantly. In Bolivia new land was brought under cultivation, while Brazil stepped up its coffee, wheat and soya crops by over 30 per cent, and cocoa and cotton by a slightly lower percentage. The biggest increase was in Uruguay, i.e., 15 per cent for the sector as a whole and 50 per cent for crop farming. Paraguay, on the other hand, was adversely affected by the decline in livestock production, although progress was made in some crops (soya, rice, cotton, wheat and sugar-cane).

Although there were some losses attributable to weather conditions, Venezuela presented a favourable picture, with significant increases in the production of medium-fibre cotton, coffee and cocoa. Moreover, the Executive presented to Congress an integrated agricultural development programme for implementation in the period 1970–1973; its total cost will be 816 million bolívares, 41 per cent of which will be covered by an external loan. It is planned to use these funds for improvements to rural communities, to expand agricultural extension services, intensify research, grant credit, complete the silo network, extend the area under irrigation, build rural roads and train rural officials and leaders.

Of the Andean countries, Bolivia, Colombia and Ecuador showed a moderate growth rate of 4 to 5 per cent, while Peru registered a lower rate and Chile a decline. Despite the stagnation of its coffee production, Colombia showed an increase owing to the improvement in wheat, maize and dried pulses. In Ecuador there were substantial increases in crops for domestic consumption. Peru's agriculture grew by only 2.5 per cent, since production was still affected by the previous year's drought; moreover, world prices of the main agricultural exports declined. The 1968 drought was also responsible for the drop in Chile's agricultural output with cereal crops showing a loss of 18 per cent.

In Central America crops were affected by hurricanes and storms which differed in force from country to country and caused a sharp drop in cotton output in Nicaragua, Guatemala, Costa Rica and, especially, Honduras. In contrast, bananas showed substantial increases in Panama and Guatemala, and exceptionally large increases in Costa Rica. There was also a moderate rise in coffee production in Guatemala and El Salvador, while Nicaragua reached an exceptionally high level. Production for home consumption remained at the same level or declined in the whole area except in El Salvador and Guatemala. During the same period, livestock activities were relatively slack, except in El Salvador and Panama.

In Mexico, adverse weather conditions in the main producing regions caused losses in the cotton and coffee crops. On the other hand, with the exception of maize, crops for domestic consumption showed a favourable trend, with exceptional increases in sorghum (40 per cent) and soya (167 per cent). One of the factors which did most to promote agriculture was the increase in irrigated areas in 1969 under the small-scale irrigation plan.

(b) *Mining*

Latin America's mining output—excluding petroleum—is estimated to have increased by about 6 per cent in 1969, which compares favourably with the low level recorded the previous year.

The evolution of this sector can be ascribed partly to the sizable increases in Argentina (about 10 per cent), Brazil (close to 12 per cent), Colombia (over 6 per cent) and Venezuela

(25.7 per cent). In other countries with a more important share of the region's mining output the rate of growth slowed down.

During the year the mining sector was favoured by a substantial rise in world prices for most metals, which, in addition to boosting export earnings, constituted a powerful incentive to step up production. Most countries of the region, however, did not make the most of these opportunities.

The increase in Argentina's mining output is accounted for by the 17 per cent growth of coal production and the larger output of lead and zinc ore. In addition, demand from the construction industry for quarried products and limestone for the production of cement increased nearly 14 per cent.

In both Brazil and Venezuela the growth of mining was largely due to the sizable increments in iron ore production. The major iron producing company in Brazil—Companhia Vale Do Rio Doce—is implementing a large-scale expansion programme and was expected to raise its iron ore exports by 39 per cent during 1969. Moreover, steel production rose by about 10 per cent over 1968. Venezuela's output of iron ore increased 23 per cent as a result of the exceptional United States demand; it also developed new diamond mines, which pushed up production by 77 per cent.

Chile's mining production, which represents more than 30 per cent of the value added by the sector in Latin America (excluding petroleum extraction), is estimated to have risen by about 4 per cent. This rate was made up of a rise of 4 per cent in copper, 5 per cent in coal and 18 per cent in nitrate, while iron ore dropped 3.5 per cent. By the first half of 1969, 63 per cent of the 600 million dollar investment plan designed to double copper production by 1972 (a target of 1.2 million tons) had been implemented, and it was considered that the completion date of the projects could be brought forward to 1971. Progress has also continued in the programmes for developing medium- and small-scale mining. The State-owned National Mining Enterprise (Empresa Nacional de Minería—ENAMI) obtained credit from two European firms to the amount of 43 million dollars in machinery and equipment for medium- and small-scale copper mining, which will enable it to raise its production substantially.

In Mexico, mining rose by approximately 5 per cent in 1969, thus emerging from the stagnation recorded up to 1967. The largest increments were recorded in output of copper (18 per cent), manganese (12 per cent), and silver and arsenic (about 7 per cent). On the other hand, the production of iron ore, lead, sulphur and coal declined. In mid-1969 a semi-public company was formed to develop the Las Truchas iron mines, which have proven reserves of more than 100,000 tons. This company will also build a steel plant. Work is going ahead on the construction of a plant for the production of pellets (with a 65.5 per cent iron content); it will have a capacity of 1.1 million tons annually and will cost 13.6 million dollars.

The slow growth of mining production in Peru during 1969 was attributable to the labour dispute in the Toquepala copper mine, which produces about 80 per cent of the country's total output. The rest of the metal mining sector showed a more favourable trend which was reflected in an increase in the volume of exports: 10 per cent in the case of iron and about 6 per cent for the group comprising silver, lead and zinc. A contract was signed at the end of the year between the Peruvian Government and the Southern Peru Copper Corporation, which is to invest 335 million dollars in developing the Cuajone mine, whose reserves are estimated at 460 million tons with a 1.1 per cent copper content; this will make it possible to raise output by 114,000 tons annually. The same company is to build an electrolytic refinery with an annual capacity of 50,000 tons in Ilo, to refine the ore mined at Toquepala.

(c) *Petroleum*

Incomplete data show that in 1969 Latin America's production of crude petroleum grew by about 1 per cent, which is considerably lower than the 1967 and 1968 rates of 6.9 and 2.9 per cent respectively. This means a further contraction of Latin America's share in world production.

Output declined in Bolivia, Chile, Ecuador, Trinidad and Tobago, and Venezuela, while Argentina, Brazil, Mexico and Peru maintained higher growth rates than the average for the region. Of this latter group of countries, Brazil and Mexico obtained the largest increases, owing to the output from the new Mexican oilfields of Jabonera in the north, Santiago, Atún and Frijolillo in Poza Rica, and Rosario, Santuario, Tucán and Pajonal in Tabasco. In Argentina, output grew by only about 3.5 per cent, compared with 9.4 per cent in 1968, because of the need to limit the development of oilfields in the provinces of Mendoza and Neuquén. This setback compelled Argentina to import 13.3 per cent more

crude and 74 per cent more petroleum products than in 1968 in order to satisfy domestic demand, which expanded by 7.3 per cent. In Colombia, where production had fallen off in the period 1966–1968, a remarkable improvement took place which enabled it to strengthen its position as a net exporter of hydrocarbons. Data for the first half of the year show that 1,862,000 m^3 of crude and 232,000 m^3 of petroleum products were exported, for a total value of 33.5 million dollars. This improvement was attributable to the production of 50,000 barrels a day in the new Putumayo oilfields, owing to the entry into operation of the 327-kilometre Orito-Tumaco pipeline at the end of March 1969. Even larger increases are expected as soon as the Puerto Colón, Loro and Temblón oilfields south of Orito, which can produce at least an additional 25,000 barrels a day, are connected to the new pipeline.

Various factors were responsible for the decline in production in the remaining countries.

In Bolivia the increase in output during the first half of the year was counterbalanced by the cessation of crude oil exports to the United States during the last three months owing to the nationalization by the Bolivian Government of the Bolivian Gulf Oil Company—a private United States company—in October 1969.

In Ecuador, as a result of the reduction in the potential of most of the 800 wells in the Santa Helena Peninsula, output continued to drop, and in 1969 amounted to approximately 4,500 barrels a day, a decline of about 7 per cent over the figure of 4,800 barrels a day achieved in 1968. To offset this declining trend, which has been in evidence since 1966, a provisional pipeline is being laid in Santa Cecilia, pending construction of a larger pipeline which is to link Lake Agrio with the port of Esmeraldas. The temporary pipeline will be 30 kilometres long and 17 inches in diameter, and will have a capacity of 30,000 barrels a day. It will be connected to the Orito-Tumaco pipeline in Colombia and will permit work to begin as soon as possible on the development of the new oilfields in the Amazon region, where the fourteen wells already drilled have a potential of over 20,000 barrels a day.

After increasing by 10.7 per cent in 1968, Chile's production of crude petroleum fell 2.5 per cent in 1969, from 2,177,000 to 2,122,000 cubic metres. This was because it proved necessary to adopt a longer-term view in developing the Chilean oilfields, for, unless important new reserves are discovered, proven reserves may well be depleted in less than ten years.

In Trinidad and Tobago, the drop in output is attributable to the decline in production of the Guayaguayara oilfield, which is the largest in the country and is administered by the Texas Oil Corporation.

In Venezuela, where petroleum exports depend largely on competitive conditions in the external market and the policy of large companies operating on a world-wide scale, production contracted by 0.3 per cent. Instead of aiming at balancing production in the different regions, these companies have preferred to take advantage of Libya's high-quality low-sulphur-content crude, which can be developed at low cost because of its high productivity per well (3,000 barrels a day compared with 300 barrels a day in Venezuela), to achieve full-scale production from their new Libyan oilfields, where output rose 20 per cent from 2.6 to 3.11 million barrels a day between 1968 and 1969. At the same time there are signs that Venezuela's proven reserves are becoming depleted. Excluding Venezuela, the crude oil production of the region as a whole showed a net increase of 4 per cent.

Geological and geophysical exploration was intensified during the year in areas allotted to government and foreign companies in Argentina, Colombia, Ecuador, Peru, and Trinidad and Tobago, and also in Brazil and Mexico, where there are only State-owned enterprises. This type of activity declined in Bolivia and Chile, while in Venezuela it has virtually stopped since the Government announced its policy of not granting any further concessions to private oil companies. It is expected to increase, however, once Congress ratifies the provisions regarding new service contracts to be granted to private companies through the Venezuelan Petroleum Corporation.

About 2,400 wells were drilled during the year, which represents an increase of over 3.5 per cent over 1968. Striking increases were noted in Brazil and Colombia, and particularly in Ecuador, where drilling went up 30 per cent. There were smaller increments in Argentina and Trinidad and Tobago, but in Chile, Bolivia and Peru there were sharp reductions. Nevertheless, these drilling operations led to the discovery of new oilfields and the expansion of existing reserves.

Excluding the Netherlands Antilles and Puerto Rico, Latin America refined about 200 million m^3 of crude in 1969, but the growth rate (3 per cent) was lower than the 6.5 per cent attained the year before, owing to the contrac-

tion in Venezuela and the slowing down of the growth rate in Chile, Colombia and Trinidad and Tobago. In Argentina there was a 5.7 per cent increase in refining output; but the decline in the growth rate of petroleum production broke the previous trend towards self-sufficiency in petroleum products. The share of imported crude was over 11 per cent of total refined output and thus 98.3 million dollars had to be spent on imports of crude petroleum and petroleum products, or 15.6 million dollars more than in 1968. The same situation was observable in Chile, Ecuador, and Trinidad and Tobago. In Chile the share of imported crude in total refining output was 54.6 per cent (2,465,000 m^3). In Brazil, on the other hand, it was smaller than in previous years. Mexico's exports of crude petroleum and petroleum products during the first ten months of 1969 amounted to 33.5 million dollars, as against 28.8 million during the same period in 1968, while its imports rose from 31.2 to 34.8 million dollars. Thus the trade balance in hydrocarbons for this period showed a deficit of 1.3 million dollars.

Despite the slight decline in Venezuela's annual production of crude, total exports of crude petroleum and petroleum products from Venezuela, Aruba and Curaçao as a whole rose 0.5 per cent during the first eight months of 1969 compared with the same period in 1968 (1.6 per cent increase in exports of crude petroleum and 0.8 per cent decrease in those of petroleum products). Purchases by the United States, including Puerto Rico and the Canal Zone, were up 3.5 per cent, while those of Europe and Latin America dropped 7.6 and 1.8 per cent respectively.

(d) *Manufacturing*

In 1969 Latin America's manufacturing industry pursued a favourable trend for the second year in succession. This is all the more encouraging in so far as, for the first time in the 1960s, a good year was not followed by a bad year. Although the growth rate in 1969 (7.7 per cent) was slightly lower than the year before (8.7 per cent), the 1968 results reflected a recovery from the relative stagnation of production in 1967. Moreover, while the growth of the product in 1968 was based mainly on the fuller utilization of installed capacity, the increase in 1969 made it necessary to expand capacity, which had a favourable impact on the sector itself, particularly in the more industrialized countries of the region.

An over-all view of the sector shows that, at the end of the 1960s, manufacturing was generating approximately one quarter of the total gross product and its value added was about 29,000 million dollars at 1960 prices. Slightly more than three quarters of this total came from Argentina, Brazil and Mexico, 15 per cent from the countries members of the Andean Subregional Integration Agreement, 3.5 per cent from Venezuela, a little less than 3 per cent from the Central American Common Market countries, and close to 3 per cent from the other Latin American countries (Dominican Republic, Haiti, Panama, Paraguay and Uruguay).

Many countries, including the three with the greatest weight in the total, were responsible for the favourable trend of the manufacturing product in the region as a whole. The growth rates of Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Mexico and Nicaragua were close to or higher than the regional average for 1969, with Bolivia, Guatemala, Honduras, Panama and Paraguay recording more moderate growth rates (from 5 to 7 per cent). In the remaining countries the rates were below 5 per cent, with sharp reductions in relation to the previous year in Peru and Venezuela, continued low levels in Chile and Uruguay, and a slight improvement in Haiti.

Unlike Mexican industry, which maintained its usual even and fairly rapid pace, the growth of manufacturing output in Argentina and Brazil remained stationary, departing somewhat from its usual trends, which have been characterized since 1961 by sharp annual fluctuations ranging from −4.6 to 15.1 per cent in the former and from −4.7 to 14.9 per cent in the latter.

Industrial promotion policy continued to be applied in 1969 through the establishment or maintenance of fiscal and credit incentives, the promotion of exports of manufactures and action to influence prices of raw materials.

In Brazil, taxes on reinvested profits, and on the proportion of profits used to maintain the real value of working capital, were temporarily lifted. Another measure provided for drawback payments on industrial exports. In Colombia a financial fund was established to provide capital for small- and medium-scale industry, and tax exemptions in respect of the basic industries, which were to cease at the end of 1969, were extended for a further period.

As regards exports of manufactures, an insurance company was formed in Argentina to cover cases of failure to pay for exports, and financing terms were eased. In Peru an export credit insurance system was brought into operation. In Colombia the Colombian Foreign

Trade Institute was set up to formulate foreign trade policy, and the Colombian Foreign Trade Company began its task of promoting exports of manufactures.

Measures were also taken to establish prices of inputs in order to lower production costs. Argentina stabilized prices of raw materials supplied by State enterprises for use in the petrochemical industry in order to bring them into line with those of the developed countries.

(e) *Electric energy*

Total generation of electric energy in Latin America is estimated to have risen by about 9 per cent in 1969, i.e., to some 136,000 million kWh. This rate compares favourably with the average annual rate of 7.8 per cent for the previous ten years. Per capita generation in the region has now reached 506 kWh compared with the world average of about 1,200 kWh.

Electric power generating capacity grew by 10 per cent in 1969, or about 3,400 MW more than the year before. Of this increase, 3,200 MW were for public use, which reflects the increasing tendency of consumers in recent years to use power from the public supply instead of being self-supplying, which is no longer the prevailing aim, particularly in industry. The same can be said of hydro-electricity, which is gradually gaining ground on thermo-electricity; thus about 70 per cent of the larger capacity operating in 1969 was hydro-electric. In 1968 the capacity of public hydro-electric plants increased by 1.8 million kW and in 1969 by over 2.3 million. International credit agencies granted loans totalling over 250 million dollars in 1969 for construction and electrical equipment; these will help finance projects costing a total of more than 600 million dollars.

Brazil accounts for about 40 per cent of the capacity installed in 1969; projects completed include the Xavantes plant (525 MW), a 300 MW unit in the Jupiá plant, three other units ranging from 100 to 120 MW, and three smaller plants, all of which are hydroelectric plants, with a total capacity of 1,330 MW.

In Mexico, 360 MW of the Malpaso hydro-electric plant, which will have a final capacity of 1,080 MW, and 300 MW in the Salamanca thermo-electric plant were brought into operation. Argentina stepped up its installed capacity with the addition of a 250 MW thermo-electric plant (Nuevo Puerto), three more thermo-electric plants totalling 79 MW, and a 45MW hydroelectric unit.

In Venezuela, 350 MW of the Guri hydro-electric plant, which is planned to have a much larger final capacity, and a 60 MW thermo-electric plant were put into operation. In Chile another unit was added to the Rapel hydro-electric plant and a 115 MW thermo-electric plant was brought into service.

The construction of hydroelectric plants will continue to have the same importance as hitherto throughout the 1970s. A total capacity of over 15,000 MW, of which 13,500 MW correspond to hydroelectric plants, is being installed and will be put into service over the next five years.

Two small hydroelectric plants—Río Mayo (21 MW) in Colombia and El Ambi (8 MW) in Ecuador—were brought into operation in 1969; they will play an important part in the electricity interconnexion in the border area between these two countries, which will gradually be extended in the future. On the Ecuadorian side, work has been completed on the transmission line from El Ambi to Ibarra—which will shortly be extended to Tulcán—and on the distribution systems in the two cities.

Argentina and Uruguay, which brought into service the Concordia-Salto interconnexion in 1968, have contracted with a firm of specialists for a study of the interconnexion of the electricity systems in Greater Buenos Aires and in Uruguay. Preliminary studies have also been carried out on the interconnexion of the electricity systems in Chile and Mendoza, Argentina, and between countries in Central America.

As regards interconnexions within countries, Colombia put into operation a 115 kV high-tension line which links the electricity systems of the Bogotá Electricity Enterprise and the Valle del Cauca Corporation. This means that Cali, Valle and adjacent regions, which had been inadequately supplied, can be certain of a regular supply for some time.

In Venezuela a 400 kV line linking the large generating complex on the Caroní River (Guri and Macagua plants) with the Caracas area was brought into service. This line can transmit 700 MW over 570 kilometres.

Two other countries—Argentina and Peru—will shortly extend their power supply systems through interconnexions with the Chocón and Mantaro plants, respectively. Brazil is constructing a 440 kV transmission line to run 570 kilometres between the Jupiá power station and São Paulo.

(f) *Transport*[2]

In 1969 there was an increase of approximately 7.5 per cent in the value added by

[2] This section deals only with rail, road and air transport, since maritime transport is discussed separately in Part Three, chapter III.

transport and communications in Latin America, which is the largest annual increase recorded in the 1960s. This reflects the upswing of 11.7 per cent in Brazil, which accounts for over 30 per cent of the total product of Latin America's transport and communications sector. The growth rates were also high in Argentina (6.1 per cent) and Mexico (6.6 per cent), although somewhat lower than in 1968.

(i) *Railways*. Available data for 1969 show very uneven trends for railway transport in the various countries of the region.

Rail transport conditions in Argentina continued to be unsatisfactory, and more than half the rolling-stock was out of service. It is estimated that the repair and replacement of this equipment would require an investment of 570 million dollars. Nevertheless, freight traffic continued the recovery noted the previous year, and is estimated to have grown by over 7 per cent. Passenger traffic pursued its declining trend, although only by 1 per cent in 1969.

The Brazilian Federal Network (Rede Federal Brasileira—REFESA) continued the decidedly upward trend begun in 1965, when the Government started to implement its railway policy. Between 1967 and 1969 there were increases of 22 per cent in the number of ton-kilometres, and 8.3 per cent in the number of passenger-kilometres, while the average distance covered increased 13.8 per cent. In 1969 there was also a considerable increase in the transport of freight, mainly iron ore and coal. In four years, the north-eastern railway has reduced its operational coefficient (expenditure/income ratio) from 2.61 to 1.35.

In Colombia's railways there was a sharp decline of some 30 per cent in passenger traffic and a drop in the tonnage of freight carried, but this was offset by the increase in distance covered. The Colombian Government has a five-year investment plan (1968–1972) under way which consists mainly in the purchase of railway equipment to a value of 45 million dollars (financed by IBRD) and 584 million Colombian pesos. There is also a project to extend the Bogotá-Santa Marta line to the ports of Barranquilla and Cartagena.

In Chile, the number of passenger-kilometres rose 6 per cent and the number of ton-kilometres by only 1.8 per cent. The average distance covered remained the same for freight transport and increased 4.8 per cent for passenger traffic.

The Mexican Government has invested large sums in railways, achieving a better integration of the nation-wide railway network. The incomplete data available for 1969 indicate a 2.2 per cent increase in the number of passengers carried and a 3.2 per cent increase in the transport of cargo.

(ii) *Roads*. In Argentina's road plans, which have resulted in a national and provincial road system 135,000 kilometres in length, the emphasis has been recently on improving international road links within the context of regional integration projects. For this purpose, IDB granted Argentina a loan of 34 million dollars in 1968, which was supplemented by a 25 million dollar loan from IBRD in 1969. Among the most important projects are the replacement of a gravel road, the completion of a shorter paved highway linking Buenos Aires through Mendoza to the Chilean border, and the improvement of three stretches of the highway linking Buenos Aires with Tierra del Fuego. In addition, as part of the highway investment programme for 1971–75, IBRD experts will co-operate in a general study of the national and provincial road system as a basis for establishing priorities for carrying out feasibility and engineering studies in greater depth. The study will also include a national inventory of roads and will also cover administrative questions.

As regards international highways, the Peru-Brazilian highway connexion has forged ahead. On the proposed Brasilia-Lima route progress has been made in the Brasilia-Río Branco section and in the feasibility studies for continuing this highway as far as the Peruvian border (744 kilometres). Peru completed the construction of the Lima-Pucallpa highway and is about to embark on a study of the section from Pucallpa to the border. The Peruvian Government allocated 3.9 million dollars from its 1969 budget to this project, and 4.2 million dollars to the proposed Carretera Marginal de la Selva.

In Mexico, from the end of August 1968 to August 1969, large sums were invested in the construction of 983 kilometres of arterial highways and feeder roads and 123 kilometres of motorways; 905 local roads linking rural population centres were also constructed. Colombia built 45 local roads extending for 1,550 kilometres in 1969.

Venezuela, on the other hand, besides investing large amounts in the construction of highways, has paid special attention to the construction of a motorway in Caracas with a view to decongesting traffic, which has become much denser with the rapid population growth in the metropolitan area. With the same end in view, the project for a motorway from the

north (known as Cota Mil) is in process of execution and will increase traffic capacity between the eastern residential area and the administrative-business centre in the western part of Caracas by 25 per cent; IBRD is to grant a 20 million dollar loan to complete this project.

Programmes for the construction and improvement of highways absorbed 85 per cent of total transport investment and expenditure in Central America in 1969. In the last few years the road system has increased by 2.4 per cent annually, and by the end of 1969 it totalled 62,900 kilometres, of which 14 per cent were paved and 33 per cent were improved-surface roads.

(iii) *Air transport.*[3] In 1969, the Latin American airlines recorded an extraordinarily large increase of 20.4 per cent in total traffic (passengers, freight and mail), entirely attributable to the development of international traffic, which grew by 34.9 per cent, domestic traffic growing by only 2.4 per cent. This marks a continuation of past trends, since between 1960 and 1969 the share of international traffic in total commercial air transport in the region rose from 38.9 to more than 62 per cent.

The growth of international traffic reflects developments in Mexico, where it increased by 47.5 per cent, and in Argentina, Brazil and Venezuela, where the increases ranged from 31 to 35 per cent. Domestic traffic increased by 8.1 per cent in Argentina, 3.6 per cent in Chile, and 14.7 per cent in Colombia, and decreased by 5.6 per cent in Brazil and 1.9 per cent in Mexico. International freight traffic in the region increased by 68.4 per cent, much faster than passenger traffic, which increased by 25.7 per cent.

The annual growth rate of the Latin American airlines in 1969 (20.4 per cent) was well above the average for all airlines of the ICAO member States, and as a result the share of Latin American airlines in ICAO world traffic, which had fallen from 8.2 per cent to 4.2 per cent during the period 1958–1968, increased slightly to 4.4 per cent.

Among the new routes and services introduced in 1969, the following were of particular interest to Latin America: Aerolíneas Peruanas inaugurated a twice-weekly service to Europe under a pool agreement with Iberia; Varig introduced the first all-cargo service between Latin America and Europe with a weekly operation linking Lisbon, Río de Janeiro, São Paulo, Montevideo and Buenos Aires; and Aeronaves de México extended its Mexico City-Miami-Madrid service to Paris.

South African Airways introduced a route from Johannesburg to New York, via Río de Janeiro, thus completing its chain of routes circling the globe at very southerly latitudes, the other link having been closed in 1968 when the Chilean airline LAN introduced a service between Tahiti and Chile.

[3] This section is based on data supplied by the International Civil Aviation Organization (ICAO).

4. The external sector

(a) *Recent developments in the world economy*

(i) *Aspects of the world economy.* The world economy expanded substantially in 1969, thus continuing the upward trend that had started in 1968. This marked a return to the rapid growth of production and trade which had been apparent during the 1960s until the 1967 slump and for which the developed economies were responsible. As will be seen below, however, Latin America's share in this expansion was not very large.

Parallel with this increased economic activity, the devaluation of the French franc and the revaluation of the German mark sparked off a great deal of speculative capital movements and put pressure on the balance of payments in most of the developed countries. The monetary authorities of these countries reacted by adopting a series of policy measures and by pushing through the ratification of agreements on special drawing rights—to become effective in 1970—so as to make the international monetary system more flexible and alleviate the pressure on gold and the dollar resulting from the increase in world trade and financial transactions. The rise in interest rates which accompanied the movements of capital, combined with domestic events, also encouraged inflation in the countries that were hardest hit (France, Netherlands, Italy, Japan, the United Kingdom and the United States).

Preliminary data for 1969 indicate that the industrial production of the market economy countries fell off somewhat (a growth rate of 6.7 per cent compared with 7.1 per cent in 1968). This was attributable in part to the weakening of the industrial growth rate in the United Kingdom and the slight decline in industrial production in the United States, which was not offset by the upsurge in the European Economic Community, whose growth rate rose from 8.5 to 11 per cent, and the performance of Japan, which maintained its previous rapid tempo of 16 per cent. Despite such differences in rates of growth among the developed countries, world trade as a whole expanded.

In 1969, United States foreign trade maintained its sharp upward trend, thanks to an increase in industrial production close to that of 1968 (over 4 per cent), an upswing in fixed private investment and steady domestic consumption. None the less, certain imbalances continued to become more serious. Consumer prices climbed around 6 per cent and there was again a deficit—though a smaller one—on the foreign trade balance which was partly responsible for an over-all balance-of-payments deficit of 6,900 million dollars after all liquid liabilities had been covered. There were also speculative movements of short-term capital which was stepped up as a result of the revaluation of the mark. Nevertheless, there was no pressure on gross foreign exchange reserves, which were up by 1,250 million dollars, since the currency in greatest demand for IMF operations was the dollar.

The Federal Republic of Germany—Latin America's largest market after the United States—boosted its industrial production by more than 12 per cent. Its foreign trade too grew rapidly and resulted in a substantial but nevertheless smaller surplus than the year before. Foreign capital movements following the revaluation of the mark were so large that gross foreign exchange reserves reached a peak of 12,700 million dollars in September 1969, dropping off to 7,130 million at the end of the year.

Industrial production also made a recovery in the other EEC countries: France more than doubled its previous year's industrial growth rate (from 5 to 12 per cent), Belgium and the Netherlands made progress too, and only in Italy was there a decline. The foreign trade of these countries grew very rapidly, at rates of between 18 to 24 per cent, thereby spurring on world trade. The decline in gross foreign exchange reserves that again plagued France and Italy was due in the former to a sharp increase in the foreign trade deficit, and in the latter to capital outflows.

The industrial production of the member countries of the European Free Trade Association (EFTA) did not expand so fast as that of the EEC countries, owing to the poor performance of the United Kingdom, which the large increases in the production of Sweden, Switzerland, Austria and to a lesser degree, Denmark and Norway failed to offset. Nevertheless, the expansion of the United Kingdom's foreign trade, which improved its balance-of-payments position, together with the sharp increase in the foreign trade of the other EFTA countries, also helped to strengthen world trade as a whole.

(ii) *Special drawing rights (SDRs)*. At the end of 1969 the International Monetary Fund established a Special Drawing Account, thereby much reducing the importance of gold bullion. This permitted the creation of international reserves in which the assets (special drawing rights) are units of account whose sole guarantee is their acceptance as a means of payment by the 113 Central Banks of the IMF member countries. The aim of this innovation is to solve the problem of international liquidity, a problem which had been evident for some years and had reached crisis proportions by 1968.

There is international liquidity when the external means of payment available to the monetary authorities exceed their requirements or their commitments to the rest of the world. For instance, it can be said that there is a supply of and a demand for means of payment to balance goods, services and capital transactions between the market economies, and between them and the centrally planned economies.

In the 1950s this demand started to grow substantially, giving rise to an increasing disequilibrium in relation to supply. The disequilibrium was accentuated during the 1960s with the rapid expansion of world trade in goods, accompanied by a slower growth of official international reserves; and the situation was further aggravated after 1958 by the formation of international private capital markets that were virtually outside the control of the international central banking system. These markets which sprang up in the industrialized economies absorbed huge amounts of capital. The principal one—the Euro-dollar market—accumulated approximately one fourth to one third of the gross foreign exchange reserves of the economies concerned.

In addition, private international capital has tended to move from one industrialized economy to another whenever there has been a real or threatened balance-of-payments disequilibrium, thus swelling the deficit and often making the corrective measures imposed by the monetary authorities inoperative. Although the monetary authorities of all the industrialized countries have concluded special agreements to counteract those capital movements, they cannot be discouraged altogether because they must be taken into account by the monetary authorities when they determine the level of international liquidity that should be maintained.

In contrast with the growth of long-term demand stemming from world trade and finan-

cial transactions, the main components of supply increased very slowly up to 1967 and subsequently declined (see table 7). World gold holdings rose from 38,000 million dollars in 1960 to 38,900 million in 1968 (2.4 per cent in eight years), but the holdings of the highly industrialized countries, including the reserve currency countries, dropped from 34,000 to 31,800 million dollars over the same period.

The flight of gold became very serious at the beginning of 1968. To arrest this trend, the Government of the United States withdrew from the London private gold market, where it had been selling its holdings in order to keep the price at 35 dollars per ounce. Although this step—which was discussed with the world central banking system and supported by it—had the desired effect, it greatly hampered the building up of official world gold holdings through purchases on the private market. Industrial demand for gold has been increasing at an estimated annual rate of 15 per cent, which is faster than the increase in the supply of new gold. It is not likely, therefore, that the world price will fall to a level sufficiently close to that of the official monetary quotation for official purchases to be made.

The efforts to correct the balance-of-payments disequilibria in the reserve currency countries combined with the above-mentioned situation to bring about a drop in the foreign exchange holdings of the highly industrialized countries from 18,300 million dollars at the end of 1968 to 16,800 million in December 1969. This trend continued in January 1970, when holdings fell to 14,900 million dollars. Inasmuch as the IMF position of the industrialized countries has not changed (see table 7), their international liquidity took a highly unfavourable turn in 1969.

Therefore, special drawing rights were introduced at a very opportune moment. The amount allocated to the industrialized countries (2,300 million dollars) enabled them to increase their liquidity by 600 million dollars in January 1970 and restored general confidence in the principal reserve currency, the United States dollar. The 314 million dollars allocated to Latin America enabled it to raise its gross international reserves by slightly over 7 per cent.

This new international means of payment is in many respects similar to the means of payment that existed hitherto, but it differs from them enough to make it practically impossible to identify it with any of them. Broadly speaking, it is a deliberately created means of payment, which means that it is neither gold bullion nor an external liability of any national monetary authority.

The first truly international and agreed means of payment came into being with the

Table 7. Variations in international liquidity since 1960
(*Thousands of millions of dollars*)

	1960	*1965*	*1968*	*1969*	*January 1970*
Highly industrialized countries					
Gold	34.0	36.7	31.8	32.1	32.2
Foreign currency	9.9	12.2	18.3	16.8	14.9
International Monetary Fund					
(*a*) Position	3.2	4.7	5.5	5.5	5.6
(*b*) Special drawing rights	—	—	—	—	2.3
TOTAL	*47.1*	*53.6*	*55.6*	*54.4*	*55.0*
Latin America[a]					
Gold	1.4	1.1	1.0	1.1	1.1
Foreign currency	1.5	2.1	2.6	2.8	2.8
International Monetary Fund					
(*a*) Position	0.1	0.1	0.3	0.4	0.4
(*b*) Special drawing rights	—	—	—	—	0.3
TOTAL	*3.0*	*3.3*	*3.9*	*4.3*	*4.6*
World total[b]					
Gold	38.0	41.8	38.9	39.1	39.2
Foreign currency	18.9	23.3	31.1	...	...
International Monetary Fund					
(*a*) Position	3.6	5.4	6.5	6.7	6.7
(*b*) Special drawing rights	—	—	—	—	—

SOURCE: IMF, *International Financial Statistics*, March 1970, p. 16.
[a] Excluding Cuba from 1964 onwards.
[b] Excluding the Soviet Union and the other countries with centrally planned economies.

establishment of IMF. Subscriptions were payable partly in gold and partly in the member's currency, normally in the proportions of 25 and 75 per cent. The first portion, or gold tranche is treated as part of the international reserves of the contributing country, but it also backs the rest of the IMF operations. Up to 1969, its use by member countries was subject to certain restrictions, which were lifted during that year, thus enabling holders to draw more freely on this reserve

With the contributions in national currency it was possible to set up machinery which increased the amount of currency available to member countries. Most of these contributions to IMF are paid in non-convertible currencies[4] and therefore would not normally affect international liquidity. Countries may, however, make payments to the Fund in their own currency in order to purchase whatever currencies of other countries they may require. Countries whose currencies are sold in this way are credited with its equivalent in their Gold Tranche Position. In Latin America, for example, sales of the (non-convertible) currencies of Argentina, Brazil, Mexico and Venezuela up to January 1970 had resulted in a total increase of 257 million dollars in their international reserves.

The main procedure for using the means of payment described above is the Stand-by-Arrangements. Member countries with a temporary disequilibrium in their balance of payments may request a short-term credit from IMF. In principle, the total amount of the credit remains in IMF's coffers but it constitutes an international reserve for the country obtaining it. The country concerned can draw on the credit as and when the disequilibrium in its balance of payments may require. The countries which receive stand-by loans undertake to use them in accordance with IMF's objectives or, what is virtually the same thing, to adopt measures to stabilize their balance-of-payments position.

More recent but somewhat smaller in volume are the credits designed to counterbalance fluctuations in exports (compensatory financing facility)[5] and the buffer stock fund. In both cases, developing member countries may draw up to the equivalent of 50 per cent of their quota when their export earnings fall below a certain level or when they need to accumulate exportable stocks. They may also use both facilities at the same time, in which case they may draw up to 75 per cent of their quota.

The buffer stock fund established in 1969 is a revolving fund, while drawings under the other facilities described above must be repaid within a period of from three to five years at the most. All these facilities are conditioned, either by the specific purpose for which they were created or by the need to bolster confidence in IMF, which must therefore restrict their use to countries whose economic policy guidelines are satisfactory to it. It is in this sense that SDRs are described as an unconditional means of payment, although in practice they are hedged round with guarantees and requirements affecting both the amount of the allocation and the use which the recipient countries may make of it.

In the first place, special drawing rights are allocated to member countries for basic five-year periods. To obtain such an allocation, there must be absolute certainty that the draft resolution has the full support of the Governors of the International Monetary Fund before it is submitted as a formal proposal. Concensus is not enough, however. Special drawing rights will be allocated only if there is a global need to supplement existing reserve assets and to avoid world economic stagnation; they will be suspended or cancelled at the end of five years if there is demand or inflation in the world.

Secondly, only the monetary authorities of the IMF member countries and the IMF General Account may be holders of special drawing rights. This restriction is imposed because special drawing rights are no more than a book-keeping entry whose sole purpose is to increase the means of payment available to these authorities. In this connexion, it should be pointed out that only gold bullion is non-monetary; all the other international payments instruments are liabilities of some monetary authority, including the Fund itself, therefore, it has been necessary to establish a Special Drawing Account in IMF (separate from the General Account through which all IMF's other operations are conducted) and to enter the SDRs extended to participating countries under the head of liabilities. When a country accepts such rights, the amount is debited to its reserves and credited to the Special Account, thus provided a backing for the SDRs allocated. This monetary device was essential if a climate of general confidence for the special drawing rights was to be created; consequently, the rules for their use are somewhat stringent.

[4] According to the existing rules, a currency is convertible when, *inter alia*, the issuing country imposes no restrictions on current payments and transfers to other countries.

[5] See ECLA, *Economic Survey of Latin America, 1966* (United Nations publication, Sales No. E.68.II.G.1).

Since a climate of confidence was a *sine qua non* for the operation of this facility, the proposal to confine its use to the highly industrialized countries was rejected, as was the motion supported by the Governor representing Italy, *inter alia*, to allocate SDRs to developing countries for the purpose of promoting domestic investment and, therefore, their imports from the industrialized countries. The first proposal has definitely been withdrawn, but the second may still be feasible if—as will probably happen—an effort is made to increase the amount of SDRs at the beginning of the second basic five-year period. Presumably, a climate of general confidence will already have been created by that time.

The following rules have been established for creating and maintaining such a climate:

(i) SDR transactions will be credited or debited to the Special Account without there being any need for visible exchange instruments, such as bank-notes;

(ii) All participating countries holding special drawing rights will receive interest on their holdings, and all participants will pay charges on their accumulated net allocations. Interest and charges will be at the same rate and hence any participant having special drawing rights in an amount exceeding his accumulated net allocations will receive a net payment, and any participant holding special drawing rights less than his accumulated net allocations will make a net payment. Both charges and interest will be paid in special drawing rights. The initial rate will be 1.5 per cent per year, and may be modified by the Fund. The interest accruing to special drawing rights constitutes an incentive for countries to hold them rather than gold which attracts no interest;

(iii) Participants may use their SDRs only to obtain an equivalent amount of their own or convertible currency and only in transactions prescribed by the Fund. According to the rules, participants may use SDRs only to meet balance-of-payments needs or to reconstitute their holdings, up to the amount of their allocation. It is explicitly provided that participants may not use SDRs to change the composition of their international reserves and increase their "unconditional" holdings;

(iv) All participants are under the obligation to provide other participants with convertible currency in exchange for SDRs up to an amount equal to twice their allocations;

(v) Participants must retain average holdings of SDRs, calculated according to a special formula equal to 30 per cent of their allocations.

As will be gathered from the above requirements, special drawing rights do not constitute an IMF loan to participants. It is true that they may be cancelled at the end of any basic period, when the participants concerned would be under the obligation to surrender its holdings, but this seems unlikely in the first basic period, however, at least in the light of existing trends in production and industrial use of gold and the prospects for international trade and the world economy. The 314 million dollars allocated to the Latin American countries therefore represent a real increase in their international reserves.

(b) *Trends in world trade and Latin America's exports*

For the second year in succession, the economic trends of the developed countries helped to boost world exports in 1969, following a bad year in 1967. Figures for the first six months show an upswing of 14.1 per cent, as against 7.2 per cent for the corresponding period of the previous year. Exports from several areas began falling off in the second half of 1969, however, whereas they had picked up somewhat during the latter part of 1968. All in all, the growth rate for the year, including countries with centrally planned economies, was 13.9 per cent, and this compares favourably with 1968's 11.5 per cent and 1964's 12.6 per cent, which had previously been the highest figures for the decade. Exports, then, reflect a definite upward trend, as the share of manufactures in Latin America's trade tends increasingly to become larger and that of basic commodities smaller.

Table 8 shows that exports expanded rapidly in nearly every region, notably in the developed countries and, above all, in Japan, the EEC, EFTA and the other Western European countries, and also in the United States, which maintained its 1968 growth rate. As regards the developing areas, the increases in Asia and Africa stand out, and, excluding the Middle East, Latin America once again came off worst in this respect, despite the growth of exports in 1969.[6] There was still a big difference in 1969 between the growth rates of exports of the developed areas and those of the developing countries though they fluctuate according to circumstances: for example, whereas Latin American exports in 1967 and 1968 showed up particularly badly by comparison with those of

[6] Excluding Cuba, exports of goods from Latin America rose by 10 per cent in 1969 and 5 per cent in 1968; these figures differ from those given in the table which includes Cuba.

Table 8. Variations in the current value of world exports, 1950–1969
(Cumulative annual growth rates)

	1950–1960	1960–1965	1965–1968	1960–1968	1967	1968	1969	January–June 1968	January–June 1969
World total	*7.6*	*7.8*	*8.5*	*8.1*	*5.4*	*11.3*	*13.9*	*7.2*[a]	*14.1*[a]
Developed countries	8.7	8.5	9.4	8.8	5.5	12.4	15.8	7.3	15.5
Developing countries	3.5	5.9	6.0	6.0	3.7	10.2	9.2	7.7	9.8
Countries with centrally planned economies	11.1	7.7	7.5	7.6	7.3	8.3	9.3	...	...
United States	7.3	5.9	8.0	6.7	4.1	9.6	9.4	6.2	6.0
Latin America	2.3	5.3	3.1	4.5	0.7	4.2	7.5	0.5	7.0
Western Europe	9.7	8.9	8.7	8.9	5.2	11.8	17.5	6.0	18.4
European Economic Community	12.3	10.0	10.2	10.1	6.6	14.3	18.9	8.7	20.7
European Free Trade Association	6.8	7.2	5.9	6.7	2.4	8.3	14.8	1.6	14.5
Other countries of Western Europe	8.0	8.7	8.1	8.4	6.5	4.5	17.4	2.1	15.5
Japan	17.3	15.8	15.4	15.7	6.7	24.2	23.3	19.9	25.1
Eastern Europe	12.1	8.1	9.3	8.5	9.1	9.1	9.3	...	...
Asia	1.6	4.1	5.3	4.5	3.4	11.6	15.3	5.2	13.4
Africa	3.9	7.6	7.9	7.7	2.3	16.3	11.8	13.6	11.1
Middle East	5.6	8.8	9.9	9.2	10.7	11.1	5.4	16.5	9.9

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1959, 1966 and 1967; *Monthly Bulletin of Statistics*, June and December 1969 and June 1970.

[a] Excluding exports from the countries with centrally planned economies.

developed areas, they did better in 1969 when they expanded at a rate of 7.5 per cent as against 15.8 per cent in the case of the industrialized countries.

These differences in tempo point to a steady decrease in the developing areas' share of the world export market (see table 9). Asia and Latin America are the chief victims of this phenomenon, since between 1950 and 1969 the former's share dropped from 10.6 to 4.7 per cent and the latter's from 11.1 to 4.8 per cent. Africa and the Middle East held their ground during the 1960s thanks to their petroleum exports and to the special conditions granted to them by the EEC and EFTA. In the course of the decade, the developed countries increased their share from 60.4 to 71.3 per cent and countries with centrally planned economies from 8.0 to 10.8 per cent. The most noticeable advances were those of the EEC and Japan while EFTA and the United States slipped back slightly.

One of the main reasons for the relative setback of the developing countries in terms of world exports is the predominance of manufactured goods over basic commodities. Table 10 gives an idea of the changes that have occurred in the structure of world trade and of the drop in the share accruing to basic goods owing to their relatively low elasticity of demand compared with manufactures. In 1968, primary products[7] accounted for 35.4 per cent and manufactured goods[8] for 62.8 per cent of a world export market valued at 239,000 million dollars; by contrast, in 1955 the corresponding figures were 50 per cent and 49.0 per cent of 93,500 million dollars' worth of world trade. Exports of manufactures are thus expanding two or three times as fast as those of food-stuffs or primary products, and among the latter only fuel exports increased at anything like the same speed. Competition from chemical substitutes contributed further to the decline in the growth rate of basic commodities. Table 10 also reflects the boom in sales of chemical products and machinery which, taken together, are currently growing at 34.3 per cent as opposed to 23.1 per cent in 1955. It is thus obvious that Latin America's diminishing share of world trade is connected with the fact that it exports so few manufactured goods.[9]

Initial data for 1969 (see tables 11 and 12) suggest that, as usual, the rising trend of world exports is due partly to an increase in actual volume and partly to higher unit values. In 1969, however, the growth in physical volume was less than the 12 per cent registered in

[7] Including foodstuffs, raw materials and fuels.

[8] Including chemical products, machinery, vehicles and other manufactured goods.

[9] The significance of this decline is apparent from a comparison of total exports from Latin America and from Belgium and Luxembourg. In 1969, exports from Belgium and Luxembourg, with 10 million inhabitants, amounted to around 10,000 million dollars in value, or 1,000 dollars' worth per capita; the corresponding figure for Latin America, with a population of about 270 million, was 13,000 million dollars, or less than 50 dollars per capita.

Table 9. Share of world exports, by region, for selected years, 1950–1969
(*Percentages*)

	1950	1960	1965	1968	1969
World total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Developed countries	60.4	66.8	68.8	70.2	71.3
Developing countries	31.6	21.4	19.5	18.5	17.7
Countries with centrally planned economies	8.0	11.8	11.7	11.3	10.8
United States	16.5	16.0	14.6	14.3	13.8
Latin America	11.1	6.7	5.9	5.1	4.8
Western Europe	33.3	40.3	42.4	42.5	43.9
European Economic Community	15.1	23.3	25.7	26.9	28.0
European Free Trade Association	15.7	14.4	14.0	13.0	13.1
Other countries of Western Europe	2.5	2.6	2.7	2.6	2.7
Japan	1.3	3.2	4.5	5.4	5.9
Eastern Europe	6.7	10.1	10.3	10.4	10.0
Asia	10.6	6.0	5.0	4.7	4.7
Africa	5.9	4.1	4.1	4.1	4.0
Middle East	4.0	3.3	3.5	3.7	3.4

SOURCE: ECLA, on the basis of United Nations data, the *Yearbook of International Trade Statistics*, 1959, 1966 and 1967, and the *Monthly Bulletin of Statistics*, June 1970.

Table 10. Trends and structure of world trade, 1955–1968

Types of goods according to SITC classification	*1955*	*1960*	*1968*	*Cumulative annual growth rates (percentages)*	
				1955–60	*1960–68*
Food (0 and 1)					
Millions of dollars	18,400	22,310	34,200		
Percentage share	19.7	17.4	14.3	3.9	5.5
Crude materials (2 and 4)					
Millions of dollars	17,480	21,320	27,330		
Percentage share	18.7	16.7	11.5	4.1	3.2
Fuels (3)					
Millions of dollars	10,270	12,640	22,950		
Percentage share	11.0	9.9	9.6	4.3	7.8
Chemicals (5)					
Millions of dollars	4,270	7,520	17,030		
Percentage share	5.0	5.9	7.1	9.8	10.7
Machinery (7)					
Millions of dollars	16,920	27,770	65,530		
Percentage share	18.1	21.7	27.2	10.4	11.2
Other manufactured goods (6 and 8)					
Millions of dollars	24,200	34,860	68,120		
Percentage share	25.9	27.3	28.5	7.6	8.7
TOTAL[a] (millions of dollars)	*93,540*	*127,870*	*238,680*	*7.3*	*8.2*

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1968 and 1970.
[a] Including commodities not classified according to kind (group 9).

1968, although the increases were the largest achieved in the entire decade. Both the developed and the developing areas (including Latin America which achieved its highest growth rate in 1969) contributed towards this upswing, but as always, the larger volume benefited the industrialized more than the developing countries while, among the latter, over-all export expansion during the entire period under review was at all times greater than in Latin America alone.

Unit prices rose almost 3 per cent in 1969, compared with a slight decrease the year before; this applies equally to the exports of developed countries which for the most part increased slowly but surely throughout the period. In the developing areas, unit values rose by 2 per cent following the small 1 per cent rise the previous year but, unlike price trend in developed areas, this does not even amount to a return to their 1955 position. Unit values of Latin American exports have shown a slight

Table 11. Variation in volume of world exports, 1955–60 to 1969
(Annual growth rates)

Year	World total[a]	Developed countries	Developing countries	Latin America
1955–60	5.9	6.6	4.3	4.3
1960–65	7.0	7.4	6.1	3.3
1965.	7.3	8.1	5.6	3.9
1966.	7.6	8.3	4.4	3.8
1967.	4.7	4.6	4.2	2.7
1968.	12.0	13.2	8.1	1.8
1969.	9.9	11.6	6.6	7.2[b]

SOURCE: United Nations, *Monthly Bulletin of Statistics*, January 1969 and April 1970.
[a] Excluding countries with centrally planned economies.
[b] January to September.

Table 12. Price indexes of world exports, 1955–1964
(1963 = 100)

Year	World total[a]	Developed countries	Developing countries	Latin America
1955.	100	96	111	112
1960.	100	98	103	97
1965.	103	103	103	107
1966.	105	105	104	108
1967.	105	105	103	107
1968.	104	104	104	108
1969.	107	108	106	109[b]

SOURCE: United Nations, *Monthly Bulletin of Statistics*, January 1969 and April 1970.
[a] Excluding countries with centrally planned economies.
[b] January to September.

tendency to move up and down since 1965, and preliminary data indicate an increase of 1 per cent between 1968 and 1969 (see table 12). On the other hand, preliminary estimates made by ECLA for 1969, excluding Cuba, indicate an increase over 1968 of about 7 per cent in the volume of exports and 3 per cent in unit prices.

(c) *Trends in prices of Latin America's main exports*

Preliminary estimates suggest that world prices for the region's major commodity exports rose between 1968 and 1969, with the exception of those for wheat, cotton and petroleum, which fell (see table 13). An initial estimate of the over-all price index indicates an increase of 8.2 per cent over 1968, but this increase is much greater if petroleum and petroleum products are excluded, amounting to an over-all price increase for all other commodities of 12.9 per cent in 1969. The price trends of the group of commodities selected for the index show a steady albeit partial recovery over the past three years, for the 1968 level is still below that recorded in 1958. During the 1960s as a whole, the index, excluding petroleum and petroleum products, only rose to a comparable extent in 1964 and 1966, with the rise still being less than in 1969. The value of Latin America's exports in 1969 was only partially affected by the price increases for its major commodities, since for the most part the increases came in the last quarter of the year. Owing to the time it takes for them to show up in the figures, their total effect will not be felt until early 1970 or, if the trend continues, in 1970 as a whole.

An analysis of groups of products reveals the sharp and continuing rise in world metal prices (see table 13). Preliminary data indicate that in 1969 export prices of non-ferrous metals were at their highest level since 1964, when the price of these exports began to rise. Copper once again stands out, with world prices climbing 24 per cent between 1968 and 1969. In this period too, world lead prices went up by 20 per cent and tin and zinc prices by 9 per cent, while the price of iron ore remained unchanged.

Food and beverages had more influence than non-ferrous metals on the rise in the over-all export price index in 1969, since their share in the region's total exports was three times as large and their index rose 16 per cent during the year. Of the tropical-zone commodities, the largest increases were in cocoa (32 per cent), sugar quoted on the open market (64 per cent) and bananas (3 per cent). In the first nine months of 1969, prices of Brazilian coffee went up only 2.5 per cent over the same period in 1968, while prices of Colombian coffee dropped 1.8 per cent; the last quarter marked a sharp upturn in coffee prices in the face of prospects of a poor harvest in Brazil as a result of frost in most of the producing area. The estimated contraction of about 35 per cent in Brazil's production in 1969/70 compared with the previous coffee year will probably have the effect of sending up prices and reducing stocks in producer countries.

There is a similar explanation for the sharp rise in world cocoa prices. Preliminary estimates of the 1969/70 crop indicate a 10 per cent reduction in relation to the previous year, which is mainly imputable to Africa's output; world stocks of cocoa have also declined significantly since 1966.

The rise in sugar prices on the open market (a 64 per cent increase) was spurred by the entry into force early in 1969 of the new International Sugar Agreement, by virtue of which a minimum price was established of 3.5 dollar cents per pound, or nearly twice the average level reached in the first nine months of 1968.

Table 13. Latin America: price index for major exports, 1967–1969
(1963 = 100)

	Weighting	1967	1968	1969 Quarters I	1969 Quarters II	1969 Quarters III	1969 Quarters IV	1969 Total	Percentage variation 1969/1968
Food, beverages and tobacco	*41.61*	*92*	*90*	*98.4*	*99.1*[a]	*100.4*[a]	*118.7*[a]	*104.2*[a]	*15.8*
Tropical zone	*35.36*	*89*	*90*	*95.2*	*95.1*	*96.6*	*112.2*[a]	*99.8*[a]	*10.9*
Sugar (open market)	6.61	24	25	39.5	46.1	40.8	37.8	41.1	64.4
(United States)	3.86	89	92	94.4	96.0	95.4	96.9	95.7	4.0
Bananas	2.88	93	89	86.2	99.3	90.7	90.7[a]	91.7[a]	3.0
Cocoa	1.53	100	124	164.2	164.9	166.0	162.3	164.2	32.4
Coffee (Santos No. 4)	9.80	111	110	112.3	109.4	115.5	140.8	119.6	8.7
(Manizales)	9.83	106	108	107.8	101.5	106.8	138.1	113.6	5.2
Tobacco	0.85	...	...	...	...	...	...	...	...
Temperate zone	*6.25*	*112*	...	*116.7*	*121.2*[a]	*121.1*[a]	*154.8*[a]	*128.4*[a]	...
Beef	2.77	121	...	141.9	150.7	145.6	228.5	166.7	...
Maize	1.70	101	94	92.4	101.3	110.5	95.4	100.0	6.4
Wheat	1.78	107	98	100.8	94.2[a]	93.0[a]	96.9[a]	96.1[a]	−1.9
Agricultural raw materials	*12.14*	*95*	*97*	*95.7*	*97.4*[a]	*96.7*[a]	*97.5*[a]	*97.2*[a]	*0.2*
Linseed oil	0.84	98	111	115.4	107.7	115.4	110.9	112.3	1.2
Cotton (Matamoros)	3.89	105	106	97.3	97.3	94.2	99.3[a]	96.9[a]	−8.6
(Sao Paulo)	1.34	100	102	88.3	88.7	86.8	89.8[a]	88.3[a]	−13.4
(Pima No. 1)	0.42	118	127	120.1	115.0	114.4	114.4[a]	116.0[a]	−8.7
Cattle hides	1.02	121	129	141.3	149.2	149.2	149.2[a]	147.6[a]	14.4
Quebracho	0.22	115	122	131.9	136.4	134.4	134.4[a]	134.3[a]	10.1
Fish meal	1.10	107	111	116.4	133.8[a]	133.8[a]	133.8[a]	133.8[a]	20.5
Wool (Montevideo)	1.25	83	72	75.7	75.7	75.7	70.3	74.3	3.2
(Buenos Aires)	2.06	56	55	59.3	59.3	59.3	58.0	59.0	7.3
Metals	*12.51*	*142*	*148*	*156.7*	*170.2*	*182.3*	*186.9*[a]	*174.0*[a]	*17.6*
Copper	6.59	170	183	197.8	220.8	240.2	247.3	226.5	23.8
Tin	0.61	135	125	129.1	133.5	138.0	146.2	136.7	9.4
Iron ore	3.84	98	98	97.2	97.8	97.8	97.8[a]	97.6[a]	−0.4
Lead	0.88	131	138	147.4	158.5	177.3	179.8	165.8	20.1
Zinc	0.59	131	124	127.1	131.0	137.9	144.5	135.2	9.0
Petroleum and petroleum products	*33.74*	*88*	*89*	...	...	...	...	*86.1*[a]	*−3.3*
Total, excluding petroleum and petroleum products	*66.26*	*102*	*103*	*109.1*	*112.4*[a]	*115.4*[a]	*127.8*[a]	*116.3*[a]	*12.9*
Total, twenty-one products	*100.00*	*97*	*98*	...	...	...	...	*106.0*[a]	*8.2*

SOURCE: ECLA, on the basis of United Nations, *Monthly Bulletin of Statistics*.
[a] Incomplete data and estimates.

As regards temperate-zone products, beef prices rose considerably, although the rise was nominal since in October 1969 the United Kingdom Government prohibited imports of non-boned untrimmed meat from Argentina; consequently, the increase is mainly attributable to a change in the type of product exported. Maize prices also improved in 1969, but the sharp increase in stocks of wheat in the major exporting countries (Australia, Canada and the United States) and the bumper 1969 harvest caused world wheat prices to drop below the minimum stipulated in the International Grains Arrangement, thus jeopardizing the operation of this agreement.

Wool prices improved in 1969 while prices of the three types of cotton exported by Latin America took a sharp downward turn. Prices of cattle hides, fish meal and linseed oil increased, but these three products account for only 3 per cent of the export price index for the region as a whole.

An analysis of the nature of the rise in Latin America's export prices in 1969 indicates that the increases in world prices of those products which have the largest share in the total are only temporary. This would apply to non-ferrous metals, whose significant price increases are mainly attributable to the conflicts in south-east Asia and the Middle East, and to the world financial situation. Similarly, the high cocoa and coffee prices (in the latter case since September 1969) may be largely ascribed to temporary setbacks connected with the harvests. In evaluating the chances that the pronounced upward trend will continue, it should be borne in mind that non-ferrous metals, coffee and cocoa account for nearly half the region's export price index.

(d) *Latin America's share in total imports of different regions and countries*

The region's share in imports by the principal markets (United States, the EEC and EFTA) has deteriorated, *inter alia*, because of the smaller proportion of primary products in those imports and because of the growing tendency of industrial countries to purchase these commodities in developed countries (see table 14).

Data for 1969, compared with 1968, indicate a further loss of ground in imports by the United States, Canada and EEC and, for the first time, a small recovery with respect to EFTA, an appreciable increase in relation to Japan's total imports, and some degree of stagnation in intra-regional trade.

Over the long term, the most significant contractions in Latin America's share are noted in purchases by EFTA and the United States, owing to the inflexibility of both markets. In the case of EFTA the present values fluctuate at about the 1948 levels and in the case of the United States it was not until 1968 that the value exceeded that obtained in 1956, even though imports by the two areas concerned continued to expand. Thus, Latin America's share in imports by EFTA and the United States fell from 9.3 to 3.3 per cent and from 35.4 to 11.2 per cent respectively between 1950 and 1969. The position vis-à-vis EEC also shows a steady decline, but since external purchases by this group of countries have soared, exports to EEC have actually risen in absolute terms. Nevertheless, the proportion of 3.8 per cent recorded in 1969 reflects a marked reduction compared with the 4.6 per cent share in 1967, and this drop may well be accentuated as a result of EEC's agricultural

Table 14. Latin America: percentage share in total imports of different regions and countries for selected years, 1950–1969
(*Percentages*)

	1950	*1955*	*1960*	*1965*	*1967*	*1968*	*1969*
World total	*11.1*	*8.5*	*6.7*	*5.9*	*5.5*	*5.1*	*4.8*
United States	35.4	30.8	24.3	16.9	14.4	12.5	11.2
Canada	4.3	2.7	2.7	4.1	3.3	3.9	3.6
Japan	9.0	10.6	6.2	7.0	6.0	6.0	6.7
Western Europe	8.5	5.8	5.0	4.3	4.2	3.7	3.6
European Economic Community	8.0	6.4	5.6	4.8	4.6	3.9	3.8
European Free Trade Association	9.3	5.4	4.7	3.6	3.3	3.2	3.3
Other countries of Western Europe	6.8	4.8	3.1	4.0	4.4	4.4	4.1
Eastern Europe	1.6	2.4	2.0	3.8	3.3	2.8	2.5
Latin America	10.5	10.8	8.6	11.6	11.4	11.4	11.1
Asia	0.9	0.4	0.4	0.5	0.6	0.6	0.7
Africa	1.7	0.8	0.9	1.1	0.8	0.8	0.6
Middle East	2.3	1.1	0.8	1.1	0.9	1.2	1.0

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1959, 1966 and 1967, and *Monthly Bulletin of Statistics*, June and December 1969 and June 1970.

agreements. Trade with Japan is equally vigorous, but with certain ups and downs; Latin America's share in Japan's external purchases remained constant in 1967 and 1968, and increased in 1969.

Latin America's smaller share in United States imports reflects the position in all countries of the region except Bolivia (see table 15). Since 1960 the decline in importance has been particularly noticeable in Venezuela, Colombia, Ecuador and Chile, and slightly less so in Uruguay, Paraguay, Brazil and Peru. In 1969 there was a partial recovery in Mexico's relative position, Central America maintained its share, and that of the rest of the countries continued to decline. Mexico, Argentina and Central America recorded fairly small contractions. Argentina's strong recovery in 1968 does not seem to have continued in 1969.

(e) *Destination and origin of Latin America's foreign trade*

Because of its dependence on exports of primary products, Latin America has channelled most of its trade towards the industrialized countries and very little towards other developing regions. An exception to this is intra-regional trade, which has acquired a certain amount of importance as a result of the operations of ALALC and the Central American Common Market (see tables 16 and 17).

The direction of these trade flows has not changed in the past twenty years, since the industrialized countries—including those with centrally-planned economies—absorb about 80 per cent of the region's exports and 85 per cent of its imports. In the last two decades trade with Asia, Africa, the Middle East and mainland China altogether accounted for barely 2 to 3 per cent. The direction of trade has only shifted from some groups of industrialized countries to others. Thus the inflexible conditions governing Latin America's exports to the United States facilitated their reorientation towards Western Europe, Eastern Europe and Japan. In 1950, 45.9 per cent of the region's exports were dispatched to the United States, but the proportion has dropped to about 33 per cent in recent years (see table 16). Exports to Western Europe rose from 29.8 per cent in 1950 to approximately 33 per cent in the last few years, owing to the region's larger sales to EEC and other Western European countries, which altogether more than offset the smaller share of the EFTA countries, although the share did rise slightly in 1969. Moreover, the fluctuations in the percentages of the United States and Western Europe have tended to offset each other, and the proportions have remained at about 33 per cent. This indicates a certain rigidity in both markets as regards the growth of Latin America's exports.

As distinct from the trends in these two markets over the past three years, exports to Japan have increased steadily and, judging from preliminary data, the whole year will show a further increment which would raise Japan's share of Latin America's total exports from 5.3 to 6.4 per cent between 1968 and 1969.

The Eastern European market showed great impetus in the first half of the 1960s owing to the rechannelling of Cuba's exports, but since 1967 it has weakened somewhat and this state of affairs seems to have persisted in 1969, according to initial data.

The changes observable in Latin America's imports are similar but different in magnitude (see table 17). The decrease in the percentage of imports from the United States also meant an increase in the proportion of purchases from Western Europe (particularly EEC since those from EFTA declined), Eastern Europe and Japan. While the United States and Western Europe have reached virtually the same levels in the absorption of Latin America's exports, however, the region is much more heavily dependent on the United States for imports because, *inter alia*, of the external financing granted by that country. Nevertheless, imports from Western Europe have gained momentum since 1966 and their growth was particularly rapid in 1969, which indicates an expansion of suppliers' credit (see table 17). Latin America's purchases from Japan increased steadily, while purchases from Eastern Europe slackened off somewhat in 1968 and remained at the same level in 1969.

(f) *Latin American trade and trade balance by regions and commodity groups*

The outstanding feature of Latin American merchandise trade in recent years has been the sharp drop in the trade surplus, which in 1969, for the first time, became a deficit. With some fluctuations, it had remained steady during the last two decades, making it possible, at least partly, to finance the region's customary deficit on services account (see table 18). The highest trade surplus was achieved in 1965, and declined in the following two years, but in 1968 the enormous increase in imports made for a negligible trade surplus, and there was a deficit in 1969. Important factors in this trend were the growth of imports in Brazil and Colombia in 1968 and in Argentina in 1969; restrictions in all three countries were eased,

Table 15. Latin America: percentage share in United States imports (f.o.b.) for selected years, 1960–1969

Year	*Latin America*	*Argentina*	*Uruguay and Paraguay*	*Brazil*	*Colombia and Ecuador*	*Cuba*	*Central America*[a]	*Chile*	*Bolivia*	*Peru*	*Venezuela*	*Mexico*
1960[b]	23.67	0.65	0.20	3.83	2.43	2.38	1.21	1.29	0.07	1.28	6.30	3.01
1960[c]	21.29	0.65	0.20	3.83	2.43	—	1.21	1.29	0.07	1.28	6.30	3.01
1965	17.16	0.57	0.23	2.39	1.79	—	1.30	0.98	0.15	1.13	4.76	2.98
1967	14.44	0.52	0.09	2.08	1.27	—	1.12	0.66	0.17	1.20	3.65	2.81
1968	12.97	0.62	0.10	2.01	1.06	—	1.03	0.62	0.10	1.02	2.85	2.76
January to October 1968	13.05	0.56	0.11	2.05	1.06	—	1.03	0.65	0.11	1.01	2.88	2.78
1969	11.64	0.44	0.07	1.67	0.88	—	1.03	0.44	0.07	0.85	2.64	2.82

SOURCE: IMF, *Direction of Trade*, annual 1960–1964 and 1963–1967, and monthly, February 1969 and December 1969.

[a] Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

[b] Including Cuba.

[c] Excluding Cuba.

Table 16. Latin America: destination of exports for selected years, 1950–1969
(*Percentages*)

	1950	1955	1960	1965	1967	1968	First six months 1969
World total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
North America	47.7	45.5	43.8	34.8	34.9	36.2	33.6
United States	45.9	44.0	42.1	31.9	32.2	32.7	30.2
Canada	1.8	1.5	1.7	2.9	2.7	3.5	3.4
Western Europe	29.8	28.7	31.9	32.8	33.9	32.2	34.3
European Economic Community	13.2	15.6	18.5	20.0	20.8	19.1	20.8
European Free Trade Association	14.7	10.9	11.8	9.7	9.3	9.4	9.7
Other countries of Western Europe	1.9	2.2	1.6	3.1	3.8	3.7	3.8
Japan	1.3	2.9	2.8	4.3	4.8	5.3	6.4
Latin America	7.9	9.5	7.9	9.7	10.3	11.3	11.1
Eastern Europe	0.9	2.2	3.1	6.6	5.9	5.3	4.9
Asia	0.7	0.4	0.4	0.6	0.7	0.8	0.9
Africa	1.0	0.5	0.7	0.8	0.5	0.6	0.5
Middle East	0.6	0.3	0.3	0.5	0.4	0.6	0.6
Mainland China	0.1	0.1	0.5	1.8	0.8	0.9	0.8
Australia, New Zealand and South Africa	0.4	0.3	0.4	0.3	0.3	0.3	0.3
Rest of the World	9.6	9.6	8.2	7.8	7.5	6.6	6.6

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1959, 1966 and 1967, and *Monthly Bulletin of Statistics*, June and December 1969.

in Brazil and Colombia because of the growth of exports and the high level of foreign investment, and in Argentina because of an improvement in the net external position. The other countries of the region—with the exception of Peru—also increased their imports, as a result of improved export revenue, increased foreign investment, or both factors at once.

The sharp drop in the merchandise trade surplus in 1968 and the small deficit in 1969 are also a reflection of fluctuations in trade with the main markets. The deficit on trade with the United States more than doubled compared with 1967, and the same was true of trade with Eastern Europe. At the same time, there was a sharp drop in the surplus in trade with the

Table 17. Latin America: origin of imports for selected years, 1950–1969
(*Percentages*)

	1950	1955	1960	1965	1967	1968	First six months 1969
World total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
North America	53.7	49.0	47.2	43.2	41.5	41.5	39.8
United States	51.1	46.7	44.7	40.0	38.5	38.4	36.7
Canada	2.6	2.3	2.5	3.2	3.0	3.1	3.1
Western Europe	27.9	28.3	32.6	29.0	30.4	30.4	31.6
European Economic Community	12.8	17.1	19.6	17.5	18.6	18.4	18.7
European Free Trade Association	13.6	9.5	11.3	9.3	9.3	9.5	9.9
Other countries of Western Europe	1.5	1.7	1.7	2.2	2.5	2.5	3.0
Japan	0.8	2.5	3.5	4.4	4.7	5.0	6.1
Latin America	10.5	10.8	8.6	11.5	11.4	11.4	11.1
Eastern Europe	0.5	2.0	3.0	6.3	7.6	7.2	6.9
Asia	2.1	2.5	1.8	1.3	0.8	0.9	1.0
Africa	0.5	0.2	0.5	0.4	0.4	0.4	0.5
Middle East	0.8	0.8	0.6	1.1	1.0	1.2	1.1
Mainland China	0.1	...	0.1	1.3	0.7	0.7	0.6
Australia, New Zealand and South Africa	0.4	0.3	0.4	0.5	0.6	0.4	0.5
Rest of the world	2.7	3.6	1.7	1.0	0.9	0.9	0.8

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1959, 1966 and 1967, and *Monthly Bulletin of Statistics*, June and December 1969.

EEC, and to a lesser extent with the rest of Western Europe and Japan, while the balance on trade with the EFTA countries showed a deficit.

An analysis by countries or regions shows that in 1968, exports to the United States expanded, reaching a record figure for the decade, though only slightly higher than the 1956–1957 level; however, imports from the United States increased nearly three times as fast as exports to the United States, which accounts for the magnitude of the deficit. The major components of increased exports to the United States in 1968 were food-stuffs (Argentina, Brazil, Colombia and Mexico), other manufactures (non-ferrous metals from Chile, Mexico and Peru) and machinery; these increases more than offset the fall in sales of fuels, raw materials and chemical products (see table 18). Argentina, Brazil, Chile, Colombia, Mexico and Venezuela also increased their imports. There was a slight falling off in exports and an increase in imports in 1969, which accentuated growth of the trade deficit with the United States in that year. Exports from Guatemala and Mexico showed an upswing, but there was a fall in exports from Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay and Venezuela. On the other hand, most of these countries maintained or increased their level of imports.

Latin American exports to the EEC declined for the first time in 1968, mainly owing to the fall in exports of food-stuffs from Argentina (see table 18). With the exception of Peru, all the countries of the region, and Brazil in particular, imported more from the EEC in 1968. This uneven trend accounted for the fact that Latin America's trade surplus with the EEC countries fell by more than 70 per cent in 1968 compared with 1967. Data for 1969 show that Latin American exports reached a new high, mainly owing to the expansion of exports from Argentina, Brazil and Chile and, to a lesser extent, from the other countries of the region, since only Ecuador's exports declined. But at the same time, there have been fresh increases in Latin American imports, particularly those of Argentina, although not at the same pace as the growth of exports. Hence, the trade balance with the EEC countries recovered slightly in 1969.

Trade with the EFTA countries in 1968 and 1969 reached record figures for the decade, though only slightly higher than the 1948 level; this points to the high degree of inflexibility in trade with that area (see table 18). Latin American exports to the EFTA countries recovered in 1968 owing to increased sales of "other manufactures" (non-ferrous metals from Chile, Peru and Mexico) and raw materials (Bolivia, Brazil and Mexico); trade in these products more than offset the decline in exports of food-stuffs (owing to the imposition of sanitary restrictions on Argentine meat in the United Kingdom), and fuel (owing to the fall in sales of Venezuelan petroleum). Moreover, in 1968, Latin American imports from the EFTA countries grew proportionately more than exports to those countries; the decline in the surplus on trade with the United Kingdom and the increase in the trade deficit with the other EFTA countries accounted for the first ever deficit on trade with the area. The considerable expansion of imports in Brazil and smaller increases in Colombia, Cuba, Guatemala and Mexico accounted for the high level of imports. Figures available for 1969 show an upward trend in trade with the EFTA countries, though Latin America's trade deficit was maintained for the second successive year. Argentine exports recovered and there was an increase in sales from Brazil, Chile, Colombia, Guatemala and Peru which more than offset the decrease in the exports of Cuba, Ecuador, Mexico, Uruguay and Venezuela. Imports from the EFTA countries increased in the case of Argentina, Brazil, Chile, Colombia and Cuba, and fell only in Ecuador and Mexico.

As regards trade with the other countries of Western Europe, Latin American exports levelled off in 1968 while imports increased considerably, which led to a reduction of the trade surplus; this trend continued into 1969, despite a revival of exports, particularly to Spain. Rigidities usually occur when Latin American imports fall off; when they increase, there is an expansion of trade.

In 1969, Japan was the third most important market for Latin American goods after the United States and the Federal Republic of Germany, and squeezed the United Kingdom into fourth place. The Japanese market is continually expanding, and the principal exports to Japan are raw materials and food-stuffs, though in recent years fuels and "other manufactures" have grown in importance. Imports from Japan have grown at the same time as exports to that country, but the surplus has nearly always been in Latin America's favour.

Latin American exports to Eastern Europe reached their highest level in 1965, after which they fell off because of a decline in exports from Argentina, Brazil and Cuba. On the other

Table 18. Latin America: Trade and trade balance by
(Millions

Type of goods according to SITC classification	*Years*	*Total*			*United States*			*Canada*			
		Exports	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*
Total[a]	1955	7,970	7,060	+910	3,510	3,300	+210	120	165	−45	1,240
	1960	8,590	7,940	+650	3,600	3,550	+50	145	195	−50	1,580
	1965	11,060	9,320	+1,740	3,530	3,730	−200	320	300	+20	2,220
	1966	11,650	10,410	+1,240	3,890	4,170	280	290	340	−50	2,320
	1967	11,700	10,600	+1,100	3,770	4,080	−310	320	315	+5	2,430
	1968	12,190	12,120	+70	3,970	4,660	−690	425	370	+55	2,370
	1969	13,100	13,110	−10	3,950	4,810	−860	450	410	+40	2,720
Foodstuffs (0 and 1)	1955	3,760	890	+2,870	1,920	345	+1,575	63	49	+14	620
	1960	3,810	880	+2,930	1,800	390	+1,410	42	46	−4	790
	1965	4,870	1,090	+3,780	1,550	350	+1,200	43	89	−46	1,210
	1966	5,050	1,230	+3,820	1,740	425	+1,315	38	82	−44	1,230
	1967	4,970	1,260	+3,710	1,750	425	+1,325	37	66	29	1,230
	1968	5,190	1,350	+3,840	1,950	445	+1,505	50	62	12	1,180
Crude materials (2 and 4)	1955	1,540	550	+990	500	145	+355	4	13	−9	375
	1960	1,590	470	+1,120	540	155	+385	9	33	−24	420
	1965	2,130	660	+1,470	540	240	+300	22	39	−17	570
	1966	2,290	690	+1,600	570	225	+345	17	37	−20	560
	1967	2,150	660	+1,490	490	220	+270	13	34	−21	560
	1968	2,130	710	+1,420	460	235	+225	17	37	−20	540
Fuels (3)	1955	1,900	640	+1,260	690	145	+545	36	—	+36	105
	1960	2,350	630	+1,720	900	120	+780	87	1	+86	125
	1965	2,740	600	+2,140	930	105	+825	255	—	+225	145
	1966	2,700	670	+2,030	970	135	+835	225	—	+225	145
	1967	2,860	660	+2,200	970	135	+835	265	—	+265	185
	1968	2,820	730	+2,090	910	150	+760	345	—	+345	185
Chemicals (5)	1955	85	620	−535	35	365	−330	2	20	−18	14
	1960	110	790	−680	63	410	−347	1	10	−9	19
	1965	160	1,090	−930	59	480	−421	1	11	−10	20
	1966	210	1,270	1,060	74	540	−466	1	13	−12	25
	1967	225	1,280	1,055	72	530	−458	1	12	−11	24
	1968	235	1,490	1,255	62	620	−558	2	13	−11	24
Machinery (7)	1955	12	2,220	−2,208	3	1,320	−1,317	—	29	−29	2
	1960	19	3,010	−2,991	9	1,570	−1,561	—	26	−26	2
	1965	64	3,410	−3,346	6	1,680	1,674	—	66	−66	3
	1966	88	3,890	−3,802	12	1,870	−1,858	1	105	−104	4
	1967	115	4,120	−4,005	25	1,900	−1,875	—	105	−105	11
	1968	160	4.960	−4,800	50	2,210	2,160	1	155	−154	10
Other manufactures (6 and 8)	1955	660	1,900	1,240	345	790	445	5	52	−47	140
	1960	680	1,960	1,280	265	740	−475	3	78	−75	230
	1965	1,060	2,300	1,240	420	750	330	4	93	−89	260
	1966	1,300	2,500	1,200	510	850	−340	6	105	−99	350
	1967	1,380	2,460	1,080	450	770	−320	5	99	94	420
	1968	1,640	2,690	1,050	530	860	−330	6	105	99	430

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1966; December 1969, and March 1970.

regions and categories of goods for selected years, 1955–1969
of dollars)

EEC		EFTA			Other Western European countries			Japan			Eastern Europe			Latin America
Imports	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	*Exports*	*Imports*	*Balance*	
1,210	+30	870	670	+200	180	120	+60	230	180	50	175	140	+35	760
1,560	+20	1,010	900	+110	140	130	+10	240	275	−35	265	235	+30	680
1,630	+590	1,070	870	+200	340	200	+140	480	410	+70	730	590	+140	1,080
1,830	+490	1,130	950	+180	410	280	+30	530	465	+65	700	730	−30	1,170
1,970	+460	1,080	990	+90	430	260	+170	590	500	+90	700	810	−110	1,210
2,230	+140	1,140	1,150	−10	430	310	+120	660	600	+60	650	880	−230	1,380
2,450	+270	1,270	1,300	−30	500	390	−110	840	800	+40	640	910	−270	1,460
43	+577	460	52	+408	110	20	+90	54	2	+52	90	5	+85	360
47	+743	470	57	+413	80	26	+54	75	5	+70	170	33	+137	260
50	+1,160	430	56	+374	240	19	+221	92	2	+90	610	100	+510	360
73	+1,157	435	67	+368	295	25	+270	92	3	+89	560	135	+425	370
76	+1,154	420	67	+353	300	42	+258	92	1	+91	560	150	+410	360
79	+1,101	400	79	+321	300	47	+253	120	2	+118	495	150	+345	425
28	+347	185	38	+147	50	39	+11	170	1	+169	79	10	+69	145
23	+397	205	27	+178	15	22	+7	160	3	+157	91	16	+75	92
30	+540	215	26	+189	55	14	+41	345	5	+340	115	48	+67	175
28	+532	250	26	+224	60	18	+42	395	8	+387	135	63	+72	195
30	+530	235	25	+210	45	14	+31	420	11	+409	130	77	+53	180
34	+506	260	26	+234	40	16	+24	375	10	+365	140	63	+77	210
5	+100	115	3	+112	15	1	+14	—	1	−1	—	23	−23	175
6	+119	240	4	+236	25	—	+25	1	1	0	—	47	−47	260
8	+137	310	2	+308	45	1	+44	27	1	+26	—	105	−105	210
8	+137	275	2	+273	40	—	+40	32	1	+31	—	99	−99	250
9	+176	255	3	+252	55	—	+55	39	1	+38	—	88	−88	245
10	+175	250	5	+245	65	1	+64	54	—	+54	—	89	−89	230
125	−111	9	78	−69	2	7	−5	3	5	−3	6	6	—	14
210	−119	8	105	−97	1	5	−4	2	7	−5	3	24	−21	15
325	−305	9	125	−116	2	15	−13	2	18	−16	7	43	−36	57
385	−360	11	150	−139	3	15	−12	2	26	−24	6	47	−41	76
410	−386	10	145	−135	4	15	−11	3	27	−24	7	51	−44	85
460	−436	11	170	−159	4	15	−11	6	30	−24	8	50	−42	105
540	−538	—	245	−245	—	15	−15	—	33	−33	—	34	−34	5
750	−748	2	450	−448	—	20	−20	—	120	−120	—	66	−66	6
740	−737	2	425	−423	—	75	−75	—	155	−155	—	195	−195	50
820	−816	2	440	−438	1	140	−139	—	190	−190	—	245	−245	65
910	−899	3	500	−497	—	90	−90	—	235	−235	—	290	−290	70
1,110	−1,100	4	590	−586	1	130	−129	8	310	−302	—	355	−355	83
460	−320	100	240	−140	5	50	−45	1	140	−139	—	50	−50	63
520	−290	105	255	−150	5	55	−55	7	140	−133	1	49	−48	50
455	−195	105	235	−130	10	70	−60	22	225	−203	1	100	−99	220
495	−145	150	250	−100	30	85	−55	12	240	−228	3	135	−132	230
510	−90	155	245	−90	25	105	−80	41	220	−179	5	145	−140	265
500	−130	210	260	−50	30	110	−80	95	250	−155	6	170	−164	315

[a] Including section 9, commodities not classified.

hand, imports have expanded and Cuban imports in particular have been responsible for the growth of the Latin American deficit.

Latin American intra-regional trade expanded rapidly during the 1960s and had doubled by 1968. It continued to expand in 1969 despite the adverse effects on the Central American Common Market of the conflict between El Salvador and Honduras. Intra-regional trade in food-stuffs and raw materials, which up to 1967 had not expanded owing to bottle-necks, increased in 1968. The increase in the relative importance of these products is significant, representing a trend towards substitution of imports of food-stuffs and raw materials from the rest of the world, which in 1968 amounted to about 925 million dollars and 500 million dollars, respectively. Because of continued bottle-necks, intra-regional trade in fuels declined in absolute terms, while there was an increase in total Latin American imports of fuels, which amounted to 730 million dollars, 500 million of which came from outside the region. There were wide fluctuations in intra-regional trade in other goods (chemical products, machinery and "other manufactures"); the value of such transactions was small at the outset, but has now reached a fairly high level, especially in respect of "other manufactures" which have outstripped fuels and raw materials and are close in value to trade in food-stuffs. Intra-regional trade accounts for about one half of total sales of chemical products and machinery and vehicles. Nevertheless, the volume of trade is still small if compared with total imports of such goods, which in 1968 amounted to a value of 1,500 million dollars for chemical products and 5,000 million for machinery and vehicles. Under the head of "other manufactures", intra-regional trade accounted for one fifth of total sales. The main impulse to the favourable trend in manufactures came from the ALALC and CACM agreements, which brought about a fundamental re-structuring of intra-regional trade between 1955 and 1968; in that period the proportion of manufactures in over-all trade increased from 11 to 37 per cent, and that of raw materials fell from 89 to 63 per cent. However, intra-regional trade accounts for only 11 per cent of total Latin American exports, and therefore these changes have had a negligible impact in the export sphere.

(g) *Composition of total exports and imports*

Exports continue to have the same basic structure, in which primary commodities predominate. In 1968, primary commodities (food-stuffs, raw materials and fuels) accounted for 83 per cent of total exports, and manufactures (chemical products, machinery and "other manufactures") for 17 per cent. Non-ferrous metals are the most important commodity in the category "other manufactures", and may be considered as raw materials because of their low value added. The export value of these metals amounts to 70 per cent of the export value of "other manufactures", that is, almost 10 per cent of total Latin American exports. If this figure is added to the percentage for primary commodities mentioned above, the two categories are seen to account for 93 per cent of total exports, so that the share of manufactures is only 7 per cent. The very high proportion of primary commodities in Latin American exports explains the steady decline in the region's share of world trade, and the fact that its trade with the industrialized countries is becoming increasingly marginal.

The share of manufactures in imports is growing, despite the process of replacing imports with local production. Thus, the share of manufactures in imports rose from 67 to 75 per cent between 1955 and 1968, while that of primary products fell from 30 to 23 per cent. If manufactures are left out of the picture, it can be seen that the share of "other manufactures", which comprise most manufactured consumer goods, fell from 27 to 22 per cent in the same period, while the shares of machinery and chemical products increased from 31 to 41 per cent, and from 9 to 12 per cent, respectively. Of the primary commodities, raw materials and fuels declined more than did food-stuffs.

It can thus be seen that, despite the process of industrialization, the Latin American countries continue to be net exporters of primary products and net importers of manufactures.

(h) *The balance of payments before compensation*

In 1969, Latin America's balance of payments before compensation closed with a surplus of some 750 million dollars, a higher figure than in 1967 and 1968 when the surplus was approximately 400 million dollars (see table 19). In 1968, fourteen countries recorded a balance-of-payments surplus totalling approximately 510 million dollars, while four countries had a combined deficit of some 85 million dollars. In 1969, eleven countries had a balance-of-payments surplus before compensation totalling some 900 million dollars, almost three quarters of which was attributable

to Brazil, while the combined deficit of the other eight countries was some 150 million dollars. Both because the surplus was highly concentrated in a single country, and because of the number of countries whose net external position deteriorated, the balance-of-payments situation was worse in 1969 than in 1968, when the surplus was more evenly distributed. In addition to Brazil, the following countries had surpluses before compensation: Colombia, Costa Rica, Mexico and Venezuela (for the third year in succession), Bolivia, Chile, Dominican Republic, Haiti and Uruguay (for the second year in succession) and Guatemala (after three successive years of deficit that had adversely affected its net external position).

Among the countries with a deficit in 1969, Argentina stands out for the size of its deficit (it had had a surplus in the preceding four years), and Peru for the length of time that it has shown a deficit (five years of balance-of-payments deficit with a consequent weakening of its net external position). Other countries with deficits were Paraguay (with three successive years of deficit), Ecuador (with two), and El Salvador, Honduras and Nicaragua (each with one).

Latin America has had a surplus in its balance of payments before compensation since 1963, which has improved the net position of its monetary authorities and raised its gross international reserves to the highest levels of the post-war period. In 1962, gross international reserves had fallen to 2,100 million dollars (barely enough to finance imports for three months), because from 1958 onwards imports had been maintained at a certain level despite the steady decline in export prices. By the end of 1969, Latin American gross international reserves were double their 1962

Table 19. Latin America: balance of payments before compensation, 1958–62 to 1969
(*Millions of dollars*)

Country	*Sum for the period 1958–1962*	*Sum for the period 1963–1969*	*1967*	*1968*	*1969[a]*
Argentina	−364.5	+721.0	+439.0	+144.0	−82.0
Bolivia	−4.9	+33.5	−8.0	+0.2	+0.4
Brazil	−850.0	+897.0	−173.0	+4.0	+660.0
Chile	−234.0	+216.0	−34.0	+115.0	+112.0
Colombia	−17.3	+130.0	+70.0	+53.0	+55.0
Ecuador	+3.8	+9.6	+8.9	−11.3	−2.4
Mexico	−56.7	+253.0	+84.0	+71.0	+10.0
Paraguay	−2.6	+10.0	−0.2	−0.3	−1.5
Peru	+77.4	−279.0	−81.0	−71.0	−55.0
Uruguay	−109.0	−3.9	−0.7	+35.0	+17.0
Venezuela	−1,102.3	+583.0	+114.0	+65.0	+11.0
Dominican Republic	−38.8	−26.2	−5.2	+7.1	+1.5
Haiti	−0.7	−3.4	−1.9	+0.9	+2.1
Costa Rica	−17.5	+24.0	+16.7	+9.0	+21.1
El Salvador	−21.9	+12.5	−1.1	+1.0	−5.4
Guatemala	−39.3	+18.9	−2.6	−0.2	+9.3
Honduras	−4.4	+19.1	+1.4	+5.5	−2.5
Nicaragua	−1.2	+21.3	−17.6	+1.3	−3.7
TOTAL	*−2,783.9*	*+2,636.4*	*+408.7*	*+429.2*	*+746.9*
Compensatory financing	*+2,783.9*	*−2,527.4*	*−408.7*	*−429.2*	*−746.9*
Net balance-of-payments loans, trade arrears, deferred import payments, swaps and other liabilities of the monetary authorities	+1,443.7	−538.3	−62.3	−53.9	−278.8
Net transactions with the International Monetary Fund	+200.3	−333.9	−86.9	−66.0	−25.1
Stand-by credit	+368.9	−265.6	−87.8	−64.6	−21.4
Compensatory credit	—	+86.0	+18.5	+6.7	+9.2
Other transactions	−168.6	−154.3	−17.6	−8.1	−12.9
Gold and foreign exchange (increase −)	+1,139.9	−1,764.2	−259.5	−309.3	−443.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.
[a] ECLA estimates.

figure, totalling some 4,200 million dollars, thus recovering the position held in 1958 (i.e., 5.5 per cent of total world reserves). Even so, this was enough to finance imports for only four months.

As can be seen in table 19, the accumulated deficit or decline in the net position of the monetary authorities in the period 1958–1962 totalled some 2,780 million dollars. This deficit was financed for the most part by increasing the external debt comprising accumulated short- and medium-term liabilities, by calling on gold and foreign exchange reserves, and to a lesser extent by recourse to IMF stand-by loans. During the period of recovery, i.e., from 1963 to 1969, Latin America's IMF position gradually improved (by 335 million dollars) and the region's gold and foreign exchange reserves increased (by some 1,765 million dollars). At the same time, its overseas liabilities fell (by 540 million as against an accumulated total of 1,440 million dollars) and it was obliged to indulge in refinancing or to change the terms governing the external debt. Nevertheless, the recovery of the net external position over the past seven years (approximately 2,635 million dollars) has still not yet compensated for the decline of 1958–1962.

Between 1958 and 1962, Ecuador and Peru were the only two countries that improved their net international reserves through balance-of-payments surpluses; the remainder of the countries in the region experienced severe deficits which weakened the net external position of their monetary authorities (see table 19). In contrast, between 1963 and 1969, most countries in the region showed a surplus, which enabled some to recover, either completely or in part, their net external position and others to improve their position, mainly as a result of the import levels they had attained.

During this recovery period, however, Peru had a sustained balance-of-payments deficit which weakened its net external position by an amount five times that of the accumulated surplus. The net external position of the Dominican Republic, Haiti and Uruguay continued to decline (that of the latter two countries only slightly). Among the countries showing a surplus in 1963–1969, Argentina, Bolivia, Brazil, Colombia, Costa Rica, Honduras, Mexico, Nicaragua and Paraguay strengthened their external position; Chile, El Salvador, Guatemala and Venezuela made a partial recovery; and Ecuador again improved its net external position initially, only to have it weaken in the last two years of the period.

In Argentina and Venezuela, improvements in the net external position came from surpluses on current account which generated an over-all surplus before compensation; in Uruguay, in contrast, the current account surplus tended to reduce the external deficit, and this has also been the case in Peru over the past two years. In the other countries of the region, the external payments position of the monetary authorities was strengthened in all cases by a steady inflow of foreign capital which financed the deficit on current account and bolstered the over-all balance-of-payments surplus before compensation. The result was a strengthening of net international reserves, but at the expense of greater indebtedness on the part of the non-monetary sectors. In addition, in order to achieve their surplus many countries were obliged to restrict imports in certain years.

(i) *The balance of payments on current account*

(i) *Merchandise trade.* Preliminary estimates for 1969 place the value of exports of the nineteen Latin American countries considered at some 12,340 million dollars, or an increase of 10.1 per cent over 1968 (see table 20). In 1968, exports grew by 5.5 per cent, which was a sizable increase over the decline recorded in 1967. Approximately two thirds of the marked improvement in 1969 was attributable to a rise in the volume of exports, the remainder to the rise in unit prices. Taking account of the upsurge in 1969, exports grew by an average 5 per cent annually between 1960 and 1969, with the rate being slightly higher in the period 1960–1964.

Preliminary figures place the value of imports f.o.b. at approximately 11,250 million dollars in 1969, 8.7 per cent higher than the figure for 1968 which was itself 11.5 per cent higher than that for 1967. Over the period 1965–1969, imports grew by 8.6 per cent annually, compared with an annual rate of 2.6 per cent in the period 1960–1964.

Although the rate of growth of exports was virtually the same in both these periods, the rate for imports differed appreciably. The result was that the surplus on merchandise account grew appreciably in 1963–1965 and the pressure of the external debt slackened in some countries. From 1966 onwards, the relatively faster growth of imports considerably reduced the surplus on merchandise account, which by 1968 had fallen to 858 million dollars, sharply lower than the surplus achieved in 1958–1962. Since Latin America has shown a growing deficit in its services account, the decreasing trend of the surplus on

merchandise trade increased the deficit on current account and also the amount of external financing and indebtedness. In 1969, as noted earlier, exports grew slightly faster than imports, bringing the surplus on merchandise account to some 1,090 million dollars.

The region's exports increased to a relatively large extent in 1969 despite the marked drop in Ecuador's exports and the slighter decline in El Salvador, Honduras, Nicaragua, and Venezuela (which continued to exhibit the inflexibilities that have been apparent since 1958). The largest increases came in Chile (25 per cent) which continued to be favoured by the high prices for copper; Brazil (22 per cent), whose exports boomed for the second year in succession and which in 1968 had managed to exceed its record 1951 figures; Argentina (18 per cent), for the first time coming close to its 1947 figures; Panama (17.5 per cent); Mexico (13 per cent) and Costa Rica (13 per cent), which maintained their high trends; Uruguay (12 per cent), which recovered ground for the second year in succession, exceeding the figures for the whole decade and coming close to the figure for 1956; and the Dominican Republic (12 per cent), which for the first time exceeded its 1964 level. In the remaining countries, the growth rate of exports was lower than the regional average, ranging between 7 and 5 per cent in Guatemala, Paraguay, Bolivia and Colombia (which had its best performance of the 1960s although still falling short of the 1956 level), and between 1 and 3 per cent in Peru and Haiti. As noted earlier, the value of exports in 1969 enabled certain countries to exceed or equal previous levels or to make partial recoveries. Offsetting the decline in prices over the period 1951–1968, the volume of exports increased in Brazil (72 per cent); Colombia (40 per cent over 1956); Venezuela (34 per cent over 1957); and Argentina (19 per cent over 1947).

In 1969 imports declined in Ecuador and Nicaragua, and were limited for the second successive year in Peru; in the first two countries owing to a drop in export earnings, and in the third as a means of improving the country's net external position. Despite these reductions, however, total regional imports grew by 8.7 per cent, maintaining a high rate of growth, although slightly lower than in 1968. The greatest increases came in Argentina (32 per cent), which reactivated its imports—restricted since 1963—and achieved figures close to the 1947–1948 level; Uruguay (21 per cent), which partially recovered its former level; Chile (14 per cent), an increase based on the higher purchasing power of its exports; and Panama (10 per cent), Costa Rica (10 per cent) and Colombia (8.5 per cent), following the rate of growth of their respective major exports. In the remainder of the region, imports grew less rapidly than the regional average. The rate for Bolivia (7 per cent) was similar to earlier years, owing to the greater purchasing power of its exports; imports by the Dominican Republic also grew by 7 per cent; the rate for Brazil (5.8 per cent) was a decline compared with the almost 30 per cent increase in 1968; Venezuela's imports increased (by 5.4 per cent) for the third year in succession, owing to the reactivation of external financing; while Guatemala and Mexico (with rates of approximately 5 per cent) followed the trend of earlier years. The lowest rates of increase (1–3 per cent) came in Haiti, Honduras, El Salvador and Paraguay. The growth of exports in these countries, except in Ecuador, Nicaragua and Peru where exports did not grow, stimulated the expansion of imports and was also fostered by the net inflow of capital, which, as in 1968, achieved a high level.

As can be seen from table 20, thirteen countries had a surplus on their merchandise trade in 1963–1965, including Haiti which, together with Bolivia, Mexico, Panama, the Dominican Republic, Costa Rica and Guatemala, usually has a deficit on merchandise account. Mexico, Panama, and to some extent Haiti, have net income in respect of services that is not factor income (travel and miscellaneous services) with which they are able to cover all or part of their deficit on merchandise trade. Mexico and Panama have almost always had favourable net capital movements that have reduced pressure on the balance of payments and also helped to increase imports. In Haiti, the comparatively lower income from tourism is offset by private and official transfer payments which to a limited extent cover import requirements. In Bolivia, the Dominican Republic, Costa Rica and Guatemala, the deficit on merchandise trade was offset by the inflow of non-compensatory capital and transfer payments. In 1968, however, only eight countries achieved a surplus on their merchandise trade; moreover the surplus was smaller than in 1963–1965 and one of the lowest figures for the 1960s, except in the case of Peru which, because of severe import restrictions, increased its surplus. In 1969, the surplus on merchandise trade was some 230 million dollars higher than in 1968, owing to the sharp increase in Brazil's surplus, and to smaller increases in those of Chile and Peru. There were only six net exporting countries: the three mentioned above, plus

Table 20. Latin America:
(Millions

Country	Exports							
	1958–62	*1963–65*	*1966–68*	*1967*	*1968*	*1969[a]*	*1958–62*	*1963–65*
Argentina	1,052.4	1,422.7	1,475.0	1,464.0	1,368.0	1,610.0	1,094.3	944.3
Bolivia	57.1	91.8	146.3	153.2	155.5	166.9	74.4	110.5
Brazil	1,282.2	1,477.3	1,758.7	1,654.0	1,881.0	2,297.0	1,255.6	1,107.0
Chile	442.7	589.4	880.0	871.0	904.0	1,126.0	480.1	553.7
Colombia	489.2	559.0	558.7	549.0	603.0	636.0	470.1	503.0
Ecuador	141.4	164.0	199.3	201.0	210.7	185.0	105.7	138.0
Mexico	801.8	1,045.3	1,200.7	1,145.0	1,258.0	1,421.0	1,081.6	1,381.0
Paraguay	38.2	48.8	51.3	50.3	50.0	53.0	43.2	46.5
Peru	422.9	641.7	796.7	755.0	846.0	867.0	361.5	552.0
Uruguay	144.2	178.8	174.6	158.7	179.2	201.0	170.8	147.8
Venezuela	2,443.0	2,460.0	2,426.3	2,462.0	2,475.0	2,455.0	1,271.3	1,182.0
Dominican Republic	144.8	159.7	152.7	156.6	163.5	184.0	108.1	162.6
Haiti	35.5	39.7	34.3	32.2	36.2	37.4	45.2	39.6
Panamá	44.7	82.3	109.7	109.2	116.5	137.0	113.5	174.4
Costa Rica	86.4	107.0	150.9	143.3	173.7	195.0	95.9	133.1
El Salvador	118.0	171.9	203.3	207.9	212.5	200.0	104.2	168.0
Guatemala	112.1	173.3	221.8	203.9	233.4	250.0	126.1	179.0
Honduras	72.5	102.5	160.3	155.8	180.7	170.6	67.3	98.9
Nicaragua	66.6	121.5	146.7	144.2	157.3	147.5	62.4	111.6
TOTAL, *excluding Cuba*	*7,995.7*	*9,636.7*	*10,847.3*	*10,616.3*	*11,204.2*	*12,339.4*	*7,131.3*	*7,733.0*
TOTAL, *excluding Cuba and Venezuela*	*5,552.7*	*7,176.7*	*8,421.0*	*8,154.3*	*8,729.2*	*9,884.4*	*5,860.0*	*6,551.0*

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.

Argentina, Uruguay and Venezuela (see table 20). Consequently, thirteen countries had a deficit in 1969 on their merchandise trade. The result was that in a large number of countries external financing was used first to compensate the deficit on merchandise account, then to cover the deficit on current services or net invisibles expenditure, and then was extended to movements of non-compensatory capital, the balance of payments ending up in many cases with a surplus which improved the net position of the central banks but increased the external indebtedness of the non-monetary sectors. It may be assumed that if merchandise trade continues to show a deficit in so many countries, it will increase pressure on the balance of payments over the short term. In recent years, there have been increases in the rates of interest for suppliers' credits, the placement of government bonds or debentures on international financing markets, and debt refinancing.

(ii) *Net merchandise and services transactions.* The irregular trend of the net export position of Latin America as a whole in merchandise transactions contrasts with the evolution of net imports of services or expenditures on invisibles, whose values have increased steadily, exceeding the surpluses on merchandise transactions and giving rise to the deficit on current account (see table 21). These conditions are common to all developing regions, but they can be modified by the policies which the countries adopt to overcome their balance-of-payments problems, by restricting or expanding imports and stepping up exports in so far as domestic supply and world demand will permit. These policies become, of course, broader in scope, if domestic supply is such that imports can be replaced and exports accelerated and the proportion of manufactures in total exports increased in order to reduce the degree of dependence on a few primary products.

This has not happened in Latin America, however; the region is still basically a net exporter of primary products and a net importer of manufactures, so that the imbalance between net imports of services or expenditure on invisibles and net exports or surpluses on the merchandise account has persisted (see table 21). The proportions only varied in the periods or years concerned as a result of the policies adopted by countries to counteract balance-of-payments pressures. Thus, in view of the drop in unit export prices and the deterioration in the terms of trade during the period 1958–1962, the surplus on merchandise

Merchandise trade, 1958–62 to 1969
of dollars)

Imports f.o.b.				*Merchandise trade balance*					
1966–68	*1967*	*1968*	*1969[a]*	*1958–62*	*1963–65*	*1966–68*	*1967*	*1968*	*1969[a]*
982.6	953.0	1,017.0	1,340.0	−41.9	+478.4	+492.4	+511.0	+351.0	+270.0
150.7	151.8	161.5	172.8	−17.3	−18.7	−4.4	+1.4	−6.0	−5.9
1,533.0	1,441.0	1,855.0	2,001.0	+26.6	+370.3	+225.7	+213.0	+26.0	+296.0
716.0	709.0	730.0	830.0	−37.4	+35.7	+164.0	+162.0	+174.0	+296.0
572.7	464.0	615.0	667.0	+19.1	+56.0	−14.0	+85.0	−12.0	−31.0
179.3	175.7	210.8	200.0	+35.7	+26.0	+20.0	+25.3	−0.1	−15.0
1,709.0	1,687.0	1,891.0	1,988.0	−279.8	−335.7	−508.3	−542.0	−633.0	−567.0
63.6	61.5	69.8	70.4	−5.0	+2.3	−12.3	−11.2	−19.8	−17.4
742.3	784.0	652.0	655.0	+61.4	+89.7	+54.4	−29.0	+194.0	+212.0
141.4	146.4	145.6	176.0	−26.6	+31.0	+33.2	+12.3	+33.6	+25.0
1,391.0	1,328.0	1,556.0	1,640.0	+1,171.7	+1,278.0	+1,035.3	+1,134.0	+919.0	+815.0
177.2	174.2	196.8	211.3	+36.7	−2.9	−24.5	−17.6	−33.3	−27.3
40.9	40.3	38.7	39.8	−9.7	+0.1	−6.6	−8.1	−2.5	−2.4
231.5	231.6	245.3	270.0	−68.8	−92.1	−121.8	−122.4	−128.8	−133.0
175.7	173.7	191.3	210.0	−9.5	−26.1	−24.8	−30.4	−17.6	−15.0
201.4	204.9	198.2	202.0	+13.8	+3.9	+1.9	+3.0	+14.3	−2.0
221.8	226.5	237.6	250.0	−14.0	−5.7	0.0	−22.6	−4.2	0.0
153.3	152.4	169.4	173.0	+5.2	+3.6	+7.0	+3.4	+11.3	−2.4
163.1	172.2	165.2	155.0	+4.2	+9.9	−16.4	−28.0	−7.9	−8.0
9,546.5	*9,277.2*	*10,346.2*	*11,251.8*	*+864.4*	*+1,903.7*	*+1,300.8*	*+1,339.1*	*+858.0*	*1,087.6*
8,155.5	*7,949.2*	*8,790.2*	*9,611.8*	*307.3*	*+625.7*	*+265.5*	*+205.1*	*−61.0*	*+272.6*

[a] ECLA estimates.

transactions financed barely 45 per cent of the expenditure on invisibles, which meant an average annual deficit of about 1,150 million dollars on current account. The result of this deficit was a reduction in international reserves and fairly substantial short- and medium-term external indebtedness. Consequently, balance-of-payments pressures increased, and in the years 1963–1965 exports had to be stepped up and imports restricted as a means of increasing the surplus on merchandise transactions, so as to finance nearly 80 per cent net expenditure on invisibles, appreciably reduce the deficit on current account and ease external pressures in several countries. Since 1966 the policy has been to promote imports in order to accelerate domestic growth, but in 1967 exports declined and, although they recovered and even increased in the last two years, the deficit on current account increased sharply to 2,230 million dollars in 1968, which was higher than at any time during the two previous decades, owing to the fact that the surplus on the merchandise account fell so steeply in 1968 that it covered only just over one quarter of net expenditure on invisibles; in 1969 it covered one third of this expenditure, thus lightly reducing the deficit on current account.

As shown in table 21, net expenditure on invisibles includes expenditure on freight, insurance, transport, travel, other services (government and miscellaneous services), and net foreign investment income (profits and interest). Latin America shows a deficit on all these transactions except travel; foreign investment income is absorbing an increasing share, which amounted to over three quarters in the last two years. External borrowing to stabilize the balance-of-payments position on current account pushed up profit and interest payments by 7.6 per cent annually between 1958 and 1969, while exports rose 4.4 per cent annually over the same period. So long as this difference in the growth of the two variables persists, the balance-of-payments pressures are hardly likely to lessen; and if these pressures are intensified, steps will have to be taken to curb imports, which would slow down internal growth.

Net expenditure on freight and insurance and other transport declined gradually from 10.2 per cent of the total value of imports in 1958 to 7.5 per cent in 1969. This reduction was achieved as a result of the growing proportion of import and export freight rates obtained by the merchant fleets of Argentina, Brazil, Chile, Colombia, Peru, Uruguay and, to a lesser

Table 21. Latin America (excluding Cuba): net transactions on merchandise account compared with services transactions or net expenditure on invisibles, and their effects on the balance-of-payments position on current account, 1958–62 to 1969

(*Millions of dollars*)

Period or year	Exports f.o.h.[a]	Imports f.o.h.[a]	Balance on merchandise account	Balance or net expenditure on invisibles account					Net private transfer payments	Balance-of-payments position on current account
				Freight, insurance and other transport	Travel	Other services	Net payments of profits and interest on foreign capital	Total net expenditure on invisibles		
1958–62	8,024.4	7,148.0	876.4	−669.8	+147.4	−182.7	−1,237.4	−1,942.5	−82.9	−1,149.0
1963–65	9,663.1	7,757.8	1,905.3	−696.6	+189.2	−269.7	−1,623.3	−2,400.4	−24.3	−519.4
1966–68	10,864.4	9,584.3	1,280.1	−770.8	+287.4	−294.6	−2,213.1	−2,991.1	−7.8	−1,718.8
1967	10,633.5	9,324.4	1,309.1	−760.6	+286.8	−336.9	−2,246.4	−3,057.1	+2.8	−1,745.2
1968	11,215.8	10,377.4	838.4	−806.1	+354.7	−245.6	−2,348.5	−3,045.5	−25.6	−2,232.7
1969[b]	12,351.1	11,272.9	1,078.2	−832.8	+396.9	−277.6	−2,541.6	−3,255.1	−26.3	−2,203.2

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.

[a] Including non-monetary gold.

[b] ECLA estimates.

degree, Paraguay. The most striking headway was made by Brazil, which reduced its net expenditure under this head from 9.2 per cent of the total value of imports in 1958 to 1.4 per cent in 1969. Accordingly, the deficits under freight and insurance and other transport increased in absolute terms but played a much smaller part than foreign investment income in increasing net expenditure on invisibles. The same observation is applicable to the deficits in other services, owing to the irregular trend followed by this item.

Lastly, the transactions under the head of travel showed favourable balances. Mexico is the determining influence here, since if its figures are deducted from the total a fairly considerable deficit emerges, influenced by the position of Venezuela, Argentina and Brazil. Besides Mexico, other countries normally showing surpluses on their travel transactions are Costa Rica, Haiti, Panama and Uruguay; others which have joined their ranks in recent years are Chile, Paraguay, and Peru, which has brought down the deficit shown after deduction of Mexico's travel transactions.

(iii) *Balance-of-payments position on current account.* The surplus on merchandise transactions has declined since 1966, while net expenditure on invisibles has increased. This has increased Latin America's deficit on current account to approximately 2,230 million dollars in 1968 and 2,200 million in 1969; these were the highest figures recorded in the last two decades (see table 22).

In 1969, as in the previous year, Peru and Uruguay showed a surplus on current account, which in Peru increased and in Uruguay declined. The most striking changes were observed in the remaining countries, which recorded deficits. Seven countries (Argentina, Venezuela, Colombia, El Salvador, Honduras, Ecuador and Bolivia) increased their deficits in relation to 1968, five (Brazil, Chile, Dominican Republic, Panama and Paraguay) reduced theirs, and in the five remaining countries (Costa Rica, Guatemala, Haiti, Mexico and Nicaragua) they remained practically at the same level. Particularly sharp contractions are noted in the deficits of Brazil and Chile, which were counterbalanced by the substantial increase in Argentina's deficit and smaller increments in those of Venezuela, Colombia and El Salvador.

In most countries the increase in the deficit on current account was compensated by net external financing, without giving rise to heavy external pressures; however, those pressures may well be accentuated if the inflow of capital

Table 22. Latin America: balance-of-payments position on current account, 1958–62 to 1969
(Millions of dollars)

Country	*Average 1958–62*	*Average 1963–65*	*Average 1966–68*	*1967*	*1968*	*1969[a]*
Argentina	−262.8	+161.7	+141.3	+184.0	−17.0	−187.0
Bolivia	−35.3	−38.2	−42.9	−41.0	−55.9	−56.1
Brazil	−383.6	+31.0	−297.0	−304.0	−520.0	−233.0
Chile	−161.3	−126.7	−110.0	−122.0	−140.0	−28.0
Colombia	−54.9	−98.3	−189.0	−89.0	−188.0	−259.0
Ecuador	−13.7	−21.3	−43.8	−36.0	−75.0	−82.8
Mexico	−240.5	−361.3	−594.0	−647.0	−739.0	−732.0
Paraguay	−10.6	−9.1	−22.6	−22.3	−28.8	−23.9
Peru	−34.3	−77.3	−169.0	−272.0	+4.0	+44.0
Uruguay	−41.5	+19.4	+18.7	−15.6	+22.1	+5.3
Venezuela	+194.7	+213.0	−99.3	−32.0	−221.0	−360.0
Dominican Republic	+6.7	−43.0	−67.4	−63.9	−70.7	−68.5
Haiti	−10.3	−11.6	−5.5	−4.6	−1.6	−1.4
Panama	−35.5	−34.2	−35.0	−36.1	−20.8	−11.6
Costa Rica	−17.9	−42.2	−48.8	−54.5	−44.3	−43.8
El Salvador	−5.8	−19.1	−29.7	−27.6	−17.3	−35.1
Guatemala	−32.1	−32.7	−42.5	−62.0	−48.3	−47.3
Honduras	−2.6	−14.1	−27.7	−32.4	−27.9	−38.7
Nicaragua	−7.8	−15.5	−54.8	−67.2	−43.2	−44.3
TOTAL, *excluding Cuba*	*−1,149.4*	*−519.5*	*−1,719.0*	*−1,745.2*	*−2,232.7*	*−2,203.2*
TOTAL, *excluding Cuba and Venezuela*	*−1,344.0*	*−732.6*	*−1,619.7*	*−1,713.2*	*−2,011.7*	*−1,843.2*

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.
[a] ECLA estimates.

were to drop below the present level of service payments, including interest, profits, depreciation and amortization. Mexico's deficit on current account increased most in absolute terms (see table 22); but Colombia, Ecuador, El Salvador, Honduras, Nicaragua, and Paraguay (despite the payments difficulties experienced by Colombia) showed larger increments in relative terms. So did Bolivia, Costa Rica, Dominican Republic and Guatemala, but on a lesser scale. In Haiti and Panama, on the other hand, the deficit on current account tended to diminish, and a similar although more irregular trend was observable in Brazil and Chile. Brazil, Chile and Panama obtained their results by stepping up exports, and Haiti by imposing import restrictions. Brazil and Chile were affected by external payments pressures, which, as in Colombia, were relieved by debt refinancing, certain import restrictions (except in Chile), increases in exports, and greater capital inflows. In Argentina, Uruguay and Venezuela, balance-of-payments pressures were such that it was necessary to achieve large surpluses on current account (through import restrictions) for a certain number of years in order to reduce them, and it was only after those pressures had been alleviated that Argentina and Venezuela once again had recourse to greater external financing. With the exception of Argentina, Venezuela and Uruguay, the Latin American countries have resolved the disequilibrium arising from the decrease in the surplus on the merchandise account and the increase in net expenditure on invisibles by obtaining more external financing. In the first place, this accentuates the disparity, since export earnings increase more slowly than service payments on foreign capital; and secondly, it intensifies balance-of-payments pressures, which may lead to restrictions that necessarily affect internal growth.

(j) *Financing the deficit on current account of the balance of payments*

Latin America's steadily increasing deficit on current account since 1966 has been offset by a corresponding rise in net non-compensatory capital income which has been large enough to swell the net foreign exchange reserves. The monetary authorities thus maintained the policy which they introduced in 1963 so as to increase these reserves to a level compatible with current import requirements (see table 23). However, this net improvement in the external position of national banks in Latin America—backed by the net inflow of non-compensatory capital—implies in each case that the non-monetary sectors went deeper into debt.

Before going into details, a word of explanation is needed of the figures for "Errors and omissions" given in table 23. In Argentina and Mexico since 1967, and in Peru and Uruguay over the past two years, the inflow of non-compensatory capital can only be reconciled with net external financing if it is adjusted in terms of the errors and omissions. For the remaining countries, errors and omissions have not been taken into account in this commentary on the grounds that they do not distort the picture of capital movements or of net external financing. It should not be forgotten that errors and omissions are a means of adjusting the balance of payments and may therefore include unrecorded capital movements and current transactions. The figures and corresponding plus or minus sign for 1967 and 1968 would not appear to take fully into account the short-term capital which flooded into Argentina and Mexico, thereby providing both economies —and especially the basic sectors of the metal-transforming industries — with a higher liquidity level; the same applies to Brazil, but in this case the inflow of short-term capital was recorded and controlled according to official standards. In Peru and Uruguay, on the contrary, errors and omissions encompass outflows of capital that represented a net disinvestment.

In 1969, the net inflow of non-compensatory capital into Latin America as a whole, after adjustment for errors and omissions, amounted to around 2,950 million dollars, 2,200 million dollars of which were financed on current account and approximately 745 million dollars by the increase in net foreign exchange reserves. Apart from net external financing, which was slightly higher in 1968, the other figures were higher than in any other year (see table 23).

In 1969, Brazil was the major beneficiary of net non-compensatory capital movements (an influx of more than 850 million dollars) and this was reflected in a net increase of 660 million dollars in its foreign exchange reserves which were higher than at any time in the past two decades. Mexico continued to receive a large share of foreign capital which, after adjustment for errors and omissions, amounted to around 750 million dollars for the past three years; in Brazil, capital inflow rose steadily. During the same years, there was an appreciable upswing in autonomous capital entering Colombia, Ecuador and Venezuela while in Central America, the Dominican Republic, Haiti and Bolivia it either maintained its previous high level or made up for

its past decline. Although they followed an irregular pattern, autonomous capital movements in Chile boosted foreign exchange reserves considerably during the last two years. In Peru and Uruguay, for the second year running, there was a net external dissaving which, in Peru prevented a further deterioration of the balance of payments and, in Uruguay, contributed towards a net increase in foreign exchange reserves which relieved external pressure. Owing to a decline in the influx of capital over the past two years, the net position of the monetary authorities worsened in Paraguay, while Argentina's decision in 1968 to make greater use of external financing led to a depletion of its foreign exchange reserves the following year as less autonomous capital entered the country.

(k) *Service payments on foreign capital and its ratio to income from exports of goods and services*

Latin America's policy of incurring debts by making increasing use of foreign capital has resulted in a rise in service payments which swallow up a steadily growing portion of income from exports. Between 1958 and 1968 income from exports of goods and services rose by an annual average of 4.7 per cent while total service payments on foreign capital (including interest, profits, amortization and depreciation) were up by 7.9 per cent, and whereas these payments represented 31.4 per cent of exports of goods and services in the period 1958–1962, they accounted for 37.2 per cent in 1968 (see table 24).

The ratio was even higher in Chile where it rose from 35 to 60 per cent; in Brazil where the figure was 43 per cent in 1968 after fluctuating previously between 50 and 66 per cent; and in Mexico where it climbed steadily to its present 50 per cent. On the other hand, the proportion dropped to 34 per cent in Uruguay, where it had varied between 13 and 43 per cent; the same happened in Costa Rica which ended up with a ratio of 29 per cent. In Colombia, where it had reached as high as 53 per cent, it fell to 31 per cent; in Argentina, it first rose to 39 per cent, then slipped to 29 per cent and finally climbed back to 37 per cent; and in Venezuela, where the proportion had been 40 per cent at the beginning of the period, it dropped to 30 per cent by the end.

In the remaining countries the percentage was below the Latin American average for the entire period, though towards the end it rose to 32 per cent in Peru and wavered between 30 and 18 per cent in Guatemala, Bolivia, Ecuador, the Dominican Republic, Nicaragua, Paraguay and Honduras. Only in Haiti, El Salvador and Panama did the figure drop to 10 per cent or less in the last few years.

As table 24 indicates, the share of export income taken up by service payments on foreign capital rose in Chile, Mexico and Peru, fell—but still remained relatively high—in Argentina, Brazil and Uruguay and dropped rather more appreciably in Costa Rica, Colombia and Venezuela. There were several reasons for this irregular pattern. In Chile, Mexico and Peru, the main cause was the sharp increase in service payments on foreign capital despite the fact that exports were twice as high, or very nearly. In Brazil, Venezuela and Uruguay, service payments declined at first and then settled at various levels, while in Argentina and Colombia they continued to drop. In Bolivia and Costa Rica, a boom in exports managed to offset the considerable increase in service payments on foreign capital. For the rest, the irregular trend of their ratio to exports was related to the various factors outlined above.

After so many years in which several Latin American countries have suffered from experience, the region as a whole still sticks to the traditional pattern of external indebtedness, i.e., it continues to depend on a steady flow of funds from abroad which, besides compensating for service payments on foreign capital, leaves some over for increasing the country's import capacity. The influx of external resources, however, is not constant and does not rise as quickly as the over-all service payments, with the result that a point is eventually reached when its contribution is in effect negative. At the same time, foreign capital investment naturally creates new import requirements. Furthermore, service payments on foreign capital rise faster than exports owing to the latter's dependency on primary products. This imbalance takes on major significance as soon as the flow of capital into a country is less than the service payments on that capital, since at that point the resources available for importing start to diminish, which in turn affects domestic growth. Consequently, it would appear that, if Latin America's capital inflow and external borrowing is to remain somewhere below its present danger level, its export trade will have to start depending less on primary products and more on manufactured goods.

5. Characteristics of intra-regional trade

The slow growth of Latin American exports, which has accounted for a continuous decline in the region's share of world trade,

Table 23. Latin America: financing the deficit on the
(Millions

	Net non-compensatory movements of capital	*Net compensatory movements (increase −)*	*Errors and omissions*	*Total net external financing*	*Net non-compensatory movements of capital*	*Net compensatory movements (increase −)*	*Errors and omissions*	*Total net external financing*	*Net non-compensatory movements of capital*
	Total (excluding Cuba)				*Argentina*				
1958–62	+829.9	+556.9	−237.4	+1,149.4	+325.1	+72.9	−135.2	+262.8	+204.2
1963–65	+1,068.5	−345.9	−203.1	+519.5	−93.7	−60.7	7.3	−161.7	+350.3
1966–68	+1,785.1	−280.4	+217.6	+1,722.3	−32.3	−207.0	+98.0	−141.3	+481.0
1967	+1,715.8	−408.7	+438.1	+1,745.2	−7.0	−439.0	+262.0	−184.0	+644.0
1968	+2,083.3	−429.2	+578.6	+2,232.7	+49.0	−144.0	+112.0	+17.0	+268.0
1969[a]	+2,937.9	−746.9	+12.2	+2,203.2	+103.0	+82.0	+2.0	+187.0	+665.0
	Bolivia				*Colombia*				
1958–62	+39.5	+1.0	−5.2	+35.3	+50.5	+3.5	+1.0	+55.0	+115.8
1963–65	+51.9	−12.0	−1.7	+38.2	+142.7	+2.0	−46.3	+98.4	+91.3
1966–68	+45.6	+1.1	−4.3	+42.4	+185.3	−24.0	+29.7	+191.0	+177.0
1967	+34.8	+8.0	−1.8	+41.0	+108.0	−70.0	+51.0	+89.0	+158.0
1968	+62.7	−0.2	−6.6	+55.9	+229.0	−53.0	+12.0	+188.0	+290.0
1969[a]	+61.9	−0.4	−5.4	+56.1	+252.0	−55.0	+62.0	+259.0	+182.0
	Peru				*Uruguay*				
1958–62	+51.7	−15.5	−2.0	+34.2	+28.8	+21.8	−9.1	+41.5	+5.8
1963–65	+77.7	+4.3	−4.7	+77.3	+10.4	+18.1	−47.8	−19.3	+5.8
1966–68	+124.3	+70.3	−25.7	+168.9	+17.5	−11.1	−25.1	−18.7	+3.5
1967	+172.0	+81.0	+19.0	+272.0	+10.8	+0.7	+4.1	+15.6	+1.6
1968	+21.0	+71.0	−96.0	−4.0	+35.7	−35.0	−22.8	−22.1	+7.6
1969[a]	+25.0	+55.0	−124.0	44.0	+26.7	−17.0	−15.0	−5.3	+4.5
	Costa Rica				*El Salvador*				
1958–62	+13.7	+3.5	+0.7	+17.9	+9.5	+4.4	−8.1	+5.8	+31.1
1963–65	+37.5	+5.9	−1.2	+42.2	+31.9	−10.1	−2.8	+19.0	+49.5
1966–68	+46.1	−6.8	+9.4	+48.7	+25.6	+4.1	—	+29.7	+35.7
1967	+55.5	−16.7	+15.7	+54.5	+30.1	+1.1	−3.6	+27.6	+49.1
1968	+39.6	−9.0	+13.7	+44.3	+16.2	−1.0	+2.1	+17.3	+54.4
1969[a]	+64.4	−21.1	+0.5	+43.8	+32.6	+5.4	−2.9	+35.1	+50.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.

contrasts with the rapid increase in intra-regional trade.

Between 1960 and 1968, trade between the Latin American countries grew—albeit sporadically—by 9.3 per cent a year (13.3 per cent if 1961 is taken as the first year of the period), and preliminary data available for 1969 show that growth was close to 13 per cent in that year (see table 25). These increases are more than twice the average annual growth of 4.2 per cent recorded by total Latin American exports in the period 1960–1968, and also exceed the 8.2 per cent growth rate of world trade.

The relative importance of intra-regional trade continues to be small, despite its rapid growth. Around 1960 intra-regional trade accounted for about 8 per cent of Latin American exports and the figure rose to slightly more than 12 per cent in 1968 and 1969. However, this proportion is still too small to precipitate the changes that are required in Latin American external trade if more sustained economic growth is to be achieved.[10] The intensification of intra-regional trade in Latin America could help to remove some of the obstacles impeding the region's external trade, reduce its excessive dependence on a few foreign markets and diversify exports. If exports of manufactures could be increased, it would be possible to take advantage of the more dynamic flows in world trade, and this would also have a beneficial effect on the economies of the exporting countries.

[10] Intra-regional trade in Western Europe accounted for 56 per cent of the total exports of the region in 1960, and 64 per cent in 1968.

balance-of-payments current account, 1958–62 to 1969
of dollars)

Net compensatory movements (increase –)	*Errors and omissions*	*Total net external financing*	*Net non-compensatory movements of capital*	*Net compensatory movements (increase –)*	*Errors and omissions*	*Total net external financing*	*Net non-compensatory movements of capital*	*Net compensatory movements (increase –)*	*Errors and omissions*	*Total net external financing*
Mexico			*Venezuela*				*Brazil*			
+11.3	+24.8	+240.3	−374.5	+220.5	−40.6	−194.6	+255.8	+170.0	−42.2	+383.6
−35.3	+46.3	+361.3	−36.7	−138.3	−38.0	−213.0	+172.0	−95.0	−108.0	−31.0
−45.7	+158.7	+594.0	+152.0	−52.3	−0.3	+99.4	+286.7	+16.0	−5.7	+297.0
−84.0	+87.0	+647.0	+115.0	−114.0	+31.0	+32.0	+166.0	+173.0	−35.0	+304.0
−71.0	+542.0	+739.0	+250.0	−65.0	+36.0	+221.0	+487.0	−4.0	+37.0	+520.0
−10.0	+77.0	+732.0	+352.0	−11.0	+19.0	+360.0	+855.0	−660.0	+38.0	+233.0
Chile			*Ecuador*				*Paraguay*			
+46.8	−1.3	+161.3	+14.4	−0.8	+0.1	+13.7	+11.1	+0.5	−0.9	+10.7
+1.3	+34.0	+126.6	+21.9	−1.1	+0.5	+21.3	+15.0	−3.6	−2.4	+9.0
−36.0	−31.0	+110.0	+53.7	−2.9	−7.0	+43.8	+27.4	−0.2	−4.6	+22.6
+34.0	−70.0	+122.0	+48.5	−8.9	−3.6	+36.0	+27.8	+0.2	−5.7	+22.3
−115.0	−35.0	+140.0	+67.3	+11.3	−3.6	+75.0	+30.8	+0.3	−2.3	+28.8
−112.0	−42.0	+28.0	+83.0	+2.4	−2.6	+82.8	+22.2	+1.5	+0.2	+23.9
Haiti			*Panama*				*Dominican Republic*			
+0.1	+4.4	+10.3	+35.2	—	+0.3	+35.5	+0.8	+7.8	−15.2	−6.6
+1.6	+4.0	+11.4	+37.6	—	−3.4	+34.2	+50.4	−0.4	−7.1	+42.9
−0.7	+2.8	+5.6	+33.4	—	+1.7	+35.1	+48.1	+9.6	+9.7	+67.4
+1.9	+1.1	+4.6	+37.6	—	−1.5	+36.1	+39.2	+5.2	+19.5	+63.9
−0.9	−5.1	+1.6	+24.2	—	−3.4	+20.8	+70.1	−7.1	+7.7	+70.7
−2.1	−1.0	+1.4	+11.0	—	+0.6	+11.6	+70.0	−1.5	0.0	+68.5
Guatemala			*Honduras*				*Nicaragua*			
+7.9	−6.8	+32.2	+1.8	+0.9	−0.1	+2.6	+9.6	+0.3	−2.0	+7.9
−6.4	−10.4	+32.7	+19.9	−3.6	−2.2	+14.1	+32.9	−12.8	−4.5	+15.6
+4.4	+3.6	+43.7	+26.3	−3.6	+5.0	+27.7	+48.3	+4.5	+2.6	+55.4
+2.6	+10.3	+62.0	+27.6	−1.4	+6.2	+32.4	+44.0	+17.6	+5.6	+67.2
+0.2	−6.3	+48.3	+31.0	−5.5	+2.4	+27.9	+49.7	−1.3	−5.2	+43.2
−9.3	+6.6	+47.3	+31.0	+2.5	+5.2	+38.7	+46.6	+3.7	6.0	+44.3

[a] ECLA estimates.

Latin America's external trade is centred on a few countries. Argentina, Brazil, Mexico and Venezuela account for two thirds of the region's exports and a similar proportion of imports. If Chile and Peru are included in this group of countries, the proportions rise to 80 and 74 per cent, respectively (see table 26).

There is a similar concentration—though in less pronounced form—in intra-regional trade. Argentina, Brazil and Venezuela account for 56 per cent of exports to the region, and Argentina, Brazil and Chile absorb more than half of intra-regional imports (see table 26, for the period 1967–1968). The degree of concentration has declined, mainly because of the rapid growth of trade among the Central American countries, and the falling off of Venezuelan exports to the region. In the early part of the 1960s, 68 per cent of imports went to Argentina, Brazil and Chile, and a similar proportion of exports came from Argentina, Brazil and Venezuela.

In 1953, ten countries had a share of less than 1 per cent of the region's exports.[11] The number of such countries fell to six in 1960–61 and to three (the Dominican Republic, Haiti and Panama) in 1968–1969, though in the latter period Bolivia and Ecuador had exports of barely more than 1 per cent of the regional total.

Trade among the five countries of the Central American Common Market (MCCA) increased by more than 30 per cent a year

[11] Bolivia, Colombia, Dominican Republic, Haiti, Panama, Paraguay and the Central American countries, except Honduras. See ECLA, *Study of Inter-Latin-American Trade* (United Nations publication, Sales No. 1956.II.G.3).

Table 24. Latin America: service payments on foreign capital and ratio of
(Millions of dollars

Year	Income from exports of goods and services[a]	Service payments on foreign capital[b]	Ratio of service payments to income from exports of goods and services	Income from exports of goods and services[a]	Service payments on foreign capital[b]	Ratio of service payments to income from exports of goods and services
	Total excluding Cuba			*Argentina*		
1958–62	9,545.3	3,002.0	31.4	1,221.3	271.1	22.2
1963	10,777.6	3,487.3	32.4	1,509.0	470.0	31.1
1964	11,622.2	3,760.1	32.4	1,572.0	563.0	35.8
1965	12,296.3	4,607.7	33.1	1,664.0	647.0	38.9
1966	13,051.6	4,667.4	35.8	1,798.0	647.0	36.0
1967	13,299.0	4,714.1	35.4	1,709.0	495.0	29.0
1968	14,210.5	5,292.1	37.2	1,607.0	586.0	36.5
	Bolivia			*Colombia*		
1958–62	63.2	17.0	26.9	597.0	179.1	30.0
1963	84.4	19.8	23.5	601.0	262.0	43.6
1964	111.6	32.8	29.4	757.0	191.0	25.2
1965	127.7	15.6	12.2	716.0	296.0	41.3
1966	147.0	32.5	22.1	667.0	232.0	34.8
1967	171.4	39.6	23.1	718.0	382.0	53.2
1968	171.8	44.8	26.1	799.0	252.0	31.2
	Peru			*Uruguay*		
1958–62	487.8	104.1	21.3	185.5	24.1	13.0
1963	636.0	139.0	21.9	208.8	48.0	23.0
1964	774.0	140.0	18.1	231.4	44.6	19.3
1965	781.0	153.0	19.6	252.9	87.9	34.8
1966	914.0	234.0	25.6	248.8	106.2	42.7
1967	897.0	218.0	24.3	219.4	91.4	41.7
1968	985.0	318.0	32.3	241.0	82.3	34.2
	Costa Rica			*El Salvador*		
1958–62	106.0	14.1	13.3	131.5	16.3	12.4
1963	122.3	25.7	21.0	170.9	11.2	6.5
1964	141.6	30.9	21.8	199.6	15.1	7.6
1965	142.8	59.7	41.8	226.0	22.6	19.5
1966	169.5	66.7	39.3	220.6	32.0	14.5
1967	179.0	69.5	38.8	240.9	17.3	7.2
1968	211.3	61.7	29.2	246.0	19.1	7.8

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 15, 20 and 21.
[a] Including "Private transfer payments".

between 1963 and 1967, compared with an average annual growth rate of 9.7 per cent for the ALALC countries. However, trade among the MCCA countries is equivalent to 18 per cent of the intra-regional total, while trade among the ALALC countries accounts for about 73 per cent. These figures reflect the high concentration of trade in a few member countries of ALALC, a situation which existed before the formation of the Association.

Between 1960 and 1968, exports to the Latin American area grew by 8.8 per cent annually in the countries of ALALC and 6.4 times among the Central American countries. According to incomplete preliminary information, Latin American exports within the region increased by 13 per cent in 1969, an outstanding growth rate (16 per cent) being achieved by the member states of ALALC, as a result of increases of 19 per cent in Venezuela (mainly exported to Argentina and Brazil), 44 per cent in Chile and 46 per cent in Colombia. In contrast, it is estimated that MCCA exports to Latin America showed no rise in 1969, owing to the conflict between El Salvador and Honduras, which impeded trade between the Central American countries and the rest of the region (see table 27).

Thus, during the period under consideration, the ALALC countries' share of intra-regional

service payments to income from exports of goods and services, 1958–62 to 1969
and percentages)

Income from exports of goods and services[a]	*Service payments on foreign capital*[b]	*Ratio of service payments to income from exports of goods and services*	*Income from exports of goods and services*[a]	*Service payments on foreign capital*[b]	*Ratio of service payments to income from exports of goods and services*	*Income from exports of goods and services*[a]	*Service payments on foreign capital*[b]	*Ratio of service payments to income from exports of goods and services*
Mexico			*Venezuela*			*Brazil*		
1,381.2	413.8	30.0	2,560.8	1,013.3	39.6	1,443.8	623.8	43.2
1,704.0	506.0	29.7	2,556.0	857.0	33.5	1,527.0	631.0	41.3
1,809.0	707.0	39.1	2,585.0	807.0	31.2	1,575.0	647.0	41.1
1,956.0	723.0	37.0	2,569.0	780.0	30.4	1,798.0	1,189.0	66.1
2,113.0	872.0	41.3	2,482.0	794.0	32.0	1,937.0	954.0	49.2
2,185.0	972.0	44.5	2,623.0	798.0	30.4	1,915.0	950.0	49.6
2,503.0	1,253.0	50.1	2,680.0	809.0	30.2	2,140.0	924.0	43.2
Chile			*Ecuador*			*Paraguay*		
517.9	182.8	35.3	152.5	36.9	24.2	46.0	6.4	13.9
568.0	362.0	63.7	166.1	32.4	19.5	47.9	6.8	14.2
691.0	382.0	55.3	180.3	37.4	20.7	52.0	7.0	13.5
798.0	405.0	50.7	198.9	37.5	18.8	68.1	10.4	15.3
987.0	430.0	43.6	206.2	37.4	18.1	66.2	11.9	18.0
994.0	401.0	40.3	223.2	38.4	17.2	64.8	15.6	24.1
1,035.0	634.0	61.3	230.7	56.4	24.4	70.8	12.9	18.2
Haiti			*Panama*			*Dominican Republic*		
54.0	7.4	13.7	134.6	18.0	13.4	163.7	38.0	23.2
60.1	8.8	14.6	198.9	14.0	7.0	211.6	37.8	17.9
53.6	10.5	19.6	205.9	12.7	6.2	218.1	49.8	22.8
55.8	8.4	15.0	232.5	25.5	11.0	158.9	62.7	39.5
61.3	10.4	17.0	257.5	28.5	11.1	170.9	45.5	26.6
59.4	5.2	8.8	302.7	37.5	12.4	191.6	42.8	22.3
61.5	4.3	7.0	334.9	38.1	11.4	212.0	42.3	20.0
Guatemala			*Honduras*			*Nicaragua*		
129.1	13.6	10.5	79.5	11.7	14.7	89.9	10.5	11.7
184.7	25.4	13.7	91.8	13.0	14.2	129.1	17.4	13.5
208.3	43.3	20.8	105.0	14.9	14.2	151.8	24.1	15.9
233.8	42.1	18.0	140.5	20.8	14.8	176.4	21.5	12.2
268.3	83.8	31.2	160.0	23.5	14.7	177.3	26.0	14.7
243.8	65.3	26.8	174.4	33.3	19.1	187.4	42.2	22.5
280.6	80.8	28.8	203.2	35.0	17.2	197.7	38.4	19.4

[b] Including amortization of long-, medium- and short-term compensatory and non-compensatory loans, depreciation of direct investment, interest on loans and profits from foreign investment.

exports grew from 8 to 12 per cent, and the share of the Central American countries rose from 9 to 26 per cent.

The exports of Colombia and Uruguay to the region grew fivefold, while those of Mexico were doubled. However, the increase of Argentina's share of intra-regional exports (from 12 to 25 per cent) more directly influenced the trade figures of the region because of its greater relative importance. In 1969, only Bolivia, Ecuador and Peru directed a relatively smaller volume of their exports to the region than in 1960–1961.

Of the Central American countries, Honduras' share of exports to the Latin American countries fell; those of Nicaragua, Guatemala, Costa Rica and El Salvador increased sixfold, fivefold and threefold, respectively.

The share of the member countries of ALALC in intra-regional imports increased from 9 to 13 per cent, while that of the Central American countries rose from 11 to 29 per cent (see table 28). As in the case of exports, there were notable increases in imports from within the region in some countries, while other countries recorded a decline. Rises or falls in exports to the region did not always coincide with similar movements in imports, and this accounts for the accumulation of intra-regional

Table 25. Latin America: trends in intraregional trade for selected years, 1934–38 to 1969
(Millions of dollars)

Period	World trade	Latin American exports	Latin American imports	Intraregional exports	Percentage ratios (2)/(1)	Percentage ratios (3)/(1)	Percentage ratios (4)/(2)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1934–38 average	20,358	1,923	1,358	113	9.4	6.7	5.9
1946–51 average	52,662	6,147	5,754	581	11.7	10.9	9.5
1952–53 average	74,405	7,364	6,929	661	9.9	9.3	9.0
1960	127,400	8,030	7,550	670	6.3	5.9	8.3
1961	133,090	8,060	7,797	572	6.1	5.9	7.1
1962	141,410	8,621	8,019	643	6.1	5.7	7.5
1963	153,860	9,220	7,853	741	6.0	5.1	8.0
1964	172,160	9,977	8,572	958	5.8	5.0	9.6
1965	186,390	10,512	8,846	1,082	5.6	4.7	10.3
1966	203,400	11,135	9,753	1,169	5.5	4.8	10.5
1967	214,190	11,001	9,952	1,166	5.1	4.6	10.6
1968	238,750	11,197	11,204	1,368	4.7	4.7	12.2
1969[a]	272,050	12,535	11,929	1,544	4.6	4.4	12.3
Growth rates							
1960–68	8.2	4.2	5.1	9.3			
1960–65	7.9	5.5	3.2	10.1			
1965–68	8.6	2.1	8.2	8.1			
1969	13.9	11.9	6.5	12.9			

SOURCE: ECLA, *Study of Inter-Latin-American Trade* (United Nations publication, Sales No. 1956.II.G.3); United Nations, *Monthly Bulletin of Statistics*, and official statistics supplied by the Latin American countries.

Note: In column (I), the figures for the years prior to 1960 do not cover the trade of Albania, Bulgaria, Continental China, Czechoslovakia, East Germany, Hungary, Poland, Rumania and the Soviet Union. Columns (2), (3) and (4) exclude Cuba from 1960.

[a] Estimates. The value of intraregional exports was estimated on the basis of preliminary official statistics supplied by the countries and is higher than the estimate for 1969 which appears in the United Nations, *Monthly Bulletin of Statistics* for June 1970.

Table 26. Concentration of intraregional trade, average for 1967–1968
Percentage shares of the countries in the total value of Latin American exports and imports to and from the region

Country	Exports[a] To the region	Exports[a] To the world	Country	Imports[a] From the region	Imports[a] From the world
Argentina	24.6	12.8	Argentina	18.8	10.7
Venezuela	17.0	24.1	Brazil	18.4	18.0
Brazil	14.2	15.9	Chile	13.2	6.9
Mexico	7.3	10.8	Peru	7.5	6.8
Chile	7.0	8.4	El Salvador	5.3	2.1
El Salvador	6.6	1.9	Nicaragua	4.2	1.8
Guatemala	5.1	2.0	Panama	4.0	2.4
Peru	3.6	7.4	Costa Rica	3.9	1.9
Costa Rica	2.8	1.4	Colombia	3.8	5.4
Colombia	2.8	4.8	Guatemala	3.7	2.3
Honduras	2.0	1.5	Mexico	3.4	17.5
Nicaragua	1.8	1.4	Honduras	3.2	1.7
Uruguay	1.4	1.5	Uruguay	3.1	1.6
Ecuador	1.2	1.7	Venezuela	2.9	14.5
Paraguay	1.2	0.4	Ecuador	1.9	2.1
Bolivia	1.1	1.5	Bolivia	1.3	1.4
Panama	0.2	0.8	Paraguay	0.9	0.6
Dominican Republic	0.1	1.4	Dominican Republic	0.5	1.9
Haiti	—	0.3	Haiti	—	0.4
TOTAL	*100.0*	*100.0*	TOTAL	*100.0*	*100.0*

SOURCE: IMF, *Direction of Trade*, 1963–1967 and 1969. Official external trade statistics.

[a] Not including Cuba.

Table 27. Latin America: exports to the region and the world, 1960–61 and 1967–1969

(*Values in millions of dollars, f.o.b. and percentage ratios*)

Exporting countries	*Average, 1960–61*			*1967*			*1968*			*1969*[a]		
	To Latin America	*To the world*	*Percentages*	*To Latin America*	*To the world*	*Percentages*	*To Latin America*	*To the world*	*Percentages*	*To Latin America*	*To the world*	*Percentages*
Argentina	142	1,022	13.9	284	1,465	19.4	340	1,368	24.9	368	1,535	24.0
Bolivia	7	72	9.7	14	171	8.2	14	160	8.8	16	173	9.2
Brazil	93	1,337	7.0	162	1,655	9.8	196	1,881	10.4	218	2,260	9.6
Chile	42	499	8.4	84	913	9.2	93	941	9.9	121	978	12.4
Colombia	9	450	2.0	29	510	5.7	44	558	7.9	64	590	10.8
Ecuador	8	101	7.9	15	158	9.5	15	220	6.8	15	209	7.2
Mexico	26	795	3.3	87	1,143	7.6	97	1,254	7.7	118	1,960	6.0
Paraguay	9	29	31.0	14	48	29.2	15	48	31.3	19	51	37.3
Peru	40	464	8.6	40	774	5.2	52	866	6.0	59	866	6.8
Uruguay	4	152	2.6	18	159	11.3	19	179	10.6	24	185	13.0
Venezuela	200	2,464	8.1	207	2,870	7.2	223	2,475	9.0	266	2,431	10.9
Total, ALALC	*580*	*7,385*	*7.9*	*954*	*9,866*	*9.7*	*1,108*	*9,950*	*11.1*	*1,288*	*11,238*	*11.5*
Costa Rica	5	84	6.0	32	143	22.4	42	172	24.4	50	195	25.6
El Salvador	14	118	11.9	79	207	38.2	86	212	40.6	67	198	33.8
Guatemala	7	112	6.3	58	197	29.4	73	241	30.3	80	255	31.4
Honduras	12	66	18.2	22	156	14.1	28	180	15.6	26	174	14.9
Nicaragua	2	65	3.1	19	152	12.5	27	149	18.1	30	151	19.9
Total, Central American Common Market	*40*	*445*	*9.0*	*210*	*855*	*24.6*	*256*	*954*	*26.8*	*253*	*973*	*26.0*
Haiti	—	34	—	—	40	—	...	36	...	...	34	...
Panama	—	20	—	1	84	1.2	3	94	3.2	3	110	2.7
Dominican Republic	1	162	0.6	1	156	0.6	1	163	0.6	1	180	0.6
TOTAL, *Latin America*	*621*	*8,046*	*7.7*	*1,166*	*11,001*	*10.6*	*1,368*	*11,197*	*12.2*	*1,545*	*12,535*	*12.3*

SOURCE: United Nations, *Monthly Bulletin of Statistics*, November 1967 and December 1969. IMF, *Direction of Trade*, annual 1960–1964 and 1963–1967; official data from the countries.

[a] Estimates.

Table 28. Latin America: imports from the region and the world, 1960–61 and 1967–1969

(*Values in millions of dollars, c.i.f. and percentage ratios*)

Importing countries	*Average, 1960–61*			*1967*			*1968*			*1969*[a]		
	From Latin America	*From the world*	*Percentages*	*From Latin America*	*From the world*	*Percentages*	*From Latin America*	*From the world*	*Percentages*	*From Latin America*	*From the world*	*Percentages*
Argentina	200	1,355	14.8	257	1,096	23.4	278	1,169	23.8	369	1,500	24.6
Bolivia	12	74	16.2	17	151	11.3	19	152	12.5	26	134	19.4
Brazil	187	1,462	12.8	229	1,670	13.7	292	2,132	13.7	288	2,254	12.8
Chile	95	544	17.5	192	726	26.4	182	743	24.5	221	888	24.9
Colombia	23	526	4.4	50	496	10.1	58	643	9.0	66	677	9.7
Ecuador	3	102	2.9	29	209	13.9	24	245	9.8	38	266	14.3
Mexico	12	1,162	1.0	45	1,748	2.6	51	1,960	2.6	63	2,036	3.1
Paraguay	8	30	26.7	13	58	22.4	13	73	17.8	17	82	20.7
Peru	34	421	8.1	103	813	12.7	108	630	17.1	107	601	17.8
Uruguay	58	226	25.7	47	172	27.3	42	165	25.5	47	170	27.6
Venezuela	22	1,027	2.1	38	1,343	2.8	45	1,697	2.7	69	1,628	4.2
Total, ALALC	*654*	*6,929*	*9.4*	*1,020*	*8,482*	*12.0*	*1,112*	*9,609*	*11.6*	*1,311*	*10,236*	*12.8*
Costa Rica	9	108	8.3	45	189	23.8	66	214	30.8	65	240	27.1
El Salvador	18	115	15.7	67	224	29.9	82	216	38.0	81	229	35.4
Guatemala	12	136	9.5	54	248	21.8	51	247	20.6	66	277	23.8
Honduras	7	72	9.7	41	165	24.8	50	185	27.0	49	178	27.5
Nicaragua	7	73	9.6	57	204	27.9	63	183	34.4	58	180	32.2
Total, Central American Common Market	*53*	*504*	*10.5*	*264*	*1,030*	*25.6*	*312*	*1,045*	*29.9*	*319*	*1,104*	*28.9*
Haiti	—	44	—	1	38	2.6	...	37	...	...	37	...
Panama	2	116	1.7	53	227	23.3	62	287	21.6	72	310	23.2
Dominican Republic	—	79	—	3	175	1.7	11	226	4.9	11	242	4.5
TOTAL, *Latin America*	*709*	*7,672*	*9.2*	*1,341*	*9,952*	*13.5*	*1,497*	*11,204*	*13.4*	*1,713*	*11,929*	*14.4*

SOURCE: United Nations, *Monthly Bulletin of Statistics*, November 1967 and December 1969. IMF, *Direction of Trade*, annual 1960–1964 and 1963–1967; official data from the countries.

[a] Estimates.

trade deficits or surpluses by the individual countries.

In both regional markets the most important trade flows occur between a few pairs of countries. This is particularly true of ALALC, whose members vary widely as regards size, degree of development, potential supply and size of markets. Thus, trade between Argentina and Brazil—in both directions—represents 26 per cent of the total value of trade within ALALC. The proportion of trade between Argentina and Chile is 14 per cent, and it is 6 per cent between Argentina and Peru, and between Venezuela and Brazil (see tables 29 and 30). On the other hand, trade between the five countries forming the Andean subregional market accounted for only 7.2 per cent of total trade within ALALC in 1969.

Within the MCCA, the greatest amount of reciprocal trade is carried out between El Salvador and Guatemala (about 25 per cent) and between El Salvador and Honduras (15 per cent), at least until the conflict between these two countries. The other bilateral trade flows account for between 6 and 10 per cent, with the exception of those between Costa Rica and Honduras, and between Honduras and Nicaragua, which are smaller.

In addition to the intensification of internal trade within Latin America, the 1960s saw a trend towards a greater balance in the trade among the countries of the region. Trade surpluses and deficits declined. Expressed as a proportion of the total value of intra-regional trade, deficits fell from 37 per cent in 1960–1961, to 25 per cent in 1968, and an estimated 19 per cent in 1969. Argentina, Mexico and Uruguay have notably improved their trade-balance position and Brazil's trade deficit has also showed a significant decline, but continues to be high because of the size of the deficit in respect of trade with Venezuela (see tables 31 and 32).

Owing to exports of fuels (mainly to Argentina, Brazil, Chile and Panama), in 1969 Venezuela recorded a surplus of 200 million dollars in its trade with the region, equivalent to 60 per cent of the total balance. No substantial variations were recorded in the trade balances of the other South American countries.

With the exception of Guatemala, the trade position of the Central American countries with the rest of Latin America deteriorated by nearly 60 million dollars (compared with the position at the beginning of the 1960s). Guatemala, on the other hand, improved its trade balance over the same period (by 25 million dollars). In recent years, El Salvador has also recorded surpluses in its trade within the MCCA (at the expense of the trade balances of Costa Rica, Honduras and Nicaragua); but it has a deficit on trade with Venezuela and Mexico (see table 33). There were also notable increases in the trade deficits of Panama (which started the 1960s with a surplus), owing to imports of petroleum from Venezuela and the Dominican Republic.

One of the most obvious objectives of Latin American integration policy is to bring about the expansion of the market for manufactures produced in the region. In this connexion, while total regional trade doubled between 1960 and 1968, trade in manufactures[12] increased six-fold, though starting from a very low level, equivalent to 10 per cent of regional trade. This proportion rose to 36 per cent in 1968, that is, to a value of 500 million dollars, which represents only 5.5 per cent of total Latin American imports of manufactures and semi-manufactures (see table 34).

These figures show the small share of import substitution in intra-regional trade and prove that there is much room for expansion of regional trade. Despite its rapid rise, inter-Latin-American trade in manufactures also did not greatly influence the increase in total Latin American exports of manufactures, which increased by 250 per cent between 1960 and 1968 (110 per cent, if intra-regional trade is excluded).

In the countries of the MCCA, trade in manufactures (and semi-manufactures) has largely replaced the traditional trade in primary products. In 1967, two thirds of intra-area trade was carried out in manufactures and semi-manufactures, and intra-area imports accounted for 76 per cent of the area total. In barely four years, considerable progress has been made in replacing imports of manufactures. Thus, between 1963 and 1967, the proportion of imports of manufactures and semi-manufactures originating within the area increased from 7.1 to 17.6 per cent (see table 35).

Reciprocal trade in manufactures among the ALALC countries increased 2.7 times between 1963 and 1967; however, the volume of such trade continues to be low, its share in the total value of imports of manufactures and semi-manufactures by the ALALC countries having risen from 1.9 per cent in 1963 to 3.9 per cent in 1967 (see table 36).

[12] Covers sections 5 to 8 of the SITC classification: chemicals, machinery and miscellaneous manufactured articles.

Table 29. Latin America: total
(c.i.f. import values

Importing country \ Country of origin	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru
Argentina	X	1.4	138.5	49.1	5.5	3.6	11.2	13.6	13.9
Bolivia	10.1	X	2.7	1.8	0.4	—	0.4	—	2.0
Brazil	152.9	0.4	X	20.9	2.9	0.4	18.4	0.4	6.8
Chile	80.0	1.4	19.3	X	3.0	9.5	26.5	1.2	6.6
Colombia	12.3	—	1.7	4.2	X	7.0	7.6	—	6.2
Ecuador	1.1	—	0.1	2.3	6.1	X	1.3	0.2	1.3
Mexico	11.0	1.9	9.3	8.6	0.7	0.6	X	0.1	8.6
Paraguay	12.1	—	—	—	—	—	—	X	—
Peru	66.0	0.2	3.8	6.9	8.5	2.8	5.8	0.2	X
Uruguay	15.3	0.1	15.0	2.8	0.1	0.1	1.6	3.0	1.0
Venezuela	7.0	—	4.7	5.2	6.2	0.3	13.8	—	6.1
Costa Rica	0.2	—	—	—	2.1	—	4.7	—	—
El Salvador	—	—	—	1.3	0.8	—	4.0	—	—
Guatemala	0.2	—	0.2	0.1	0.6	—	6.6	—	0.2
Honduras	—	—	—	—	—	—	1.5	—	—
Nicaragua	0.2	—	—	—	1.2	—	3.5	—	—
Cuba	...	...	...	...	...	...	...	...	...
Haiti	...	...	...	...	...	...	...	...	...
Panama	0.4	—	—	0.6	2.9	—	2.0	—	—
Dominican Republic	—	—	—	—	0.3	—	0.7	—	—
TOTAL, *Latin America*	*368.8*	*5.4*	*195.3*	*103.8*	*41.3*	*24.3*	*109.6*	*18.7*	*52.7*

SOURCE: IMF, *Direction of Trade*, 1969, and official foreign trade statistics.

Table 30. Latin America: total
(Values c.i.f. in

Importing country \ Country of origin	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru
Argentina	X	11.2	173.6	71.3	9.7	5.4	22.0	15.1	14.0
Bolivia	14.6	X	3.1	2.6	0.4	0.1	0.5	—	2.7
Brazil	156.1	1.0	X	22.2	2.1	0.7	16.0	0.3	8.0
Chile	103.5	1.6	27.4	X	4.0	12.3	17.6	1.3	10.8
Colombia	7.5	—	3.4	5.3	X	4.4	18.5	0.2	7.9
Ecuador	2.9	—	0.4	2.9	12.8	X	1.0	0.4	1.5
Mexico	12.4	1.3	11.5	8.3	0.6	0.8	X	0.4	11.0
Paraguay	13.6	—	1.8	0.2	0.1	0.1	0.3	X	—
Peru	62.0	0.2	4.0	5.5	13.3	2.8	6.5	0.3	X
Uruguay	17.6	0.1	17.3	2.5	0.2	0.1	0.9	4.1	0.9
Venezuela	12.0	—	5.8	5.5	8.8	—	24.6	—	6.9
Costa Rica	0.2	—	—	—	2.1	—	4.7	—	—
El Salvador	—	—	—	1.3	0.8	—	4.0	—	—
Guatemala	0.2	—	0.2	0.1	0.6	—	6.6	—	0.2
Honduras	—	—	—	—	—	—	1.5	—	—
Nicaragua	0.2	—	—	—	1.2	—	3.5	—	—
Cuba	...	...	...	...	...	...	...	...	...
Haiti	...	...	...	...	...	...	...	...	...
Panama	0.4	—	—	0.6	2.9	—	2.0	—	—
Dominican Republic	—	—	—	—	0.3	—	0.7	—	—
TOTAL, *Latin America*	*403.2*	*15.4*	*248.5*	*128.3*	*59.9*	*26.7*	*130.9*	*22.1*	*63.9*

SOURCE: Official foreign trade statistics.

value of intraregional trade, 1968
in millions of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Cuba*	*Haiti*	*Panama*	*Dominican Republic*	*Total Latin America*
3.5	35.0	—	—	—	—	—	—	—	2.5	—	277.8
0.1	0.2	—	—	—	—	—	—	—	1.2	—	18.9
7.4	66.7	—	—	—	—	—	—	—	15.0	—	292.2
1.6	28.9	—	—	—	—	—	—	—	3.8	—	181.8
4.4	4.5	—	—	—	—	—	—	—	10.1	0.3	58.3
0.1	11.9	—	—	—	—	—	—	—	—	—	24.4
1.9	0.1	1.1	0.1	0.8	—	—	—	—	6.0	—	50.8
0.6	—	—	—	—	—	—	—	—	—	—	12.7
4.4	9.9	—	—	—	—	—	—	—	0.1	—	108.6
X	2.9	—	—	—	—	—	0.3	—	—	0.2	42.4
0.2	X	0.5	—	—	—	0.2	—	—	0.8	0.2	45.2
—	6.2	X	16.2	15.8	5.3	11.8	—	—	3.3	—	65.6
—	10.3	9.0	X	34.9	15.1	7.1	—	—	—	—	8.25
—	1.4	6.7	26.3	X	5.7	2.5	—	—	0.4	—	50.9
—	—	6.5	22.9	14.2	X	4.8	—	—	—	—	49.9
—	6.2	14.2	14.9	13.0	4.1	X	—	—	5.3	—	62.6
...	...	...	...	...	...	...	X	...	...	...	...
...	...	...	...	...	...	...	...	X	...	...	...
—	49.9	3.9	—	0.8	0.9	0.4	—	—	X	—	61.8
—	3.9	—	0.1	0.2	3.5	0.5	—	0.4	1.2	X	10.8
24.2	*238.0*	*41.9*	*80.5*	*79.7*	*34.6*	*27.3*	*0.3*	*0.4*	*49.7*	*0.7*	*1,497.2*

value of intraregional trade, 1969
millions of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Cuba*	*Haiti*	*Panama*	*Dominican Republic*	*Total Latin America*
3.6	40.7	—	—	—	—	—	—	—	2.5	0.3	369.4
0.1	0.2	—	—	—	—	0.9	—	—	0.9	—	26.1
10.0	63.6	—	—	—	—	—	—	—	7.5	—	287.5
4.2	35.0	—	—	—	—	—	—	—	2.8	—	220.5
4.3	9.0	—	—	—	—	—	—	—	5.0	0.1	65.6
0.1	15.8	...	...	...	...	...	...	...	...	...	37.8
1.6	4.1	1.3	0.1	1.0	0.1	0.1	—	—	7.9	—	62.5
1.0	—	—	—	—	—	—	—	—	0.2	—	17.3
2.4	9.4	—	—	—	—	—	—	—	0.6	—	107.0
X	3.0	—	—	—	—	—	—	—	0.2	0.2	47.1
0.6	X	0.2	0.1	0.1	0.7	1.8	—	—	1.5	0.3	68.9
—	6.2	X	16.8	12.7	6.2	12.8	—	—	3.3	—	65.0
—	10.3	9.6	X	41.0	8.0	6.4	—	—	—	—	81.4
—	1.4	11.0	32.8	X	8.2	4.3	—	—	0.4	—	66.0
—	—	9.3	13.6	19.5	X	5.5	—	—	—	—	49.4
—	6.2	13.0	10.4	13.1	4.8	X	—	—	5.3	—	57.7
...	...	...	...	...	...	...	X	...	...	...	...
...	...	...	...	...	...	...	...	X	...	...	...
—	60.0	3.9	—	0.8	0.9	0.4	—	—	X	—	71.9
—	3.9	—	0.1	0.2	3.5	0.5	—	0.4	1.2	X	10.8
27.9	*268.8*	*48.3*	*73.9*	*88.4*	*32.4*	*32.7*	—	*0.4*	*39.3*	*0.9*	*1,711.9*

Note: Preliminary data and estimates based on partial figures.

Table 31. Latin America:
(Millions

	Argentina	*Bolivia*	*Brazil*	*Chile*	*Colombia*	*Ecuador*	*Mexico*	*Paraguay*	*Peru*
Argentina	X	−8.7	−14.4	−30.9	−6.8	+2.5	+0.2	+1.5	−52.1
Bolivia	+8.7	X	+2.3	+0.4	+0.4	—	−1.5	—	+1.8
Brazil	+14.4	−2.3	X	+1.6	+1.2	+0.3	+9.1	+0.4	+3.0
Chile	+30.9	−0.4	−1.6	X	−1.2	−7.2	+17.9	+1.2	−0.3
Colombia	+6.8	−0.4	−1.2	+1.2	X	+0.9	+6.9	—	−2.3
Ecuador	−2.5	—	−0.3	−7.2	−0.9	X	+0.7	+0.2	−1.5
Mexico	−0.2	+1.5	−9.1	−17.9	−6.9	−0.7	X	+0.1	+2.8
Paraguay	−1.5	—	−0.4	−1.2	—	−0.2	−0.1	X	−0.2
Peru	+52.1	−1.8	−3.0	+0.3	+2.3	+1.5	−2.8	+0.2	X
Uruguay	+11.8	—	+7.6	+1.2	−4.3	—	−0.3	+2.4	−3.4
Venezuela	−28.0	−0.2	−62.0	−23.7	+1.7	−11.6	+13.7	—	−3.8
Costa Rica	+0.2	—	—	—	+2.1	—	+3.6	—	—
El Salvador	—	—	—	+1.3	+0.8	—	+3.9	—	—
Guatemala	+0.2	—	+0.2	+0.1	+0.6	—	+5.8	—	+0.2
Honduras	—	—	—	—	—	—	+1.5	—	—
Nicaragua	+0.2	—	—	—	+1.2	—	+3.5	—	—
Cuba	—	—	—	—	—	—	—	—	—
Haiti	—	—	—	—	—	—	—	—	—
Panama	−2.1	−1.2	−15.0	−3.2	−7.2	—	−4.0	—	−0.1
Dominican Republic	—	—	—	—	—	—	+0.7	—	—
Positive balances	+125.3	+1.5	+10.1	+6.1	+10.3	+12.4	+67.5	+6.0	+7.8
Negative balances	−34.3	−15.0	−107.0	−84.1	−27.3	−12.5	−8.7	—	−63.7
Net balances	*+91.0*	*−13.5*	*−96.9*	*−78.0*	*−17.0*	*−0.1*	*+58.8*	*+6.0*	*−55.9*

SOURCE: IMF, *Direction of Trade*, 1969 and official foreign trade statistics.

Table 32. Latin America:
(Millions

	Argentina	*Bolivia*	*Brazil*	*Chile*	*Colombia*	*Ecuador*	*Mexico*	*Paraguay*	*Peru*
Argentina	X	−3.4	+17.5	−32.2	+2.2	+2.5	+9.6	+1.5	−48.0
Bolivia	+3.4	X	+2.1	+1.0	+0.4	+0.1	−0.8	—	+2.5
Brazil	−17.5	−2.1	X	−5.2	−1.3	+0.3	+4.5	−1.5	+4.0
Chile	+32.2	−1.0	+5.2	X	−1.3	+9.4	+9.3	+1.1	+5.3
Colombia	−2.2	−0.4	+1.3	+1.3	X	−8.4	+17.9	+0.1	−5.4
Ecuador	−2.5	−0.1	−0.3	−9.4	+8.4	X	+0.2	+0.3	−1.3
Mexico	−9.6	+0.8	−4.5	−9.3	−17.9	−0.2	X	+0.1	+4.5
Paraguay	−1.5	—	+1.5	−1.1	−0.1	−0.3	−0.1	X	−0.3
Peru	+48.0	−2.5	−4.0	−5.3	+5.4	+1.3	−4.5	+0.3	X
Uruguay	+14.0	—	+7.3	−1.7	−4.1	—	−0.7	+3.1	−1.5
Venezuela	−28.7	−0.2	−57.8	−29.5	−0.2	−15.8	+20.5	—	−2.5
Costa Rica	+0.2	—	—	—	+2.1	—	+3.4	—	—
El Salvador	—	—	—	+1.3	+0.8	—	+3.9	—	—
Guatemala	+0.2	—	+0.2	+0.1	+0.6	—	+5.6	—	+0.2
Honduras	—	—	—	—	—	—	+1.4	—	—
Nicaragua	+0.2	−0.9	—	—	+1.2	—	+3.4	—	—
Cuba	...	...	...	...	...	...	...	...	...
Haiti	...	...	...	...	...	...	...	...	...
Panama	−2.1	−0.9	−7.5	−2.2	−2.1	—	−5.9	−0.2	−0.6
Dominican Republic	−0.3	—	—	—	+0.2	—	+0.7	—	—
Positive balances	+98.2	+0.8	+35.1	+3.7	+21.3	+13.6	+80.4	+6.5	+16.5
Negative balances	−64.4	−11.5	−74.1	−95.9	−27.0	−24.7	−12.0	−1.7	−59.6
Net balances	*+33.8*	*−10.7*	*−39.0*	*−92.2*	*−5.7*	*−11.1*	*+68.4*	*+4.8*	*−43.1*

SOURCE: Official foreign trade statistics.

intraregional trade balances, 1968
of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Cuba*	*Haiti*	*Panama*	*Dominican Republic*
−11.8	+28.0	−0.2	—	−0.2	—	−0.2	—	—	+2.1	—
—	+0.2	—	—	—	—	—	—	—	+1.2	—
−7.6	+62.0	—	—	−0.2	—	—	—	—	+15.0	—
−1.2	+23.7	—	1.3	−0.1	—	—	—	—	+3.2	—
+4.3	−1.7	−2.1	−0.8	−0.6	—	−1.2	—	—	+7.2	—
—	+11.6	—	—	—	—	—	—	—	—	—
+0.3	−13.7	−3.6	−3.9	−5.8	−1.5	−3.5	—	—	+4.0	−0.7
−2.4	—	—	—	—	—	—	—	—	—	—
+3.4	+3.8	—	—	−0.2	—	—	—	—	+0.1	—
X	+2.7	—	—	—	—	—	+0.3	—	—	+0.2
−2.7	X	−5.7	−10.3	−1.4	—	−6.0	—	—	−49.1	−3.7
—	+5.7	X	+7.2	+9.1	−1.2	−2.4	—	—	−0.6	—
—	+10.3	−7.2	X	+8.6	−7.8	−7.8	—	—	—	−0.1
—	+1.4	−9.1	−8.6	X	−8.5	−10.5	—	—	−0.4	−0.2
—	—	+1.2	+7.8	+8.5	X	+0.7	—	—	−0.9	−3.5
—	+6.0	+2.4	+7.8	+10.5	−0.7	X	—	—	+4.9	−0.5
−0.3	—	—	—	—	—	—	X	—	—	—
—	—	—	—	—	—	—	—	X	—	−0.4
—	+49.1	+0.6	—	+0.4	+0.9	−4.9	—	—	X	−1.2
−0.2	+3.7	—	+0.1	+0.2	+3.5	+0.5	—	+0.4	+1.2	X
+8.0	+208.2	+4.2	+22.9	+37.5	+4.4	+1.2	+0.3	+0.4	+38.9	+0.2
−26.2	−15.4	−27.9	−24.9	−8.3	−19.7	−36.5	—	—	−51.0	−10.3
−18.2	*+192.8*	*−23.7*	*−2.0*	*+28.8*	*−15.3*	*−35.3*	*+0.3*	*+0.4*	*−12.1*	*−10.1*

Note: The balances were determined on the basis of the c.i.f. import values. The signs (+)(−) correspond to the countries at the heads of the columns.

intraregional trade balances, 1969
of dollars)

Uruguay	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Cuba*	*Haiti*	*Panama*	*Dominican Republic*
−14.0	+28.7	−0.2	—	−0.2	—	−0.2	...	...	+2.1	+0.3
—	+0.2	—	—	—	—	+0.9	...	...	+0.9	—
−7.3	+57.8	—	—	−0.2	—	—	...	...	+7.5	—
+1.7	+29.5	—	−1.3	−0.1	—	—	...	...	+2.2	—
+4.1	+0.2	−2.1	−0.8	−0.6	—	−1.2	...	...	+2.1	−0.2
—	+15.8	—	—	—	—	—	...	...	—	—
+0.7	−20.5	−3.4	−3.9	−5.6	−1.4	−3.4	...	...	+5.9	−0.7
−3.1	—	—	—	—	—	—	...	...	+0.2	—
+1.5	+2.5	—	—	−0.2	—	—	...	...	+0.6	—
X	+2.4	—	—	—	—	—	...	...	+0.2	+0.2
−2.4	X	−6.0	−10.2	−1.3	+0.7	−4.4	...	...	−58.5	−3.6
—	+6.0	X	+7.2	+1.7	−3.1	−0.2	...	...	−0.6	—
—	+10.2	−7.2	X	+8.2	−5.6	−4.0	...	...	—	−0.1
—	+1.3	−1.7	−8.2	X	−11.3	−8.8	...	...	−0.4	−0.2
—	−0.7	+3.1	+5.6	+11.3	X	+0.7	...	...	−0.9	−3.5
—	+4.4	+0.2	+4.0	+8.8	−0.7	X	...	...	+4.9	−0.5
...	...	...	...	...	...	...	X	...	...	...
...	...	...	...	...	...	...	...	X	...	−0.4
−0.2	+58.5	+0.6	—	+0.4	+0.9	−4.9	...	...	X	−1.2
−0.2	+3.6	—	+0.1	+0.2	+3.5	+0.5	...	+0.4	+1.2	X
+8.0	+221.1	+3.9	+16.9	+30.6	+5.1	+2.1	—	+0.4	+27.8	+0.5
−27.2	−21.2	−20.6	−24.4	−8.2	−22.1	−27.1	—	—	−60.4	−10.4
−19.2	*+199.9*	*−16.7*	*−7.5*	*+22.4*	*−17.0*	*−25.0*	—	*+0.4*	*−32.6*	*−9.9*

Note: The balances were determined on the basis of the c.i.f. import values. The signs (+) (−) correspond to the countries at the heads of the columns.

Table 33. Latin America: net balances on intraregional trade for selected years, 1960–1969
(Millions of dollars)

Country	*1960*	*1961*	*1966*	*1967*	*1968*[a]	*1969*[b]
Argentina	−21.0	−56.0	+37.3	+56.1	+91.0	+33.8
Bolivia	−2.6	−7.5	−12.3	−9.2	−13.5	−10.7
Brazil	−131.4	−35.7	−30.6	−37.4	−96.9	−39.0
Chile	−44.6	−63.4	−96.6	−103.6	−78.0	−92.2
Colombia	−13.0	−16.8	−33.4	−15.7	−17.0	−5.7
Ecuador	+8.5	+7.9	+8.1	−7.1	−0.1	−11.1
Mexico	+6.4	+7.7	+44.3	+54.6	+58.8	+68.4
Paraguay	+3.4	+4.2	+12.8	+8.1	+6.0	+4.8
Peru	+14.3	+7.5	−33.4	−56.7	−55.9	−43.1
Uruguay	−63.0	−40.3	−24.1	−29.4	−17.9	−19.2
Venezuela	+230.1	+175.2	+185.1	+201.1	+192.8	+199.9
Costa Rica	−4.8	−4.2	−3.1	−10.1	−23.7	−16.7
El Salvador	−5.0	−2.5	−10.9	+8.1	−2.0	−7.5
Guatemala	−2.9	−2.7	+9.4	+11.9	+28.8	+22.4
Honduras	+2.2	+1.6	−13.7	−17.2	−15.3	−17.0
Nicaragua	−2.6	−4.6	−29.3	−37.7	−35.3	−25.0
Haiti	—	—	—	—	+0.4	+0.4
Panama	+26.1	+29.6	−6.5	−13.5	−12.1	−32.6
Dominican Republic	−0.1	—	−3.1	−2.3	−10.1	−9.9
Positive balances	+291.0	+233.7	+297.0	+339.9	+377.8	+329.7
Negative balances	−291.0	−233.7	−297.0	−339.9	−377.8	−329.7

SOURCE: Official statistics.
[a] Provisional figures.
[b] Estimates.

Table 34. Latin America: composition of exports and imports of intraregional trade, 1960, 1965 and 1968[a]
(Millions of dollars)

		Total (0–9)	*Food, beverages and tobacco (0–1)*	*Crude material (2 and 4)*	*Fuels (3)*	*Chemicals (5)*	*Machinery and transport equipment (7)*	*Miscellaneous manufactured articles[a] (6 and 8)*
Exports	1960	8,610	3,810	1,590	2,350	110	20	670
	1965	11,060	4,870	2,130	2,740	160	64	1,060
	1968	12,190	5,190	2,130	2,820	235	160	1,640
Imports	1960	7,820	880	465	620	790	3,000	1,960
	1965	9,320	1,090	660	600	1,090	3,410	2,300
	1968	12,120	1,350	710	730	1,490	4,960	2,690
Intraregional trade	1960	680	260	92	260	15	6	50
	1965	1,080	360	175	210	57	50	220
	1968	1,380	425	210	230	105	83	315

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1965, 1968 and 1970.
[a] The figures refer to SITC sections.

6. PROGRESS IN LATIN AMERICAN INTEGRATION

During 1969, three events occurred within the Latin American Free Trade Association which have an important bearing on the future of ALALC and on the prospects for Latin American integration in general. They were: (*a*) the evaluation by the ALALC Standing Executive Committee (23 June to 30 September) of the progress of integration within ALALC, as a result of which guidelines were suggested for consideration by the ALALC Conference at its eleventh regular session; (*b*) the modification of the Montevideo Treaty by an additional Protocol which was adopted by the ALALC Conference, also at its eleventh regular session; and (*c*) the signature on 26 May of the Andean Subregional Integration Agreement by Bolivia, Chile, Colombia, Ecuador and Peru, and the entry into force of the Agreement on 16 October.

(a) *Meetings to evaluate the progress of integration within ALALC*

In accordance with the provisions of its

Table 35. Central American Common Market: imports of basic commodities and manufactures from the Central American Common Market, and world total, 1963–1967
(*Values in thousands of dollars c.i.f.*)

SITC sections and divisions / Origin	1963		1964		1965		1966		1967	
	Central American Common Market	World total	Central American Common Market	World total	Central American Common Market	World total	Central American Common Market	World total	Central American Common Market	World total
Basic commodities	*31,821*	*168,789*	*43,619*	*190,439*	*50,950*	*212,961*	*60,053*	*223,906*	*75,867*	*244,654*
Food, beverages and tobacco (sections 0 and 1)	22,692	76,057	31,524	86,704	37,849	94,833	41,440	102,424	51,047	112,577
Crude materials, except fuels (sections 2 and 4)	4,968	15,584	5,669	17,382	7,116	20,420	11,399	26,667	12,365	30,860
Fuels (section 3)	3,754	49,675	5,229	50,993	3,451	49,419	1,893	46,581	4,384	46,955
Non-ferrous metals (division 68)	407	27,473	1,197	35,360	2,534	48,294	5,321	48,234	8,071	54,262
Semi-manufactured and manufactured goods	*34,199*	*482,433*	*61,892*	*577,734*	*83,996*	*674,462*	*112,705*	*711,182*	*138,041*	*783,468*
Chemicals (section 5)	7,816	108,527	19,663	130,720	21,197	151.150	25,427	151,580	32,897	183,199
Machinery and transport equipment (section 7)	1,614	172,015	2,181	211,240	5,143	252,008	7,539	265,805	9,506	281,714
Other manufactures and semi-manufactures (sections 6 and 8, excluding division 68)	24,769	201,891	40,048	235,774	57,656	271,304	79,739	293,797	95,638	318,555
TOTAL *imports*[a]	*72,098*	*652,582*	*106,187*	*770,498*	*135,503*	*889,289*	*174,735*	*937,009*	*213,958*	*1,030,395*

SOURCE: SIECA, *Anuarios estadisticos centroamericanos de comercio exterior*, 1964, 1965, 1966 and 1967 and *Cuarto compendio estadistico centroamericano*, March 1965.

[a] Including section 9 of the SITC classification.

Table 36. ALALC: imports of basic products and manufactures from ALALC, and world total, 1963–1967
(*c.i.f. values in thousands of dollars*)

SITC sections and divisions / Origin	1963		1964		1965		1966		1967	
	ALALC	World total	ALALC	World total	ALALC	World total	ALALC	World total	ALALC	World total
Basic commodities	*532,869*	*1,545,817*	*627,124*	*1,734,124*	*714,754*	*1,766,499*	*706,032*	*1,977,831*	*685,323*	*1,940,161*
Food, beverages and tobacco (sections 0 and 1)	229,195	619,444	293,726	678,171	343,540	604,974	331,511	711,953	325,967	745,175
Crude materials, except fuels (sections 2 and 4)	105,400	379,655	137,133	475,166	178,278	552,061	198,031	550,568	169,818	510,231
Fuels (section 3)	148,484	421,154	149,839	448,386	145,311	449,895	139,289	498,091	150,937	518,856
Non-ferrous metals (division 68)	49,790	125,564	46,426	132,401	47,625	159,569	37,201	217,219	38,601	165,899
Semi-manufactured and manufactured goods	*70,159*	*3,785,284*	*98,802*	*3,874,026*	*155,502*	*3,894,910*	*157,406*	*4,515,980*	*186,738*	*4,730,098*
Chemicals (section 5)	21,524	679,898	25,269	714,066	31,607	790,876	40,088	936,674	36,267	892,637
Machinery and transport equipment (section 7)	17,588	2,187,291	25,055	2,153,702	42,237	2,051,249	47,067	2,382,087	53,606	2,616,800
Other manufactures and semi-manufactures (sections 6 and 8, excluding division 68)	31,047	918,095	48,478	1,006,258	81,658	1,052,785	70,251	1,197,219	96,865	1,220,661
TOTAL *imports*[a]	*603,790*	*5,365,432*	*726,612*	*5,646,537*	*871,075*	*5,696,806*	*864,768*	*6,524,507*	*873,587*	*6,701,235*

SOURCE: ALALC, *Importación de los países de la ALALC en el período 1963 a 1967, según clasificación CUCI*, June 1969.

Note: Does not include information on Ecuador and Uruguay for lack of sufficient data, or on Bolivia and Venezuela because their entry into ALALC took place after 1967. The data for Paraguay in 1967 are estimated.

[a] Including section 9 of the SITC classification.

work programme,[13] the ALALC Standing Executive Committee undertook an evaluation of the integration process and developed guidelines for future action at two extraordinary sessions, the first lasting from 23 June to 15 July and the second from 1 to 30 September. At the end of the first session, a document was prepared for the information of governments summing up the different positions held and also the main points on which there was agreement or disagreement. At the second session, the Committee considered specific drafts and the results obtained were presented to the ALALC Conference at its eleventh regular session, after first having been submitted to governments.

In its evaluation, the Committee again demonstrated two quite different approaches, which led to two draft protocols. The first, presented by the countries of the Andean Group, contained an undertaking to adopt the necessary measures to convert ALALC into a common market, to be substantially in operation by 1985, noting that for this purpose the basic decisions should be adopted by 1973 at the latest; and also described the basic machinery for the common market system.[14] The second draft, sponsored by Brazil and Mexico, proposed that the full entry into operation of the Free-Trade Area should be postponed until 1980, and that agreement should be reached by 31 December 1972 at the latest on new norms for negotiating the Common Schedule, it not being compulsory in the interim to continue negotiations on the Common Schedule. The National Schedules, however, would continue to be negotiated under the same conditions as at present, with the proviso that they could be modified as from 31 December 1972.

The studies to be undertaken cover the following topics: trade liberalization; co-ordination of trade policy; industrial, agricultural, financial, monetary and fiscal questions; a joint position vis-à-vis third States and international agencies; physical infrastructure; social affairs; and the institutional system.

(b) *Results of the eleventh regular session of the ALALC Conference*

This session of the ALALC Conference had the following results:

(i) *Modification of the Montevideo Treaty by an additional protocol.* In the debate on this topic, there was a clear-cut divergence of views between those Contracting Parties which considered that the essential objective was to establish a free-trade area—as laid down in the Montevideo Treaty itself—before proceeding to new stages in the integration process, and those which were in favour of hastening the establishment of a common market. The Conference eventually approved a draft protocol extending the period laid down in the Treaty for the entry into full operation of the Free-Trade Area and proportionally reducing the percentages of intra-Area trade on which duties, charges and other restrictions must be eliminated each year. In addition, on the proposal of the Government of Chile, the Conference agreed to make commitments to reduce duties, charges and other restrictions annually more flexible from 1974 onwards by enabling Contracting Parties to lower their annual percentage reductions if they have serious difficulties in meeting the percentages established.

The Protocol was signed by plenipotentiaries of the eleven Contracting Parties on 12 December 1969, and will enter into force once it has been ratified by the signatory Governments and their instruments of ratification have been deposited with the ALALC secretariat.

The Protocol makes the following modifications to the Treaty: (*a*) The period specified in article 2 of the Treaty leading up to the entry into full operation of the Free-Trade Area is extended to 31 December 1980; (*b*) The said extension applies to all obligations stemming from article 2 and, specifically, to compliance with the programme for intra-Area trade liberalization; (*c*) The Contracting Parties agree to establish, not later than 31 December 1974, new norms for negotiations on the Common Schedule, and to amend article 5 of the Treaty and the provisions of Title I of the Protocol on norms and procedures for negotiations; (*d*) Until such time as new norms for negotiations on the Common Schedule are adopted, it will not be compulsory for countries to comply with the periods and percentages laid down in article 7 of the Treaty; (*e*) During the extended period (up to 31 December 1980),

[13] ALALC resolution 239 (VIII).

[14] This machinery includes: a programme for the co-ordination of economic policies and harmonization of domestic legislation; a system for the joint programming of investment in branches of industry, where feasible; a system for the phased elimination of duties, charges and restrictions; a common external tariff; measures to promote the development of the agricultural sector; a programme for improving the physical infrastructure; special treatment for the economically relatively less developed countries; special measures for countries with insufficient markets; and an institutional basis to promote the objectives of integration, in particular the equitable distribution of the benefits deriving from integration.

the Contracting Parties will negotiate reductions of duties, charges and other restrictions in the National Schedules (article 4(*a*) of the Treaty) at an annual rate of reduction equal to not less than 2.9 per cent of the weighted average of duties and charges in force for third countries. Notwithstanding the foregoing, the Contracting Parties at a relatively less advanced stage of economic development may grant such reductions at levels compatible with their situation, under the provisions of article 32 of the Treaty.

In addition, from 1974 onward and until the entry into force of the new norms for negotiating the Common Schedule and the National Schedules and calculating the weighted averages referred to in article 4 of the Caracas Protocol, any Contracting Party having serious difficulties in complying with the rate of reduction established may grant smaller reductions, after first communicating its intention to do so to the Standing Executive Committee and supplying data to justify the use of a special rate or rates of reduction.

As can be seen, these modifications mean that the rate of progress originally laid down for the trade liberalization programme has been reduced. Moreover, a saving clause has been introduced, which can be invoked by any Contracting Party that can justifiably claim to be in serious difficulty in fulfilling the annual percentage figure for reducing duties, charges and other restrictions; furthermore, this figure has now been lowered from 8 to 2.9 per cent.

(ii) *The ALALC action plan for the 1970s.* According to the provisions of ALALC resolution 262 (IX), the ALALC action plan for the 1970s will have two or more phases. The first will cover the period 1970–1973, during which the studies required for the entry into full operation of the Free-Trade Area and the studies referred to in article 3 of the Caracas Protocol (the same studies as are mentioned in article 54 of the Treaty) will be undertaken. The Standing Executive Committee will establish an order of priorities for studies during the first half of 1970 and may revise it annually; for this purpose, the ALALC secretariat is to prepare a draft plan of work containing all necessary complementary data including financing requirements. The topics listed in the plan approved in resolution 262 (IX) follow the order of the topics in resolution 100 (IV) and, with some changes to bring it up to date, reproduce the action programme outlined in the latter resolution.

It can be seen that the most significant decisions—the signature of the Protocol modifying the Montevideo Treaty and the action plan for the 1970s—have been the result of a compromise between the two basic positions within ALALC regarding the short- and medium-term objectives of the integration process. While the countries—members of the Andean Subregional Integration Agreement—consider that it is urgently necessary to make profound changes in the structure of ALALC, and for Contracting Parties to undertake to form a common market within a specified period, the majority of the other member countries—especially Argentina, Brazil and Mexico—maintain that it is necessary for the Free-Trade Area to be brought into full operation before any decision is taken regarding more complex or ambitious schemes of complementarity and integration.

The results of the eleventh session of the ALALC Conference show that the Parties have come to an understanding on modifying the Treaty with respect to those conditions and provisions that have been found difficult to apply in recent years, especially in the case of countries that consider that trade liberalization alone is not enough to give impetus to integration and that the existing structure places them in a situation of chronic disadvantage vis-à-vis other countries (particularly the three countries with the greatest potential and the most diversified production structure).

It is too early to evaluate the extent to which the operation of the subregional integration movement side by side with the regional free-trade association will benefit or hamper the progress of general integration. Only once the machinery of the Andean Subregional Integration Agreement has actually begun to operate will it be possible to have some objective data on which to base a conclusion; although it is already clear that suitable links must be maintained between the Andean Group and ALALC to facilitate harmonization of their immediate objectives and make mutual longer term objectives more feasible.

(iii) *Negotiations.* According to preliminary information from the ALALC secretariat, the Contracting Parties taking part in the negotiations[15] added a total of 244 concessions to the National Schedules. Of this total, 80 were the result of the multilateral analysis of recommendations made by sectoral meetings held during the year. The remaining 164, which were negotiated bilaterally, comprised 105 new

[15]Bolivia, Colombia and Ecuador did not take part, and Chile only negotiated on some products with Argentina and Brazil.

concessions and 59 further reductions in duties and charges. In addition, under the provisions of article 32(*a*) of the Treaty, a total of 73 advantages not extended to all Contracting Parties were granted.

As in previous years, negotiations were mainly concentrated on the reductions granted by Argentina, Brazil and Mexico. Although Venezuela and Peru made some contribution, the economically relatively less developed countries (Bolivia, Ecuador and Paraguay) did not participate in the negotiations, except for Paraguay's negotiations with Argentina; Colombia made no contribution to the trade liberalization programme, while Chile made only a symbolic last-minute entry, negotiating exclusively with Argentina and Brazil.

It appears, therefore, that, in addition to the relatively economically less developed countries, the principal members of the Andean Group have increased their tendency not to negotiate within ALALC, with the partial exception of Peru.

(iv) *Complementarity agreements.* From 10 November to 12 December the eight signatories to Complementarity Agreement No. 5 relating to the chemicals industry negotiated an additional protocol to include 95 new products, comprising a total of 195 additional concessions. During the same period, the delegations of Argentina, Brazil and Mexico approved draft regulations for a complementarity agreement relating to the office machines industry and decided to begin negotiations on the specific liberalization programme for the industry in mid-March 1970.

(c) *Integration in the countries of the Andean Group*

(i) *Institutional developments in the Andean subregional market.* The Declaration of Bogotá[16] laid down the political guidelines for co-ordinating policies in certain sectors and establishing a transitional system of exclusive advantages that would eliminate the shortcomings of the existing ALALC system of complementarity agreements. Later, the Declaration of the Presidents of America endorsed the system of subregional agreements on the basis of the principles of the Declaration of Bogotá. Subsequently, resolution 202 (CM-II/VI-E) of the ALALC Council of Ministers and 222 (VII) of the ALALC Conference ratified the points agreed upon in the Declaration of the Presidents of America and established norms for subregional integration.

The Declaration of Bogotá laid down two main objectives for subregional integration: to accelerate the process of integration; and to increase, within the framework of ALALC, economic co-operation among the signatory States. To achieve the first objective, it suggested that ALALC should be converted into a customs union through the adoption of measures that would promote the formation of a common market and encourage the expansion of trade and industrialization in the countries at intermediate and relatively low levels of economic development. To achieve the second objective, it proposed a programme to co-ordinate the policies of the signatory countries in matters relating to trade, industry, finance, services and technical co-operation. With respect to industry, it proposed that industrial development should be based on an import substitution programme that gave special priority to those branches of industry that could help both to satisfy the needs of the market comprising the signatory countries, and to establish or safeguard their industrial structure.

The decision of the Presidents of America led to the implementation of the programme outlined in the Declaration of Bogotá. In June 1967, at Viña del Mar, Chile, a Joint Commission was established, which met in July and August of that year at Quito and Caracas. At its third meeting, the Commission approved the bases for the formulation of a subregional agreement covering the countries signatory to the Declaration of Bogotá, which were subsequently endorsed by the ALALC Council of Ministers at its meeting in September 1967.

After the ALALC Council of Ministers had endorsed the bases and established the norms for subregional agreements, the Joint Commission, at its fourth meeting (Lima, November 1967), requested a group of experts from the Andean countries to make a study of the problems of subregional integration and to prepare a draft agreement in line with the bases and norms agreed upon. The experts met at Bogotá in January–April and June–July 1968. At its fifth meeting (Bogotá, February 1968), the Joint Commission was informed of the progress made by the group of experts and laid down further guidlines for their work in the light of the views expressed in the various countries by representatives of the private sector and Governments. The Commission held its sixth meeting between the end of July and early August at Cartagena, Colombia, to

[16] Signed by the Presidents of Chile, Colombia and Venezuela and the personal representatives of the Presidents of Ecuador and Peru in August 1966. Bolivia signed the Declaration in September 1967.

consider the draft agreement prepared by the group of experts.

Although certain countries in the Andean Group declared that they were prepared to sign an agreement on the basis of the draft submitted to the Commission, others said they could not do so for reasons of domestic policy and also because they still had objections to the text; accordingly, it was decided to hold a second session of the sixth meeting with a view to reaching a final decision. This session was held in May 1969, first in Cartagena and later in Bogotá where the Agreement was signed by the Governments of Bolivia, Chile, Colombia, Ecuador and Peru.

In early July 1969, a provisional Commission was formed, comprising representatives of the five Governments, to begin work to promote the implementation of subregional integration. This was to include: (*a*) a declaration that the Andean Agreement was compatible with the principles of the Montevideo Treaty; (*b*) adoption of appropriate measures in each of the signatory countries to implement the Agreement; and (*c*) determination of the tasks incumbent on each signatory country, with a view to collecting data and national views on the various commitments contained in the Agreement. On 9 July 1969 the ALALC Standing Executive Committee declared that the Agreement was compatible with the principles of the Montevideo Treaty, and the Agreement entered into force on 16 October 1969.

At the end of November 1969, the Ministers of Foreign Affairs of the Andean Group met to initiate the subregional integration process officially, to establish the Commission of the Agreement and to decide upon the location of the headquarters of the Board, Lima being eventually chosen. Upon beginning its work, the Commission appointed the members of the Board and adopted other decisions on operational matters. The Board began its activities in the second half of February 1970 and the Commission held its first regular meeting in the first week of March.

Since the signature of the Agreement, the countries of the Andean Group have begun activities at both government and private levels to examine the possibilities of programmes for certain branches of industry, for example the metal-transforming, chemical and petrochemical industries; furthermore, the heads of planning offices of the Andean Group met during the last quarter of 1969 to consider various aspects of the joint programming of subregional integration.

(ii) *The Andean Subregional Integration Agreement*. The basic purposes of the Agreement are to achieve more rapid rates of economic growth, promote the balanced and harmonious development of the member States, facilitate their participation in the integration process envisaged in the Montevideo Treaty, and establish favourable conditions for converting ALALC into a common market. With these objectives in mind and also to ensure equitable distribution of the benefits deriving from integration in order to reduce the disparities existing between them, the member States are to adopt a joint development strategy. The main objectives of this strategy are creating new employment in the subregion, strengthening the foreign trade position of the member States, solving infrastructural problems, making greater use of scientific and technological progress, and promoting scientific and technological research. The member States have also agreed to harmonize and co-ordinate their economic and social policies and national development plans in conjunction with the formation of the subregional market.

The member States have also decided to undertake joint programmes for industry, agriculture and infrastructure, and to adopt measures that facilitate the channelling of financial resources for investment in the subregion. In the interest of accelerating the development of Bolivia and Ecuador and reducing the disparities existing between them and the other member States, the Agreement provides for special treatment for Bolivia and Ecuador.

The results of this process are to be periodically evaluated, taking into account with respect to each country, *inter alia,* its effects on the expansion of exports, the trends followed by the trade balance with the subregion, the evolution of the gross domestic product, the generation of new employment, and capital formation. On the basis of this evaluation, and once the subregional common market has been brought into full operation, the Commission is to adopt such measures as may be necessary to ensure full compliance with the objectives of the Agreement in the later stages of Andean subregional integration.

The Commission, which is composed of representatives of Governments, is responsible for administering and executing the programme and for formulating over-all integration policy; the Board, composed of three members, is responsible for ensuring the application of and compliance with the Agreement and for submitting proposals to the Commission for

facilitating or expediting its application. The decisions of the Commission, except with respect to certain specified and agreed matters and matters relating to special treatment for Bolivia and Ecuador, are to be adopted by an affirmative vote of at least two thirds of the member States.

Links between member Governments, management and labour in each country and the organs of the Agreement are to be maintained through the Consultative Committee and the Economic and Social Advisory Committee. Any difference of opinion arising with regard to the interpretation or application of the Agreement is to be resolved either by the Commission or in accordance with the procedures established within ALALC.

One of the objectives of the Agreement is the complete elimination of all duties, charges and other restrictions applicable to trade between the member States. Import duties are to be reduced by automatic, linear adjustments of 10 per cent per year so that they are eliminated by the end of 1980 at the latest.

The base level for reductions is to be the lowest duty or charge applying to each product in the national tariffs of Chile, Colombia or Peru, or in their respective National Schedules, and in no case may exceed 100 per cent *ad valorem* of the c.i.f. price of each product. Direct restrictions are to be eliminated during the first year of application of the Agreement, although in some cases they may be replaced by duties and charges to which the procedure mentioned above is to apply. The member States have undertaken not to take any step that might have an adverse effect on the existing conditions of subregional trade, either by altering customs and other similar duties and charges or by introducing new or different restrictions.

Following the same procedure as used for the trade liberalization programme, the member States are to adopt a common external tariff for the subregion, which should be put into effect by 31 December 1980 at the latest. The main objectives of the tariff are to provide adequate protection for goods produced in the subregion, progressively to create a margin of preference for such goods, and to promote more efficient production. Initially, the subregional tariff is to take the form of a uniform minimum preference to promote the development of import substitution and ensure fulfilment of the objectives established.

The margin of preference and the common external tariff, as appropriate, are to be applied immediately once all duties and charges have been eliminated on a product; this provision, however, may be waived if compliance with it might unnecessarily raise the cost of subregional consumption owing to shortages in the supply of subregional goods. In order to ensure the effectiveness of the common external tariff, the member States have undertaken not to act unilaterally in altering the duties and charges established and to consult each other before assuming tariff commitments to countries outside the subregion.

The trade liberalization programme and the common external tariff are not to be applied to products which have been temporarily excepted from them by any country,[17] or which are reserved for sectoral industrial development programme and hence are subject to a special and more rapid liberalization programme.

The trade liberalization programme, moreover, provides for complete liberalization of the subregional market within the first two years of application of the Agreement in respect of products already included in the ALALC Common Schedule and products not produced in any country of the subregion, not allocated to any country in the subregion and not reserved for sectoral industrial development programmes.

With regard to saving clauses, the procedures existing within ALALC are to be applied. Such measures as are taken, however, are not to be applicable to products originating in the subregion and included in sectoral industrial development programmes. Special provisions are included to counteract any adverse effect on national production that may be caused by the devaluation of the currency of a member State.

Commercial competition within the subregion is to be governed by special regulations that will be adopted during the first two years of application of the Agreement and applied

[17] Up to 31 December 1970, each member State may submit to the Board a list of products produced in the subregion for exception from the liberalization programme and the common external tariff. The lists submitted by Chile and Colombia are not to contain more than 250 items of the ALALC Tariff Nomenclature; Peru's list may contain up to 450 items but these must be reduced to 350 by the end of 1974 and to 250 by 1979. Bolivia's list may contain up to 350 items and contain products included in 50 subgroups of the ALALC Tariff Nomenclature, while Ecuador's list may contain up to 600 items. All duties, charges and other restrictions are to be eliminated by 1986 in respect of those products included in the lists of exceptions submitted by Chile, Colombia and Peru and by 1990 in respect of those submitted by Bolivia and Ecuador. In the interim, the products included in the lists of exceptions are not to enjoy such advantages as may be accorded to intra-subregional trade.

in conjunction with the relevant ALALC provisions. The subregion is to adopt special regulations for establishing the origin of goods and specific requirements in respect of goods which call for such measures, in particular those covered by sectoral industrial development programmes.

The Agreement contains other machinery designed to deal with the structural problems of the development of the member States through systematic action approved by the Commission, on the basis of proposals and other measures formulated by the Board. This machinery covers, *inter alia,* subregional industrial development, agriculture, the infrastructure and financial questions.

Industrial development has pride of place since, under the Agreement, the member States have undertaken to intensify and diversify their individual production, using sectoral industrial development programmes as the main tool for this purpose. The main objective sought is to extend the import substitution process beyond domestic markets on an efficient basis and to facilitate participation by the member States in the Latin American integration process.

The programmes cover products included in a list which the Commission, on the advice of the Board, is to draw up before the end of 1970. This list is to cover in the first instance industries which do not exist in the subregion or which are on too small a scale to satisfy these needs, and which, because of their characteristics in terms of volume of investment, complexity of techniques or minimum economic scale, need to be organized on a subregional basis. Other industrial programmes will cover industries that are to be planned on the basis of the Andean market and whose main purpose will be to ensure the participation of the subregion, as a unit, in complementarity agreements with the other ALALC countries, and to create suitable conditions for promoting exports of manufactures to world markets.

After 1971 and until 1973, the Commission, on the advice of the Board is to approve programmes for the products on the list mentioned above; although it may approve new programmes at any time subsequent to 1973. This procedure is designed to ensure that industrial development programmes do not remain static and that the products selected for but not included in programmes are not excluded from the commitments to liberalize trade and develop a common external tariff.

Each programme is to have its own structure, which will be closely linked with and related to that of the other programmes adopted and will contain provisions covering at least the following: the products included in the programme, the investment required and the measures to be taken to secure investment; allocation and location of plants, having in mind the principle of the harmonious development of the subregion; harmonization of policies on matters affecting the programme; the liberalization programme—which may not be the same for different countries and different products—and the common external tariff, with a view to ensuring that effective use is made of the subregional market; and the length of time during which the rights and obligations emanating from the programme are to remain in effect in the event of a denunciation of the Agreement. In addition provision is made for complementary measures to be taken where appropriate to ensure the installation of the plant allocated and the effective use of the subregional market by such plant.

For the benefit of existing industries producing goods not covered by such programmes, provision is made for programmes to rationalize production, strengthen the industries' capacity to compete as existing tariff barriers gradually disappear, and enable them to play an active part in the subregional market. These programmes will also take account of such factors as the financial and technical assistance required for expanding, modernizing or converting existing industrial plant; manpower training; specialization agreements between enterprises in the same branch of industry; and subregional arrangements for co-ordination, marketing and technological research.

Industrial development in the subregion is to be based on a set of common or harmonious rules for the treatment of foreign capital, industrial development, the regulation of external trade and multinational enterprises. During the first half of 1971, the member States are to implement an agreed common policy for the treatment of foreign capital and, *inter alia,* trade marks, patents, licences and royalties. Moreover, during the first half of 1972, they are to begin to apply subregional guidelines for the harmonization of industrial development legislation and a uniform set of regulations to govern multinational enterprises.

The close links between the organs of the Agreement and the Andean Development Corporation should ensure that the Corporation makes a technical and financial contribution to the joint programming and execution of investment and the financing of specific projects.

The Andean countries, with a view to adopting a common agricultural policy and formulating an indicative agricultural plan, intend to harmonize their national polices and their agricultural development plans, with the objective of raising the level of living of the rural population, increasing production and productivity, specialization, subregional import substitution and the diversification and expansion of exports.

In order to solve the infrastructural problems affecting the integration of the subregion, in particular those which hamper the execution of sectoral programmes, the member States are to take concerted action to adopt specific programmes and projects for the infrastructure, mainly in the fields of energy, transport and communications. The programmes are to be administered and executed where possible by multinational agencies or enterprises, and are to identify the projects for inclusion in national development plans and procedures for concerted action to ensure the provisions of the necessary technical and financial resources.

As regards financial and payments questions, the member States are to co-ordinate their national polices systematically and increasingly in order to channel public and private savings into the financing of investment and subregional trade. In particular, measures are to be taken to facilitate the movement of capital and solve double taxation problems and exchange and payments problems within the subregion and with ALALC; for this purpose it is intended to strengthen the multilateral clearing system existing in ALALC and possibly establish a subregional clearing house, a reciprocal credit system and a common reserve fund.

(iii) *Special treatment for Bolivia and Ecuador*. The Agreement provides for special treatment for Bolivia and Ecuador, designed to enable these countries to attain a more rapid rate of economic growth through their effective and immediate participation in industrial development and trade liberalization in the subregion. It provides for differential treatment and incentives to compensate them for their structural deficiencies, and also for priority to be given to the allocation of industries and the location of plants in their territories, particularly through their participation in sectoral industrial development programmes. Similar advantages and incentives are envisaged with respect to programmes regarding agriculture, technical and financial co-operation and the physical infrastructure, with special reference in infrastructure programmes to the problems deriving from the features and geographical location of these countries.

With a view to enabling Bolivia and Ecuador to participate effectively and immediately in the expanded market, the Agreement proposes that the subregional market shall be liberalized more rapidly for them, and that their products will have free entry into the territories of the other member States seven years before this treatment becomes general. Moreover, from 1971 a selected list of products originating in Bolivia and Ecuador will be exempt from all duties and charges within the subregion. The Agreement also provides for the establishment of exclusive margins of preference in favour of products of particular interest to the two countries. The liberalization of trade in products included in the Common Schedule will not affect the exclusive advantages granted within ALALC to Bolivia and Ecuador by the other members of the subregion.

Bolivia and Ecuador are to liberalize their imports from the subregion and to adopt the common external tariff according to a timetable which enables them to begin to fulfil their commitments during the seventh year of application of the Agreement and comply with them fully by 1985. The products included in the lists of exceptions submitted by Bolivia and Ecuador are to be liberalized by 1990; moreover, their lists are to include a greater number of items than those of Chile, Colombia or Peru. The Agreement also provides for different and more flexible treatment in respect of the commitments resulting from the harmonization of industrial development legislation and the application of the common external tariff.

(iv) *The Andean Development Corporation*. The agreement establishing the Andean Development Corporation (Corporación Andina de Fomento—CAF) was signed in early February 1968 by the six Governments which subscribed to the Declaration of Bogotá and subsequently ratified by all the signatories. The headquarters of the Corporation is to be in Caracas, but it may establish agencies or offices or have representatives in other member or non-member countries if it considers this necessary in order to fulfil its functions.

The Corporation is a public corporation whose main objective is to promote subregional integration through improved use of the subregion's potential and resources. To this end it is to encourage or participate in the creation of production or services enterprises and provide technical and financial assistance for the expansion, modernization or conversion of existing industries. These activities will have an

eye to rational specialization and the equitable distribution of investment within the subregion, taking into account the need for effective action in favour of the economically relatively less developed countries.

The direct and close links between the Corporation and the organs of the Agreement —particularly the Board—and the fact that they have common objectives will help to prevent a dispersion of effort and ensure that financing is channelled towards and concentrated on those sectors that are of special importance in terms of subregional development. Wherever possible, it will be the multinational enterprise that serves as the framework for achieving these objectives. These links will also expedite approval of industrial programmes by the organs of the Agreement, since the Corporation's discretionary powers to formulate and promote projects of interest to the subregion, without having to go through all the complex formalities that are required at the level of the Agreement, will make it quicker and easier to find ways of overcoming any obstacles that may arise in implementing the subregional Agreement.

B. THE ECONOMIC SITUATION IN SELECTED COUNTRIES

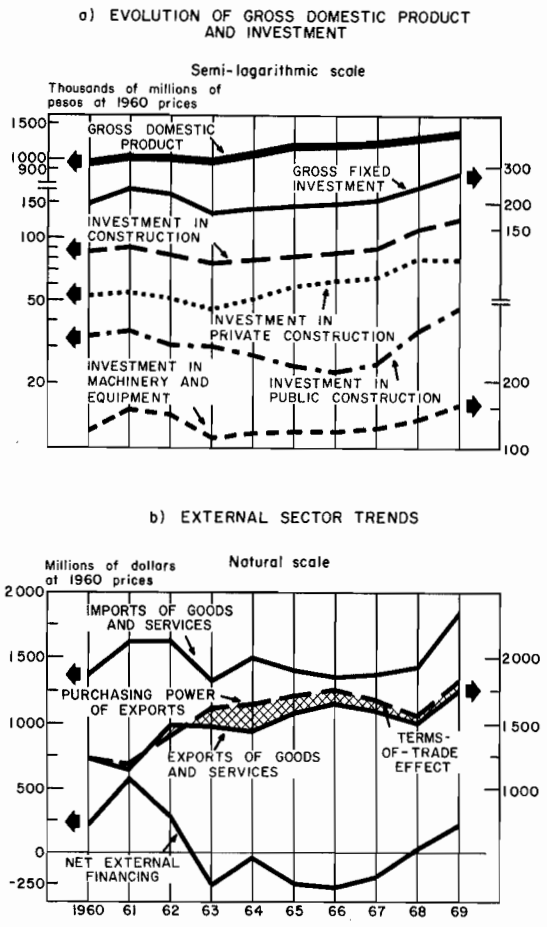
Argentina

1. Recent economic trends

The salient features of the Argentine economy in 1969 were a high rate of growth of the product (6.9 per cent), which compares favourably with the rate during the preceding three years (0.1, 1.8 and 4.8 per cent respectively in 1966, 1967 and 1968), and a comparatively lower rise in the cost of living (6.7 per cent, as opposed to 9.6 per cent in 1968 and an annual average of 25 per cent over the period 1960–1967). On the merchandise side, exports achieved a total value of 1,610 million dollars, while imports totalled 1,540 million, approximately 18 and 32 per cent higher respectively than the figures for 1968. Nevertheless, the trade surplus was not enough to balance out payments in respect of services, and the deficit on current account amounted to 190 million dollars. The main factors promoting growth were the almost 15 per cent increase in gross fixed investment, and the steady increase in consumption at a rate of 5 per cent. Investment was stimulated by increases in private construction, public expenditures and purchases of domestically-produced and imported equipment. These factors—with the exception of equipment imports—exerted a multiplier effect on consumption (see table 37 and figure III).

In contrast to this picture of relative boom, international reserves shrank by 233 million dollars and in the last months of the year internal liquidity declined.

Figure III. Argentina: 1960–69



2. Major sectors of activity

The goods-producing sectors as a whole expanded at a rate of 7.4 per cent, with industry roughly matching this figure, agriculture and mining growing at a rate of close to 6 per cent, and construction attaining a rate of 14 per cent. The services sectors grew by over 6 per cent (see table 38).

(a) *Agriculture*

The agricultural sector, which declined by over 6 per cent in 1968 and by 0.7 per cent over the period 1965–1968, expanded by 5.9 per cent during 1969, the main factor being the recovery of the livestock sector and increased maize and linseed harvests.

There was also a significant increase in the output of feed grains (particularly sorghum), industrial crops (especially cotton) and market vegetables. In contrast, the output of wheat, oats, sunflower seeds and grapes declined (see table 39). The drop in the production of wheat meant that small quantities had to be imported to meet export commitments.

Table 37. Argentina: total supply and demand for selected years, 1960–1969

	Thousands of millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*1,075.3*	*1,259.3*	*1,340.8*	*1,452.1*	*111.9*	*110.2*	*109.4*	*110.8*	*3.2*	*2.1*	*8.3*
Gross domestic product	961.2	1,142.9	1,225.5	1,310.1	100.0	100.0	100.0	100.0	3.5	2.3	6.9
Imports	114.1	116.4	115.3	142.0	11.9	10.2	9.4	10.8	0.4	−0.3	23.2
Total demand	*1,075.3*	*1,259.3*	*1,340.8*	*1,452.1*	*111.9*	*110.2*	*109.4*	*110.8*	*3.2*	*2.1*	*8.3*
Exports	102.5	134.2	135.6	158.4	10.2	11.7	11.1	12.1	5.5	0.3	16.8
Total investment	*218.3*	*217.6*	*234.6*	*274.0*	*22.7*	*19.0*	*19.1*	*20.9*	*−0.1*	*2.5*	*16.8*
Gross fixed investment	208.6	198.0	240.1	275.6	21.7	17.3	19.6	21.0	−1.0	6.6	14.8
Construction	67.3	81.9	108.6	121.8	9.1	7.2	8.9	9.3	−1.3	9.9	12.1
Public	34.1	23.9	35.1	44.4	3.5	2.1	2.9	3.4	−6.9	13.7	26.5
Private	53.2	58.0	73.5	77.4	5.6	5.1	6.0	5.9	1.8	8.3	5.3
Machinery and equipment	121.3	116.1	131.5	153.8	12.6	10.1	10.7	11.7	−0.9	4.2	16.9
Total consumption	*754.5*	*907.5*	*970.6*	*1,019.7*	*78.5*	*79.4*	*79.2*	*77.8*	*3.8*	*2.3*	*5.0*
General government	86.3	86.6	92.8	93.4	9.0	7.6	7.6	7.1	0.1	2.3	0.7
Private	668.2	820.9	877.8	926.3	69.5	71.8	71.6	70.7	4.2	2.3	5.5

SOURCE: For 1960–1968, information provided by the Banco Central de la República Argentina; for 1969, ECLA on the basis of information supplied by Ministry of Economic Affairs and Labour.

Table 38. Argentina: gross domestic product by sector of economic activity for selected years, 1960–1969

Sector	Structure (percentages)				Annual average growth rates (percentages)		
	1960	1965	1968	1969	1960–65	1965–68	1969
Agriculture	17.4	16.9	15.4	15.2	2.8	−0.7	5.9
Mining	1.1	1.4	1.7	1.7	9.0	8.2	5.7
Manufacturing	32.2	35.1	35.2	35.4	5.3	2.4	7.3
Construction	4.2	3.2	4.3	4.6	−1.8	12.5	13.7
Subtotal goods	*55.0*	*56.6*	*56.6*	*56.8*	*4.1*	*2.3*	*7.4*
Electricity, gas and water	1.3	1.8	2.1	2.2	11.6	7.5	8.7
Transport and communications	7.5	7.5	7.5	7.4	3.3	2.4	6.0
Subtotal basic services	*8.8*	*9.3*	*9.6*	*9.6*	*4.7*	*3.5*	*6.6*
Commerce and finance	19.1	18.9	18.6	19.0	3.2	1.8	9.2
Government	7.4	6.5	6.4	6.1	1.0	1.8	0.7
Miscellaneous services	9.7	8.6	8.8	8.6	1.2	3.1	3.5
Subtotal other services	*36.2*	*34.0*	*33.8*	*33.6*	*2.2*	*2.1*	*6.1*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*3.5*	*2.3*	*6.9*

SOURCE: For 1960–1968, Central Bank of Argentina; for 1969, ECLA estimates based on data supplied by the Ministry of Economic Affairs and Labour.

Livestock yields increased significantly, with beef output rising from 2.5 million tons in 1968 to 2.8 million in 1969 (see table 40).

The area sown to maize and wheat during the crop year 1969/70 (4.5 and 6.2 million hectares respectively) was less than in 1968/69 but still well above the average for the 1960s. The area sown to olives and sunflower (920,000 and 1,420,000 hectares respectively) exceeded the levels for both 1968/69 and for the decade as a whole.

Table 39. Argentina: output of principal agricultural commodities, 1960/61 and 1966/67 to 1968/69

(Thousands of tons)

	1960–61	1966–67	1967–68	1968–69
Wheat	4,200.0	6,247.0	7,320.0	5,740.0
Maize	4,850.0	8,510.0	6,560.0	6,860.0
Linseed	562.0	577.0	385.0	570.0
Oats	843.0	540.0	690.0	490.0
Rice	149.0	217.0	282.9	345.0
Alfalfa	6,453.0	6,214.0	5,404.0	6,165.0
Sorghum	1,252.0	1,380.0	1,897.0	2,484.0
Sunflower seed	585.0	1,120.0	940.0	876.0
Sugar-cane	9,650.0	8,576.0	9,500.0	9,800.0
Cotton	393.1	269.8	230.0	304.0
Tobacco	48.0	63.0	62.0	52.0
Wine grapes	2,082.9	3,485.9	2,455.8	2,013.8

SOURCE: Office of the Secretary of State for Agriculture and Livestock.

On 30 September 1969, the National Agricultural Census was conducted, covering the provinces lying to the north of the Colorado river (i.e., excluding Patagonia), and provisional figures show some changes in land ownership, livestock inventories and the area under cultivation compared with those obtained from the census conducted in 1960. The total number of farm units increased by 16.9 per cent to a total of 451,000, while their total area rose by 19.4 per cent to 142.4 million hectares, raising the average area per farm unit from 264.3 to 270.1 hectares. The average area in the provinces of Buenos Aires, Córdova and Santa Fé ranges from 210 to 250 hectares, Misiones and Tucumán coming at the bottom end of the scale with less than 90 hectares, and Salta and

Table 40. Argentina: cattle, sheep and pigs slaughtered, 1961 and 1967–1969

(Tons carcase weight)

Year	Cattle			Sheep and pigs		
	For export	For consumption	Total	For export	For consumption	Total
1961	396,103	1,748,961	2,145,064	48,179	305,169	353,348
1967	696,598	1,825,355	2,521,953	85,205	335,903	421,108
1968	574,000	1,971,800	2,545,800	66,305	66,305	400,610
1969	760,000	2,075,000	2,835,000			

SOURCE: National Meat Board.

La Pampa at the top with slightly more than 1,000 hectares. The total number employed in farming in this area was 1,462,000, an increase of 3 per cent in absolute terms over 1960, and the agricultural population totalled 2,780,000 (10 per cent more than in 1960).

In 1969, cattle totalled 47.8 million head (10.9 per cent more than in 1960) and sheep 26.8 million head (14.1 per cent less than in 1960); while pigs totalled 4.1 million head, a 6.1 per cent increase over 1960. Poultry inventories markedly increased, rising from 28.9 million units in 1960 to 44.7 million in 1969 (in the provinces of Buenos Aires and Entre Ríos the number of units rose from 15.4 to 32.4 million). The surface area sown to annual crops increased from 12.3 million hectares in 1960 to 15.9 million in 1969, while that sown to perennial crops rose from 1.2 to 2.2 million hectares over the same period.

(b) *Mining and quarrying*

The mining and quarrying sector grew by 5.7 per cent in 1969. Petroleum production increased by 3.6 per cent, with a total of 20.7 million cubic metres being extracted. This comparatively low rate of growth is attributable to the delay in the drilling of new wells, which was not offset by increased yields from existing wells. Among petroleum products, high-octane naphthas increased relatively more rapidly; while the amount of natural gas injected at the main of major pipelines exceeded 4,200 million cubic metres.

Run-of-mine coal production amounted to 942,000 tons (17 per cent more than in 1968) and marketable production totalled 474,000 tons (10.3 per cent more than in 1968).

Among the metal-bearing ores, there were increases in the production of lead, zinc and tin, attributable in some cases to the expansion and modernization of mining equipment. Orders from the construction industry were responsible for the increase in output of stone, clay and sand and also of the limestone used for making cement.

(c) *Manufacturing*

The industrial product grew by 7.3 per cent in 1969, largely owing to improved use of installed capacity (estimated at nearly 75 per cent, as compared with 72 per cent in 1968 and 65 per cent over the period 1961–1967). Moreover, the price stability of manufactures was not affected.

Worthy of special mention in industrial production is the increased output of equipment and machinery, fostered by the need to modernize and expand the productive capacity of a number of industries, and by increased demand for durable consumer goods (see table 41). Crude steel production totalled 1.7 million tons, 9 per cent higher than the 1968 figure; output of rolled products for the first time exceeded 2 million tons and the output of pig iron totalled 580,600 tons. The petrochemicals industry increased production substantially (in particular, synthetic rubber, carbon black, phenol and methanol). The motor-vehicle industry maintained its rapid rate of growth, producing 218,000 units, 153,000 of which were passenger cars. Total production was 40,000 units higher than in 1968, and during 1969 a start was made with the production of heavy lorries with a load capacity of over 8 tons. Vertical integration was progressively increased and prices showed a declining trend. In contrast, both production and sales of tractors fell: in 1969, 9,003 units were produced and 9,534 sold, compared with 9,833 produced and 10,971 sold in 1968 (see table 42). The machinery and electrical equipment industries expanded as a result of the high demand for electrical household goods, increased investment in

Table 41. Argentina: growth of manufacturing output 1960–65 and 1966–1969
(*Average annual growth rates*)

Sector	*1960–65*	*1966*	*1967*	*1968*	*1969*
Foodstuffs, beverages and tobacco	3.2	7.3	5.3	4.4	5.7
Textiles, made-up goods and leathers	2.2	−5.6	−1.0	8.6	2.4
Chemicals	7.7	1.0	−1.7	23.2	10.9
Stone, clay, glass and pottery	5.7	6.8	2.8	8.1	5.6
Metal transforming, excluding machinery	9.5	−13.8	0.7	25.6	16.6
Construction of motor vehicles	17.1	−0.5	2.7	3.2	9.6
Machinery, excluding electrical machinery	−2.5	−7.3	−7.7	3.1	6.5
Electrical machinery and equipment	3.1	−3.4	−3.6	−7.8	6.7
Other	5.0	4.8	−3.1	5.6	5.0
TOTAL	*5.3*	*−0.4*	—	*7.0*	*7.3*

SOURCE: Ministry of Economic Affairs and Labour.

Table 42. Argentina: production of selected inputs and finished goods, 1961 and 1967–69
(*Thousands of tons*)

	1961	1967	1968	1969
Pig iron	393.1	596.1	573.6	580.6
Crude steel	473.6	1,327.6	1,555.7	1,696.5
Rolled steel products	910.3	1,348.2	1,778.0	2,007.7
Cooking stoves (thousands of units)	—	318.1	352.8	...
Water heaters (thousands of units)	—	132.7	140.2	...
Iron pipes, excluding seamless pipes	—	149.1	192.7	...
Motor vehicles (units)	136,188.0	175,318.0	180,976.0	218,590.0
Tractors (units)	14,716.0	9,538.0	9,833.0	9,003.0
Portland cement	2,876.4	3,520.3	4,175.2	4,320.8
Sulphuric acid	127.2	154.1	162.0	184.5

SOURCE: Ministry of Economic Affairs and Labour, *Informe Económico*.

domestically produced equipment, and demand from the motor-vehicle and construction industries. There were also favourable trends in the ship-building, railways, wood, and pulp and paper industries; while the construction boom helped to increase activity in the stone, glass and pottery industry and the metal-transforming industries (excluding machinery).

(d) *Construction*

The construction sector expanded by 13.7 per cent owing to increases in both public and private building; and this led to a marked increase in demand for inputs. Public investment in building rose by 26.5 per cent during the year, accounting for more than one-third of total investment in the sector.

(e) *Services*

The basic services and other services sectors grew over-all by 6.2 per cent in 1969. This was attributable for the most part to the relatively high rate of growth of commerce (9.2 per cent), which makes up a large proportion of the sector, mostly owing to the generally high level of economic activity, which necessarily has an impact on commerce, and also to the modernization of marketing methods, with the establishment of new supermarkets (now totalling 185) and self-service stores (now approximately 400).

3. CONSUMPTION AND INVESTMENT

The growth of consumption (5 per cent) was partly attributable to increased demand for consumer durables, purchases of which were stimulated by credit facilities (see table 37). Several arguments have been adduced to explain why consumption grew during the first ten months of 1969 when money wages were stationary. It has been suggested that wage and salary ranges are expanding, with the result that some intermediate groups are participating in demand for household durables, passenger cars and dwellings, while at the same time the gap has widened between the intermediate groups and the low-income groups, which are lagging further and further behind.[18] This view is not shared by the Ministry of Economic Affairs and Labour, which considers that there has been some redistribution of income among wage- and salary-earners that has appreciably reduced the gap between the top and bottom groups, and that this is the factor that has enabled new strata of the population to participate in demand for consumer durables.[19]

In addition, according to a survey conducted by the National Economic Analysis Department of the Ministry of Economic Affairs and Labour, the proportion of the population considering that their indebtedness has reached its maximum point rose from 48.5 per cent in December 1968 to 51.9 per cent in September 1969.

The growth of gross fixed investment (approximately 15 per cent) was one of the most important factors promoting economic activity. It was initially attributable to the growth of public investment and private construction, which generated higher incomes and consumption, and this in turn helped to increase production and encouraged improved use of installed capacity. The result was that the amount of idle installed capacity declined and new investment was stimulated, especially in machinery and equipment.[20] Other contributory factors were the increase in profits by

[18] See Instituto de Investigaciones Económicas y Financieras de la Confederación General Económica, *Estudios sobre la Economía Argentina* No. 5, August 1969, pp. 6–7.

[19] See Ministry of Economic Affairs and Labour, *Informe Económico, Tercer Trimestre de 1969*, p. 45.

[20] *Ibid.*, p. 44.

enterprises, which promoted self-financing, and in facilities for imports of equipment. In some cases—the chemicals and refrigeration industries, for example—new investment was the result of technological modernization.

Public investment reached its highest point at the end of 1968, and during 1969 it was mainly devoted to completing projects under way and undertaking complementary work. Projects initiated between October 1968 and October 1969 included 1,100 kilometres of roads; work continued on the Chocón-Cerros Colorados engineering project, and the under-river tunnel linking Paraná and Santa Fé was inaugurated.

The public and private investment planned with a view to strengthening basic industry includes: (*a*) an industrial mining complex at Sierra Grande (Río Negro); (*b*) an aluminium-producing plant at Puerto Madryn (Chubut); (*c*) the prospecting and exploitation of copper deposits in San Juan, Mendoza and Neuquén; (*d*) the installation of a petrochemicals complex at Bahía Blanca (province of Buenos Aires); and (*e*) the expansion of the SOMISA steel plant and the entry into operation of the plant at Ensenada.

4. Prices, wages and employment

The cost-of-living index[21] rose by 6.7 per cent between December 1968 and December 1969, which compares favourably with the rise of 9.6 per cent between December 1967 and 1968. As shown in table 43, the sub-indexes for household expenditure, housing and foodstuffs were below the general index, while those for clothing and miscellaneous expenditure were above it.

Table 43. Argentina: variations in cost-of-living index,[a] 1967–1969

	December 1969 / December 1968	*December 1968 / December 1967*
General index	6.7	9.6
Foodstuffs and beverages	6.4	6.0
Clothing	7.4	13.3
Miscellaneous expenditure	7.7	19.0
Household expenditure	4.9	4.6
Housing	5.3	17.6

SOURCE: National Statistics and Census Institute.
[a] Covering the Federal capital.

Money wages remained at the same level from 1 January 1969—when basic statutory wages were increased by 8 per cent—until 1 November, when wages were increased by 3,000 pesos per month, not subject to deductions, which represented a 15 per cent increase in minimum wages. It was also decided that from 1 March 1970 basic statutory wages would be increased by 7 per cent. In addition, a contribution of 3 per cent was instituted to finance a social welfare fund. With these increases, the average annual money wages of skilled wage-earners rose by 9.6 per cent between 1968 and 1969, while those of unskilled workers rose by 10 per cent. Table 44 shows the trends of money and real wages.

Table 44. Argentina: movement of industrial wages, 1960–1969
(1960 = 100)

	Basic statutory wages		*Real wages*	
	Skilled worker	*Unskilled worker*	*Skilled worker*	*Unskilled worker*
1960	100.0	100.0	100.0	100.0
1961	126.3	124.1	111.1	109.1
1962	158.2	155.1	110.2	108.1
1963	197.7	194.1	109.4	107.4
1964	256.1	256.1	116.0	116.0
1965	343.6	348.2	121.1	122.7
1966	460.2	464.3	122.9	124.0
1967	598.9	602.0	123.8	124.5
1968	668.6[a]	672.1[a]	118.9	119.6
1969	732.7[a]	739.1[a]	121.2	122.2

SOURCE: Ministry of Economic Affairs and Labour.
[a] Money wages were adjusted from 1 January 1968 to include the increase in take-home pay resulting from the reduction in pension contributions.

The unemployment rate for the economically active population was 4.3 per cent in October 1969, compared with 4.5 per cent in April. A regional survey conducted also in April showed that unemployment was comparatively lower in the Federal capital (3.8 per cent), greater Buenos Aires (4.1 per cent) and greater Mendoza (2.5 per cent), and higher in Rosario (5.5 per cent), Córdova (6 per cent) and Tucumán (12.8 per cent).

5. Fiscal and monetary trends

During 1969, government income increased by 14.2 per cent and expenditures by 11.3 per cent, in monetary terms. Under the head of taxation, there were increases in revenue from the profits tax (19 per cent), sales tax (16 per cent), stamp duties (25 per cent) and import

[21] This index shows the cost-of-living of the family of an industrial wage-earner (*obrero*) in the Federal capital, irrespective of category, comprising a married couple with two children of school age, and covers variations in the cost of the 285 articles and 15 services making up the basic family budget as established by the survey conducted in 1960.

duties (42 per cent); while revenue from export taxes declined by 15 per cent because of the gradual reduction of tax levels. Current expenditures increased in absolute terms by 12.9 per cent, while capital expenditures rose by 7.4 per cent. Under the head of transfer payments to the remainder of the public sector, payments to decentralized agencies increased, while payments to State enterprises remained stationary, with the result that there was a slight reduction in the treasury deficit (see table 45). The deficit of the social welfare system also decreased, falling from 28,300 million pesos in 1968 to 8,300 million in 1969.

Table 45. Argentina: movement of treasury funds, 1967–69
(Thousands of millions of pesos)

	1967	1968	1969
Income	*489.2*	*575.8*	*657.8*
Current	476.2	505.2	572.0
Capital	12.9	70.6	85.8
Expenditure	*584.0*	*634.2*	*705.8*
Current	427.9	448.2	506.0
Capital	156.1	186.0	199.8
Other income—Other expenditure	*−4.4*	*8.4*	*0.9*
Deficit	*−99.2*	*−49.8*	*−47.2*
Financing	*99.2*	*49.8*	*47.2*
Central Bank	64.3	34.7	33.8
Official deposits on current account	37.5	−0.3	7.9
Short-term transactions	13.1	8.8	4.4
Treasury bills	13.1	11.4	4.0
Other	—	2.6	0.4
Debt liquidation certificates	−14.9	6.3	1.4
Variations in cash reserves	−0.8	0.3	−0.3

SOURCE: Ministry of Economic Affairs and Labour, *Informe Económico*.

Towards the end of 1969, a reform of the tax system, effective 1 January 1970, was announced. The reform includes the following main measures: (*a*) elimination of seven minor taxes; (*b*) restructuring and simplification of stamp duties; (*c*) inclusion of construction and non-taxed services under activities liable to the existing sales tax; (*d*) replacement of the tax on the purchase and transfer of motor vehicles with a tax on the ownership of motor vehicles; (*e*) permission to revalue assets; (*f*) the imposition of an additional tax on distributed profits covering shareholders that have not declared ownership of their shares; (*g*) reduction of the maximum marginal rate of profits tax from 50 to 46 per cent; (*h*) reduction of the fiscal cost of mergers in respect of enterprises maintaining business continuity; (*i*) exemptions from taxation for gifts and bequests to universities and scientific research institutes; (*j*) preferential treatment for expenditure on scientific and technological research by national enterprises; (*k*) permission to deduct, for purposes of calculating sales tax, 25 per cent of sums invested in capital goods and 10 per cent of sums spent on construction.

The money supply during 1969—especially during the second half of the year—was relatively restricted, compared with 1968. The private money supply grew by 9 per cent, compared with 26.5 per cent in 1968, while bank credit grew by 25 per cent, as opposed to 44 per cent in 1968 (see table 46). Given that the gross domestic product grew by some 15 per cent at current prices, the fact that the money supply expanded at the rate it did meant that the liquidity ratio declined; and this, together with the expectations of inflation aroused by the events early in the year and the rise in interest rates in world money markets, led to increases in domestic interest rates.

6. THE EXTERNAL SECTOR

The salient feature of the 1969 balance of payments was expansion of trade and the decline in gross foreign exchange reserves by some 233 million dollars. The value of merchandise imports grew by 32 per cent and that of exports by 18 per cent, reducing the trade surplus to only 70 million dollars (compared with almost 200 million in 1968). This, added

Table 46. Argentina: money supply, 1960 and 1967–1969
(End-year balances in thousands of millions of pesos)

	1960	1967	1968	1969
Private money supply	187.7	871.6	1,105.0	1,202.0
Slow-moving deposits	61.6	426.0	575.4	682.3
Loans to the private sector	177.1	817.8	1,179.5	1,473.7
Annual growth rates				
	1960–7	*1967*	*1968*	*1969*
Private money supply	24.6	29.8	26.5	9.0
Slow-moving deposits	31.8	38.0	35.1	18.6
Loans to the private sector	24.4	30.6	44.2	25.0

SOURCE: Central Bank.

to the payments in respect of real and financial services and net private transfer payments, created a deficit on current account of almost 190 million dollars. Net non-compensatory capital inflows declined, owing to sizable outflows of short-term capital, probably because of the pessimism aroused early in the year (see table 47). The net result was that foreign exchange reserves, which stood at 810 million dollars at the beginning of the year, fell to 784 million by the end of the first half of the year and to 580 million by the end of the year. This decline, however, enabled the monetary authorities to liquidate liabilities to a net value of 150 million dollars, which, together with the balance-of-payments deficit before compensatory financing of 82 million dollars, equalled the loss of net reserves.

Merchandise exports grew by 17.7 per cent in value, mainly owing to the increase in beef and maize sales. Worthy of mention are the changes that occurred in cattle exports,[22] and the steady although moderate rise in non-traditional exports.

The increase in merchandise imports over 1968 (370 million dollars or 31.7 per cent) was essentially due to increased imports of raw materials, and intermediate goods (253 million dollars) and capital goods (92 million). Among industrial inputs, iron and steel products increased sharply as a result not only of the greater volume of imports but also of the rise in world prices. Moreover, it would appear that stocks of certain products were larger than normal (see table 47).

[22] Effective 1 October 1969, the United Kingdom prohibited imports of unboned meat including offal from Argentina; effective the same date, United Kingdom import duties *ad valorem* on boned meat were reduced from 20 to 5 per cent. This stimulated the refrigerating industry to modernize rapidly, resulting in the installation of equipment for processing cooked meats, frozen meats, canned meats and meat extracts, and the adoption of new boneless meat cuts.

Barbados[23]

1. Recent economic trends

In 1969 the economy of Barbados pursued the upward trend noted in previous years in real terms. At current prices, the product grew by 9.3 per cent annually in the period 1965–1967, by 14.5 per cent in 1968, and by approximately 6 per cent in 1969 (see table 48 and figure IV).

Because the sugar industry's share of the total product declined from 20 per cent in 1960

[23] All references to dollars in this section are to East Caribbean dollars unless otherwise stated. Two East Caribbean dollars are equal to one United States dollar.

Table 47. Argentina: balance of payments, 1961 and 1967–1969
(*Millions of dollars*)

	1961	*1967*	*1968*	*1969*
Current account				
Goods	−496.2	369.0	198.7	70.0
Exports	964.1	1,464.5	1,367.9	1,610.0
Imports	1,460.3	1,095.5	1,169.2	1,540.0
Services	−75.8	−191.8	−213.2	−255.0
Real services	26.1	−72.2	−71.7	−95.0
Financial services	−101.9	−119.6	−141.5	−160.0
Unilateral transfers[a]	−12.7	−3.0	−4.0	−4.0
Capital account				
Movements of non-compensatory capital	425.2	243.8	175.2	105.0
Private sector	303.0	232.7	127.2	−32.0
Long-term	177.5	−21.7	−1.5	57.0
Short-term	125.5	254.4	128.7	−89.0
Public sector	−123.8	−0.9	69.2	99.0
Local government	—	−1.5	−0.9	1.0
National government	123.8	0.6	70.1	98.0
Banking	−1.6	12.0	−21.2	38.0
Errors and omissions	−2.2	−3.2	2.8	2.0
International transfer payments (increase −)	161.7	−414.8	−159.5	82.0
International reserves (increase −)	193.6	−479.8	−57.3	233.0
Movements of compensatory capital	−31.9	65.0	−102.2	−151.0
Central Bank	−56.9	125.9	−17.7	−83.0
National government	25.0	−60.9	−84.5	−68.0

SOURCE: Ministry of Economic Affairs and Labour, *Informe Económico*.
[a] Including private and official transfer payments.

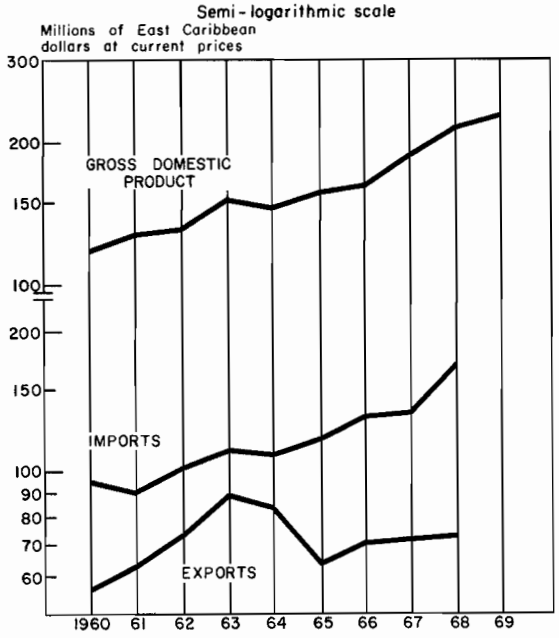
Table 48. Barbados: gross domestic product at current factor cost, by sector of economic activity, 1965 and 1967–1969

	Millions of East Caribbean dollars (at current prices)				*Growth rates (percentage)*		
	1965	*1967*	*1968[a]*	*1969[a]*	*1965–67*	*1968[a]*	*1969[a]*
Sugar	31.5	35.1	28.6	25.0	5.6	− 18.5	− 12.6
Other agricultural commodities	9.9	12.7	13.1	...	13.3	3.1	...
Manufacturing and mining	16.2	18.6	21.0	...	7.2	12.9	...
Construction	14.9	16.4	20.0	...	4.9	22.0	...
Commerce	35.6	39.2	50.0	55.0	4.9	27.6	10.0
Transport and public utilities	9.0	14.6	18.2	...	27.3	24.7	...
Ownership of dwellings	6.5	7.3	8.0	...	6.0	9.6	...
Services	17.0	19.5	27.8	38.0	7.1	42.6	36.7
Government	17.6	25.8	30.0	34.0	21.0	16.3	13.3
TOTAL	*158.2*	*189.2*	*216.7*	*230.0*	*9.3*	*14.5*	*6.1*

SOURCE: *Economic Survey of Barbados, 1969*, table X, and ECLA estimates based on official statistics.
[a] Preliminary estimates.

Figure IV. Barbados: 1960–69

EVOLUTION OF GROSS DOMESTIC PRODUCT IMPORTS AND EXPORTS



to just over 13 per cent in 1968, the violent fluctuations in the growth of the product were eliminated.

Domestic prices remained relatively stable in 1969 compared with the 10 per cent increase recorded the year before as a result of the currency devaluation in late 1967. A slowing down in the upward price trend began to be evident in the second half of 1968, when prices rose only 2 per cent, compared with 9 per cent in the first six months. In 1969 the price index rose 4.5 per cent, which is practically the same as the increase recorded before devaluation.

The drop in sugar output for the second consecutive year brought export earnings down, but this contraction was offset by the larger income under the head of services.

2. MAJOR SECTORS OF ACTIVITY

The results obtained in 1969 underline the importance of the structural changes that were beginning to be apparent in 1964. With the sugar industry's loss of relative importance, the economy has become less dependent on that sector and economic trends have been determined mainly by growing activity in the government, transport and public utilities and services sectors.

Manufacturing, which has followed much the same trend as the total product, has been increasingly diversified, despite a greater interdependence with the construction sector.

Sugar production declined from 210,000 tons in 1967 to 138,000 in 1969; but the rest of agricultural output—which accounts for a relatively small share of the total product—has steadily increased over the past four years at a rate similar to that of the total product.

The highest growth rates from 1965 onwards were attained by commerce, transport, government and public services.

3. THE EXTERNAL SECTOR

Exports have increased slowly in the last few years, as is shown by the rate of 2.8 per cent recorded in 1968. In fact, this growth is the result of an increase in re-exports, which account for one third of the value of exports, since exports proper declined.

The contraction was mainly in food-stuffs, beverages and tobacco, which represent two thirds of the total, but there was a marked

increase in fuels, chemical products, and machinery and transport equipment (see table 49).

Imports rose by more than 25 per cent in 1968; the largest increments were in fuels and goods for re-export, at the expense of foodstuffs, as in the case of exports (see table 50).

The difference between the growth rates of exports and imports has resulted in a growing trade deficit, estimated at about 130 million dollars in 1969. This situation has been aggravated to some extent by the fact that the currency devaluation at the end of 1967 caused a rise in import prices, while there was little change in export prices, chiefly because of the direction of trade and the system for establishing prices. Concurrently, despite the price increases, there was a bigger demand for imported goods, while exports were affected by the drop in sugar sales from 37 million dollars in 1967 to 29 million in 1968 and 22 million in 1969, owing to the decline in domestic output.

The trade deficit has been partially reduced by the increase in income from tourism, which went up from 29 million dollars in 1966 to 54 million in 1968 and an estimated 65 million dollars in 1969. Outflows under this head were over 5 million dollars. Other services items showed negligible net balances.

Bolivia

1. Recent economic trends

The Bolivian economy maintained a steady and fairly rapid rate of expansion during the 1960s. Thus, the gross domestic product grew by 4.9 per cent in the first five years and by 6.4 per cent in the period 1965–1968; in 1969 it increased by 4.7 per cent. The sectors which gave impetus to the over-all growth were manufacturing, construction and the basic services. Agriculture and other services remained below the average and mining declined

Table 49. Barbados: value and composition of exports and re-exports, 1965 and 1966–1968[a]

SITC sections	*Value (millions of East Caribbean dollars)*				*Percentage of total*	
	1965	*1966*	*1967*	*1968*	*1965*	*1968*
0 Food	43.8	45.8	47.6	43.2	68.2	58.8
1 Beverages and tobacco	3.4	3.9	3.5	3.4	5.3	4.7
2 Crude materials	0.3	0.2	0.4	0.4	0.4	0.5
3 Fuels and lubricants	9.9	11.9	10.9	13.1	15.5	17.8
4 Animal and vegetable oils and fats	0.4	0.3	0.1	0.1	0.6	0.1
5 Chemicals	0.8	1.5	1.9	2.5	1.3	3.4
6 Manufactured goods	2.3	2.6	2.3	2.5	3.6	3.3
7 Machinery and transport equipment	1.6	1.5	2.0	4.6	2.5	6.2
8 Miscellaneous manufactured articles	1.1	1.5	2.1	2.9	1.7	4.0
9 Other goods	0.4	0.6	0.6	0.9	0.7	1.2
TOTAL	*64.3*	*70.0*	*71.5*	*73.5*	*100.0*	*100.0*

SOURCE: *Barbados Overseas Trade Reports* (annual and quarterly issues), and ECLA estimates based on annual figures.

[a] Round figures.

Table 50. Barbados: value and composition of imports, 1965–1968 and 1966–1968[a]

SITC sections	*Value (millions of East Caribbean dollars)*				*Percentage of total*	
	1965	*1966*	*1967*	*1968*	*1965*	*1968*
0 Food	31.9	34.1	32.5	38.6	27.4	23.0
1 Beverages and tobacco	2.1	2.4	2.3	3.3	1.8	2.0
2 Crude materials	3.9	4.4	4.9	5.9	3.3	3.5
3 Fuels and lubricants	11.8	13.1	11.6	16.6	10.1	9.9
4 Animal and vegetable oils and fats	0.8	0.8	1.1	1.6	0.7	1.0
5 Chemicals	8.3	9.8	10.9	12.3	7.2	7.3
6 Manufactured goods	23.2	27.2	27.2	31.5	20.0	18.8
7 Machinery and transport equipment	18.9	22.3	25.7	35.1	16.3	20.9
8 Miscellaneous manufactured articles	11.3	13.1	13.8	17.5	9.8	10.4
9 Other goods	3.9	4.0	3.8	5.6	3.4	3.3
TOTAL	*116.3*	*131.1*	*134.1*	*168.1*	*100.0*	*100.0*

SOURCE: *Barbados Overseas Trade Reports* (annual and quarterly issues), and ECLA estimates based on official statistics.

[a] Round figures.

Table 51. Bolivia: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

Sector	Structure (percentages)				Average annual growth rates (percentages)		
	1960	1965	1968	1969	1960–65	1965–68	1969
Agriculture	30.6	28.1	23.2	23.1	2.9	0.2	3.9
Mining	10.5	10.8	14.6	13.9	5.2	17.8	−0.5
Manufacturing	11.8	13.0	13.2	13.3	6.7	6.9	5.3
Construction	3.8	4.8	7.3	8.1	9.4	21.9	16.0
Subtotal goods	*56.7*	*56.7*	*58.3*	*58.4*	*4.6*	*7.3*	*4.6*
Electricity, gas and water	1.1	1.2	1.2	1.2	6.8	6.8	3.6
Transport and communications	9.1	9.0	9.2	9.6	4.5	7.0	9.0
Subtotal basic services	*10.2*	*10.2*	*10.4*	*10.8*	*4.8*	*6.9*	*8.3*
Commerce and finance	10.9	10.6	9.8	9.9	4.1	3.7	5.5
Government	6.9	8.3	8.3	8.0	8.5	6.2	0.8
Miscellaneous services	15.3	14.2	13.2	12.9	3.2	3.8	1.6
Subtotal other services	*33.1*	*33.1*	*31.3*	*30.8*	*4.7*	*4.4*	*2.6*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*4.9*	*6.4*	*4.7*

SOURCE: For 1960 and 1967, ECLA estimates on the basis of data supplied by the Planning Officer; for 1968 and 1969, ECLA estimates.

slightly in absolute terms, owing to the drop in petroleum output. Measured in terms of real income, the growth rate averaged 6.2 per cent annually from 1960 to 1969 as a result of the favourable export price trends, which means a per capita increase of 3.6 per cent annually (see tables 51, 52 and figure V).

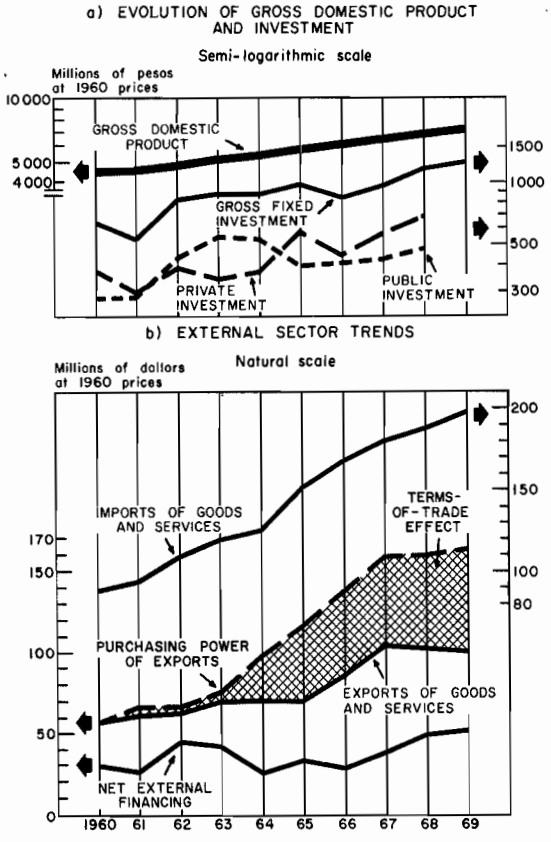
Table 52. Bolivia: trend of total and *per capita* gross product and income, 1960 and 1965–1969

Year	Gross domestic product	Terms-of-trade effect	Gross income	Per capita income (pesos at 1960 prices)
	Millions of pesos at 1960 prices			
1960	4,233	—	4,233	1,105
1965	5,375	+360	5,735	1,324
1966	5,726	+398	6,124	1,376
1967	6,048	+415	6,463	1,417
1968	6,482	+432	6,914	1,477
1969[a]	6,786	+485	7,271	1,515
Annual growth rate				
1960–1965	4.9	—	6.3	3.7
1965–1968	6.4	—	6.4	3.7
1969	4.7	—	5.2	2.6

SOURCE: ECLA, on the basis of official statistics.
[a] Preliminary figures.

One of the factors primarily responsible for these economic trends was the expansion of exports, which, together with the inflow of capital, stepped up Bolivia's capacity to import. This favourable trend, which tripled the value exports between 1960 and 1969, was attributable to the expansion of the petroleum industry, the increase in tin prices—particularly in 1964 and 1965—and the sizable volume of other exports. The value of exports of goods rose by 7.3 per cent in 1969, influenced partly by the significant increase in tin prices—added

Figure V. Bolivia: 1960–69



to which there was a small increase in the volume exported—and partly by the drop in petroleum exports. Imports of goods rose 7 per cent in value over the previous year, despite the application of restrictive measures and especially the rises in customs tariffs.

The slower growth of the product and of imports in 1969 in relation to the three years 1966–1968 brought the growth rate of aggregate supply down from 6.8 to 4.8 per cent between the two periods (see table 53). The smaller supply of goods and services affected all the components of aggregate demand. As regards the components of aggregate demand, fixed investment grew by 5.3 per cent in 1969, far below the exceptional 20 per cent jump the year before. The highway programmes were kept up in 1969 and the construction of dwellings and public building continued at a fairly rapid rate. There was also some investment in the construction of ore smelters and electric power stations and in oilfields; private investment, on the other hand, contracted slightly owing to the uncertainty associated with a change of government. Altogether, following the trend initiated at the beginning of the decade, fixed investment rose faster than the product. Private consumption increased by 4.3 per cent and current general government expenditure by 6 per cent, at constant prices.

In the sphere of public finance, the fiscal deficit probably went up since it is estimated that expenditure rose by 12 per cent and income by only 7 per cent. Domestic prices remained fairly stable, since they rose by only 2.2 per cent, that is, less than in previous years. One of the factors that was conducive to this comparative stability was the larger supply of agricultural products for domestic consumption.

Other factors which helped to keep the exchange rate stable were the increase in gold and foreign exchange reserves (35.3 million dollars between 1960 and 1969), and the contingency credit granted by the International Monetary Fund in the last two years.

2. Major sectors of activity

(a) *Agriculture*

Agriculture production grew by 3.9 per cent in 1969 as a result of bumper harvests in the main crops. These include potatoes, the 10 per cent increase being due to the action taken to promote production, not only through the expansion of the area sown but also through a greater use of fertilizers and the adoption of new varieties of seeds; in addition, a loan of 385,000 dollars was obtained from the Inter-American Development Bank (IDB) for use in the "quinua potato" programme. The wheat crop increased 16 per cent with the introduction of new varieties and the improvement of yields through the use of fertilizers. Rice production, which had already risen considerably in 1968, went up 13 per cent more in 1969. Sugar-cane showed better yields—80 tons in the Bermejo area—which raised production by 11 per cent. There was also a sharp upswing in cotton (25.7 per cent) but production is still far from covering domestic needs, which would entail the introduction of long-fibre varieties. Output of coffee rose 4.8 per cent, while that of maize—which had declined in the period 1964–1968—increased by 3.6 per cent. In 1969 for the first time pyrethrum was picked on the Altiplano; considerable manpower is required for this crop, which yields comparatively high returns. Soya was cultivated extensively in the Oriente region.

In contrast with the boom of crop farming, the livestock product grew more slowly, since the slaughtering rates for cattle and sheep increased by only 1.4 per cent and 2.6 per cent respectively. Programmes to promote livestock production covered marketing in addition to technical assistance and credit. Beef imports were prohibited and fuel for carrying meat by air in the Beni region was sold at subsidized prices. The International Bank for Reconstruction and Development granted a 2 million dollar loan to the Banco Agrícola for the promotion of stock-farming in the Beni area and IDB granted a further 7 million dollars for the same purpose in the Santa Cruz and Tarija regions.

Studies and research continued as part of the agricultural development project being carried out in the Abapó-Izozog region, and 30,000 new title-deeds were granted under the agrarian reform programme.

(b) *Mining*

Mining output—excluding petroleum—increased slightly over the previous year's level. In the period 1966–1968, stimulated by high world market prices, it had risen over 8 per cent annually. During the same three-year period tin production rose by about 25 per cent (53.6 per cent in private mining activities and 12.7 per cent in the public sector). Thanks to the diversification policy of the Bolivian Mining Corporation (Corporación Minera de Bolivia—COMIBOL), the production of metals other than tin has been intensified and now accounts for 30 per cent of COMIBOL's total income. Wolfram output tripled during this period and there were sizable increases in copper (51 per cent), lead (34 per cent), antimony (28 per cent) and silver (28 per cent).

The projects designed to step up ore-processing in Bolivia proceeded in 1969. Thus in

Table 53. Bolivia: total supply and demand for selected years, 1960–1969

	Millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*5,551.0*	*7,476.9*	*9,120.5*	*9,557.5*	*123.9*	*131.5*	*133.0*	*133.1*	*6.1*	*6.8*	*4.8*
Gross domestic product	4,479.0	5,687.8	6,858.2	7,180.5	100.0	100.0	100.0	100.0	4.9	6.4	4.7
Imports of goods and services	1,072.0	1,789.1	2,262.3	2,377.0	23.9	31.5	33.0	33.1	10.8	8.1	5.1
Total demand	*5,551.0*	*7,476.9*	*9,120.5*	*9,557.5*	*123.9*	*131.5*	*133.0*	*133.1*	*6.1*	*6.8*	*4.8*
Exports of goods and services	726.0	884.3	1,302.5	1,301.3	16.2	15.6	19.0	18.1	4.0	13.8	—0.1
Total investment	*675.0*	*1,125.4*	*1,225.8*	*1,370.4*	*15.1*	*19.8*	*17.9*	*19.1*	*10.7*	*2.9*	*11.8*
Gross fixed investment	637.0	971.0	1,171.8	1,233.9	14.2	17.1	17.1	17.2	8.8	6.5	5.3
Private	362.0	573.6	694.3	...	8.1	10.1	10.0	...	9.6	6.6	...
Public	275.0	397.4	477.5	...	6.1	7.0	7.1	...	7.6	6.3	...
Total consumption	*4,150.0*	*5,467.2*	*6,592.2*	*6,885.8*	*92.6*	*96.1*	*96.1*	*95.9*	*5.7*	*6.4*	*4.4*
General government	387.0	607.7	683.1	724.1	8.6	10.7	10.0	10.1	9.4	4.0	6.0
Private	3,763.0	4,859.5	5,909.1	6,161.7	84.0	85.4	86.1	85.8	5.2	6.7	4.3

SOURCE: For 1960–1967, ECLA estimates based on data supplied by the Planning Office; for 1968–1969, ECLA estimates.

mid-1970 the National Smelting Company (Empresa Nacional de Fundición) will start operating the tin smelter near Oruro, which will produce 7,500 tons of electrolytic metal and 800 of tin alloys in the first stage of its operations. Its cost of 5.6 million dollars has already been financed. At the end of 1969 work began on the construction of a bismuth smelter at a cost of 1.2 million dollars, which will have a monthly capacity of 400 tons of fines and is expected to start operating in 1971 at one quarter capacity. Moreover, a project has been completed for an antimony smelter with a capacity of 3,000 tons of fine metal and 1,000 tons of alloys, at a cost of 3 million dollars, to be financed by the National Smelting Company.

(c) *Petroleum and natural gas*

Petroleum output is estimated to have dropped by about 2 per cent in 1969; it had risen 3.2 per cent in 1968 after having increased 4.3 times its previous volume of production in the two years 1966–1967.

In 1968 the Bolivian Petroleum Corporation (Yacimientos Petrolíferos Fiscales Bolivianos—YPFB) stepped up development of the Camiri oilfields and raised production by 13.6 per cent. In contrast, the output of the Bolivian Gulf Oil Company (BOGOC)—which gave rise to the increase in production and exports as from 1966—went up less than 1 per cent during 1968 because production in its Caranda, Río Grande and Colpa oilfields remained static and because of difficulties over storage capacity in the Chilean port of Arica. The Company's exports by pipeline to Arica fell from 1.46 million cubic metres in 1967 to 1.3 million in 1968.

The State enterprise, which in 1968 produced about 500,000 m^3 of crude oil (20 per cent of total output) and purchased as much again from BOGOC, refines approximately 600,000 m^3 for domestic consumption and exports the rest to Argentina; these exports rose from 74,000 m^3 in 1966 to 402,000 m^3 in 1968, and were estimated at 500,000 m^3 in 1969.

The drop in crude oil production in 1969 was due to a work stoppage in mid-October in the oilfields being developed by the Bolivian Gulf Oil Company. Meanwhile YPFB recorded a production increase estimated at about 38 per cent.

When the BOGOC installations were nationalized, all phases of petroleum development passed into the hands of the State, since the 1956 Petroleum Code which allowed oil concessions to be granted to private companies had already been abolished. As a result, YPFB is faced with the problem of finding new markets for the petroleum which BOGOC formerly exported to the United States, and also the financial resources to continue developing the oilfields now in their possession and to proceed with the construction of a gas pipeline to the Argentine border. The construction of this pipeline, at a cost of some 50 million dollars, was to be financed partly by an IBRD loan of 23.2 million dollars, three quarters of which had already been drawn by the end of 1969; a loan for the same amount granted to BOGOC by a private bank in New York; and a loan from the Gulf Oil Company, Pittsburg, to finance a gas separating and a recycling plant. After nationalization, however, this financing had to be renegotiated. At this new stage of the negotiations, the Argentine Government has offered to assume responsibility for BOGOC's guarantee to IBRD and to provide technical advisory assistance in the construction work. Since, in addition, the German firm supplying the piping has granted credit, the project's continuation seems to be assured.

Previously, the Bolivian Gulf Oil Company had discovered substantial natural gas reserves which at the end of 1968, were estimated at 2,830 million m^3; consideration is now being given to the possibility of using this gas in petrochemical projects, thermo-electric plants and ore smelters. IDB approved loans totalling 9 million dollars for the construction of thermo-electric plants in Potosí and Sucre to be run on natural gas; the project provides for the construction of a 260 kilometre gas pipeline at a cost of 4.3 million dollars, of which IDB would contribute 3.3 million and YPFB the rest.

In 1969 Bolivia signed a petrochemical agreement with Chile, Colombia and Peru, at Montevideo, under which Bolivia would concentrate on the production of colouring materials, pesticides and plastic resins. At the end of the year talks were held with the Government of Mexico with a view to PEMEX contributing to the construction of the petrochemical complex for YPFB in Santa Cruz, at a cost of 10.8 million dollars, for the production of ammonia, ammonium nitrate and nitric acid.

(d) *Manufacturing*

Manufacturing grew by a little over 5 per cent in 1969, seemingly affected by import restrictions, the rise in customs tariffs which came into force in 1968, and the uncertainty produced by the change of government. In the last three years it had already lost some of the impetus that had characterized its evolution in

the period 1961–1966, when it grew by 8.9 per cent annually, and by 1968 the increase was 6.5 per cent.

Under the Government's past economic policy, industrial development has been given special treatment as regards credit, technical assistance and, especially, the concession of tariff exemptions for imports of the machinery, equipment, raw materials and intermediate goods it requires.

The Government has decided to review its industrial policy, which is implemented mainly through the Bolivian Development Corporation and the Bolivian Investment Promotion Institute (Instituto para la Promoción de Inversiones de Bolivia—INPIBOL), with the result that, in October, it was decided to abolish tariff exemptions of all kinds, which were one of the main instruments used by INPIBOL in its investment promotion policy.

Up to August 1969 INPIBOL had thirty-eight new investment projects on its books for a total of 15 million dollars. Meanwhile the Development Corporation granted thirty loans totalling 2.5 million dollars and requested a new over-all loan of 12.5 million dollars from IDB to finance industrial projects.

Petroleum refining constitutes 13 per cent of the total industrial value added and it has grown more rapidly than the rest of the sector. It rose 7.3 per cent in 1960–1965, 18.4 per cent in 1966 and 9 per cent in the next three years, which shows how much Bolivia's refining capacity has increased.

(e) *Other sectors*

There was an estimated increase of 16 per cent in the value added by construction in 1969; this rate, although lower than in 1968, continues the exceptional expansion of this sector since the beginning of the decade.

About one quarter of total public investment was allocated to communications and transport in 1969. There are at present fourteen projects under way for the construction and improvement of 1,820 kilometres of highway. Public and private housing construction also showed great impetus, as did commercial building also.

With the entry into operation of the Harka hydroelectric plant in La Paz-Valle de Zongo, total installed capacity rose from 26,400 to 28,400 kW. Meanwhile, the total electricity generated was 705.5 million kW, which means an increase of 5 per cent.

Currently under construction are a 13,200 kW thermo-electric plant to operate on the basis of natural gas in Santa Cruz, a 36,000 kW hydroelectric plant near Cochabamba, and a 26,000 kW hydroelectric plant near the Harka plant. The total cost of these three projects is 327 million pesos. There is also a project to build two natural gas thermo-electric plants in Sucre and Potosí.

3. The external sector

The economic expansion recorded during the 1960s is largely attributable to the rapid growth of exports—which tripled between 1960 and 1969—and to a steady inflow of foreign capital which raised Bolivia's capacity to import to a high level. The value of merchandise exports increased by 7.3 per cent, according to data adjusted for the balance of payments. Prices of ores took a sharp upturn in 1969; tin prices went up 6.5 per cent and prices of other ores by 13.3 per cent. The 2 per cent increase in the volume of tin sales seems to have been partly due to the decision of the International Tin Council to establish export quotas. The increase in the volume of other exports of ore —which represent half the value of tin exports —it was 19.6 per cent; the volume of crude petroleum exports shrank 6.8 per cent, which is attributable to the cessation of exports by the Bolivian Gulf Oil Company, since YPFB exports rose about 25 per cent.

A medium-term backward look shows that exports increased by approximately 10 per cent annually up to 1963 and more than doubled in value in the next four years; but 1968 saw the end of this boom period of high world prices for ores, combined with increases in the volume exported and the exceptional rise in petroleum exports.

In reviewing export trends since 1964 it will be seen that, besides the rise in tin prices in 1964 and 1965 and the level reached by petroleum exports, other mining exports also played an important part, increasing 2.7 times in value between 1963 and 1969, since prices doubled and the volume of exports increased by 30 per cent. The most important of these exports were wolfram, which increased 9.6 times in value during that period, and copper, antimony and zinc, which also recorded exceptional increments (see table 54).

Imports of goods, which have been growing by 11 per cent annually from the beginning of the decade, are estimated to have risen by 7 per cent in 1969, in spite of the minimum prices established in 1968 for the customs valuation of goods and increases in customs duties; exports of goods also grew more slowly in 1969.

Imports of goods increased 2.4 times their previous value during the period 1960–1968. In

Table 54. Bolivia: trends of major exports, 1964–1969[a]

	Percentage share of total (1968)[a]		Index: 1963 = 100					
			1964	1965	1966	1967	1968	1969[b]
Tin	48.3	Value	141.2	162.2	162.7	158.5	161.4	178.9
		Volume	105.6	104.7	113.5	118.6	127.3	129.9
		Unit value	133.7	154.8	143.3	133.7	126.9	137.7
Silver	5.8	Value	105.1	89.9	11.7	113.1	189.9	183.6
		Volume	99.3	83.4	105.3	93.4	106.6	124.5
Wolfram	5.1	Value	122.1	191.8	439.4	686.0	834.7	955.2
		Volume	91.3	79.3	115.5	143.1	166.9	169.7
Copper	4.0	Value	170.6	190.4	334.9	346.4	418.2	592.0
		Volume	156.2	157.8	190.3	211.4	231.4	264.1
Antimony	3.1	Value	215.5	233.2	208.6	252.9	238.0	433.4
		Volume	127.7	116.2	141.1	151.8	147.2	173.8
Lead	2.7	Value	115.9	133.8	150.4	116.2	121.2	161.5
		Volume	87.7	87.0	105.7	100.7	110.7	125.2
Zinc	1.6	Value	258.9	357.7	418.8	373.8	250.7	657.9
		Volume	210.9	295.0	359.7	358.8	253.5	571.0
Total ores (excluding tin)	24.2	Value	116.5	133.9	161.6	171.0	198.2	268.7
		Volume	94.6	98.2	110.3	107.6	109.4	130.9
		Unit value	123.1	136.4	146.6	158.9	181.2	205.3
Petroleum	15.5	Volume	41.2	37.3	296.7	1,549.0	1,577.1	1,470.1

SOURCE: ECLA estimates on the basis of data obtained from the Central Bank and other official sources.

[a] In estimating the importance of ores in total exports, 18 per cent was deducted from the total value of the ores, to offset the higher figures recorded for them, which includes the cost of processing abroad.

[b] Estimates.

the first five years a marked change took place in their composition, which then remained practically the same for the next three years. In general these changes were brought about by the greater impetus that was given to investment in infrastructure and to manufacturing production through import substitution of consumer goods. Thus, imports of raw materials and intermediate goods increased their share from a quarter to a third of the total at the expense of consumer goods, which declined in the same proportion. The share of construction materials and fuels also diminished and there was a slight increase in that of capital goods, especially transport materials (see table 55).

The difference between the growth of exports and that of imports of goods and services in the period 1960–1967 made it possible to reduce the trade deficit from 32 million dollars at the beginning of the decade to 24 million in 1967. The slower growth of exports in the last two years, however, and the huge increases in remittances of profits and interest to other countries, pushed up the deficit on current account to 55.9 and 56.1 million dollars in 1968 and 1969 respectively (see table 56).

Table 55. Bolivia: percentage composition of imports, 1960, 1965 and 1968

	1960	1965	1968[a]
Consumer goods	32.0	24.8	25.4
Fuels	3.4	0.9	1.2
Raw materials and intermediate products	26.6	33.6	33.8
Construction materials	2.8	1.6	2.3
Capital goods	34.5	38.5	36.8
For agriculture	1.1	0.7	0.6
For industry	25.4	24.6	23.0
For transport	8.0	13.2	13.2
Other	0.7	0.6	0.5
TOTAL	*100.0*	*100.0*	*100.0*

SOURCE: ECLA, on the basis of official statistics.

[a] Preliminary figures.

The gross inflow of foreign capital in the form of loans has risen sharply in recent years and totalled 66 million dollars in 1968, which, despite a corresponding increase in amortization payments, left a net balance of over 50 million dollars in 1968, and 45 million in 1969.

Against this, there was a drop in the volume of official transfer payments which reached a peak of 26.5 million dollars in 1963 but has

Table 56. Bolivia: balance of payments for selected years, 1960–1969
(Millions of dollars)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	57.8	125.8	169.0	170.2	121.8
Goods f.o.b.	54.4	115.5	155.2	157.1	168.6
Services	3.4	10.3	13.8	13.1	13.2
Imports of goods and services	−89.7	−161.7	−193.0	−202.6	−216.9
Goods f.o.b.	−68.2	−126.6	−151.8	−161.5	−172.8
Services	−21.5	−35.1	−41.2	−41.1	−44.1
Net external investment income	1.2	−3.6	−18.0	−23.6	−22.0
Net private transfer payments	0.2	1.1	1.0	0.1	1.0
Balance on current account	−30.5	−38.4	−41.0	−55.9	−56.1
Capital account					
Net external financing	30.5	38.4	41.0	55.9	56.1
External non-compensatory capital	32.7	53.2	37.1	66.3	65.9
Direct investment	16.5	12.5	0.5	6.5	7.7
Long- and medium-term loans	12.8	25.6	40.9	65.7	58.8
Amortization payments	−11.4	−9.7	−14.4	−12.6	−13.0
Short-term liabilities	2.0	9.9	−1.8	0.1	3.0
Official transfer payments	12.8	14.9	11.9	6.6	9.7
Domestic non-compensatory capital or assets	−1.8	−2.2	−2.3	−3.6	−4.0
Errors and omissions	−3.1	1.3	−1.8	−6.6	−5.4
Compensatory movements (increase−)	2.7	−13.9	8.0	−0.2	−0.4
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	0.2	5.0	14.3	11.0
Amortization payments	−3.7	−1.1	−0.3	−3.8	−8.9
Gold and foreign exchange (increase−)	5.3	−13.0	3.3	−10.7	−2.5

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21. [a] Central Bank estimates.

oscillated between 6 and 10 million dollars during recent years. There was also a decline in direct investment of foreign capital, which was far exceeded by remittances of profits and interest abroad over the past three years.

For the past two years, the net inflow of non-compensatory capital has been large enough to offset the deficit on current account and improve the net position of the monetary authorities. Their position was also strengthened by recourse to IMF stand-by loans. In January 1969, Bolivia, entered into another stand-by arrangement with the IMF for 20 million dollars. In the course of the year, 11 million dollars of this amount were paid back and a further 8 million dollars repaid on an earlier loan.

Brazil

1. RECENT ECONOMIC TRENDS

With a growth rate of 9 per cent in 1969, Brazil's economy maintained the rapid expansion begun in 1968; a number of recent economic trends, however, are in contrast with the situation obtaining in 1968, when the growth rate was 8.3 per cent (see tables 57 and 58, and figure VI). In the first place, industry, with an over-all growth rate of 10.8 per cent, failed to match the figure for 1968 (13.2 per cent). Expansion in 1969 came essentially from a 34.5 per cent increase in the motor-vehicle industry which swept along the associated metal transforming sectors in its wake, albeit at a much lower tempo. The growth of production of industrial goods for general consumption, on the other hand, mostly lagged far behind that of the previous year. The growth rate of civil construction also fell, though it still managed a relatively high 7.1 per cent. Agriculture likewise followed a different trend; there was a boom in coffee production (around 30 per cent) which alone accounted for 2 per cent of the sector's over-all 6 per cent growth rate.

The external sector continued to do extremely well, in both real and financial terms. Merchandise exports rose by more than 20 per cent and imports by almost 8 per cent, with imports of capital goods, which maintained the previous year's pace of 20 per cent, taking the lion's share. There was a substantial inflow of foreign capital, with a net credit balance of over 1,000 million dollars, comfortably exceeding the deficit on current account (233 million dollars). The total balance of payments before

Table 57. Brazil: total supply and demand for selected years, 1960–1969

	Millions of cruzeiros at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*2,958.3*	*3,577.2*	*4,343.4*	*4,722.7*	*107.4*	*104.1*	*106.0*	*105.7*	*3.9*	*6.7*	*8.7*
Gross domestic product	2,755.5	3,434.7	4,097.0	4,465.7	100.0	100.0	100.0	100.0	4.5	6.1	9.0
Imports of goods and services	202.8	142.5	246.4	257.0	7.4	4.1	6.0	5.7	−6.8	20.0	4.3
Total demand	*2,958.3*	*3,577.2*	*4,343.4*	*4,722.7*	*107.4*	*104.1*	*106.0*	*105.7*	*3.9*	*6.7*	*8.7*
Exports of goods and services	166.8	196.0	245.3	292.3	6.1	5.7	6.0	6.5	3.3	7.8	19.2
Total investment	*507.5*	*621.5*	*754.2*	*874.4*	*18.4*	*18.1*	*18.4*	*19.6*	*4.1*	*6.7*	*15.9*
Gross fixed investment	466.6	488.4	756.2	814.4	16.9	14.2	18.4	18.2	0.9	15.7	7.7
Private	340.1	341.7	...	...	12.3	9.9	...	...	0.1	9.7[a]	...
Public	126.5	146.7	...	...	4.6	4.3	...	...	3.0	12.7[a]	...
Total consumption	*2,284.0*	*2,759.7*	*3,343.9*	*3,556.0*	*82.9*	*80.3*	*81.6*	*79.6*	*3.9*	*6.6*	*6.3*
General government	366.7	394.3	442.0	467.6	13.3	11.5	10.8	10.5	1.5	3.9	5.8
Private	1,917.3	2,365.4	2,901.9	3,088.4	69.6	68.9	70.8	69.1	4.3	7.0	6.4

SOURCE: For 1960–1967, ECLA estimates based on data supplied by the Fundação Getulio Vargas 1968–1969: ECLA estimates.

Note: The figures for Brazil's gross domestic product differ from those used in previous issues of the *Economic Survey* because they are based on the new series published by the Getulio Vargas Foundation for the period 1947–1967. The new figures were converted to dollars at a rate of 0.12628 new cruzeiros (at 1960 prices) to the dollar and included in the totals for Latin America.

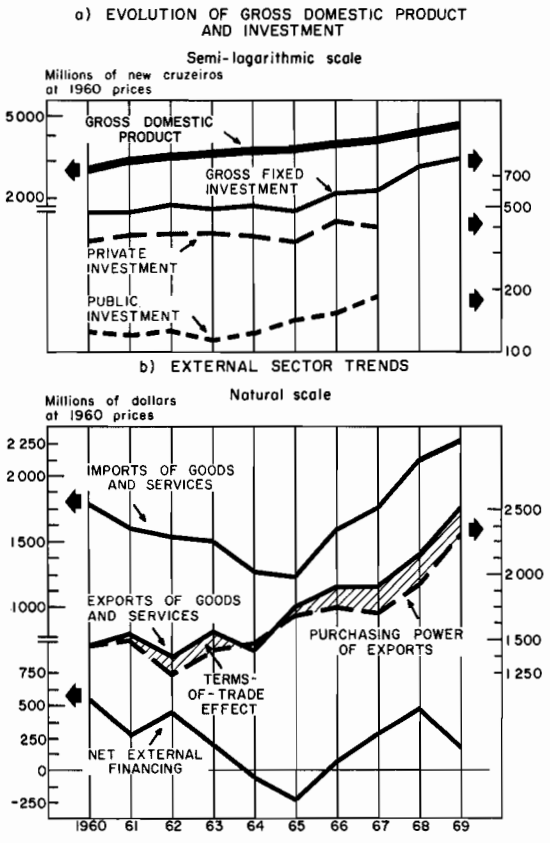
[a] 1965–1967.

Table 58. Brazil: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

Sector	Structure (percentages)				Average annual growth rates (percentages)		
	1960	1965	1968	1969	1960–65	1965–68	1969
Agriculture	22.1	23.5	20.4	19.9	5.7	1.3	6.0
Mining	0.5	0.5	0.7	0.7	6.1	14.7	11.7
Manufacturing	22.8	22.0	24.0	24.4	3.7	9.2	10.8
Construction	1.4	1.0	1.1	1.1	−2.8	10.5	7.1
Subtotal goods	*46.8*	*47.0*	*46.2*	*46.1*	*4.6*	*5.5*	*8.6*
Electricity, gas and water	2.1	2.3	2.5	2.5	6.4	8.6	11.1
Transport and communications	7.1	7.1	7.4	7.6	4.5	7.7	11.7
Subtotal basic services	*9.2*	*9.4*	*9.9*	*10.1*	*5.0*	*8.0*	*11.5*
Commerce and finance	20.8	20.0	20.2	20.2	3.5	6.6	8.9
Government	7.7	7.7	7.7	7.7	4.5	6.1	9.0
Miscellaneous services	15.5	15.9	16.0	15.9	5.0	6.2	8.7
Subtotal other services	*44.0*	*43.6*	*43.9*	*43.8*	*4.2*	*6.4*	*8.8*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*4.5*	*6.1*	*9.0*

SOURCE: For 1960–1967, ECLA estimates based on information supplied by the Fundação Getulio Vargas; for 1968 and 1969, ECLA estimates.

Figure VI. Brazil: 1960–69



compensation came to a surplus of 660 million dollars, which swelled gross international reserves by 523 million dollars and reduced the liabilities of the monetary authorities by 137 million.

The boom reflected in recent balance-of-payments trends not only increased the already high liquidity in the economy but also helped to maintain an increasing flow of domestic financing for investment and, more important, for the purchase of durable consumption goods, the fastest-growing component of aggregate demand.

The continuation of Brazil's rapid economic expansion, which began in 1967, would appear to be due to a combination of circumstances, including higher and more diversified consumption in the middle and upper income groups and the general easing and improvement in conditions of financing both for consumption and for investment. In the case of investment, this can be explained partly by the development of the Brazilian system of private and public financial intermediaries, and partly by the considerable inflow of foreign capital, which is largely used to back the new financial groups.

A certain number of features mar the dynamic performance of the Brazilian economy over the past years. Minimum wages, for example, have steadily declined and the average salary of industrial workers has remained stationary.

2. MAJOR SECTORS OF ACTIVITY

(a) *Agriculture*

There were again wide variations in staple crops, and although this was mainly due to the weather, some crops for domestic consumption were affected by minimum price and marketing problems. Contrasting the calendar year 1969 with 1968, the principal commodities registering a fall in production in 1969 were consumer

staples, such as rice, beans and potatoes, rather than export crops. There were large increases in the latter, especially coffee (30 per cent) and cocoa (15 per cent).

Among export crops, the sharpest fluctuations occurred in coffee, and they were due to the weather since the state of Paraná suffers from periodic frosts. Since the 1965/66 crop year, there have been sharp annual variations in exportable production, ranging from 30 to 50 per cent (see table 59). For the past two years, the average output has not been large enough to meet total demand, hence the sizable reduction in Brazil's coffee stocks and the rise in world coffee prices. Although world stocks still amount to some 44 million bags, the upward trend of prices and the probability of a poor yield in Paraná in 1970/71 has led to changes in the Government's coffee rationalization programme. The Government, which has been conducting a strong drive to eliminate low-productivity coffee plantations and dis-

Table 59. Brazil: exportable coffee production, 1965/66 to 1970/71
(Thousands of 60 kg bags)

State	*1965/66*[a]	*1966/67*[a]	*1967/68*[a]	*1968/69*[b]	*1969/70*[b]	*1970/71*[c]
Paraná	21,058	7,727	10,912	7,684	11,138	4,000
São Paulo	11,828	5,098	9,028	4,829	4,905	4,700
Minas Gerais	2,850	2,706	2,113	2,047	1,196	1,750
Espiritu Santo	1,445	1,480	874	1,910	515	1,750
Other	595	494	447	330	350	400
TOTAL	*37,776*	*17,505*	*23,374*	*16,800*	*18,104*	*12,600*

SOURCE: *Conjuntura Económica*, December 1969.
[a] Recorded by the Brazilian Coffee Institute.
[b] Estimates.
[c] Forecast.

courage further planting, has apparently planned to extend the coffee-growing area by 100 million coffee trees and to finance nurseries for 40 million seedlings in 1970; this project has not yet been confirmed, however, following the recent changes in the administration of the Brazilian Coffee Institute. Under the incentive of high prices, 20 million new coffee seedlings were planted in São Paulo.

As regards products for domestic consumption, there is a noticeable move to increase the area sown with wheat and soya beans—two temperate-zone cereals—and to step up productivity. In both cases, production was up by more than 35 per cent in 1969. Wheat-growing in particular is being encouraged with a view to import substitution, and in 1969 one third of domestic consumption was locally grown wheat.

Provisional estimates based on eighteen products (see table 60) show agricultural production up by 6.3 per cent in 1969, and this, taken in conjunction with a 5 per cent rise in livestock production, would mean a growth rate of 6 per cent for the sector as a whole. A 12 per cent increase in the cultivated area is expected for the crop year 1969/70. It would appear that, by bringing new land under cultivation and introducing more modern techniques, particularly in São Paulo, yields have been improved. Thanks to the upswing in livestock production, which has been spreading both to new land and to former coffee-growing areas, it was possible to boost beef exports to close on 50 million dollars in 1969.

Brazil's agricultural policy is basically one of incentives, which include tax exemptions on agricultural inputs, especially sales of tractors, and special income tax regulations for rural producers.

Table 60. Brazil: growth of agricultural production, 1968/69

Product	*Annual fluctuation 1968/69 (percentages)*
Cotton	+7.6
Groundnuts	−0.8
Rice	−4.0
Cocoa	+15.1
Coffee beans	+30.4
Bananas	+7.8
Potatoes	−6.7
Sugar cane	+1.9
Bahia coconut	−5.4
Beans	−1.8
Jute	−4.9
Oranges	+1.8
Cassava	+2.8
Millet	+0.1
Black pepper	+5.2
Sisal	+1.2
Soya beans	+46.4
Wheat	+35.9

SOURCE: Fundação Getulio Vargas.

(b) *Industry*

The industrial sector enjoyed a satisfactory growth rate of 10.8 per cent in 1969 despite the tendency of several branches to slow down in comparison with the previous year and a more unequal distribution of growth in terms of the average (see table 61). At one end of the scale, the transport equipment industry boasted a growth rate of 34.5 per cent, while, at the other, the clothing industry showed a drop of 26 per cent over the year.

Table 61. Brazil: variations in percentage shares of the product of the processing industry, 1967–1969

	1967	*1968*	*1969*
Processing industry . .	*2.4*	*13.2*	*10.8*
Non-metallic minerals .	8.6	12.8	5.9
Metallurgy . . .	−2.5	8.7	14.3
Transport materials and equipment . . .	0.2	26.8	34.5
Electrical and communications equipment . .	—	23.6	5.4
Machinery . . .	3.8	33.0	8.5
Textiles	−2.0	19.3	2.5
Clothing	−5.8	19.7	−26.0
Food-stuffs . . .	7.3	−4.6	18.8
Beverages	−12.4	3.6	19.1
Chemicals	3.4	13.3	11.6

SOURCE: National Accounts Centre, Fundação Getulio Vargas.

For the most part, industries producing equipment and non-durable consumer goods failed to maintain the previous year's tempo, except for food-stuffs and beverages; these boomed as a result of the excellent harvests of industrial crops used in the agricultural products processing industry.

Chemical production continued to be the branch of industry with the steadiest growth rate, partly because it is less directly affected by consumption and investment and partly because it has regular investment programmes—still linked with import substitution—and therefore suffers less from fluctuations in domestic demand.

The motor-vehicle industry was largely responsible for the growth of the manufacturing sector, both by virtue of its own activity (up by 34.5 per cent) and by reason of the intermediate demand it generated, especially in the metallurgy and electrical equipment fields. It also had a considerable indirect effect on employment and income in commerce, transport and financial services.

The composition of motor-vehicle production has been changing during the past few years; the share of passenger cars in total production has expanded considerably, while the number of utility vehicles has declined, and new and more varied models have been introduced. In 1969, out of the 353,693 units produced, 67.2 per cent were passenger cars, whereas for the whole period 1957–1969 their share was barely 49 per cent.

There was increased competition between new models when Ford, Chrysler and General Motors started producing passenger cars in Brazil, the first manufacturing medium-sized models and all three building luxury cars. As a result, there was a decline in the production of the small cars which had dominated the market for many years. Price competition and the appearance of new models specially designed for the middle- and upper-class Brazilian market were the outstanding features of the year and, together with the extension of the repayment period for loans, largely explain the boom in this industry during the last two years.

The only data available on heavy industry are as follows: production of tractors amounted to 11,900 units in 1969, roughly the same as in 1968; steel industry was operating nearly at full capacity and turned out about 5 million tons of crude steel—10 per cent more than in 1968; production of petroleum products increased by about 7 per cent.

(c) *Construction*

Construction expanded by around 7 per cent, which was below both the average for the period 1965–1968 (10.5 per cent) and the 1968 figure (16.2 per cent).

The more rapid expansion of the last few years signified the recovery of a sector which had been in dire straits since the beginning of the 1960s, so that by the end of the decade the average annual growth rate was barely 1.6 per cent. In 1969, both the installed capacity for the production of construction materials and the purchasing power of large segments of the population began to show signs of being inadequate. Besides the fact that there was a decline in real wages, the small middle class seems more inclined to borrow to buy cars than to purchase homes. This may be attributable not only to the demonstration effect but also to the fact that housing loans were hard on the purchaser, in terms of cost and also price readjustments. Early in the year, the way in which the "monetary adjustment" was applied to loans obtained under the National Housing Plan was changed and brought into line, not with the cost of living but with the increased minimum wages. On the other hand, the National Housing Bank (Banco Nacional de Habitação) is devoting an increasing

proportion of its resources to loans for the expansion of the construction industry so as to bring down the cost per unit of housing construction.

Other housing loans provided through public and private agencies and on the financial market amounted to close on 700 million dollars as of September 1969.

(d) *Services*

The highest growth rate was registered by the basic services sectors (11.1 per cent), thanks to the large scale and steady flow of public investment in infrastructure. The remaining services sectors expanded at almost the same tempo as the average for the goods-producing sectors, though the increase was more apparent than real as it was due to the methods of calculating the national accounts rather than to real development. Judging from the figures for government consumption expenditures, the growth rate of government services may have been below the average; otherwise, a considerable increase in productivity must be assumed. Moreover, financial services must be growing much faster than the other services because of the appearance of new credit agencies and the rapid expansion and diversification of credit facilities for enterprises and consumers.

3. Consumption and investment

During the past few years, consumption has kept up an average growth rate of more than 6 per cent. There are two possible explanations for this trend, which corresponds to the recovery of urban activity.

On the one hand, it could reflect sharp changes in the consumption patterns of the middle social groups, as a result both of their rapid rise as buyers of durable goods and of a marked increase in the variety of other consumer goods to be had. Although this can be put down largely to better credit facilities, it may also be due to the widening of the wage scale in favour of the new middle classes, to the detriment of wage-earners that are poorly qualified or employed in traditional occupations.

On the other hand, it might be due to the fact that, thanks to the very high level of urban economic activity, labour has been absorbed much more rapidly in production and services in the most modern branches of industry and also in the traditional sectors where productivity and wages are low, so that the high rate of urban employment may have offset the effect on consumption of a deterioration in real wages.

Set against these consumption trends, the growth rate of investment dropped appreciably (7.7 per cent), compared with the average for previous years (15.7 per cent).

Though there are no figures for total government investment, annual programmed investment in basic infrastructural projects remained at about 600 million dollars for energy, 300 million for petroleum, 550 million for transport and 120 million for communications. Some 2,500 km of roads were built in 1969 and 3,500 km were paved. In contrast, new private investment appears to have been devoted to increasing financial capital rather than to the further expansion of productive capacity, which made such great strides in 1968.

4. Public finance

Although the public sector continues to play a major role in the country's economic activity, budget expenditure, far from furthering expansion, had precisely the opposite effect. Government spending did not rise so fast as the product, and government income maintained a high growth rate, only slightly lower than the year before (see table 62). This means that there was a further marked rise in the high figure gross fiscal income which in

Table 62. Brazil: tax revenue, 1968 and 1969
(Millions of new cruzeiros)

Taxes on	*Tax revenue*		*Percentage variation*	*Percentage share of tax revenue*	
	1968	*1969*	*1968-1969*	*1968*	*1969*
Industrial products	4,324	5,855	35.4	50.9	46.6
Income	1,869	3,396	81.7	22.1	27.0
Fuels and lubricants	1,394	2,077	49.0	16.5	16.6
Imports	737	1,002	36.0	8.7	8.0
Electric energy	133	197	48.0	1.7	1.7
Minerals	33	38	15.2	0.1	0.1
TOTAL	*8,490*	*12,565*	*48.0*	*100.0*	*100.0*

SOURCE: Instituto de Pesquiza Econômica-Social Aplicada, *Boletin Econômico*, December 1969.

1968 was already equivalent to more than 30 per cent of the gross domestic product. Furthermore, the fiscal deficit was very small, much smaller than had been expected, and it was financed without any pressure on the national banks since issues of bonds and debentures brought in much more than was needed to cover the deficit. The largest increase in tax revenue came from income tax, which rose by 60 per cent in real terms.

The increase in the means of payment in 1969 (29 per cent) was moderate compared with the year before, and, in real terms, was the same as the economic growth rate—that is to say, it was enough to maintain the system's real liquidity, which was already very high in 1968. Thanks to the surplus on the monetary accounts of the public sector, the Central Bank was able to increase loans to the private sector by 40 per cent, while decreasing the paper money in circulation and reducing the compulsory deposits of banks and public enterprises. In view of the rapid growth of the private sector, monetary policy was highly flexible and the very active financial policy was aimed at increasing the availability of credit for enterprises and consumers.

5. Prices, wages and employment

Inflation was slightly lower in 1969, since, at 31 December, the rise in the general price index was 21.4 per cent, compared with 25.5 per cent in 1968. The cost-of-living index rose by 24 per cent in Guanabara—as in 1968—and a little less in São Paulo. The breakdown of the cost-of-living index shows that the greatest increase was in the price of food-stuffs and public services, and that there was a smaller rise in household goods (see table 63).

As regards wages and salaries, there was a further drop in the minimum wage since it was officially fixed at the lowest real level since 1953. As has been the case since 1965, average real wages in industry remained virtually unchanged (see table 64).

Table 63. Brazil: variations in the cost-of-living index in the State of Guanabara, 1967–1969

	December 1969 / *December 1968*	*December 1968* / *December 1967*
General index	24.2	24.0
Foodstuffs	30.9	17.7
Clothing	16.8	24.2
Housing	22.2	31.4
Household goods	15.3	27.1
Assistance, health and hygiene	16.6	30.1
Personal services	19.3	32.9
Public services	30.5	−0.3

SOURCE: Fundação Getulio Vargas.

Table 64. Brazil: average minimum wage in Guanabara and average wage in manufacturing, 1961–1969
(1965–1967 prices in tens of thousands of new cruzeiros)

	Average minimum wage	*Average wage in manufacturing*
1961	123.1	175.2
1962	112.0	188.6
1963	102.5	226.9
1964	102.9	205.3
1965	95.7	191.9
1966	88.4	204.7
1967	84.8	181.4
1968	85.7	190.7
1969	82.4	192.4

SOURCE: Fundação Getulio Vargas.

In addition to low purchasing power, there was an increase of over 30 per cent in prices of essential goods and services, such as food-stuffs and public services.

On the other hand, as in 1968, urban employment seems to have risen sharply, though to a lesser extent in commerce and the services sector than in industry. Around half a million new jobs were created in urban areas between January and October 1969 under the protection of labour legislation—almost the same figure as for the corresponding period in 1968.

6. The external sector

The outstanding features of the 1969 balance of payments were the boom in exports of goods and services—which reached 2,550 million dollars—the large inflow of non-compensatory capital—over 1,000 million dollars—and the net increase in foreign exchange reserves—about 660 million dollars (see table 65).

As far as exports of goods are concerned, coffee followed more or less the same trend as in 1968, while non-traditional exports were stepped up considerably. Manufactures rose by 35 per cent to 265 million dollars, and beef exports by 130 per cent to over 50 million dollars. Among traditional products, there was a great improvement in exports of cocoa (both in quantity and in price), hides and skins, cotton and iron ore.

Although imports of goods grew less than exports, they nonetheless reached a peak—an estimated total of 2,000 million dollars. On the other hand, imports of services remained roughly at their 1968 level (465 million dollars), thanks to an intensive import substitution

Table 65. Brazil: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	1,459.0	1,747.0	1,821.0	2,076.0	2,556.0
Goods (f.o.b.)	1,270.0	1,596.0	1,654.0	1,881.0	2,297.0
Services	189.0	151.0	167.0	195.0	259.0
Imports of goods and services	1,786.0	1,280.0	1,878.0	2,322.0	2,467.0
Goods (f.o.b.)	1,293.0	941.0	1,441.0	1,855.0	2,001.0
Services	493.0	339.0	437.0	467.0	466.0
Net external investment income	−194.0	−259.0	−297.0	−278.0	−324.0
Net private transfer payments	−13.0	39.0	50.0	5.0	2.0
Balance on current account	−534.0	247.0	−304.0	−520.0	−233.0
Capital account					
Net external financing	534.0	−247.0	304.0	520.0	233.0
Non-compensatory external financing	233.0	131.0	203.0	619.0	1,027.0
Direct investment	138.0	154.0	115.0	109.0	197.0
Long- and medium-term loans	351.0	265.0	494.0	466.0	780.0
Amortization payments	−370.0	−274.0	−375.0	−381.0	−352.0
Short-term liabilities	97.0	−50.0	−58.0	408.0	388.0
Official transfer payments	17.0	36.0	27.0	17.0	14.0
Non-compensatory domestic capital and assets	−38.0	−8.0	−37.0	−132.0	−172.0
Errors and omissions	10.0	−31.0	−35.0	37.0	38.0
Compensatory movements (increase—)	329.0	−339.0	173.0	−4.0	−660.0
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	403.0	455.0	70.0	277.0	−137
Amortization payments	−50.0	−572.0	−180.0	−215.0	
Gold and foreign exchange (increase—)	−24.0	−222.0	283.0	−66.0	−523

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.

[a] Central Bank estimates.

policy in the field of maritime freight.[24] Net external investment income rose appreciably to around 325 million dollars. The deficit on current account was thus kept down to about 233 million dollars and was easily covered by the substantial inflow of foreign capital. All the non-compensatory items increased, apart from short-term liabilities, which were down on 1968 though still high in absolute terms.

Capital goods stand up from the over-all picture of imports of goods, since they maintained the previous year's annual growth rate of 20 per cent. In contrast, wheat imports fell off as a result of the policy of import substitution, and so, apparently, did imports of petroleum and petroleum products.

Foreign trade policy included incentives for non-traditional exports, with exemptions from internal taxes, draw-backs and a highly active freight policy. The flexible exchange rate was retained, though the eight adjustments to the United States dollar in 1969 covered a total range of barely 13.6 per cent, as opposed to an increase in domestic prices of over 21 per cent.

[24] For further details, see Part Three of this *Survey*.

Colombia

According to preliminary estimates, Colombia's gross domestic product grew by slightly more than 6 per cent in 1969, which compares favourably with the average rate over the period 1960–1968. The volume of imports, which had been severely restricted in earlier years—so restricted, in fact, that in absolute values they were 6.5 per cent less in 1967 than in 1960—expanded by 6.6 per cent, after increasing by almost one third in 1968. Exports in 1969 expanded by 1.3 per cent at constant prices. As a result, the domestic supply of goods and services grew faster than the product, with consumption and investment increasing by 6.9 and 7.5 per cent respectively, which was due in the main to the expansion of private consumption and investment in construction (see table 66 and figure VII).

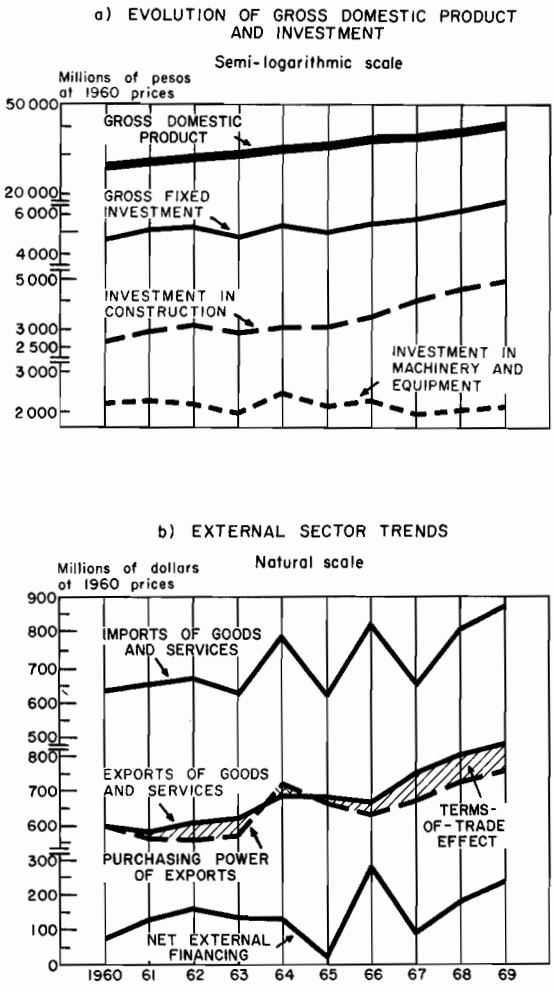
The expansion of total supply also helped to keep domestic price increases within reasonable limits (some 8.6 per cent, compared with 6.5 per cent in 1968). There was a balance-of-payments deficit of 259 million dollars on current account—71 million dollars more than in 1968—and, for the third year in succession, international monetary reserves expanded,

Table 66. Colombia: total supply and demand for selected years, 1960–1969

	Millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–1965*	*1965–1968*	*1969*
Total supply	*30,907.3*	*37,738.4*	*44,341.5*	*47,115.3*	*115.6*	*112.1*	*113.7*	*113.8*	*4.1*	*5.5*	*6.2*
Gross domestic product	26,746.7	33,659.8	38,983.4	41,400.4	100.0	100.0	100.0	100.0	4.6	5.1	6.2
Imports of goods and services	4,160.6	4,078.6	5,358.1	5,714.9	15.6	12.1	13.7	13.8	−0.4	9.5	6.6
Total demand	*30,907.3*	*37,738.4*	*44,341.5*	*47,115.3*	*115.6*	*112.1*	*113.7*	*113.8*	*4.1*	*5.5*	*6.2*
Exports of goods and services	4,163.9	4,802.2	5,796.7	5,874.4	15.6	14.3	14.9	14.2	2.9	6.5	1.3
Total investment	*5,494.8*	*6,005.8*	*7,163.6*	*7,700.2*	*20.5*	*17.8*	*18.4*	*18.6*	*1.8*	*6.1*	*7.5*
Gross fixed investment	4,844.9	5,158.3	6,426.2	6,925.9	18.1	15.3	16.5	16.7	1.3	7.6	7.8
Construction	2,697.1	3,034.0	4,384.2	4,822.6	10.1	9.0	11.3	11.6	2.4	13.1	10.0
Machinery and equipment	2,147.8	2,124.3	2,042.0	2,103.3	8.0	6.3	5.2	5.1	−0.2	−1.3	3.0
Total consumption	*21,248.6*	*26,930.4*	*31,381.2*	*33,540.7*	*79.4*	*80.0*	*80.5*	*81.0*	*4.9*	*5.2*	*6.9*
General government	1,659.3	2,161.2	2,470.4	2,484.0	6.2	6.4	6.3	6.0	5.4	4.6	0.6
Private	19,589.3	24,769.2	28,910.8	31,056.7	73.2	73.6	74.2	75.0	4.8	5.3	7.4

SOURCE: 1960–1968: ECLA estimates on the basis of data supplied by the Banco de la Repûblica de Colombia; 1969: ECLA estimates.

Figure VII. Colombia: 1960–69



probably as a result of the growth of net inflows of non-compensatory foreign capital which provided the monetary authorities with a higher degree of liquidity.

The growth of the product was based on the performance of manufacturing, which grew by 7.5 per cent, exceeding the average rate of 5.5 per cent achieved during the 1960s; while agriculture, with a growth rate of 4.6 per cent, maintained the moderate tempo of the preceding three years. Mining made a recovery from its decline in absolute terms, mainly owing to the expansion of the petroleum sector. The construction boom, which had been an important component in the growth rate in earlier years, lost its impetus (9 per cent in 1969 compared with 16 per cent in 1965–1968) (see table 67).

In agriculture, there were increases in the production of cotton (17 per cent), sesame seed, sugar cane and soya, which doubled its 1968 figure. In contrast, the output of both rice and potatoes declined by 100,000 tons in each case, mainly owing to the contraction of the area sown; moreover, rice crops were depleted by diseases, while potato crops in some regions were damaged by frosts. Wheat output was 30,000 tons less than in 1968, owing to the fact that both average yields and the area sown to wheat declined. Coffee production, according to preliminary estimates, amounted to 8 million 60-kilogramme sacks of green coffee, roughly the same as in 1968, although slightly more than the average for the period 1960–1967.

Mining expanded by 14 per cent; of particular note was the rise in petroleum produc-

Table 67. Colombia: Gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

Sector	*Structure (percentages)*				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	34.1	31.1	30.7	30.3	2.8	4.7	4.6
Mining	3.9	3.8	3.0	3.3	4.0	−2.5	14.0
Manufacturing	17.3	18.0	18.2	18.4	5.6	5.4	7.5
Construction	3.6	3.3	4.4	4.5	2.5	16.2	9.0
Subtotal goods	*58.9*	*56.2*	*56.3*	*56.5*	*3.7*	*5.2*	*6.4*
Electricity, gas and water	0.9	1.1	1.2	1.2	8.7	9.3	5.6
Transport and communications	6.6	7.2	6.9	6.8	6.5	3.8	4.3
Subtotal basic services	*7.5*	*8.3*	*8.1*	*8.0*	*6.8*	*4.5*	*4.5*
Commerce and finance	15.7	16.7	16.6	16.7	6.0	5.1	6.7
Government	5.5	5.9	6.0	...	6.1	6.0	...
Miscellaneous services	12.4	12.9	12.9	...	5.5	5.2	...
Subtotal other services	33.6	35.5	35.6	35.5	5.8	5.3	6.1
Total product	*100.0*	*100.0*	*100.0*	*100.0*	*4.6*	*5.1*	*6.2*

SOURCE: For 1960–1968, ECLA calculations based on data supplied by the Banco de la República; for 1969, ECLA provisional estimates.

tion as a result of the entry into production of the Orito oilfield in Putumayo, which began to have an impact from March onwards. By mid-1969, production was already up to 50,000 barrels per day. A pipeline more than 300 kilometres long has been built to bring the petroleum from Orito to the port of Tumaco, and the oil began to flow in March 1970. Gold production did not rise above the low levels of 1968, while silver production continued to decline.

The sizable increase in industrial output is associated with the entry into operation of new petroleum enterprises and to economic policies providing incentives to industry in the form of additional credit, the establishment of an industrial fund for small and medium-scale industry, the maintenance of a preferential taxation system and special treatment for foreign capital. The majority of branches of industry increased their output, but growth was especially significant in the basic metallurgy industry, in metal-transforming, including the motor-vehicle industry, and in the chemicals, textiles and food industries.

Provisional estimates indicate that there were slight increases in cement and steel output, the latter despite the fact that a high furnace was out of operation during May and June; there were slightly larger increases in the production of sugar (6.9 per cent), caustic soda (13.5 per cent) and sodium carbonate and bicarbonate (10 per cent). The consumption of electric power for industrial uses increased by some 11 per cent.

The consumer price index rose by 8.5 per cent for salaried workers and 8.7 per cent for wage workers between the end of December 1968 and the end of December 1969 (see table 68). These increases were slightly above those recorded during the period 1966–1968. Looking at the figures in more detail, the index for foodstuffs rose by 8.4 and 8.5 per cent for salaried workers and wage workers respectively, the index for housing by 6.7 and 7.8 per cent, the index for clothing by 9.2 and 9.1 per cent, and the index for miscellaneous expenditure by 9 per cent for both types of worker. There were also differences in the index in the various regions: in Bogotá the index rose by 9.2 and 11.5 per cent for salaried workers and wage earners respectively; in Cali it rose by 8.9 and 8.6 per cent; in Medellín by 7.5 and 6.8 per cent; in Barranquilla by 8.5 and 7.6 per cent; in Manizales, by 8.6 and 10.1 per cent; in Pasto by 9.7 and 11 per cent; and in Bucaramanga by 6.1 per cent for both types of worker.

Table 68. Colombia: annual rate of increase of consumer prices, 1960–1969
(Percentages)

Year	*Salaried workers*	*Wage workers*
1960	7.0	7.5
1961	6.2	5.5
1962	6.8	6.1
1963	29.9	35.4
1964	9.3	8.5
1965	14.8	14.3
1966	13.3	12.7
1967	7.6	7.0
1968	6.7	6.4
1969	8.5	8.7
Cumulative total increase during the 1960s	*110.1*	*112.1*

SOURCE: Colombian Statistical Office.

As regards monetary matters, the money supply expanded by 2,000 million pesos in 1969 (from 15,000 to 17,000 million). The main contributory factor was the increase in international reserves (which were 55 million dollars higher in 1969 than in 1968). In addition, the holdings of banks and the Agricultural Credit Bank (Caja de Crédito Agrario) grew by 6 per cent, an increase of close to 700 million pesos over 1968. Deposits on current account grew from 11,000 to 13,000 million pesos between January and September 1969. This was to some extent offset by the rise in deposits by credit institutions with the Banco de la República.

Exchange policy continued along the lines laid down at the end of 1966, with the additional measures enacted in 1967,[25] including the elimination of the free market for capital movements and the regulation of transfer payments in respect of current transactions. The system of separate markets and of different exchange rates under the exchange-certificate régime was abolished. At present, the only certificates which qualify for a special rate are those used for the purchase of petroleum to be refined for domestic consumption, which is a method of subsidizing the consumption of refined products, chiefly in the motor transport sector. Under this system, of special importance was the elimination of the exchange differential in respect of coffee and its replacement by a fixed export tax, the result being that as the exchange rate of the dollar rises the domestic price of coffee automatically rises with it.

Notable in the external sector was the increase in the value of imports of goods and services, which was 8.7 per cent higher than in 1968 and 35 per cent higher than in 1967. It

[25] See *Economic Survey of Latin America, 1967* (United Nations publication, Sales No. E.69.II.G.1), p. 151.

would therefore seem that imports have now stabilized at a new level, after falling by 20 per cent in 1967 and rising by 24 per cent in 1968. Exports of goods and services amounted to 812 million dollars, 37.8 per cent higher than in 1960 and 3 per cent higher than in 1968 (see table 69).

This increase was due in part to improvements in world coffee prices, which rose from 42 dollar cents a pound on the New York market at the end of August 1969 to 56 dollar cents in December, with the upward trend continuing in the early months of 1970. These movements have a great impact on the Colombian economy, since coffee accounts for almost two thirds of total exports (63.6 per cent during the period 1965–1968) and some 10 per cent of fiscal revenue. The effect of these improvements, however, will be felt during 1970.

In view of the rise in prices, the Government agreed with the Federation of Coffee Exporters (Federación de Exportadores de Café) that when the price of coffee on the New York market rises above 57 dollar cents per pound, the excess will be divided—after deduction of taxes—in the following proportions: 35 per cent to the producer (by means of an adjustment in the basic prices), 30 per cent to the National Coffee Fund (Fondo Nacional del Café) and 35 per cent to the departmental coffee committees and a revolving fund administered by the Coffee Bank. The quota for Colombia established by the International Coffee Organization was 6,204,000 60-kilogramme sacks for the crop year 1968/69 (which runs from October to September) and 5,721,000 for 1969/70.

The other factor promoting growth was what are sometimes known as the minor exports—i.e., exports other than coffee or petroleum—which achieved a total value of more than 200 million dollars in 1969, some 50 million more than in 1968, and accounted for one third of all exports, compared with 10 per cent in 1960 and 20 per cent in 1965. Particularly notable were exports of cotton and cotton thread and woven goods, which attained a value of over 40 million dollars in the first ten months of 1969 (11.4 million more than in 1968), and exports of emeralds and precious metals, which were valued at 13.6 million dollars over the same period—8.7 million more than in 1968—(see table 70). Petroleum exports, which had

Table 69. Colombia: balance of payments for selected years, 1960–1969
(Millions of dollars)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	589.1	709.0	712.0	788.0	812.0
Goods (f.o.b.)	495.3	591.0	558.0	609.0	641.0
Services	93.8	118.0	154.0	179.0	171.0
Imports of goods and services	−634.4	−653.0	−696.0	−866.0	−941.0
Goods (f.o.b.)	−496.4	−430.0	−464.0	−615.0	−667.0
Services	−138.0	−223.0	−232.0	−251.0	−274.0
Net external investment income	−39.6	−79.0	−105.0	−113.0	−130.0
Net private transfer payments	0.4	4.0	0.0	3.0	0.0
Balance on current account	−84.5	−19.0	−89.0	−188.0	−259.0
Capital account					
Net external financing	84.5	19.0	89.0	−188.0	259.0
Non-compensatory external financing	30.5	12.0	94.0	263.0	254.0
Direct investment	2.5	10.0	40.0	48.0	50.0
Long- and medium-term loans	34.9	116.0	160.0	221.0	133.0
Amortization payments	−26.4	−41.0	−91.0	−94.0	
Short-term liabilities	14.2	−81.0	37.0	60.0	46.0
Official transfer payments	5.3	8.0	22.0	28.0	25.0
Non-compensatory domestic capital and assets	14.1	−17.0	14.0	−34.0	−2.0
Errors and omissions	44.0	67.0	51.0	12.0	62.0
Compensatory movements (increase −)	−4.1	−43.0	−70.0	−53.0	−55.0
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	47.0	83.0	62.0	−7.0
Amortization payments	−60.1	−92.0	−147.0	−38.0	
Gold and foreign exchange (increase −)	56.0	2.0	−6.0	−77.0	48.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

Table 70. Colombia: main exports other than coffee and petroleum, January–October 1968 and 1969
(Thousands of dollars)

	January–October		Increase
	1968	1969	
Cattle on the hoof	1,509	7,010	5,501
Carcase meat	2,301	3,841	1,540
Rice	18	3,339	3,321
Tobacco	4,174	6,644	2,470
Fresh bananas	12,536	13,136	600
Chemicals	5,513	7,151	1,638
Wood and wood products	3,711	5,901	2,190
Cotton, yarn and woven goods	29,937	41,343	11,406
Glass and glass products	1,871	3,235	1,364
Emeralds and precious metals	4.926	13,645	8,719
Base metals and metal products	2,306	3.930	1,624
Products of the metal-transforming industry	1,722	2,709	987
Other products	55,614	61,503	5,889
TOTAL	*126,138*	*173,387*	*47,249*

SOURCE: *Revista del Banco de la República*, Bogotá, No. 505 November 1969, p. 1,587.

dropped by 40 per cent in 1968 over 1967, returned to their 1967 level in absolute terms, partly as a result of the entry into production of the Putumayo oilfield.

Costa Rica

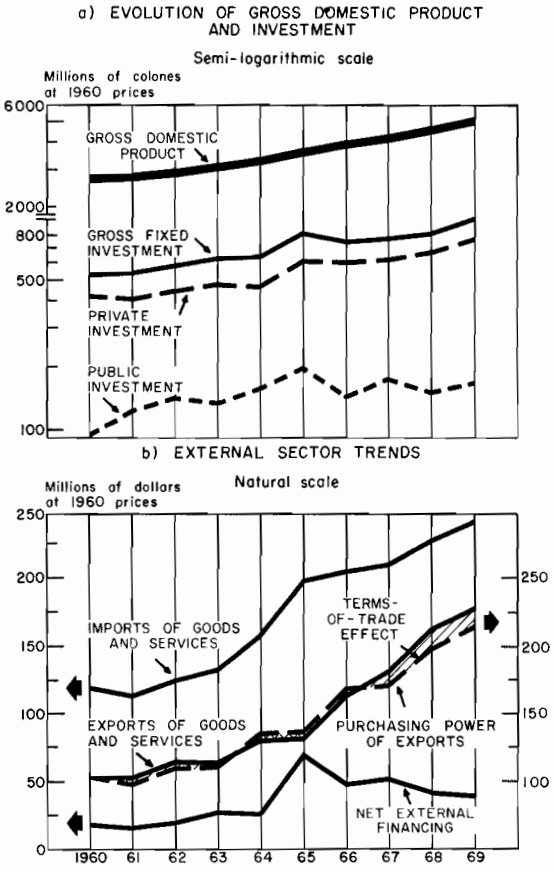
1. RECENT ECONOMIC TRENDS

In 1969, Costa Rica again enjoyed a satisfactory economic growth rate, maintaining roughly the average for the past five years. Provisional estimates suggest that the gross domestic product rose by 7.6 per cent, which in terms of real per capita income means an increase of about 4 per cent.

As in previous years, the economy received its impetus chiefly from the external sector. Although its growth rate was considerably lower than the peak achieved in 1968, the external sector continued to develop multiplier effects of considerable importance to the Costa Rican economy. Moreover, the allocation of more funds to capital formation helped strengthen the impact of external demand on the economy and thus enabled it to achieve an over-all growth rate only very slightly lower than the year before (see table 71 and figure VIII).

Exports, whose upward trend was largely the result of an increased volume of sales, totalled 229 million dollars in 1969. Exports of goods earned around 195 million dollars—12.3 per cent up on the previous year—thanks mainly to a rise in banana sales, a slight improvement in world coffee prices and a rise in world cocoa

Figure VIII. Costa Rica: 1960–69



prices. Exports of manufactures to the regional market also helped to increase total exports, though to a lesser degree.

Capital formation was financed by a revival of public investment and greater flow of private investment, which together accounted for 942 million colones at 1960 prices—14.6 per cent better than in 1968. Private capital expenditure reacted to strong demand and attractive prices which—especially in the case of bananas[26]—led to expansion in the agricultural sector; spending also rose in the manufacturing[27] and construction[28] industries, partly as a result of higher income. Private fixed capital formation therefore amounted to 776 million

[26] Encouraged by the situation, independent producers have apparently invested large amounts in banana growing.

[27] An estimated 35 million colones were invested in manufacturing projects in 1969: twenty-three new enterprises have started up and investment has begun in eleven other projects.

[28] Imports of construction materials in 1969 went up by about 13 per cent to 14 million dollars.

Table 71. Costa Rica: total supply and demand for selected years, 1960–1969

	Millions of colones at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*3,515.5*	*4,997.4*	*6,092.2*	*6,544.2*	*127.1*	*132.9*	*130.1*	*130.0*	*7.3*	*6.8*	*7.4*
Gross domestic product	2,766.7	3,761.2	4,681.3	5,035.5	100.0	100.0	100.0	100.0	6.3	7.6	7.6
Imports of goods and services	748.8	1,236.2	1,410.9	1,508.7	27.1	32.9	30.1	30.0	10.5	4.5	6.9
Total demand	*3,515.5*	*4,997.4*	*6,092.2*	*6,544.2*	*127.1*	*132.9*	*130.1*	*130.0*	*7.3*	*6.8*	*7.4*
Exports of goods and services	612.6	771.5	1,252.8	1,338.9	22.2	20.5	26.8	26.6	4.7	17.5	6.9
Total investment	*530.5*	*1,019.9*	*918.3*	*1,020.2*	*19.2*	*27.1*	*19.6*	*20.3*	*14.0*	*−3.5*	*11.1*
Gross fixed investment	524.6	804.5	821.9	942.3	19.0	21.4	17.6	18.7	8.9	0.7	14.6
Private	426.1	608.2	671.4	775.7	15.4	16.2	14.4	15.4	7.4	3.3	15.5
Public	98.5	196.3	150.5	166.6	3.6	5.2	3.2	3.3	14.8	−8.5	10.7
Total consumption	*2,372.4*	*3,206.0*	*3,921.1*	*4,185.1*	*85.7*	*85.2*	*83.7*	*83.1*	*6.2*	*6.9*	*6.7*
General government	313.5	437.4	523.2	559.5	11.3	11.6	11.2	11.1	6.9	6.2	6.9
Private	2,058.9	2,768.6	3,397.9	3,625.6	74.4	73.6	72.5	72.0	6.1	7.1	6.7

SOURCE: ECLA estimates.

colones at 1960 prices, about 16 per cent more than in the previous year (see table 72).

Public investment in 1969 amounted to 167 million colones at constant prices—nearly 11 per cent higher than in 1968—but failed to better the 1965 level. Expenditure on the economic and social infrastructure was directly related to the financial problems which have been plaguing the public sector, and especially central government, for some time. This, combined with various administrative organization problems, has restricted the availability of credit and caused considerable fluctuations in investment from year to year. Nevertheless, there was renewed and even increased activity in 1969 in connexion with a series of investment projects mostly financed from abroad. Transport is a notable case in point, particularly the Inter-American and El Coco-San Ramón highways. Other examples are the enlarging of the national dock at Limón, work on the drinking-water supply system for the metropolitan area, the continuation of the Tapantí hydroelectric project and the increase in the retention capacity of the dam at the Cachí hydroelectric plant.

By and large, total consumption followed the same pattern as in 1968, except for a few differences in some of its components. Government consumption expenditure—up by about 7 per cent—maintained the steady upward trend of the last three years or so. The inflexibility of this kind of expenditure, and the fact that the State has had to shoulder a greater share of responsibility for social development, explain why it has proved so difficult for the Government to restrict current expenditures, even when faced with the present severe financial crisis. For the second year running, civil servants presented demands for wage and salary increases, since their pay had been lagging behind the rest for some time. To take one example, the 17.3 million colones increase in expenditure on public education between the January/September periods of 1968 and 1969 corresponds almost entirely to higher salaries for primary school teachers. Pressure to expand current expenditure is very likely to be kept up into 1970 in view of the salary increases recently obtained by civil servants.

Under the influence of a wide variety of factors and measures, private consumption fell off slightly in 1968, and, with a growth rate of 6.7 per cent as opposed to the previous year's 7.1 per cent, stood at 3,626 million colones at 1960 prices. Economic policy was in part designed to lessen pressures on the balance of payments by cutting down imports and household expenditure, which it did by restricting bank credit for personal use and for consumption purposes. With the same object in view, consumption and sales taxes and a multiple exchange system were introduced in the middle of 1967, mainly so as to cut down imports of consumer goods from other countries.

On the other hand, the proliferation and rapid development of financial intermediaries and the facilities they provide led to a stronger tendency to purchase consumer goods.[29] Similarly there has been a considerable increase in money supply since 1967 and the consequent excess liquidity[30] may have encouraged a higher level of consumption, particularly of imported goods; this was clearly seen in 1968, when purchases of consumer goods expanded by more than 24 per cent, consisting mostly of

[29] Revenue from taxes on consumption and sales increased by about 26 per cent (January/October), rising from 82.1 million colones in January–October 1968 to 103.3 million over the same period in 1969.

[30] The total money supply (annual average of daily balances) went up by nearly 18 per cent between 1966 and 1967, in contrast with the somewhat smaller increases for previous years. Between 1967 and 1968 the rate was roughly the same again, but it jumped to 23.4 per cent in the 1968–1969 period.

Table 72. Costa Rica: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	26.9	22.7	22.4	22.4	2.9	7.3	7.6
Manufacturing[a]	16.2	19.0	20.4	20.5	10.0	10.3	8.2
Construction	5.3	5.6	5.0	5.1	7.9	3.5	9.7
Subtotal goods	*48.4*	*47.3*	*47.8*	*48.0*	*6.0*	*8.1*	*8.1*
Subtotal basic services[b]	*5.7*	*6.0*	*5.1*	*5.2*	*7.6*	*2.2*	*8.9*
Subtotal other services	*45.9*	*46.7*	*47.1*	*46.8*	*7.0*	*7.9*	*6.9*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*6.3*	*7.6*	*7.6*

SOURCE: ECLA estimates.
[a] Including mining.
[b] Including electricity, gas and water, and transport and communications.

imports from the Central American area (purchases from other countries rose by only 5 per cent). This was due mainly to the fact that the official exchange rate is used for trade within the Central American area, while a somewhat higher rate is applied to transactions with the rest of the world, except for those in essential commodities. Moreover, the prospects opened up by the signing of the Protocol of San José probably encouraged a certain amount of stockpiling financed from abroad.[31] Private consumption rose at a slightly lower rate in 1969—6.7 per cent—than the year before since speculation decreased, discouraged by there being less difference between the rates of exchange, and owing to the fact that stocks had accumulated in 1968.

Supply did not grow so fast as demand. In the industrial sector, where there was a falling off in the high growth rate of the past few years, the product was around 859 million colones at 1960 prices (see table 72). Despite the incentive of greater investment, excess liquidity and the continued availability of bank credit,[32] industrial production failed to overcome various obstacles and its growth rate dropped (8.2 per cent compared with 9.5 per cent in 1968). The conflict between El Salvador and Honduras, the slower growth of aggregate demand, the deterioration of the economic situation in Central America and, above all, the series of restrictions on consumption imposed in Nicaragua (Costa Rica's chief market) undoubtedly played some part in curbing industrial expansion.[33] Nevertheless, the first seven months of the year saw the starting up of industrial projects designed for a production of around 32 million colones and involving an investment of about 8 million colones. The main projects are connected with cattle food, vegetable extracts, textiles, footwear and clothing, laminated paper (kraft- and sulphite-type papers), pharmaceutical products, stained glass, motor-bus bodies, adhesive tapes and accessories for plastic tubing.

In 1969, improvements continued to be registered in the production of intermediate commodities—especially in the case of paper products (58.2 per cent increase) and chemicals (28 per cent)—and also of electrical appliances (23 per cent) and textiles (19.5 per cent), partly as a result of the policy to promote and finance exports of manufactured products with a view both to strengthening the industrial sector and to alleviating the pressure on the balance of payment in the medium term. For this purpose, national banks were authorized to give priority to the financing of enterprises exporting goods[34] while at the same time an incentive was provided by granting certain tax exemptions on exports[35] and on certain related imports.

The agricultural sector more or less maintained the high level of activity of the previous year, thanks chiefly to the increase in production for the world market. National bank credit also continued to expand, particularly for the promotion of livestock production.[36] Agricultural production rose mainly because of the extension of the area devoted to banana plantations and, to a lesser extent, the increased supply of coffee and cocoa. Thus, although production for domestic consumption declined by 3.6 per cent,[37] exports of agricultural commodities and increased livestock production were sufficient to enable the sector as a whole to expand by about 8 per cent in 1969.

2. Public finances and economic policy

The financial difficulties confronting the public sector and the country's balance-of-payments problems remained the prime concern in Costa Rica's economic policy in 1969.

The heart of the problem, which has been analysed and commented upon at sufficient length in previous surveys,[38] is the alarming state of the public finances produced by the accumulation of pressures and unsatisfied needs which could not be staved off any longer and caused total expenditure to climb rapidly—especially current expenditure and transfers by

[31] In the balance-of-payments capital account, the figure for this item was 23.5 million dollars in 1967 and 9.9 million dollars in 1968.

[32] A comparison of September balances for 1968 and 1969 show loans to the industrial sector up by about 11 per cent, at 268 million colones.

[33] Data indicate that between August 1968 and August 1969, manufactured exports grew by 4.4 per cent, in contrast with the 10.6 per cent rate for the previous period. However, leaving aside manufactured fertilizers which are subject to market fluctuations, the rate increased from 5.7 per cent in 1967 to 7.7 per cent in 1969. Figures for Nicaragua suggest that imports from Costa Rica in the first seven months of the year were 15 per cent down on the corresponding period the year before.

[34] To benefit from this measure, enterprises must prove that they can sell other countries at least 30 per cent of their total output.

[35] Exports of some industrial products and also imports of raw materials and containers for exports to third countries were exempted from custom duties.

[36] The January–September balance for 1969 indicates a 20 per cent rise in credits for livestock breeding and 6.6 per cent for agriculture over the same period in 1968.

[37] This is probably largely due to the storm that struck the Guanacaste region and to hurricane Martha, which together cut grain production down by 8 per cent.

[38] See *Economic Survey of Latin America, 1966*, pp. 133 *et seq.*

the Central Government. At the same time, there has been a small rise in current income from the public sector.[39] The increase in the current account deficit on the balance of payments is due to structural causes and to the fact that the controls that have been applied since 1967 are no longer producing any positive effects.

The fiscal deficit on Central Government operations was 24.9 per cent higher than in 1968, totalling close to 194 million colones. The rise is 13.7 per cent, however, if only the difference between current and capital expenditure and current income is taken into account. Despite a sizable increase in current expenditure (16.5 per cent), in absolute terms the deficit was still below the high level recorded in 1967, since the substantial increase in total expenditure (15 per cent), especially current expenditure, was partially offset by an equally sizable increase in current resources[40] (see table 73).

Current income amounted to some 720 million colones, barely offsetting the rapid growth of administrative expenditure and transfer and interest payments. As a result, savings on current account fell from the 1968 figure to 9 million colones.

The taxation system underwent some interesting changes as a result of the country's own development and the process of economic integration. Generally speaking, import duties have carried less weight[41] and consumer and sales taxes somewhat more. The latter, including a tax on beer, were particularly important in 1969 (total revenue from taxes on domestic consumption rising from 212 to 248 million colones), as were certain direct taxes, especially those on the profits of banana companies. The improvement in tax revenue is due, on the one hand, to the satisfactory expansion of the national income and the greater degree of administrative control and, on the other, to the various factors already cited which encouraged higher consumption. Furthermore, the normalization of trade with countries outside the Central American area and the rapid growth of imports brought in an increase of close to 19 million colones in import duties.

Although recent attempts to promote fiscal revenue have been fairly satisfactory, the chances are that restrictions on government expenditure will have to be maintained, given the magnitude of the present deficit. As the economy has developed, the State has exercised a greater degree of influence, particularly as regards social welfare programmes and other basic services for the people. However, the difficulty of financing excess expenditure, the shortage of resources for the country's social capital formation, the tendency towards inflation (partly curbed by increased imports) and the accentuation of the balance-of-payments

[39] Between 1958 and 1968, total expenditure in the public sector climbed from 493 to 1,305 million colones (10.2 per cent cumulative annual increase) while current income moved from 636 to 1,434 million colones (annual growth rate of 8.4 per cent).

[40] Between 1967 and 1969, current income rose from 541.1 to 719.8 million colones, a cumulative annual increase rate of 15.3 per cent.

[41] To the tax exemptions originating from free trade treaties should be added those provided for under industrial development laws and other special laws and decrees.

Table 73. Costa Rica: Central Government budget deficit, 1965–1969
(Millions of colones)

	1965	1966	1967	1968	1969[a]
Current account					
Current income	475.5	521.7	541.1	639.0	719.8
Current expenditure	438.1	530.4	583.9	609.6	710.8
Current saving	*37.4*	*−8.7*	*−42.8*	*29.4*	*9.0*
Capital account					
Real investment	53.1	64.1	72.1	59.1	63.5
Financial investment	3.5	2.6	4.7	4.5	2.0
Amortization	51.6	73.9	68.8	80.9	75.4
Transfer payments	23.2	4.7	18.1	31.3	37.8
Total	*131.4*	*145.3*	*163.7*	*175.8*	*178.7*
Difference (capital expenditure, less saving)	94.0	154.0	206.5	146.4	169.7
Extra-budgetary expenditure	...	5.5	7.4	8.8	24.1
TOTAL DEFICIT	*−94.0*	*−159.5*	*−213.9*	*−155.2*	*−193.8*

SOURCE: For total expenditure and current income figures, Ministry of Finance, *Memoria Anual*, 1968, p. 2, and *Liquidación del Presupuesto 1969*; for breakdown and 1965 figures, Planning Office.

[a] Preliminary figures.

deficit on current account together pose a real problem for the country's development.

The data available indicate that Central Government expenditure on formation of real assets grew by 7.4 per cent, offsetting the cut-back in 1968, and totalled close to 64 million colones, roughly the same amount as in 1966.

If the fiscal and financial situation is to improve, a systematic effort will still have to be made to make public finances more flexible. The national debt is growing rapidly (11 per cent average annual growth between 1966 and 1969) and the interest payable on it is beginning to be a very heavy burden on the Government's resources.[42] Consequently, it is imperative to establish an order of priority for expenditures, to cut back all that is non-essential and post-ponable expenditure, and to increase the Central Government's real capacity to tap resources.

In 1969, the fiscal deficit was mainly financed from domestic resources while, in keeping with the pattern set up since 1965, the portion covered by external funds continued to diminish. More bonds were issued and revenue from this source rose from 104 to 180 million colones between 1968 and 1969. To secure such results on a securities market that was going through a delicate period,[43] special inducements had to be offered to investors in the form of commitments to repurchase; this helped relieve some of the pressure on government funds and strengthen public investment and support for semi-government agencies. But this might also lead to new forms of instability if, for example, there was a balance-of-payments crisis or if, which is less likely, inflationary pressures substantially increased. In such cases, the financial system would to some extent be incapable of checking the speculative movement of funds that would probably ensue (see table 74).

Other developments also helped to improve the fiscal position of the Central Government. As a source of domestic funds, the floating debt increased by 22 million colones, compared with 42 million in 1968, absorbing expenditure which would otherwise have been charged to

[42] In the past five years, interest payments have risen from 9 to 12 per cent of current expenditure. Amortization of credits accounts for some 44 per cent of capital account expenditure.

[43] In recent years, the supply of bonds issued by the Central Government and public institutions has steadily outstripped demand, largely because of the conditions under which government bonds have been issued. In most cases the real rate of interest has risen (see Central Bank, *Memoria Anual*, 1968, pp. 202 and 277).

Table 74. Costa Rica: financing of the Central Government deficit, 1965–1969
(*Millions of colones*)

	1965	1966	1967	1968	1969[a]
Total expenditure	*569.5*	*681.2*	*755.0*	*794.2*	*913.6*
Current expenditure	438.1	530.4	583.9	609.6	710.8
Capital expenditure	131.4	145.3	163.7	175.8	178.7
Extra-budgetary expenditure	...	5.5	7.4	8.8	24.1
Current income	*475.5*	*521.7*	*541.1*	*639.0*	*719.8*
Total deficit	*94.0*	*159.5*	*213.9*	*155.2*	*193.8*
Adjustments					
Thirteenth month[b]	24.2	16.1	11.2	12.8	−11.4
Other[c]	—	−5.0	−6.8	−5.9	−24.1
Adjusted deficit	*118.2*	*170.6*	*218.3*	*162.1*	*158.3*
Financing of the adjusted deficit					
External credit	*53.5*	*34.8*	*33.6*	*6.7*	*23.6*
Domestic credit	*67.8*	*141.8*	*162.6*	*164.3*	*176.5*
Direct credit	—	2.0	3.0	22.2	1.7
Floating debt	21.3	19.3	39.8	42.3	21.9
Bond issues	29.8	73.0	66.9	103.6	180.4
Treasury bills	14.7	50.6	50.4	—	−27.5
Other (net)	2.0	−3.1	2.5	−3.8	—
Other special income	*−3.1*	*−6.0*	*22.1*	*−8.9*	*−41.8*
Cash and other resources (increase −)	−3.1	−7.8	21.5	−14.8	−41.8
Other	—	1.8	0.6	5.9	—

SOURCE: For 1966–1969 income and expenditure: Ministry of Finance; for financing of the adjusted deficit, Central Bank, *Memoria Anual*, 1968, and direct information; for 1965 income and expenditure, Planning Office.
[a] Preliminary figures.
[b] Adjustment made by the Central Bank including, *inter alia*, the bonus paid to civil servants.
[c] Obtained residually.

the following fiscal year. On the other hand, the share of bank credit declined, cash reserves improved and financing by means of treasury bills contracted in absolute terms.

During 1969, in line with former trends, comparatively less use was made of external resources to finance government expenditure. Ever since the balance-of-payments crisis of 1965, a number of adverse factors have remained in evidence, such as the high cost of credit and sales of short-term bonds abroad, the restrictions introduced by international credit agencies, the freezing of international reserves and the general recession of world capital markets. However, external credit increased significantly in 1969, rising from 6.7 to 23.6 million colones, partly as a result of the efforts made by the financial authorities. The inflow of long-term capital is expected to increase in 1970 and this should help to strengthen basic capital formation projects.

Though no complete and detailed information is available on the rest of the public sector, partial data point to an appreciable rise in investment expenditure, which helped to swell the increase in the Central Government accounts. Capital expenditure in the fields of energy and health (public health, water supply and sewerage) accounted for a large share of the rise.

Throughout the 1960s, the Central Government has managed to keep the ratio of current income to gross domestic product at a steady 12 per cent. In more ways than one, attempts to improve the taxation system have made it possible for the public sector to increase its activities in line with economic growth; the public sector has failed, however, to enlarge its share of total income in keeping with the greater responsibilities assumed by the State, and this has given rise to serious financial imbalances which might take decisions regarding further investment and development promotion out of the Government's hands and become a source of instability for the entire economy.

3. The external sector and the balance of payments

The current account deficit on the balance of payments was slightly less than in 1968, amounting to some 44 million dollars. On the other hand, the net inflow of capital was far higher, covering the deficit and increasing gold and foreign exchange reserves.

The greater volume of exports of goods (chiefly bananas) continued to swell the value of total exports, which, at some 229 million dollars, showed a satisfactory growth rate of 11 per cent although failing to top the exceptional performance of 1968. Stimulated by increased investment, reduction in stocks, a more stable exchange rate and the high degree of liquidity with which the economy has been operating since 1967, imports maintained the upward trend that began in 1966. Purchases of goods and services amounted to 258 million dollars, an increase of 9 per cent over the 1968 figure (see table 75).

Banana sales continued their steady climb, increasing by around 32 per cent to approximately 57 million dollars, slightly less than the figure for coffee, the leading export product. Owing to the extension of the area under cultivation,[44] the availability of bank credit,[45] and the guaranteed prices which the banana companies offered independent producers, banana exports made spectacular advances for the second year running and reached a total of 36 million boxes.

Unit prices for coffee improved for the first time in four years—by 3.4 per cent—largely as a result of the frost that cut down Brazilian production from Paraná. Under the combined influence of the 1.7 per cent increase in foreign sales and higher world prices, the value of coffee exports rose more than the previous year and totalled some 58 million dollars. A 4 per cent higher yield is expected in the next crop year, 1969/70, which, barring unforeseen circumstances, will enable producers to benefit to some extent from the present attractive international prices (see table 76).

Cocoa exports more than doubled in value in 1969, increasing from 3 to 7.8 million dollars. The high international prices that have been prevailing for some time encouraged the expansion of the area under cultivation and the volume sold. Provisional estimates for the 1969/70 crop year indicate a falling off in production, however, which is probably due to the tendency to switch crops in view of the financial facilities available for banana growing and the relatively more attractive market prices for this product.

On the other hand, cattle and meat prices fell slightly, to 11.9 million dollars: this was the result of the Government's decision to cut down the previous year's export quota as

[44] Individual enterprises have made great strides in recent years and now cultivate practically as large an area as the banana companies; 13,200 hectares compared with the latter's 14,400 hectares.

[45] Credits estimated at more than 9 million dollars were made available to national producers between 1963 and 1969.

Table 75. Costa Rica: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	104.5	136.8	173.5	205.8	229.1
Goods (f.o.b.)	87.0	111.7	143.3	173.7	195.0
Services	17.5	25.1	30.2	32.1	34.1
Imports of goods and services	−120.9	−199.6	−215.5	−236.9	−258.2
Goods (f.o.b.)	−98.9	−160.9	−173.7	−191.3	−210.0
Services	−22.0	−38.7	−41.8	−45.6	−48.2
Net external investment income	−3.7	−13.4	−17.0	−17.8	−19.2
Net private transfer payments	0.8	4.9	4.5	4.6	4.5
Balance on current account	−19.3	−71.3	−54.5	−44.3	−43.8
Capital account					
Net external financing	19.3	71.3	54.5	44.3	43.8
Non-compensatory external financing	10.9	55.6	65.9	48.6	73.3
Direct investment	2.4	0.1	15.7	16.5	17.9
Long- and medium-term loans	6.1	52.1	37.4	44.5	36.0
Amortization payments	−5.4	−18.6	−24.6	−32.7	
Short-term liabilities	4.5	18.5	33.1	15.8	13.9
Official transfer payments	3.3	3.5	4.3	4.5	5.5
Non-compensatory domestic capital and assets	−1.7	−7.5	−10.4	−9.0	−8.9
Errors and omissions	−1.1	15.9	15.7	13.7	0.5
Compensatory movements (increase −)	11.2	7.3	−16.7	−9.0	−21.1
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	10.0	35.0	11.7	4.0	−12.5
Amortization payments	—	−25.2	−27.0	−10.6	
Gold and foreign exchange (increase −)	1.2	−2.5	−1.4	−2.4	−8.6

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

Table 76. Costa Rica: value, quantum and unit value index of main exports, 1965–1969

	1965	1966	1967	1968	1969[a]	Annual growth rates (percentages)			
						1966	1967	1968	1969
Millions of dollars									
Bananas	28.3	29.2	30.9	42.8	56.7	3.2	5.8	38.5	32.5
Coffee	46.6	52.6	54.8	55.3	58.1	12.9	4.2	0.9	5.1
Cocoa	2.2	3.1	3.1	3.0	7.8	40.9	—	−3.2	160.0
Fresh meat	3.2	5.5	8.6	12.3	11.9	71.9	56.4	43.0	−3.3
Millions of dollars at 1960 prices									
Bananas	23.5	26.7	27.6	40.4	55.8	13.6	3.4	46.4	38.1
Coffee	45.4	51.6	62.2	64.5	65.6	13.7	20.5	3.7	1.7
Cocoa	3.3	3.8	3.5	2.6	5.1	15.2	−7.9	−25.7	96.2
Fresh meat	2.7	4.2	6.2	9.2	8.2	55.6	47.6	48.4	−10.9
Unit value index (1960 = 100)									
Bananas	120.3	109.5	112.1	105.8	101.7	−9.0	2.4	−5.6	−3.9
Coffee	102.6	102.0	88.1	85.7	88.6	−0.6	−13.6	−2.7	3.4
Cocoa	66.1	81.9	88.3	114.8	153.1	23.9	7.8	30.0	33.4
Fresh meat	117.0	130.0	139.7	134.3	145.5	11.1	7.4	−3.9	8.3

SOURCE: ECLA, on the basis of official statistics.
[a] Preliminary figures.

the special provisions governing livestock production that had been introduced in view of the danger presented by the Arenal volcano were lifted. Lastly, exports of manufactured goods, most of which were destined for the Central American Common Market, mostly showed a slower growth rate, very likely as a result of the economic difficulties experienced by the Central American countries and the conflicts and other obstacles to regional trade. Estimates for the first nine months of the year suggest that the value of exports of manufactures did not exceed 42 million dollars, a relative increase of 16 per cent compared with 29 per cent in the previous year. Nonetheless, their share of total exports has risen from 6 per cent in 1963 (when Costa Rica was admitted to the Common Market) to around 20 per cent in 1969.

Imports of goods went up by about 10 per cent—roughly the same as in 1968—and there were substantial changes in their composition. Increased investment, especially in infrastructure (transport and energy), encouraged purchases of capital goods, which rose by some 18 per cent and more than made up for the 14 per cent drop in 1968.

One of the effects of the less favourable conditions for development in the industrial sector was to keep the growth rate of imports of intermediate goods below the figure for the year before (9 instead of 23 per cent). Purchases of consumer goods also registered a considerable lower growth rate—8.5 per cent instead of over 24 per cent—for the reasons already given. However, this item accounted for 82 million dollars and about 35 per cent of total imports, which, with the exception of Honduras, is the highest percentage in the whole of Central America (see table 77).

Despite the growth of imports, the comparatively larger increase in exports helped to offset the rise in outflows under the head of profits and interest on foreign capital and to reduce, albeit only very slightly, the deficit on current account.

Net inflows of non-compensatory foreign capital, on the other hand, increased by some 50 per cent, for the most part taking the form of long- and medium-term loans chiefly for public enterprises and agencies. Such loans totalled 36 million dollars, which compares very favourably with the figure of approximately 12 million dollars recorded in 1967 and 1968. The net inflow of foreign compensatory capital, amounting to 73 million dollars, covered the 44 million deficit on current account and swelled international reserves by 21 million dollars.

The tendency for foreign exchange reserves to rise since 1967 may be connected with the satisfaction of deferred demand for foreign currency to regularize the composition of the assets held by banks and enterprises; this however, has been largely covered by now. With the maintenance of a free market exchange rate fairly close to the official rate, moreover, the adoption of preventive measures and the promising outlook for exports may suffice to avoid repercussions beyond the control of the authorities.

In conclusion, then, the balance-of-payments

Table 77. Costa Rica: c.i.f. imports of goods, 1963–1969
(Millions of dollars)

	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1969[a]*
Total	*123.8*	*138.6*	*178.8*	*180.0*	*192.8*	*213.4*	*235.0*
Consumer goods	37.3	47.0	55.8	60.4	60.8	75.6	82.0
Non-durable goods	23.7	29.6	34.6	37.3	40.6	53.3	57.4
Durable goods	13.6	17.4	21.2	23.1	20.2	22.3	24.6
Fuels and lubricants	7.0	7.5	8.2	8.3	6.2	4.1	4.6
Intermediate goods	48.2	50.3	69.1	66.1	74.7	91.9	100.0
For agriculture	7.7	5.3	5.8	6.8	6.5	7.9	8.6
For industry	31.8	35.7	51.8	48.9	58.1	71.4	76.6
For construction	8.7	9.3	11.5	10.4	10.1	12.6	13.8
Capital goods	31.2	33.8	45.1	43.7	49.0	42.3	50.0
For agriculture	2.7	3.1	3.6	3.5	4.2	4.9	5.3
For industry	10.2	11.2	15.8	14.6	17.1	13.4	14.4
For construction	4.2	4.8	4.3	5.5	3.9	3.7	4.0
For transport	8.8	9.1	10.6	12.3	14.7	12.2	16.6
Other	5.3	5.6	10.8	7.8	9.1	8.1	8.7
Other imports and adjustments	—	—	0.6	1.6	2.1	—0.5	—1.6

SOURCE: Statistics and Census office, IMF and ECLA adjustments and estimates.

[a] Projections.

problem may be said to have been partly solved, as is indicated by the increase in net foreign exchange reserves (12 million dollars in 1969) and the fact that the entire debt to the International Monetary Fund has been paid off, thus making a contingency credit of 12.5 million dollars available (see table 75).

Chile

1. Recent economic trends

In 1969 the Chilean economy recovered somewhat, although still maintaining the slow rate of growth recorded in 1967 and 1968. The gross domestic product grew by 3 per cent, slightly more than the 2.7 per cent increase in 1968; this slight acceleration in the growth rate, however, led to a much greater increase in real income since the terms-of-trade effect again improved as a result of higher copper prices on the world market (see table 78).

Table 78. Chile: percentage annual growth rates of the gross domestic product and income, 1961–1969

Year	*Gross domestic product*	*Income*
1961	6.2	6.3
1962	5.0	3.9
1963	4.7	4.5
1964	4.2	4.8
1965	5.0	6.5
1966	7.0	9.9
1967	2.3	1.4
1968	2.7	3.9
1969	3.0	5.3

Source: For 1961–1968, Office of the President of the Republic, Planning Office (ODEPLAN), *Cuentas Nacionales de Chile 1960–1968*; for 1969, preliminary ECLA estimates based on part-year national indicators.

Particularly striking developments in the major sectors of production were the decline in agricultural production and the upsurge in mining and manufacturing (see table 79). Construction activities made a good recovery after contractions in recent years, and electric energy generation pursued its upward trend. In the services sectors, transport and communications continued to expand, as did commerce, although somewhat more slowly.

In the evolution of domestic demand, which continued to expand although at a slightly slower pace than in 1968, investment expenditure was still the most dynamic component. Gross fixed investment grew by 7.7 per cent, with increases of 9.5 per cent in machinery and equipment and 6 per cent in construction. Total consumption rose 3 per cent as the result of a similar increase in consumption expenditure in the private sector and 3.5 per cent in government consumption expenditure.

The value of exports (at current prices) grew much more rapidly than that of imports, and this, coupled with the fact that net remittances of profits and interest increased very little, resulted in a sharp reduction in the deficit on current account. Moreover, although the net inflow of non-compensatory capital was smaller than in 1968, the balance-of-payments surplus was 112 million dollars, or practically the same as the previous year.

The fiscal sector showed an improvement in tax revenue—primarily from indirect taxes—and a much smaller increase in expenditure than in income. The result was a rise in current saving and a reduction in the fiscal deficit.

Lastly, domestic prices continued to rise in 1969. The consumer price index went up 29.3

Table 79. Chile: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–1965*	*1965–1968*	*1969*
Agriculture	12.1	10.2	10.8	10.1	3.2	5.8	−3.4
Mining	10.0	9.8	9.7	9.7	5.0	3.4	3.6
Manufacturing	23.2	25.3	25.8	25.9	7.3	4.5	3.5
Construction	4.5	4.8	3.9	4.1	7.1	−3.0	6.0
Subtotal goods	*49.8*	*50.1*	*50.2*	*49.8*	*5.6*	*3.9*	*2.2*
Electricity, gas and water	1.2	1.4	1.5	1.5	8.1	6.8	4.5
Transport and communications	7.2	10.6	10.1	10.3	13.9	2.2	5.0
Subtotal basic services	*8.4*	*12.0*	*11.6*	*11.8*	*13.1*	*2.7*	*4.9*
Commerce and finance	17.8	16.3	17.4	17.6	3.5	6.1	4.3
Government	5.5	4.9	4.8	4.7	2.8	2.9	2.5
Miscellaneous services	18.5	16.7	16.0	16.0	3.4	2.4	2.8
Subtotal other services	*41.8*	*37.9*	*38.2*	*38.3*	*3.4*	*4.1*	*3.4*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*5.0*	*4.0*	*3.0*

Source: For 1960–1968, ECLA estimates based on data supplied by ODEPLAN; for 1969, ECLA estimates.

per cent from 31 December 1968 to 31 December 1969. Wholesale prices increased 37.9 per cent between December 1968 and November 1969. In view of the renewed upswing in prices, especially in the first few months of the year, anti-inflationary strategy was reformulated with the aim of keeping the rate of inflation in 1969 at the level reached by the increase in the price index the previous year and of reducing it in 1970.

2. Major sectors of activity

Agricultural output is estimated to have fallen off by about 3.4 per cent, owing exclusively to the 13 per cent drop in crop farming (18 per cent in annual crops) (see table 80). Livestock production, on the other hand, grew by about 7 per cent. The reduction in crops was due to the prolonged drought which affected the central and north-central areas, and to the severe frosts at the end of 1968.

Cereals production dropped by 18.7 per cent, with 40 to 60 per cent contractions in maize, oats, barley and rice and no change in the level of wheat production. Pulses declined by 27 per cent, with a sizable reduction in beans, chickpeas and peas. Of the industrial crops, sunflower and beetroot fell 35 and 7 per cent respectively, while raps increased by 33 per cent. There were also sharp reductions in the potato crops and in grape and wine production.

Mining output rose about 3.6 per cent in 1969 as a result of increases of approximately 4 per cent in copper, 5 per cent in coal and 18 per cent in nitrate; but production of iron ore and crude petroleum declined by 3.5 per cent and 2.5 per cent respectively. While the copper output of large-scale mining increased by 4 per cent with the recovery of El Teniente's production after a 15 per cent contraction in 1968, that of medium- and small-scale mining rose 3.6 per cent.

Manufacturing production is estimated to have risen by 3.5 per cent in 1969, thus exceeding the previous year's increase (2.1 per cent); but this did not alter the sluggish trend that has characterized industrial production in the last three years (see table 81). The traditional consumer goods industries grew slowly, the greater production of manufactured goods such as tobacco, textiles, footwear and clothing, and leather goods being offset by the stagnation in the food industries and the decline in the production of beverages.

The contraction in agriculture was undoubtedly responsible for the lower level of output of these last two industrial groups; thus in the first ten months of the year the production of noodles declined by slightly over 6 per cent, that of sugar by more than 4 per cent and that of beer by over 9 per cent. The group of industries producing raw materials and inter-

Table 80. Chile: agricultural production indexes, 1967–1969
(1968 = 100)

	1967	1968	1969
Total	*98.2*	*100.0*	*81.7*
Cereals	96.8	100.0	81.3
Pulses	133.4	100.0	73.1
Potatoes	98.7	100.0	83.1
Industrial crops	97.7	100.0	96.7
Wine	91.6	100.0	77.0

SOURCE: ECLA, on the basis of data supplied by the Agricultural Planning Office of the Ministry of Agriculture and the Agricultural Statistics Office (SAG-DEC agreement): national agricultural survey, crop year 1968/69 (September 1969).

Table 81. Chile: manufacturing production indexes, 1967–1969
(1968 = 100)

	1967	1968	1969
Total manufacturing	*97.9*	*100.0*	*103.5*
Consumer goods industries	100.0	100.0	100.5
Intermediate goods industries	96.3	100.0	107.5
Metal-transforming industries	95.2	100.0	106.3

SOURCES: ECLA, on the basis of statistics supplied by: the Development Corporation (CORFO), Industrial Planning Division, *Datos básicos sector industrial manufacturero período 1960–67*; the Statistics and Census Office, *Indice de producción industrial manufacturera*; and the Sociedad de Fomento Fabril (data supplied directly).

mediate goods stepped up production by over 7 per cent as a result of the greater momentum gained by the manufacture of chemicals, coal and petroleum products, basic metals and non-metallic minerals (particularly cement). Lastly, the metal-transforming industry grew by slightly over 6 per cent, which is mainly accounted for by the increase in production of transport equipment.

Construction made a recovery in 1969 and is estimated to have grown by 6 per cent; this was due in particular to renewed activity in public works, which, according to estimated expenditure in the first eight months of the year, increased by about 8 per cent in real terms. Total housing construction rose by about 4 per cent. The 30 per cent contraction in the area started on by the public sector in the first eight months of 1969 in relation to the first eight months of 1968 was more than offset by the 27 per cent increase in the area which the private sector proposed to build over during the same period.

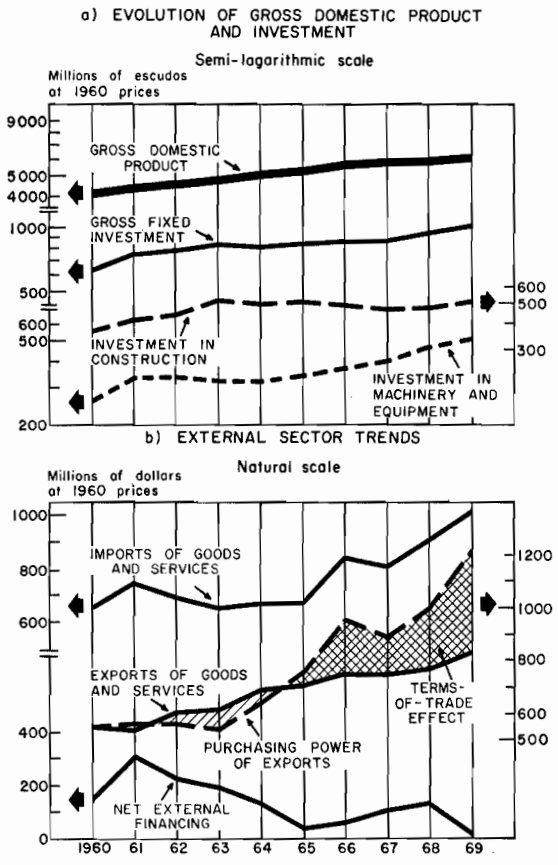
The increase in the volume of goods produced and of imports pushed up services such as transport and commerce by 5 and 4.3 per cent respectively. Electric power generation also rose by 4.5 per cent.

3. Total supply and demand

The total goods and services available in 1969 exceeded the previous year's volume by about 4 per cent (see table 82). As in 1968, the growth of total imports (close to 10 per cent) was a basic factor in the evolution of total supply.

On the demand side, the volume of exports increased substantially, total investment rose about 6 per cent and consumption 3 per cent. Expenditure on machinery and equipment, a dynamic component in 1968, went up more slowly in 1969 because of the smaller increase in imports of capital goods. In contrast with the previous year, expenditure in the construction sector, particularly on public works, rose 6 per cent. Public investment, which accounted for about 60 per cent of total investment, is estimated to have risen by 11 per cent, the largest increment being in urban construction and communications, as a result of programmes carried out by the National Telecommunications Company, the plan to expand Santiago's supply of drinking water, and the bigger projects undertaken by the Ministry of Public Works. There were also sizable increases in transport and certain branches of industry (through Industria Azucarera Nacional, S.A., the Development Corporation (CORFO) and Petroquímica Chilena). Investment in housing and mining remained at the previous year's levels (see figure IX).

Figure IX. Chile: 1960–69



Total consumption grew by 3 per cent, a slightly higher rate being recorded in government consumption expenditure. The slower growth of public consumption compared with 1968 corresponds in certain respects to the evolution of fiscal expenditure. According to Ministry of Finance estimates, while real current income rose 10 per cent, with indirect taxation—particularly sales, production and import taxes—accounting for an increasing share, fiscal expenditure increased about 5 per cent. This increase was due to current outlays under the head of wages and salaries, transfers to the private sector and interest on the public debt. Thus fiscal saving again rose in real terms and the deficit was slightly smaller than in 1968; 75 per cent of the deficit was covered by domestic loans and 25 per cent by external credit.

Table 82. Chile: total supply and demand for selected years, 1960–1969

	Millions of escudos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*4,857.0*	*6,036.6*	*6,953.5*	*7,226.5*	*116.7*	*113.6*	*116.3*	*117.3*	*4.4*	*4.8*	*3.9*
Gross domestic product	4,160.0	5,313.1	5,980.1	6,159.5	100.0	100.0	100.0	100.0	5.0	4.0	3.0
Imports of goods and services	697.0	723.5	973.4	1,067.0	16.7	13.6	16.3	17.3	0.7	10.4	9.6
Total demand	*4,857.0*	*6,036.6*	*6,953.5*	*7,226.5*	*116.7*	*113.6*	*116.3*	*117.3*	*4.4*	*4.8*	*3.9*
Exports of goods and services	574.0	746.6	803.5	861.1	13.8	14.0	13.4	14.0	5.4	2.5	7.2
Total investment	*722.0*	*978.5*	*390.8*	*1,052.1*	*17.3*	*18.4*	*16.6*	*17.1*	*6.3*	*0.4*	*6.2*
Gross fixed investment	641.0	855.6	948.6	1,022.1	15.4	16.1	15.9	16.6	5.9	3.5	7.7
Construction	377.0	510.7	476.1	504.7	9.1	9.6	8.0	8.2	6.3	−2.3	6.0
Machinery and equipment	264.0	344.9	472.5	517.4	6.3	6.5	7.9	8.4	5.5	11.1	9.5
Total consumption	*3,561.0*	*4,311.5*	*5,159.2*	*5,313.3*	*85.6*	*81.1*	*86.3*	*86.2*	*3.9*	*6.2*	*3.0*
General government	447.0	538.0	624.9	646.8	10.7	10.1	10.5	10.5	3.8	5.1	3.5
Private	3,114.0	3,773.5	4,534.3	4,666.5	74.9	71.0	75.8	75.7	3.9	6.3	2.9

SOURCE: For 1960–1968, ECLA estimates based on data supplied by the Planning Office (ODEPLAN); for 1969, ECLA estimates.

4. The external sector and the balance of payments

The high level of income from current transactions with other countries in 1969 permitted a further increase in imports and a substantial reduction in the deficit on current account. Income from exports of goods and services amounted to 1,268 million dollars, representing an increase of 23 per cent over the previous year; outflows under the head of imports of goods and services and remittances of profits and interest totalled 1,303 million dollars, an increment of nearly 11 per cent; and the deficit on current account was cut back to 28 million dollars, which compares favourably with the 122 and 140 million recorded in 1967 and 1968 (see table 83).

The value of exports of goods and services rose to 1,127 million dollars, which was 25 per cent higher than the 1968 figure. This expansion was due mainly to the 30 per cent increase in copper sales by both large-scale mining companies and medium- and small-scale mining. The rise in the price of copper is the basic reason for the higher value of total exports, since they increased only 3.4 per cent in volume (637,259 tons were exported in 1968 and 659,000 in 1969). The average price of copper in 1969 was 64.8 dollar cents per pound, compared with 53.6 dollar cents in 1968.

The rest of Chile's mining products averaged the same levels as in 1968. Figures for the first ten months of 1969 indicate that the larger shipments of nitrate and iodine were offset by contractions in iron ore and molybdenum.

Exports of manufactures rose to 100 million dollars in 1969 at an estimated rate of 36 per cent. The largest increases were in pulp, fish meal, motor-vehicle parts, and chemical and pharmaceutical products among the more regular exports, and in hardboard and cement among the items exported sporadically. Lastly, the value of agricultural exports rose very little over the previous year's levels owing to the contraction in agricultural output; the only significant increases were in timber and wool.

Imports of goods increased to 830 million dollars at a rate of about 14 per cent, which is very much higher than the rate of 3 per cent recorded in 1968. This increment is mainly attributable to imports of raw materials for industry—in response to the larger manu-

Table 83. Chile: balance of payments, for selected years, 1960–1969
(Millions of dollars)

	1960	1965	1967	1968	1969[a]
	Current account				
Exports of goods and services	5,550.5	788.0	989.0	1,029.0	1,268.0
Goods f.o.b.	480.0	688.0	872.0	904.0	1,127.0
Services	70.5	100.0	117.0	125.0	141.0
Imports of goods and services	−663.2	−716.0	−903.0	−954.0	−1,066.0
Goods f.o.b.	−507.4	−569.0	−709.0	−730.0	−830.0
Services	−155.8	−147.0	−194.0	−224.0	−236.0
Net external investment income	−64.6	−121.0	−213.0	−221.0	−237.0
Net private transfer payments	12.7	10.0	5.0	6.0	7.0
Balance on current account	−164.6	−39.0	−122.0	−140.0	−28.0
	Capital account				
Net external financing	164.6	39.0	122.0	140.0	28.0
External non-compensatory capital	82.6	80.0	158.0	292.0	182.0
Direct investment	29.0	−38.0	19.0	−54.0	−6.0
Long- and medium-term loans	50.5	183.0	216.0	445.0	344.0
Amortization payments	−45.5	−90.0	−105.0	−145.0	−159.0
Short-term liabilities	10.2	26.0	23.0	45.0	...
Official transfer payments	34.4	−1.0	5.0	1.0	3.0
Domestic non-compensatory capital and assets	−8.7	−36.0	...	−2.0	...
Errors and omissions	45.6	34.0	−70.0	−35.0	−42.0
Compensatory movements (increase −)	45.1	−39.0	34.0	−115.0	−112.0
Balance-of-payments loans, trade arrears, IMF position and other liabilities of the monetary authorities	59.9	133.0	45.0	61.0	46.0
Amortization payments	−31.4	−123.0	−55.0	−87.0	−72.0
Gold and foreign exchange reserves (increase—)	16.6	−49.0	44.0	−89.0	−86.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 20. [a] Central Bank estimates.

facturing output—and of fuels and lubricants. More fuels were imported owing to the decline in domestic production.

Much smaller increases were recorded for other items; food imports grew very little, and the same is true of the category comprising machinery and accessories and transport equipment; this reflects a much slower growth of imports of capital goods, which had increased considerably in 1968. Imports of transport equipment dropped sharply, while those of parts and accessories continued to climb. Imports of consumer goods, both durable and non-durable, remained at practically the same level.

The small negative balance on current account in 1969, added to a net inflow of autonomous capital, although somewhat smaller than in 1968, resulted in a balance-of-payments surplus for the second consecutive year, amounting to 112 million dollars.

5. Price trends in 1969 and some anti-inflationary measures

There was a renewed spurt in the rate of increase in domestic prices during 1969. The consumer price index rose by 29.3 per cent, which was higher than the rate recorded in 1968 (27.9 per cent). Of its main components, food increased 28 per cent, housing 22.1 per cent, clothing 29.5 per cent and miscellaneous items 40.2 per cent.

By November 1969 the wholesale price index had gone up 37.9 per cent, just over 5 points more than the rate recorded for the same period in 1968. During those eleven months, prices of domestic products went up by 38 per cent, mainly owing to the 48.9 per cent rise in agricultural prices during the same period. Prices of mining and manufactured products increased 35.6 per cent. Agricultural prices recovered somewhat in relation to the general level of wholesale prices, following the deterioration registered in 1967 and 1968. Lastly, prices of imported goods rose 38.2 per cent, or at virtually the same rate as prices of domestic products, which represents a slightly smaller increase than over the same period in 1968.

In view of the soaring domestic prices in the first few months of the year, it was necessary to adopt a group of fiscal, monetary and price control measures with the purpose of keeping the rate of inflation in 1969 at the level reached by the increase in consumer prices in 1968, and of reducing it in 1970. The principal measures announced early in the second half of the year are given below:

Tightening price controls at the different levels, particularly for consumer goods in popular demand, and assigning more resources and powers to the controlling agency, the Department of Industry and Commerce (Dirección de Industria y Comercio—DIRINCO);

Continuing and expanding the existing supply policy by drawing on import quotas and even importing larger quantities of products in short supply or involving high marketing margins;

As part of monetary policy, limiting the expansion of money and credit, particularly in the most dynamic sectors;

In the fiscal sector, more drastic restrictions on current expenditure, eliminating indebtedness to the Central Bank, and having less recourse to the drawback system. Limiting wage increases to 100 per cent of the rise in the cost of living.

6. Copper policy

(a) *General considerations*

In the past two decades Chile's efforts have been centred on framing a copper policy which will enable it to expand production, obtain a larger share of mining profits and play a more important part in the management and ownership of mining companies. The reasons which prompted this action are based on significant economic facts.

The value of copper exports, or rather their returned value, determines Chile's capacity to import. In the last few years copper has supplied about three-quarters of Chile's exports earnings (see table 84) and has financed an appreciable proportion of public expenditure.

Chile possesses the largest copper reserves in the world (see table 85), and yet in the last few years it has only occupied third place as a producer, after the United States and the Soviet Union. Chile's share of world production has declined in recent years. At the end of the 1940s it accounted for 17.2 per cent of world output, but this proportion had shrunk to 13.6 per cent towards the end of the 1960s and to an estimated 12.7 per cent in 1969.

The rate of growth of Chile's copper production over the period 1960–1969 was barely 2.8 per cent annually. Most of this growth is attributable to small- and medium-scale mining (11.8 per cent), while large-scale mining grew more slowly (1.3 per cent) (see table 86).

The promulgation of Act 11,828 of 3 May 1955, known as the "new treatment for copper Act", represented the first attempt to formulate an over-all policy for this important economic

Table 84. Chile: total copper exports, 1960–1969
(*Tons*)

Year	*Electrolytic*	*Fire-refined*	*Total refined output*	*Unrefined*	*Total*	*Value (millions of dollars)*
1960	138,354	74,749	213,103	299,726	512,829	361.2
1961	147,141	69,782	216,923	224,895	541,818	337.2
1962	165,322	74,887	240,209	322,356	562,565	367.0
1963	168,832	77,043	245,875	338,780	584,655	378.4
1964	141,352	71,903	213,255	344,350	557,605	438.8
1965	149,447	67,336	216,783	301,962	518,745	518.5
1966	221,219	95,833	317,072	265,869	582,941	675.7
1967	276,239	85,086	361,325	270,450	631,775	710.6
1968	296,754	81,022	377,776	259,483	637,259	742.2
1969[a]	...	...	...	...	659,000	882.6

SOURCE: Copper Corporation (CODELCO).

[a] Estimate.

Table 85. Chile: copper reserves

Mine	*Ore (millions of tons)*	*Average copper content (percentages)*	*Fine copper content (millions of tons)*
Chuquicamata	2,000	1.25	25.0
El Teniente	1,700	1.20	20.4
El Salvador	350	1.60	5.6
Exótica	150	1.35	2.0
Disputada Las Condes	150	1.40	2.1
Río Blanco	120	1.58	1.9
Other medium-size mines	100	2.00	2.0
Small mines	—	—	0.3
	TOTAL —	—	*59.3*

SOURCE: Carlos Ruiz, Geological Research Institute. *Geologia y yacimientos metaliferos de Chile* (Santiago, Chile, Editorial Universitaria, 1965).

Table 86. Chile: production of primary copper, 1960–1969
(*Tons*)

Year or period	*Large-scale mining*	*Small- and medium-scale mining*	*Total*
1960	479,178	52,732	531,910
1961	481,138	64.766	545,904
1962	510,228	75,748	585,706
1963	507,427	93,643	601,070
1964	527,804	94,483	622,287
1965	487,214	105,336	583,550
1966	536,767	100,489	637,256
1967	536,401	123,843	660,244
1968	519,264	138,934	658,198
1969	540,000[a]	144,000[a]	684,000[a]
Cumulative annual growth rates			
1960–69	1.3%	11.8%	2.8%
1960–66	1.9%	11.3%	3.1%
1966–69	0.2%	12.7%	2.4%

SOURCE: Copper Corporation (CODELCO).

[a] Estimates.

activity. Under this Act, the Copper Department was set up; a new tax system[46] was established with the purpose of stimulating an investment programme intended to raise production; additional tax exemptions on the production of electrolytic copper were granted; and the highest official exchange rate was authorized for large-scale copper mining activities.

The results of this Act were not so satisfactory as might have been expected, particularly as regards achieving higher production levels and more fiscal revenue. Accordingly, other acts establishing surtaxes for large-scale mining companies were subsequently enacted.[47]

At the end of 1964 the Government of Chile announced a new copper policy through agreements with foreign companies which provide for changes in the tax system and the State's participation in mining enterprises and production programmes. This policy, known as the "chileanization of copper", was ratified by the Congress in 1966.

The sharp rise in the world price of copper from 1966 onwards encouraged the Government to alter its policy with a view to obtaining a larger share in the management and ownership of copper companies. This new policy, which consists essentially in a partnership with all copper companies pending the achievement of full control within a specified period, was called "concerted nationalization". It was formulated in June 1969 and it also provides that the Copper Corporation (Corporación del Cobre—CODELCO) should receive a cumulative and progressive preferred dividend when the price of copper rises above 40 dollar cents per pound after deduction of income tax (see table 87).

Table 87. Chile: scale applicable to the copper overprice

Average price per pound of copper delivered (dollar cents per pound)	*Percentage for each additional dollar cent*	*Actual percentage of overprice*
40–41	54.0	54.0
41–42	55.6	54.8
42–43	57.2	55.6
43–44	58.8	56.4
44–45	60.4	57.2
45–46	62.0	58.0
46–47	63.6	58.8
47–48	65.2	59.6
48–49	66.8	60.4
49–50	68.4	61.2
50 and over	70.0	62 and over

Note: In applying the overprice, these percentages will rise or fall according to the increase or decrease in the quantity of refined copper delivered, since this scale relates to the average costs of mining companies in 1968 and 1969.

(b) *The chileanization policy*

The copper chileanization policy has consisted basically in the purchase of shares in the Braden Copper Company (51 per cent), Compañía Minera Exótica S.A. (25 per cent), and Compañía Minera Sagasca S.A. (25 per cent), and in the introduction of tax systems designed to stimulate programmes for expanding production and equipping new mines.

The programmes included under the chileanization policy envisage a production increase of about 1,200,000 tons in 1972, i.e., nearly twice the quantity mined in 1966 (see table 88). Large-scale copper mining is to step up production by 405,000 tons annually, 340,000 tons through the expansion of existing facilities and 65,000 tons through the development of new ones. Output of small- and medium-scale mining would double over the same period, which would mean an additional quantity of about 100,000 tons annually.

The chileanization policy also emphasizes the expansion of Chile's refining capacity, which should increase from 275,000 tons in 1966 to 700,000 tons by 1970.

Programmed investment for the execution of expansion programmes up to 1972 amounts to about 700 million dollars, and 62 per cent of this total had been invested by the end of September 1969 (see table 89).

(i) *Agreement with the Braden Copper Company.* This agreement provides for the association of the Government of Chile with the Braden Copper Company, a subsidiary of the Kennecott Copper Company, in the new Sociedad Minera El Teniente S.A., which took over the property, rights, obligations, assets and liabilities of the United States company and, therefore, legally succeeds it. To that effect, Kennecott sold Chile 51 per cent of the El Teniente shares for 80 million dollars.

The new company is investing over 230 million dollars so as to increase El Teniente's annual production capacity from 360 million pounds of fine copper to 560 million. This is at present the biggest undergound mine in the

[46] A tax of 50 per cent is payable on profits of large-scale mining companies and a variable surtax of 25 per cent, declining in proportion to the production increases achieved over the basic production, which is estimated at 95 per cent of the average registered during the years 1949–1953. For new enterprises only the 50 per cent tax would be applied.

[47] Act 14,603 (1961) establishing a surtax of 5 per cent, and Act 14,668 (1961) establishing an additional surtax of 8 per cent.

Table 88. Chile: mining companies' present and future fine copper production capacity[a]
(*Tons*)

Company	*1969*	*Future*	*Year*
Chilex[b]	300,000	355,000	1972
Exótica[c]	—	102,000	1971
Andes[b]	87,000	100,000	1971
El Teniente[d]	180,000	275,000	1971
Andina[e]	—	70,000	1971
Sagasca[f]	—	30,000	1972
Mantos Blancos[g]	30,000	30,000	—
Michilla[h]	—	6,200	1971
Disputada[i]	21,250	24,300	1970
El Soldado[j]	11,900	15,000	1971
La Africana[e]	4,500	4,500	—
Cerro Negro[c]	2,000	2,600	1970
Cima Minas[f]	1,200	1,200	—
Enani and others	72,150	184,200	1972
	TOTAL *710,000*	*1,200,000*	1972

SOURCE: Copper Corporation (CODELCO), Engineering Department.
[a] Approximate totals.
[b] Electrolytic and blister copper.
[c] Electrolytic copper.
[d] Fire-refined and blister copper (in part refined in the Las Ventanas refinery).
[e] Copper concentrates (in part smelted and refined at Las Ventanas).
[f] Cements.
[g] Fire-refined copper, cement copper and slag.
[h] Cement copper and copper concentrates.
[i] Blister and concentrates.
[j] Electrolytic copper, blister, cement copper, concentrates and ore.

world. Consideration is also being given to improvements in the existing production facilities and in workers' housing conditions.

The investment programme will be financed by the following loans extended to the Sociedad Minera El Teniente over a period of fifteen years at an annual interest of $5\frac{3}{4}$ per cent: (*a*) 80 million dollars from the Braden Copper Company, which represents the amount this company is receiving from the Copper Corporation for 51 per cent of its share in the new company; (*b*) 27 million dollars from CODELCO, and an additional sum of 12,743,000 dollars from the Braden Copper Company. El Teniente has also been granted a loan of 116,016,000 dollars by Eximbank, guaranteed by the Chilean Government.

As a joint company, the income of the Sociedad Minera El Teniente is subject to a 20 per cent tax; an additional tax of 30 per cent is levied on the dividends payable to Kennecott (49 per cent) which are sent out of the country.

(ii) *Agreement with Anaconda.* The Anaconda group, composed of the Andes Copper Mining Company, the Chile Exploration Company and the Chile Copper Company, has been

Table 89. Chile: programmed investment and actual investment in copper mining at 30 September 1969[a]
(*Millions of dollars*)

Company	*Total programmed*	*Total invested*	*Progress made (percentages)*
Sociedad Minera El Teniente	237.1	158.7	67
Chile Exploration Co.	121.0	98.6	81
Chile Copper Mining Co.	11.8	11.1	94
Compañía Minera Exótica	43.7	35.1	80
Grupo Anaconda: Plan Habitacional	67.5	23.1	34
Compania Minera Andina	157.0	90.7	58
Minera Sagasca	32.5	2.9	9
Other companies[b]	20.9	5.8	28
TOTAL	*691.5*	*426.0*	*62*

SOURCE: Copper Corporation (CODELCO).
[a] Provisional figures.
[b] Disputada de Las Condes, Carolina de Michilla, Cerro Negro and Cima (aggregate figures).

developing the Chuquicamata and El Salvador mines and, from an earlier date, the Potrerillos mine.

The agreements stipulate that the Anaconda group shall invest 110 million dollars to raise copper production from 363,000 tons annually to 557,000, including 102,000 from the new Exótica mine next to Chuquicamata, which contains approximately 150 million tons of ore with a copper content of 1.35 per cent. A joint company constituted by the Chilean Government and the Chile Copper Company was set up with a capital of 15 million dollars, the partners to contribute 25 and 75 per cent of the capital respectively and the profits to be distributed in the same proportion. The projects also included an increase in refining by the Andes Copper Mining Company and the Chile Copper Company from 182,000 tons to 445,000 annually.

The Andes Copper Mining Company (El Salvador mine) continues with a single tax of 50 per cent. The tax established for the Chile Exploration Company (Chuquicamata mine) is at a fixed rate of 52.5 per cent on the total profits; there is also a variable surtax of 33 per cent which could be reduced in proportion to the increases achieved in production, so that if the basic production of 154,067 tons is doubled the surtax would disappear and the company would continue paying 52.5 per cent.

The Compañía Minera Exótica pays 15 per cent on its taxable income and 30 per cent on the dividends remitted abroad.

(iii) *Agreement with the Cerro Corporation.* This agreement resulted in the establishment of the Compañía Minera Andina S.A., a joint enterprise operating with a capital of 21 million dollars, of which 30 per cent belongs to the Chilean State. The Río Blanco mine owned by this company is situated in the Aconcagua province at the southern end of the River Blanco valley, 3,600 metres above sea level; it contains known reserves amounting to 110 million tons of ore with a copper content of 1.6 per cent.

The development of this mine will require an investment of 157 million dollars, which is being financed by foreign loans totalling 95 million dollars contracted by the Compañía Minera Andina S.A., loans for 41 million dollars from the partners, and 21 million dollars in shares, of which 6.3 million are contributed by the Chilean Government and the rest by the Cerro Corporation. The agreement further stipulates that the National Electricity Enterprise will provide the company with electric power at cost price.

The Sociedad Minera Andina S.A. is subject to a fixed tax of 15 per cent on profits and a supplementary tax of 30 per cent on dividends distributed abroad; in addition, the State has a 30 per cent share in the profits.

(iv) *Agreement with Sagasca.* In February 1969 CODELCO was authorized to form a joint company with Continental Copper and Steel Industries Inc., which is to be called Compañía Anónima Cuprífera de Sagasca S.A. CODELCO is purchasing 25 per cent of the shares in this company.

The purpose of this company is to undertake the necessary exploration, prospecting and research, and to construct, prepare and put into operation the Sagasca copper mine situated in Tarapacá province; it will also carry out activities connected with exploration for copper and other non-ferrous metals and their production and marketing under the systems of medium-scale mining.

(c) *The "concerted nationalization" policy*

At the end of June 1969 the Government of Chile signed an agreement with the United States Anaconda Copper Mining Company for the purchase of its subsidiaries, the Chile Exploration Company (CHILEX) and the Andes Mining Copper Company, on the terms summarized below:

(i) Two joint mining companies would be set up as from 1 January 1970 to which CHILEX and Andes would contribute the whole of their respective assets and liabilities, including all the mining facilities at the Chuquicamata, El Salvador and Potrerillos mines. The contributions of the two companies would be based on the book value of their assets and liabilities shown in their balance-sheets at 31 December 1968 and adjusted to 31 December 1969, within the normal course of operation and construction, i.e., the differences normally expected to occur would be added or subtracted. In the case of items that are not considered to be part of their normal operations, agreement would have to be reached between both parties before they can be added or subtracted.

(ii) Although the two companies would be legally constituted on 1 January 1970, as from 1 September 1969 51 per cent of the net profits of the Chile Exploration Company and the Andes Copper Mining Company would be paid to CODELCO in the form of preferred dividends, in four instalments from January to April 1970, without prejudice to the tax rates applicable to the two companies.

(iii) The two companies would be accorded the same privileges and rights as those set forth in the existing decrees governing investment by the Chile Exploration Company and the Andes Copper Company, provided they are not incompatible with the terms of the new agreement.

(iv) CODELCO would acquire 51 per cent of the shares in these new companies at a price equal to 51 per cent of their book value, payable over a period of twelve years as from 1 January 1970, in equal six-monthly instalments, with an annual interest of 6 per cent on the outstanding balance. The book value of 51 per cent of the shares at 31 December 1968 was 147.09 million dollars in the case of CHILEX and 48.8 million in the case of Andes. These figures should be updated to 31 December 1969.

(v) As from 31 December 1972 CODELCO may purchase the remaining 49 per cent of the shares in the two companies, provided it has paid 60 per cent of the value of the previous 51 per cent outstanding at the time of the sale. The value of this 49 per cent would be calculated by multiplying the average annual profit obtained from 49 per cent of the shares between 1 January 1970 and the date of the sale by a factor which would depend on the date on which CODELCO exercises this right: 8 in 1973, 7.5 in 1974, and in 1975, 6.5 in 1976 and 6 from 1977 onwards.

(vi) The average profits would be calculated by deducting income tax, the supplementary tax and the Government's share in the price above 40 dollar cents per pound (overprice). This reduces the value that is to be multiplied by the appropriate factor to a figure that can never exceed 23.32 per cent of the total profits of the company formed in association with CHILEX, and 24.35 per cent of the profits of the company formed with Andes. This percentage would be correspondingly lower as the share in the overprice increases.

(vii) The 49 per cent would be paid in equal six-monthly instalments over a period of twelve years from the date on which the last instalment for the original 51 per cent of the shares falls due.

(viii) The company succeeding the Chile Exploration Company would be required to pay 30 per cent income tax and an additional tax of 32 per cent on dividends paid to foreign investors. These rates represent a combined levy of 52.4 per cent on CHILEX's profits, which is almost the same as the previous basic tax (52.5 per cent). The new company formed with the Andes Mining Copper Company would be required to pay 29 per cent income tax and an additional tax of 30 per cent on dividends paid to foreign investors. These taxes amount to a combined levy of 50.3 per cent on profits, which is comparable with the single rate of 50 per cent applicable under the previous system.

(ix) This tax system would be applicable only when the price, in constant terms in relation to the average for 1968–1969, is lower than 40 dollar cents per pound, since over this level the State's share increases with the payment to CODELCO of the cumulative preferred dividend which is applicable progressively to the overprice, as shown in table 87.

(x) The two companies would be administered by a board of directors composed of seven members and seven alternate members. The Copper Corporation, holding series A shares, would elect four directors and four alternate directors, and foreign enterprises holding series B shares would elect three directors and three alternate directors. The board of directors would assume responsibility for the companies' operations, give directives and instructions, establish a marketing policy, determine prices and sales techniques, and appoint executive personnel. The Manager, the Deputy Manager (Operations) and the General Supervisor, however, would be appointed or dismissed by the board of directors on the advice of the advisory company, which in this case may be CHILEX or Andes, during the period the advisory contract is in force, i.e., three years.

All the decisions of the board of directors would be adopted by a simple majority, except for some general decisions which would require the affirmative vote of one of the series B directors. These decisions relate basically to the sale of real estate, the exploration and development of other deposits, bond issues, the appointment of the Chairman, Vice-Chairman, General Manager and Controller, and the transfer of shares, which are all matters in which CODELCO has a say as minority partner in other joint companies.

(xi) A contract for the provision of advisory assistance would be concluded between the new joint companies and CHILEX and Andes or other subsidiaries, by virtue of which the foreign enterprises would make available all their knowledge and techniques in the various operational and administrative spheres for the technical and operational management of new mines and related establishments, facilities and services. The advisory contract would cover plant operation, administration and sales. The

fees would be fixed at 1 per cent of the company's total sales, on the basis of a maximum price of 60 dollar cents per pound, and the duration of the contract would be up to 31 December 1972, when it could in any case be terminated by the Copper Corporation provided it has paid CHILEX or Andes 60 per cent of the outstanding balance corresponding to 51 per cent of the shares in the joint company concerned.

(d) *Returned and non-returned values*

A study of the trends followed by the different components of the returned values of copper exports by large-scale mining companies and of the values not returned to the country brings to light some interesting points (see table 90).

Although the output of large-scale mining enterprises has not increased substantially over the past few years (see table 86), the value of exports has risen significantly, owing to the high levels reached by world copper prices in the last three years. This represents a marked improvement in Chile's terms of trade.

The higher export earnings mainly benefited foreign enterprises, whose profits rose from the average annual sum of 45 million dollars in the period 1960–1965 to over 120 million in the years 1966–1969. The State meanwhile received less revenue, which did not increase in direct proportion to the rise in profits because under the terms of the agreements with foreign firms the additional charges of 5 and 8 per cent established after the promulgation of Act 11,828 were eliminated. In 1969, however, tax revenue increased considerably with the levy on copper prices above 40 dollar cents per pound (overprice); moreover, in the last three years the State has received additional income in its capacity as a partner in these companies.

Another noteworthy fact is the rise in production costs, which in the last two years have been twice those recorded in the period 1960–1965 although production only increased slightly. Imports at the companies' own exchange rates declined because heavier purchases were made locally. In contrast, miscellaneous expenditure has risen sharply in the last four years. The principal item was the amount spent on the electrolytic refining of copper dispatched to the United States in the form of blister. This item will gradually disappear with the expansion of Chile's refining capacity.

7. AGRARIAN REFORM POLICY

(a) *Background*

The 1960s marked the beginning of a process of economic and social change in the structure of Chile's agricultural sector; the aim of these changes is to achieve, through the re-allocation and more efficient utilization of productive resources, a more equal distribution of the income generated in the sector, an increase in agricultural production and a higher level of living for the rural population. This process of change was initiated in 1962 with the promulgation of agrarian reform Act 15,020, which authorizes the Agrarian Reform Corporation (Corporación de la Reforma Agraria—CORA) to take over farms and divide them into plots or economic units to be developed by individual farmers or on a co-operative basis. The farms may be acquired by direct purchase or through the expropriation machinery established by the agrarian reform Act.

Under the agrarian reform programme, the expropriation for public purposes of farms in the following categories was authorized: (*a*) farms that are abandoned or obviously badly run; (*b*) farms belonging to public or private legal entities which are being developed in any way other than directly by their owners; (c) farms the Agrarian Reform Corporation considers it essential to take over in order to complete a programme of land division or to implement a regional agricultural development plan.

When farms were purchased, there was a cash payment of 20 per cent, the balance to be paid in equal instalments over not less than ten years. When they were expropriated, compensation was to be paid in cash and deposited within one year from the date of notification of expropriation and acceptance thereof by the owner or owners. The plots were distributed according to a point system, preference being given to workers who were already living and working on the farm in question.

Although this Act, which was in force up to mid-1967, contained important provisions governing the distribution of land, it was insufficient to spur on a process of land reform capable of substantially altering the structure of the rural sector. Act 16,640 was enacted in July 1967 with the purpose of modifying and amplifying its provisions and of expediting and intensifying the taking over and distribution of land. The new Act included other circumstances in which farms could be taken over, authorizing the Agrarian Reform Corporation to expropriate not only abandoned or badly run farms but also those owned by one person which comprised more than 80 hectares of irrigated land or an equivalent area.

It also provided that the compensation payable to the owner of the expropriated farm

Table 90. Chile: proportion of earnings returned to Chile by the large-scale copper mining companies, and proportion not returned, 1960–1969
(*Millions of dollars*)

Year	A. Proportion of earnings returned						B. Proportion of earnings not returned				Total earnings (A + B)	Proportion of earnings not returned as a percentage of total earnings
	Legal value of production	Imports at the companies' own exchange rates	Government's share	Taxes	Other	Total earnings returned	Profits	Depreciation	Miscellaneous	Total earnings not returned		
1960	98.0	31.3	—	89.0	14.7	233.0	47.8	26.4	2.6	76.8	309.8	24.8
1961	99.1	22.2	—	74.0	13.8	209.1	37.3	14.6	9.9	61.8	270.9	22.8
1962	107.5	21.8	—	89.3	15.3	233.9	43.5	21.6	1.4	66.5	300.4	22.1
1963	99.4	25.0	—	87.1	12.8	224.3	39.3	28.4	−0.1	67.6	291.9	23.2
1964	119.8	26.5	—	97.1	10.5	253.9	48.1	27.8	10.5	86.4	340.3	25.4
1965	135.4	31.9	—	113.8	11.9	293.0	43.9	33.2	2.3	79.4	372.4	21.3
1966	143.6	27.1	—	207.8	15.6	394.1	81.9	34.5	21.7	138.1	532.2	26.0
1967	164.6	25.3	39.4	174.4	18.1	421.8	124.4	17.5	13.4	155.3	577.1	26.9
1968[a]	190.6	25.0	42.0	155.7	19.0	432.3	125.6	20.4	9.5	155.5	587.8	26.5
1969[a]	202.0	25.0	73.0	291.4[b]	20.0	611.4	112.2	20.0	16.4	148.6	760.0	19.6

SOURCE: Central Bank.
[a] ECLA estimates.
[b] Including 66.4 million dollars paid in overprice.

should be equal to its valuation for land tax purposes, plus the value of existing improvements not included in the valuation. How the compensation would be paid would depend on the extent to which the farm had been developed. It would consist of a cash payment—1 per cent if the farm had been abandoned, 5 per cent if under-exploited and 10 per cent if it was over the specified size, strategically located in an agrarian reform area, etc.—the balance being payable over a maximum period of thirty years in adjustable agrarian reform bonds earning an interest of 3 per cent annually.

By virtue of a new provision contained in the 1967 agrarian reform Act which relates to the distribution of irrigation, water rights owned by private individuals could be expropriated and subsequently re-allocated by the State through agencies specially set up for the purpose.

In the early years (1963 and 1964) little progress was made in agrarian reform, mainly because no farms were expropriated and the only land taken over under the programme was that which CORA purchased directly. In actual fact, the area purchased from private owners during those years was not more than 20,000 hectares. Therefore, this analysis will be focused on the five years 1965–1969, when agrarian reform was conducted on a broader scale.

(b) *Incorporation of land in the agrarian reform programme*

During the period 1965–1969, 1,118 farms covering a total area of 2,871,500 hectares of which 249,000 are irrigated and 2,623,000 are dry, have come under the agrarian reform programme. There were 17,390 families living on these farms when they were expropriated and the number increased to 20,000 once the communities were organized. Table 91 shows that the number of farms taken over increased considerably between the first and second years of the five-year period (from 99 in 1965 to 265 in 1966), decreased in the next two years, although remaining at around 220, and rose to over 300 in 1969.

The total area of the farms taken over annually was maintained at over 500,000 hectares in 1965–1966, declined somewhat in 1967, but grew rapidly in 1968 and 1969, reaching 860,000 hectares in the latter year (see table 91).

The total area taken over and the kind of land it comprised has depended on the number of farms coming under the programme each year, their size, and the quality of the land. The fact that less land was taken over in 1967 indicates that the farms to which the reform was applied that year were smaller than in other years; as a matter of fact, the average area was smaller than at any other time during the five years under review (1,300 hectares), but the proportion of irrigated land was higher, 18 per cent. The opposite occurred in 1965, when the farms coming under the programme averaged 5,500 hectares, or the largest area in the whole period concerned. This was due to the transfer of farms belonging to various public bodies (National Health Service, Agricultural Development Institute and the Development Corporation). Of the area taken over during this period, 8.7 per cent was under irrigation and the remaining 91.3 per cent was unirrigated.

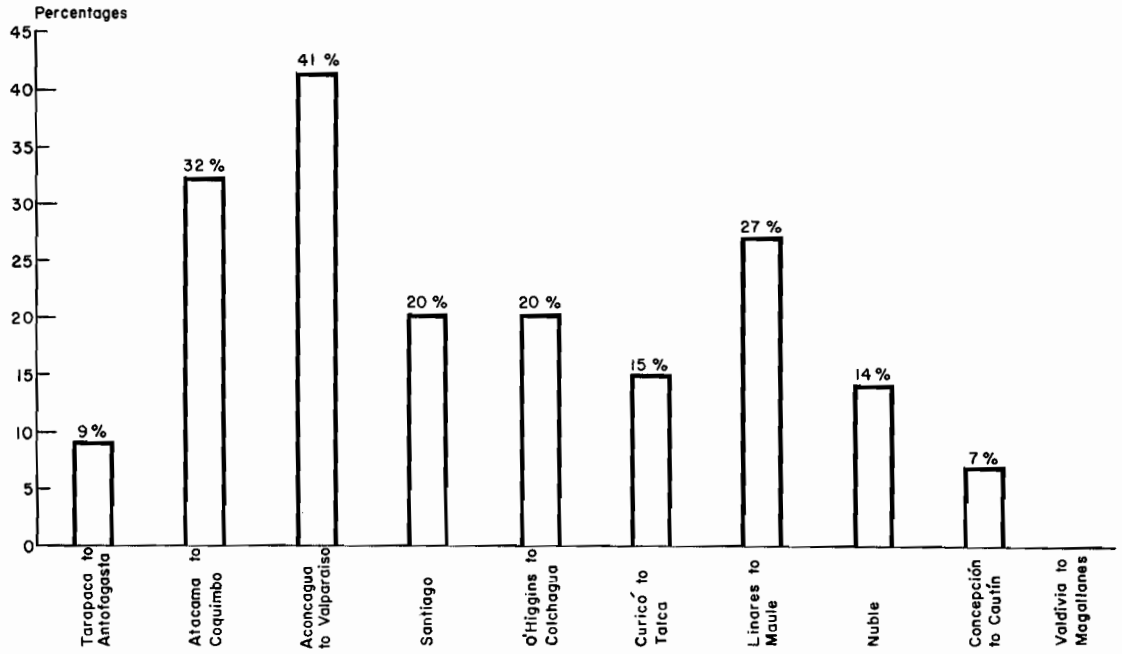
A comparison between the total area under irrigation in Chile and the area expropriated shows that the land reform process has absorbed, on an average for the whole country, 20 per cent of the total irrigated area. More irrigated land has been absorbed in some areas than in others; the proportion is 41 per cent in the provinces of Aconcagua and Valparaíso, 32 per cent in the Coquimbo region, 27 per cent in the provinces of Ñuble, Bío-Bío and Malleco, and 20 per cent in the Santiago-Colchagua region (see figure X).

Table 91. Chile: land taken over under the Agrarian Reform Programme, 1965–1969
(Thousands of hectares)

Year	*Number of farms*	*Total area*	*Irrigated*	*Not irrigated*	*Number of families*
1965	99	541.2	41.3	499.9	3,698
1966	265	526.2	57.9	468.3	3,235
1967	217	285.0	50.6	234.4	2,845
1968	223	657.3	44.7	612.6	2,824
1969	314	861.9	54.5	807.4	4,788
TOTAL *for the five-year period*	*118*	*2,871.6*	*249.0*	*2,622.6*	*17,390*

SOURCE: Agrarian Reform Corporation (CORA), Planning and Control Department.

Figure X. Chile: proportion of irrigated area expropriated by 31 December 1969, by provinces



SOURCE: Agrarian Reform Corporation.

Lastly, 50 per cent of the farms were expropriated because they were abandoned or badly run, 22 per cent were offered to CORA by their owners, and 18 per cent were farms with an area of more than the basic 80 hectares under irrigation (see table 92).

(c) *Establishment of communities* (asentamientos) *and allocation of farms*

The first stage in the process of land distribution has been the establishment of rural communities. For a period of up to three and sometimes five years, the land is farmed by CORA and the members of communities in the form of agricultural land reform associations. During this stage, the aim is to train the community members to assume full responsibility as owners and farmers, and to undertake infrastructural works and ensure the necessary capital formation for efficient agricultural development.

Statistics show that in the five-year period considered a total of 633 communities were established to farm an area of 2,600,000 hectares comprising slightly over 203,000 hectares of irrigated and 2,387,000 of dry farm land (see table 93). The process of setting up communities has been steadily gaining momentum; it began with 33 in 1965 and reached 229 in 1969.

A comparison between the number of farms

Table 92. Chile: reasons for expropriation of land under the Agrarian Reform Programme

	Number of farms	*Percentage of total*
Expropriations		
Abandoned or badly run	541	50.1
Offered to CORA by their owners	241	22.3
Area of more than the basic 80 hectares under irrigation	197	18.2
Belonging to public or private legal entities	40	3.7
Units with a basic area of 80 hectares under irrigation, resulting from the division of a farm exceeding that area which had been divided up between 21 November 1965 and 26 July 1967	45	4.2
Units resulting from the division of a farm exceeding the basic area of 80 hectares under irrigation which had been divided up after 4 November 1964 but the decision had not been enforced	16	1.5
Subtotal	*1,080*	*100.0*
Other ways of obtaining land		
Transfers of public land, purchases from private persons and public bodies, farms under administration, vacant plots in established land settlements	38	—
TOTAL *number of farms*	*1,118*	—

SOURCE: Agrarian Reform Corporation (CORA), reports on expropriations.

Table 93. Chile: land settlement, 1965–1969

Year	Number of settlements	Number of farms used for settlement	Area			Number of families settled
			Total	Irrigated (thousands of hectares)	Not irrigated	
1965	33	36	286.8	16.2	270.6	2,061
1966	62	63	145.6	17.3	128.3	2,109
1967	151	218	354.8	47.7	307.1	4,218
1968	158	229	725.2	53.7	671.5	5,644
1969	229	369	1,078.2	68.4	1,009.8	6,404
TOTAL *for the five-year period*	*633*	*915*	*2,590.6*	*203.3*	*2,387.3*	*20,436*

SOURCE: Agrarian Reform Corporation (CORA), Planning and Control Department.

where communities have been set up and the total number of farms expropriated shows that the stage comprising the establishment of communities has been initiated on 82 per cent of the farms coming under the programme during this period.

As noted above, over 20,000 families had benefited from agrarian reform by the end of 1969. The average area per family amounted to 10 hectares of irrigated and 117 hectares of non-irrigated land during the period under review. In spite of the increase in the number of families that benefited, the total fell far short of the official targets announced at the beginning of the programme and also of the goal indicated by the Minister of Finance in his statement to the Inter-American Economic and Social Council in October 1967—in which he announced that the target for the period 1965–1970 was a minimum of 40,000 and a maximum of 60,000 families—owing to difficulties encountered in 1965 and 1966 with regard to financing, manpower and settlement of communities on expropriated land.

During the period concerned, 2,000 families were given final allocations of land by decree covering an area of 208,000 hectares on thirty-three farms.

(d) *Income and expenditure of the Agrarian Reform Corporation*

The financial resources administered by the Agrarian Reform Corporation grew steadily during the period 1965–1969. Total income at constant 1969 prices rose from 105 million escudos in 1965 to 653 million in 1969 (see table 94). The principal source of financing has been the national budget, but this source has been declining in importance throughout the five-year period: public funds represented 82 per cent of CORA's income in 1965, and only slightly over 50 per cent in 1969. There has been a corresponding increase in the share of other sources of financing, such as domestic and foreign credit and the Corporation's own resources. A particularly significant rise in credit resources is noted over the past year, and altogether they account for 36 per cent of CORA's total income.

During the five years under review an average of 80 per cent of CORA's resources was used to defray capital expenditure and the remaining 20 per cent to cover wages and salaries, the purchase of consumer goods and current transfers. Since current expenditure grew much more slowly than capital expenditure, its share in total expenditure dwindled in the course of the period while that of capital expenditure increased. The figures in table 95 indicate that current spending rose from 34 million escudos at 1969 prices in 1965—which represented 37 per cent of total expenditure—to 94 million in 1969, when its share in the total had shrunk to 14 per cent.

Table 94. Chile: source of income of the Agrarian Reform Corporation, 1965–1969
(*Millions of escudos at 1969 prices*)

	1965	1966	1967	1968	1969
Government contribution	85.9	154.4	228.7	257.4	332.1
Own resources	7.5	23.1	53.0	93.8	81.4
Domestic credit	—	0.2	36.2	49.5	144.0
Foreign credit	6.5	8.3	9.5	34.5	93.6
Other sources	5.0	7.6	13.5	1.8	2.1
TOTAL	*104.9*	*193.6*	*340.9*	*437.0*	*653.2*

SOURCE: Agrarian Reform Corporation: 1965, 1966, 1967 and 1968 balance-sheets; 1969 budget.

Table 95. Chile: expenditure and investment of the Agrarian Reform Corporation, 1965–1969
(*Millions of escudos at 1969 prices*)

	1965	1966	1967	1968	1969
Current expenditure	*34.1*	*48.0*	*73.2*	*80.3*	*93.5*
Wages and salaries	18.3	25.3	37.1	48.5	54.1
Purchase of consumer goods and items other than personal goods	11.8	18.1	18.5	11.9	18.4
Transfers	3.6	4.6	17.6	19.9	21.0
Other expenditure	0.4	—	—	—	—
Capital expenditure	*59.0*	*138.5*	*259.2*	*354.3*	*559.6*
Infrastructure	14.2	27.9	42.7	51.6	80.6
Purchase of machinery and equipment	4.7	6.5	3.7	2.5	9.6
Acquisition of land	1.3	7.9	23.3	28.0	45.0
Purchase of houses and buildings	0.7	1.5	1.0	2.4	5.3
Loans extended	26.7	74.9	164.9	224.8	333.0
Amortization payments on purchases of land	9.9	10.6	12.2	11.5	30.0
Amortization of loans	—	—	—	21.2	40.0
Other capital expenditure	1.5	9.2	11.4	12.3	16.1
TOTAL *expenditure*	*93.1*	*186.5*	*332.4*	*434.6*	*653.1*

SOURCE: Agrarian Reform Corporation (CORA), Planning and Control Department: 1965, 1966, 1967 and 1968 balance-sheets; 1969 budget.

Capital investment increased from 59 to 560 million escudos at 1969 prices between 1965 and 1969, the major component being loans granted to rural communities which increased from 27 million escudos (45 per cent) in 1965 to 333 million (60 per cent) in 1969. Investment in infrastructure works (roads, housing, fences irrigation projects, etc.), the purchase of machinery and equipment, the purchase of land and the payment of compensation, and the acquisition of housing and buildings rose at constant prices from 21 million escudos in 1965 to 141 million escudos in 1969. Another important item of expenditure in 1965—amortization payments for land—declined from 18 per cent in 1965 to just over 5 per cent in 1969. The amortization of loans began to be significant only in 1968 and 1969, when such payments represented 6 and 7 per cent respectively.

Looking at CORA's total expenditure in relation to the number of families settled in communities each year, it can be found that, in constant 1969 prices, it spent an average of 45,000 escudos per family in 1965 and 32,000 in 1969.

Ecuador

1. RECENT ECONOMIC TRENDS

Ecuador's gross domestic product expanded at a rate of 4.4 per cent in 1969 which, considering that the population growth rate was 3.4 per cent, meant a *per capita* increase of 1 per cent. This expansion reflected the recovery of the agricultural sector and the progress made in industry, since the combined services sector were below the over-all average (see table 96). In the external sector there was a decline in current values of both exports (10 per cent) and imports (5.3 per cent) of goods and services. This resulted in a further drop in net foreign exchange reserves, and made it necessary to call upon IMF stand-by credit to a value of 18 million dollars during the year. In the meanwhile, consumption and investment were growing more rapidly than the product (4.6 and 10.6 per cent, respectively). As to public finances, there was a 1,500 million sucres budget deficit. Lastly, the average annual increase in the cost of living between 1968 and 1969 was 6.4 per cent in Quito and 4.7 per cent in Guayaquil.

2. TOTAL SUPPLY AND DEMAND

The composition of total supply changed slightly in 1969; not only did the gross domestic product grow more slowly, there was a relative shortage of goods from the rest of the world. Imports, which were up by 13.6 per cent in 1968, declined by 2 per cent (at constant prices), which brought the import coefficient down from 22.3 per cent in 1968 to 19.8 per cent in 1969. There were also changes in the composition of aggregate demand, with the export coefficient dropping sharply, owing to problems in the banana export market, from 19.3 per cent in 1968 to 15.9 per cent in 1969. This was the lowest coefficient in the 1960s and explains why such other factors as consumption and investment expanded more quickly than the product (see table 97 and figure XI). The

Table 96. Ecuador: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

Sector	Structure (percentages)				Annual average growth rates (percentages)		
	1960	1965	1968	1969	1960–65	1965–68	1969
Agriculture	36.8	33.9	31.6	31.7	2.7	2.2	4.6
Mining	2.4	2.0	2.2	2.3	1.0	7.5	5.9
Manufacturing	15.7	17.3	16.9	17.0	6.5	2.9	4.9
Construction	3.9	4.1	4.5	4.6	5.7	7.9	6.0
Subtotal goods	*58.8*	*57.3*	*55.3*	*55.6*	*3.9*	*3.3*	*4.9*
Electricity, gas and water	1.2	1.4	1.5	1.5	8.2	7.8	2.5
Transport and communications	4.2	3.8	3.6	3.6	2.0	3.2	2.6
Subtotal basic services	*5.4*	*5.2*	*5.2*	*5.1*	*3.5*	*4.5*	*2.5*
Commerce and finance	14.2	13.7	13.3	...	3.7	3.7	...
Government	5.8	7.1	7.8	...	8.4	8.0	...
Miscellaneous services	15.8	16.7	18.4	...	5.6	8.0	...
Subtotal other services	*35.8*	*37.5*	*39.5*	*39.3*	*5.4*	*6.4*	*4.0*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*4.4*	*4.6*	*4.4*

SOURCE: Central Bank and National Planning Board of Ecuador.

total gross investment coefficient reached 14.7 per cent, one of the highest figures for the decade. This upward trend, which began in 1968, marks a change from the steady decline in investment and savings levels recorded since 1961. The revival of investment in Ecuador comes more from private than public sources, and is due, in particular, to the boom in construction. Furthermore, notwithstanding the balance-of-payments problems, the level of investment in the industrial sector was satisfactory, showing that the steps taken by the Government to promote industrialization were bearing fruit. Thus, private investment in industry partly offset the weakness of other factors, such as exports, which in the past have been the driving force behind Ecuador's economic growth.

Since 1965, general government consumption has risen less rapidly than private consumption, despite the policy adopted by the general government bodies—particularly the Central Government and autonomous agencies—of increasing public employment and raising average wages and salaries. There was no change in this policy in 1969, since, if public investment and general government consumption expenditure are added together, their combined share in the gross domestic product amounted to 18.9 per cent, one of the highest figures for general government expenditure in the entire decade.

3. MAJOR SECTORS OF ACTIVITY

Thanks to favourable weather conditions, agriculture made a partial recovery in 1969 from the decline it suffered in 1968. Its 4.6 growth rate stems from the increase in output of certain major agricultural products (see table 98). This is still not sufficient, however, to satisfy the growing demand of the population, especially in the cities, where the annual

Figure XI. Ecuador: 1960–69

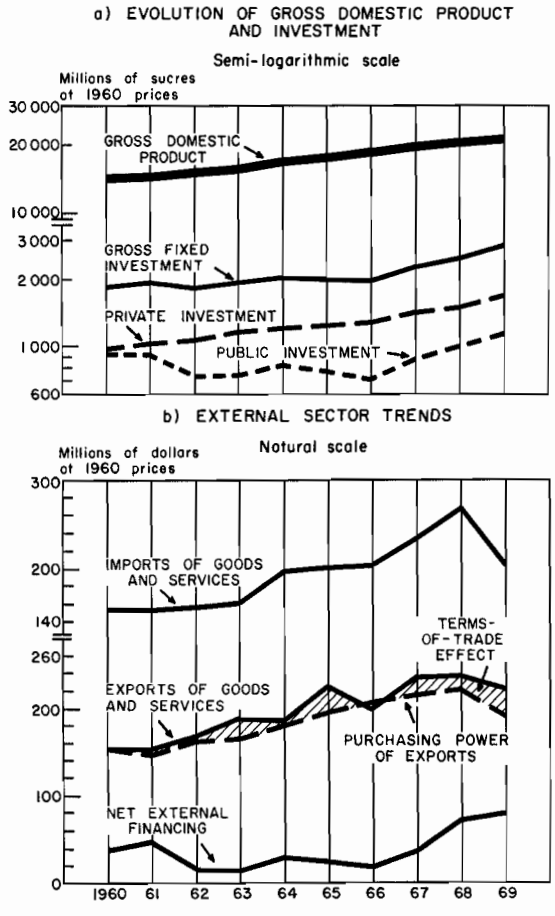


Table 97. Ecuador: total supply and demand for selected years, 1960–1969

	Millions of sucres at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*16,616*	*20,593*	*24,534*	*25,113*	*117.5*	*118.9*	*122.3*	*119.8*	*4.4*	*6.0*	*2.4*
Gross domestic product	14,140	17,325	20,065	20,962	100.0	100.0	100.0	100.0	4.2	5.0	4.4
Imports of goods and services	2,476	3,268	4,469	4,151	17.5	18.9	22.3	19.8	5.7	11.0	−7.1
Total demand	*16,616*	*20,593*	*24,534*	*25,113*	*117.5*	*118.9*	*122.3*	*119.8*	*4.4*	*6.0*	*2.4*
Exports of goods and services	2,530	3,659	3,876	3,332	17.9	21.1	19.3	15.9	7.7	1.9	−14.0
Total investment	*2,151*	*2,324*	*2,794*	*3,089*	*15.2*	*13.4*	*13.9*	*14.7*	*1.6*	*6.3*	*10.6*
Gross fixed investment	1,897	2,005	2,434	2,729	13.4	11.6	12.1	13.0	1.1	6.7	12.1
Private	986	1,226	1,460	1,624	7.0	7.1	7.3	7.7	4.5	6.0	11.2
Public	911	779	974	1,105	6.4	4.5	4.9	5.3	−3.0	7.7	13.4
Total consumption	*11,935*	*14,610*	*17,864*	*18,692*	*84.4*	*84.3*	*89.0*	*89.2*	*4.1*	*6.9*	*4.6*
General government	1,813	2,369	2,729	2,851	12.8	13.7	13.6	13.6	5.5	4.8	4.5
Private	10,122	12,241	15,135	15,841	71.6	70.6	75.4	75.6	3.9	7.3	4.7

SOURCE: For 1960–1967, National Planning Board; for 1968–1969, ECLA estimates based on information supplied by the Planning Board.

population growth rate is 5 per cent and still rising. The fact that the average annual growth rate of the agricultural product was 1.7 per cent between 1966 and 1969 is enough to show how much the sector is lagging behind.

Table 98. Ecuador: production of selected agricultural commodities, 1968 and 1969
(*Tons*)

	1968	*1969*
Rice (husked)	93,544	172,500
Barley	62,209	90,000
Beans	8,204	26,900
Broad Beans	11,849	18,350
Peas, lentils and maize	24,201	25,600

SOURCE: National Planning Board.

The agricultural sector is also partly responsible for the balance-of-payments deficit. Because of the inadequacy of domestic production, demand shifted to the external sector and there was increased pressure on imports. Moreover, the shortage of food-stuffs is affecting the retail price index which is climbing at 6 per cent per year, more than at any time in the 1950s or in the early 1960s.

The 5.9 per cent increase in mining output was similar to that of 1968. The increase in production of sulphur (about 2,400 metric tons) and natural gas is particularly notable.

Investment in petroleum in eastern Ecuador and the Gulf of Guayaquil area and prospecting for copper and molybdenum in the province of Azay (Chaucha area) also contributed towards this upward trend. During 1969, twenty-two petroleum companies operating in the country invested the equivalent of 276 million sucres. Of this sum, 95 per cent came from the Texaco-Gulf Consortium, which drilled eight exploration wells leading to a daily production of 10,510 barrels of petroleum and 2,042,525 cubic feet of gas.

Work on the railway line from Baeza to Santa Cecilia was begun and completed in 1969, as was 70 per cent of the 35-kilometre Papallacta-Baeza highway. Texaco-Gulf also began work on a 1,800-metre airstrip at Lago Agrio for DC-6 cargo flights. In the Gulf of Guayaquil area, a consortium of oil companies headed by ADA started drilling the first exploration well in the territorial waters near the island of Santa Clara, but no information is as yet available as to the outcome.

In 1969, the Government granted new petroleum concessions to the following enterprises: Cope Petrolera, Ecuador, Pacific Corporation, Quintana Ecuatoriana Cautivo, Compañía Petrolera Ecuatoriana and the Bradco Oil Company. An asphalt concession was also granted to Ecuasfalto. The year also witnessed the signing of additional and supplementary oil contracts between the Government and Texaco-Gulf, Petrolera Pastaza y Aguarico, and the consortium operating in the Gulf of Guayaquil. These new contracts give promise of an increase in revenue from surface rights and royalties, etc. As regards technical assistance, the Government took the necessary steps to renew the research and staff training agreement with the French Petroleum Institute, which is currently completing work on a 1:1,000,000 scale geological map.

The manufacturing sector expanded by 4.9 per cent in 1969, an improvement over 1968. Not enough information is available to show with any degree of certainty the trends in the different branches of this sector but it is estimated that factory-type industries grew by no less than 7 per cent, which points to the decline of artisan-type production. In addition, the recovery of the agricultural sector was probably responsible, to some extent, for the increase in factory-type activity.

Construction, too, did better in 1969 than the year before. Value added increased at a rate of 6.0 per cent, which had a stimulating effect on related manufacturing areas, such as cement and brick production. The main reason for the revival of construction was the private housing programmes in Quito and Guayaquil.

In 1969 the over-all output of primary activities (agriculture and mining) rose by 4.7 per cent and that of secondary activities (manufacturing and construction) by 5.1 per cent. This means that the over-all growth rate for the production sectors was 4.9 per cent in 1969, compared with a mere 1.5 per cent in 1968, largely as a result of the drought.

The services sectors (electricity, transport, commerce, etc.) recorded a combined growth rate of close to 4 per cent. The figure for basic services was 2.5 per cent and for the remainder 4 per cent. In particular, energy supply seems to have been inadequate, since, according to incomplete data, the growth rate for electricity, gas, water and health services is estimated to have been not more than 2.5 per cent in 1969.

4. THE FISCAL SITUATION

The government finances were very far from balancing in 1969 since there was a budget deficit amounting to some 1,500 million sucres. Part of this was covered by domestic and external loans to the tune of 365 million

sucres; another part was financed by "cancelling" transfer authorizations (200 million sucres) and the remainder by a loan from the Central Bank of Ecuador (see table 99). There was a budget deficit despite the payment of 11 million sucres in advance royalties on future petroleum production by Texaco-Gulf in February 1969. Judging from the measures taken by Congress in 1969, the 1970 deficit is likely to reach 2,800 million sucres, of which as much as 200 million may be covered by government loans.

Table 99. Ecuador: the general national budget in 1969
(*Thousands of millions of sucres*)

Regular income	3.0
Borrowings to cover expenditure in 1968	−0.4
Available current income	*2.6*
Current expenditure	3.1
Capital expenditure	1,0
Total expenditure	*4.1*
Deficit	*−1.5*
Financing	*1.5*
Net internal debt	0.2
Net external debt	0.2
Central Bank loans and cancellation of transfer authorizations	1.1

SOURCE: National Planning Board.

Ecuador has had budget deficits since 1965 and they have become a familiar feature of its economy. Income has failed to keep pace with increasing expenditure, which from 1,800 million sucres in 1963 will rise to 5,300 million in 1970, according to the 1970 budget figures.

In order to cover the steadily growing deficit, the Government adopted a series of measures which have, however, not yet succeeded in solving the problem. They include increased indirect taxation, which tends to make for a regressive tax structure, and heavier foreign borrowing, which, in view of the growing burden of service payments on current income, is a kind of mortgage on future income. Attempts have also been made to reduce expenditure, which, owing to the fixed nature of current expenditure, means cutting down investment in the social and economic infrastructure. The need for additional direct credit from the Central Bank to finance the budget deficits involves very serious inflationary pressures, which add still further to the external disequilibrium.

5. THE EXTERNAL SECTOR AND THE BALANCE OF PAYMENTS

Another outstanding feature of 1969 was, for the second year running, the largest balance-of-payments deficit on current account for the past two decades (75 million dollars in 1968 and 83 million in 1969). Table 100 shows that the net inflow of non-compensatory capital increased considerably in those two years and was roughly equal to the current external deficit, but in both years the flight of short-term capital caused a net drain on foreign exchange reserves, although this drain was less serious in 1969 than in 1968 because there was a greater inflow of non-compensatory external financing.

The deficit on current account in 1969 stemmed from the deterioration of foreign trade; exports of goods brought in around 211 million dollars in 1968, but they fell by 12 per cent to 185 million dollars the following year because of the drop in the exportable surpluses of Ecuador's traditional export commodities, particularly cocoa and coffee and, to a lesser extent, bananas. The drop in exports of these products was partially offset by the increases in exports of sugar and fisheries products (which rose by 5 million dollars). Fortuitous circumstances, such as the drop in the banana exports of other areas (Central America and Formosa) owing to bad weather conditions, enabled Ecuador to increase its own banana exports.

Between 1968 and 1969, imports of goods fell from 212.7 million dollars to 201 million, a decline of 5 per cent. Partial data suggest that the composition of imports changed in 1969 in favour of consumer goods and transport equipment, while imports of raw materials and intermediate products for agriculture and industry appear to have remained stationary. This may have been due to the partial recovery of the agricultural sector.

The interplay of these different variables in 1969 culminated in a 16-million-dollar deficit on the trade balance, which was far higher than the 2-million-dollar gap in 1968 and in strong contrast to the surplus that had been recorded previously (see table 100). The trade gap was further swelled by the balance on the services account, and the remittances of profits and interest on foreign capital, although these did show a slight increase over the two years.

The deficit on current account would have been even bigger if the Monetary Board had not taken a series of steps to stem the outflow of the foreign exchange reserves held from the Central Bank. Nevertheless, the outflow of foreign exchange reserves was much more serious in 1969 than the end-of-year figures suggest. On 31 December 1968, foreign exchange reserves stood at 57.3 million dollars.

Table 100. Ecuador: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	154.9	196.6	218.1	225.1	202.7
Goods (f.o.b.)	146.3	180.7	201.1	210.7	185.0
Services	8.6	15.9	17.0	14.4	17.7
Imports of goods and services	−152.3	−201.0	−234.2	−277.7	−263.0
Goods (f.o.b.)	−109.8	−155.2	−176.7	−212.7	−201.0
Services	−42.5	−45.8	−57.5	−65.0	−62.0
Net external investment income	−22.8	−25.0	−24.9	−27.1	−27.4
Net private transfer payments	1.4	2.2	5.0	4.7	4.9
Balance on current account	−18.8	−27.2	−36.0	−75.0	−82.8
Capital account					
Net external financing	18.8	27.2	36.0	75.0	82.8
Non-compensatory external financing	28.0	30.4	46.8	72.0	89.7
Direct investment	8.0	7.4	16.4	29.2	40.0
Long- and medium-term loans	24.6	22.9	34.7	49.7	52.5
Amortization payments	−9.4	−9.7	−11.9	−16.8	−15.9
Short-term liabilities	−1.0	2.7	−0.1	1.4	5.9
Official transfer payments	5.8	7.1	7.7	8.5	7.2
Non-compensatory domestic capital and assets	−10.5	−1.7	1.7	−4.7	−6.7
Errors and omissions	−2.3	−13.8	−3.6	−3.6	−2.6
Compensatory movements (increase −)	3.6	12.3	−8.9	11.3	2.4
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	0.8	11.8	0.1	9.7	10.6
Amortization payments	—	−2.2	−1.0	−10.7	
Gold and foreign exchange (increase −)	2.8	2.7	8.0	12.3	−8.2

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] National Planning Board estimates.

From then onwards, they dropped steadily to a very low level in mid-June, when the Government had to have recourse to the International Monetary Fund to draw 11.7 million dollars under the stand-by arrangements and a 6.3 million dollar credit for compensatory financing. These amounts were both drawn to the full in the course of 1969, which helped partly to replenish the gross foreign exchange reserves. Consequently, the Monetary Board adopted other measures to strengthen the balance-of-payments position.

6. Some aspects of economic policy

The main objective of economic policy in 1969 was to correct the balance-of-payments deficit, which was endangering the stability of the currency.

With this in mind, the Monetary Board took the following measures: it imposed a 40 per cent marginal cash balance for additional deposits by the public in cash accounts in private banks; it temporarily increased the amounts required in prior deposits for certain commodities (specified in "List II") by percentages ranging from 70 to 190, and made the minimum requirements for financing imports more stringent, which in practice meant the virtual prohibition of all imports; it raised the minimum bank cash reserves to 30 per cent for cash and demand deposits and to 20 per cent for savings deposits; and it imposed a further temporary increase on prior deposits for the commodities on List II. These measures began to take effect in July 1969 and resulted in a marked strengthening of the foreign exchange reserves. On the other hand, they caused a contraction of economic activity, since there was less credit available for the private sector to carry on its normal business.

Another important reason for some of the economic policy decisions was the budget deficits, especially that of 1969. In order to offset the effects of the currency issues which the Central Bank was forced to make in December 1969 to cover the part of the year's deficit which remained to be financed, it was necessary to raise the bank rate from 10 to 12 per cent and the delayed interest rate from 12 to 14 per cent. The percentage of advance import duty was also raised.

An additional problem was the trend of the cost-of-living index; in recent years the general retail price index has been rising at a faster rate and the item which is mainly responsible for this rise is "food and beverages" (see table 101).

Table 101. Ecuador: rate of increase of the cost-of-living indexes for Quito and Guayaquil, 1951–60 to 1968–69

Quito	*1951–60*	*1960–68*	*1968–69*
General	0.8	4.0	6.4
Food and beverages	0.5	5.2	9.9
Housing	1.1	2.9	1.5
Clothing	1.3	2.7	5.0
Miscellaneous	1.0	2.3	3.6
Guayaquil	*1957–60*	*1960–68*	*1968–69*
General	0.0	3.4	4.7
Food and beverages	−1.8	3.5	6.9
Housing	3.6	3.3	2.1
Clothing	0.8	2.6	7.5
Miscellaneous	3.7	3.4	0.6

SOURCE: National Planning Board.

El Salvador

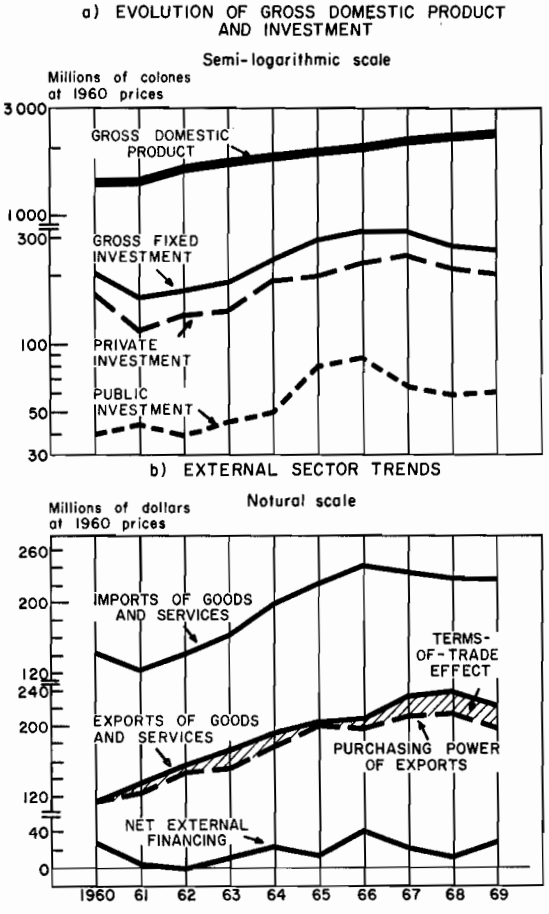
1. RECENT ECONOMIC TRENDS

According to preliminary estimates, in 1969 the economy of El Salvador grew at its slowest pace for five years (3.1 per cent). The economy was affected not only by the modest rate of growth of traditional exports but also by the hostilities and the ensuing cutback in private investment and exports to the Common Market.

The growth of consumption—especially current government expenditure—on the demand side, and the slight recovery of agricultural production on the supply side were the main factors counterbalancing the generally depressed state of the economy (see table 102 and figure XII). Hence, the population grew at a faster pace than the gross domestic product, which meant that per capita income declined to some extent and the problems of absorbing the labour force were intensified.[48]

The factor which had the most depressive effect on the development of the Salvadorian economy was the performance of exports of goods and services. Total exports, expressed in current prices, shrank by almost 6 per cent, while exports to the Common Market fell by 22 per cent. It should be noted, however, that the performance of the two major components of the external sector completely reversed the trend of earlier years. While the decline in the over-all growth rate during the period 1966–1968 was due to the downturn in exports of traditional goods, in 1969 the depressive effect was the result of the sluggishness of intra-area trade. Moreover, capital formation declined (by 4.5 per cent) for the second year in succession, mainly owing to the disequilibria and uncertainties generated by the hostilities. Private investment, influenced by the unfavourable economic prospects, stockpiling, and the level of economic activity—which remained low for the third successive year—fell from approximately 225 million colones to 211 million at 1960 prices between 1968 and 1969. Public investment remained practically stationary because the Government was obliged to transfer funds to cover contingency and emergency expenditures. This explains why less of the foreign credit earmarked for a number of government projects was actually used.

Figure XII. El Salvador: 1960–69



[48] Provisional estimates indicate that the unemployment rate almost doubled in 1969.

Table 102. El Salvador: total supply and demand for selected years, 1960–1969

	Millions of colones at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*1,773.8*	*2,532.3*	*2,819.4*	*2,883.9*	*124.9*	*128.0*	*126.0*	*124.9*	*7.4*	*3.6*	*2.3*
Gross domestic product	1,420.0	1,977.6	2,238.0	2,308.2	100.0	100.0	100.0	100.0	6.9	4.2	3.1
Imports of goods and services	353.8	554.7	581.4	575.7	24.9	28.0	26.0	24.9	9.4	1.6	−1.0
Total demand	*1,773.8*	*2,532.3*	*2,819.4*	*2,883.9*	*124.9*	*128.0*	*126.0*	*124.9*	*7.4*	*3.6*	*2.3*
Exports of goods and services	289.4	512.0	596.4	561.5	20.4	25.9	26.6	24.3	12.1	5.2	−5.8
Total investment	*219.4*	*305.0*	*312.4*	*324.7*	*15.4*	*15.4*	*14.0*	*14.1*	*6.8*	*0.8*	*3.9*
Gross fixed investment	204.4	294.0	287.2	274.2	14.4	14.9	12.8	11.9	7.5	−0.8	−4.5
Private	163.8	215.0	224.5	211.0	11.5	10.9	10.0	9.2	5.6	1.4	−6.0
Public	40.6	79.0	62.7	63.2	2.9	4.0	2.8	2.7	14.2	−7.4	0.8
Total consumption	*1,265.0*	*1,715.3*	*1,910.6*	*1,997.7*	*89.1*	*86.7*	*85.4*	*86.5*	*6.3*	*3.7*	*4.6*
General government	143.1	171.2	199.2	227.3	10.1	8.6	8.9	9.8	3.7	5.2	14.1
Private	1,121.9	1,544.1	1,711.4	1,770.4	79.0	78.1	76.5	76.7	6.6	3.5	3.4

SOURCE: ECLA estimates on the basis of official statistics.

As a result of the situation prevailing during 1969, consumption behaved abnormally, soaring above the levels of the preceding two years, despite the generally recessive state of the economy. The most conservative estimates place the increase in current government spending at slightly over 14 per cent. Regular economic development and social welfare programmes were enormously swelled by a series of unexpected expenditures, for example, on shelter, food and medical services for groups of refugees.[49] Thus, government consumption at constant prices rose from 199 million colones to an estimated 227 million within the space of a year. Family consumption also grew faster than in 1968, although at a slower pace (3.4 per cent) than government spending. In this connexion, it should not be forgotten that estimates of private spending include an element of stockpiling, and therefore —given the special conditions of 1969—may well give a very exaggerated picture of the situation. It is possible, however, that the propensity to consume increased in various strata of the population, either because there were more dependants in the families which took in refugees or because, as the incentives to save or invest were not so strong, there may have been an urge towards greater consumption.

In response to the trends of the market and the various components of over-all demand, production grew at a moderate pace, while imports remained at their 1968 level. Except in agriculture, the already modest growth rates of the major sectors of production compared with the preceding two years fell considerably (see table 103).

Given the prevailing conditions, government policy concentrated on the most pressing problems. In more than one respect, the increase in public spending had compensating effects, as did the provision of credit to entrepreneurs and farmers having difficulties in disposing of all their production. As regards the problems of the external sector, special export promotion programmes were developed and implemented, and efforts are being made to promote the organization of shipping services to facilitate trade with other members of the Central American Common Market. Measures are being studied to deal with the problems of employing and resettling the labour force, ranging from agrarian reform and settlement schemes and industrial projects to the conclusion of agreements with other Latin American countries for the transfer of a part of the surplus population.

Despite all these efforts, however, the restoration of conditions favourable to sustained economic growth is only partly dependent on these measures. Until the situation prevailing before the conflict as regards intra-area trade is restored, or until some equivalent alternative is found, appreciable changes will be necessary in economic policy. And this will involve more than merely adapting industry to the changed situation, or modifying the allocation of resources; account must also be taken of the possibility that dependence on international markets will increase and that existing social tensions will become more acute.

[49] It is estimated that between 40,000 and 60,000 Salvadorians returned to El Salvador.

Table 103. El Salvador: gross domestic product at factor cost by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)			*Average annual growth rates (percentages)*			
	1960	*1965*	*1968*	*1960–65*	*1960–65*	*1965–68*	*1969*
Agriculture	32.5	28.6	26.1	26.0	3.9	1.1	3.0
Mining	0.2	0.2	0.2	0.2	2.2	4.4	3.1
Manufacturing	13.5	16.3	18.2	118.1	10.7	8.0	2.9
Construction	3.7	4.0	3.4	3.3	8.3	−1.0	−1.2
Subtotal goods	*49.9*	*49.1*	*47.9*	*47.6*	*6.3*	*3.3*	*3.7*
Electricity, gas and water	1.2	1.6	1.9	2.0	12.1	9.9	7.9
Transport and communications	5.0	5.2	5.3	5.2	3.6	4.8	2.7
Subtotal basic services	*6.2*	*6.8*	*7.2*	*7.2*	*8.6*	*6.1*	*4.0*
Commerce and finance	21.4	23.7	24.1	24.1	8.8	4.8	3.0
Government	8.8	7.8	7.9	8.3	4.2	4.6	8.4
Other services	13.6	12.6	12.8	12.8	4.9	4.9	2.9
Subtotal other services	*43.9*	*44.1*	*44.9*	*45.2*	*6.8*	*4.8*	*4.0*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*6.9*	*4.2*	*3.1*

SOURCE: ECLA estimates on the basis of official statistics.

Furthermore, in an economy like that of El Salvador there is relatively little room for manoeuvre in terms of maintaining an effective compensatory policy for taxation, spending and credit over a prolonged period of time. At present, it is essential for El Salvador to be able to draw on a broader range of sources of income or credit to prevent or compensate for the deficits in public spending and the balance of payments.

2. Major sectors of activity

As a result of the contraction of exports to the Common Market and the decline in the growth rate, the manufacturing sector had to contend with rather unfavourable circumstances. The value of exports to the other Central American countries—mostly manufactures—fell from 85 million dollars in 1968 to 67 million in 1969, with the branches producing food-stuffs, textiles, petroleum derivatives and rolled-steel products being most affected. The manufacturing sector as a whole grew by 2.9 per cent, the lowest rate for five years.

In addition to the problems of regional trade and the expansion of the domestic market, other factors had a bearing on the development of manufacturing in El Salvador. On the one hand, the competition generated by integration has been intensified as a result of the growth of installed capacity in the other Central American countries. On the other, it may well be that the advances in the industrialization of the Central American countries have reduced the momentum of import substitution, as many of the easier opportunities to substitute local products for imports have already been taken up, and no policy of Central American scope to promote manufacturing has as yet been implemented. Moreover, in the future, new projects will require more advanced technologies, and more capital and entrepreneurial skills.

Lastly, the slow growth of the Salvadorian economy in recent years, added to the restrictions imposed because of balance-of-payments or fiscal problems, appears to have slowed down capital formation in the manufacturing sector, the effects of which are beginning to manifest themselves in the slow growth of supply.

All this would appear to confirm the view that El Salvador's industrial growth, like that of the other Central American countries, depends to a large extent on the strengthening of regional economic integration. Furthermore, the new opportunities for developing the manufacturing sector will have more and more to be based on considerations of productive efficiency and on a broader market base than the potential expansion of domestic demand. In this connexion, both the public and the private sectors have adopted or intend to adopt industrial promotion programmes, particularly programmes designed to reduce costs, promote exports, diversify production and increase opportunities for absorbing the labour force.

As noted earlier, the rate of growth of the agricultural sector recovered to some extent. As a result of favourable weather, the growth of livestock production, the increase in crops for domestic consumption and the rise in world coffee prices, the agricultural product grew by approximately 3 per cent, attaining a level of 546 million colones at 1960 constant prices.

During the 1968/69 crop year, the coffee harvest increased appreciably (by 8 per cent), mainly owing to increased yields.[50] Moreover, the decline in Brazilian coffee production—as a result of frosts which destroyed crops in the Paraná region—meant that world prices strengthened and later that quotas were freed and quota increases authorized; this began to benefit Salvadorian exports over the last quarter of 1969.

In contrast, the position of cotton was generally unfavourable: costs continued to rise and the prospects for world demand and prices reduced production incentives for most of the year. In addition, credit policy restricted financial support for less productive regions and farms, and self-supply programmes tended to alter the price ratio between export crops and crops for domestic consumption. The net result of all these factors was that there was no increase in the area under cultivation, and this was not offset by improved yields and a more rational use of fertilizers and insecticides.

During the past two years, crop production for domestic consumption has grown quite rapidly, which helped to prevent a major decline in the agricultural sector as a whole. In 1969, this was the result, not only of the favourable weather, but also of measures designed to step up import substitution of basic food-stuffs. As will be seen below, these measures helped to stimulate production and change the proportions of the crops sown and also to meet the needs stemming from the emergency situation. It must be noted, how-

[50] Owing to the differences between the crop year and the calendar year used in calculating the national accounts, the rise in coffee production in 1969/70 is reflected only partially in the value added for 1969.

ever, that—in the longer term and particularly within the context of integration—the way in which resources had to be allocated may affect the balance of payments, relative productivity and regional complementarity.

The growth of grain production was attributable to the increase in harvests of maize (11 per cent), sorghum (11 per cent) and beans (19 per cent), which benefited particularly from credit and technical assistance programmes. Approximately 43,000 hectares of hybrid maize were cultivated, and the amount of land sown to yellow maize for animal fodder was increased. During the summer season, efforts were redoubled to promote the cultivation of beans against possible cutbacks in supply from abroad. The rise in sorghum production was attributable to the stimulus of rapidly growing demand for animal fodder.

Sugar production recovered from the sharp decline of the previous crop year, and was just below the 1967 maximum (1.3 million tons); this is sufficient to satisfy domestic demand and fill the export quota for the United States market. Unlike the above crops, the rice crop, according to the data available, declined by close to 20 per cent, mainly owing to the fact that in 1969 producers reduced the area under cultivation. This was a consequence of the difficulties experienced in earlier years in disposing of surpluses in the Central American Common Market.

With some exceptions, the rate of growth of the remaining sectors of production declined compared with earlier years. The construction industry, which had had favourable prospects at the beginning of the year, felt the impact of the cutback in investment, as is evident from the slight decline in the level of activity (see table 103). The growth rate of the trade and transport and communications sectors fell as the immediate result of the decline in the external sector and the slow growth of the economy as a whole. In contrast, owing to the high priority assigned to energy development programmes, the electricity sector grew by close to 8 per cent, which was largely due to the entry into operation of the new steam-powered plant at Acatjutla (33 MW capacity).

General government services are estimated to have grown by approximately 8 per cent. This represents an increase of close to 14 million colones, mainly due to the increase in staff, over-all wages and assistance programmes needed to deal with the influx of returning Salvadorians.

3. The external sector and the balance of payments

One of the consequences of the trends in production and demand, and of the conflict, was a worsening of the external trade position. The deficit on current account actually doubled, amounting to some 35 million dollars, and was offset partially by net capital inflows and by recourse to net international reserves.

The contraction in exports of goods and services, an estimated drop of 14 million dollars, was to a large extent responsible for the deficit. As regards merchandise trade, exports to third countries expanded by 5.2 per cent, reaching a value of 133 million dollars, while exports to the Common Market countries fell by close to 20 million dollars (see table 104).

The value of coffee exports fell by 1 per cent during 1969. The harvest for the 1968/69 crop year was substantially lower than the previous year, which had an impact on the volume of exports (a 2 per cent drop). Furthermore,

Table 104. El Salvador: origin and destination of trade, 1966–1969

	Millions of dollars				*Average annual growth rates (percentages)*		
	1966	*1967*	*1968*	*1969*	*1967*	*1968*	*1969*
Exports	*189.5*	*207.9*	*212.5*	*200.0*	*9.7*	*2.2*	*−5.9*
To the Central American Common Market	58.6	79.2	85.7	66.6	35.2	8.2	−22.3
To the rest of the world	130.9	128.7	126.8	133.4	−1.7	−1.5	5.2
Imports (c.i.f.)	*220.5*	*224.5*	*216.8*	*229.4*	*1.8*	*−3.4*	*5.8*
From the Central American Common Market	52.0	54.5	65.6	62.0	4.8	20.4	−5.5
From the rest of the world	168.5	170.0	151.2	167.4	0.9	−11.1	10.7
Trade balance	*−31.0*	*−16.6*	*−4.3*	*−29.4*			
With the Central American Common Market	6.6	24.7	20.1	4.6			
With the rest of the world	−37.6	−41.3	−24.4	−34.0			

SOURCE: ECLA, on the basis of official statistics.

transactions in futures reduced the favourable effect of the increase in world prices during the last quarter of the year. The increase in the amount of coffee placed in new markets, where prices were lower than those established by the International Coffee Agreement, had a similarly depressive effect (see table 105).

The year 1969 saw a halt in the declining trend of cotton exports, which had been falling for three successive years. As a result of the 1968/69 harvest, the volume of cotton exports rose by 24 per cent. This, however, is but a temporary improvement since there was no increase in the area under cultivation for the 1969/70 crop year, and it is unlikely that world prices will rise any further.

As a result of the decline in the 1968/69 sugar harvest, the volume of sugar exports fell by close to 20 per cent, which was too much to be offset by the rise in average export prices (9.9 per cent). The net result was that the value of exports totalled 8.1 million dollars, or a fall of 11 per cent compared with 1968. Shrimp exports remained virtually constant, as in previous years, at a value of approximately 4 million dollars.

According to preliminary estimates, exports to the Common Market fell sharply from 86 to 67 million dollars between 1968 and 1969. Apart from the impact of the closure of the Honduran market, and its concomitant disruptions, the main factors responsible were the taxes on consumption and other restrictions imposed by certain Central American countries, and the region's somewhat slow rate of growth. While trade with Guatemala and Costa Rica rose at a moderate pace, exports to Honduras and Nicaragua declined by 40 and 30 per cent respectively.

Imports from the Central American countries also showed a predominantly declining trend, although much less pronounced, dwindling by some 6 per cent, the main imports affected being those from Honduras and Nicaragua. The over-all trade balance with the Common Market remained favourable, although the surplus fell by 77 per cent (see table 104).

The over-all trends in merchandise imports were attributable to a number of different factors. The policy to restrict credit early in the year, the surcharges on tariffs established in the San José Protocol and the slow growth of productive activity were the main factors holding down imports. The emergency situation arising out of the conflict generated a sizable volume of imports during the latter half of the year that would probably not have occurred had circumstances not been what they were. To sum up, outgoings in respect of merchandise imports grew by 1.9 per cent—after having fallen in 1968—to 203 million dollars, without necessarily meaning that there was a substantial increase in capital goods or goods essential to development (see table 106).

The deficit on current account (35 million dollars), while creating appreciable financial strains, was partially covered by net capital inflows. Net movements of foreign capital, while higher than in 1968, did not offset the decline in the gold and foreign exchange position at the end of the year.

The disparity in the performance of exports and imports means that complementary measures were required to protect the balance of payments during the last few months of the year, which included the imposition of a system of prior deposits for non-essential imports from outside the area, restrictions on the

Table 105. El Salvador: value, quantum and unit value index of major exports, 1965–1969

	1965	1966	1967	1968	1969[a]	Average annual growth rates (percentages)			
						1966	1967	1968	1969
Millions of dollars									
Green coffee . .	95.6	89.0	96.9	93.6	92.7	−6.9	8.9	−3.4	−1.0
Cotton . . .	37.8	24.3	17.0	14.5	...	−35.7	−30.0	−14.7	...
Sugar . . .	1.9	6.7	4.3	9.1	8.1	252.6	−35.8	−111.6	−11.0
Millions of dollars at 1960 prices									
Green coffee . .	85.6	83.1	104.1	100.6	98.8	−2.9	25.3	−3.4	−1.8
Cotton . . .	39.3	25.8	17.1	16.2	20.1	−34.4	−33.7	−5.3	24.1
Sugar . . .	1.7	5.7	3.5	8.2	6.6	235.3	−38.6	134.3	−19.5
Unit value index (1960 = 100)									
Green coffee . .	111.7	107.1	93.1	93.0	93.8	−4.1	−13.1	−0.1	0.9
Cotton . . .	96.2	94.2	99.4	89.5	...	−2.1	5.5	−10.0	...
Sugar . . .	111.8	117.2	121.7	111.3	122.3	4.8	3.8	−8.5	9.9

SOURCE: ECLA, on the basis of official statistics.

[a] Preliminary.

purchase of foreign exchange by tourists travelling abroad, and ceilings on the volume of import credits available from the banking system.

4. Public finance, money and credit

Taxation and public spending policy, partly deliberately and partly because of the unavoidable need to deal with pressing problems, to some extent counterbalanced the factors curbing the growth rate of the economy.

The deficit in government spending—26 million colones—was appreciably higher than in 1968 and hence, owing to the relatively short supply of external resources (1.4 million colones), it was necessary to make greater use of domestic credit (24.7 million colones), especially bank credit. On the other hand, the imbalances between supply and demand for certain goods (chiefly manufactures) made it necessary to expand domestic credit as a balancing mechanism. The result was that domestic credit grew by 9.7 per cent, soaring above the average for preceding years, to a value of 591 million colones. The use of credit helped to strengthen domestic consumer demand and to offset the reduction in the money supply. It is to be expected that domestic sources of financing will be used to an increasing extent in 1970, although it is also possible that external sources will be tapped to finance the more ambitious capital formation programmes.

Total expenditure by the Central Government in 1969 is estimated to have amounted to some 270 million colones, or 12 per cent more than the previous peak figure. It is likely that the expansion of regular programmes—especially those relating to social welfare—led to a reallocation of resources at the expense of capital expenditure. Although expenditure for capital formation rose by 5 per cent[51] and halted the downward trend of previous years, it did not reach the levels originally planned. In absolute terms, spending remained low (28 million colones), and it is estimated that the ratio of public investment to output is the lowest for the last five years. On the other hand, spending on current purchases and payments amounted to close to 242 million colones, an increase of 14 per cent over the figure for 1968.

[51] It may be assumed that most of this expenditure was incurred during the first half of the year.

Table 106. El Salvador: balance of payments for selected years, 1960–1969
(Millions of dollars)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	116.9	212.8	228.6	235.5	221.9
Goods f.o.b.	102.6	190.0	207.9	212.5	200.0
Services	14.3	22.8	20.7	23.0	21.9
Imports of goods and services	−141.6	−230.9	−255.3	−250.6	−253.5
Goods f.o.b.	−113.4	−187.3	−205.5	−198.8	−202.5
Services	−28.2	−43.6	−49.8	−51.8	−51.0
Net foreign investment income	−3.9	−7.8	−8.6	−8.2	−9.5
Net private transfer payments	0.2	9.7	7.7	6.0	6.0
Balance on current account	−28.4	−16.2	−27.6	−17.3	−35.1
Capital Account					
Net external financing	28.4	16.2	27.6	17.3	35.1
Non-compensatory foreign capital	16.3	25.3	31.3	17.8	
Direct investment	4.5	7.6	9.6	8.2	
Long- and medium-term loans	2.3	20.5	20.3	10.9	
Amortization payments	−2.1	−5.0	−3.4	−5.9	29.7
Short-term liabilities	10.7	−1.4	0.6	2.2	
Official transfer payments	0.9	3.6	4.2	2.4	
Non-compensatory domestic capital or assets	1.5	−4.3	−1.2	−1.6	
Errors and omissions	−2.5	−3.2	−3.6	2.1	
Compensatory financing (increase—)	13.1	−1.6	1.1	−1.0	5.4
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	16.2	3.1	1.0	6.6	7.2
Amortization payments	−7.7	−1.5	−1.9	−0.3	
Gold and foreign exchange (increase—)	4.6	−2.8	2.0	−7.3	−1.8

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21. [a] ECLA estimates.

The current receipts of the Central Government grew by approximately 5 per cent—considerably faster than the average for previous years—roughly equalling current expenditure (242 million colones). Emergency taxes on personal income and liquid capital, together with the income from the sale of bonds,[52] helped to swell the public treasury. Also worthy of note were the effects of the 30 per cent surcharge on certain imports, and the adjustments and changes[53] made in the taxation system, which, although initiated earlier, did not produce so much revenue as expected owing to the slow pace of economic growth and the change in the structure of imports.

Despite the increase in current receipts, the net result was that, because of the rapid growth of current spending, public savings were nil in 1969 (see table 107).

The money supply expanded by not more than an estimated 2.8 per cent, considered to be attributable to two counterbalancing factors. The decline in exports meant that net international reserves expanded only slightly, while the marked growth of domestic credit helped to expand the money supply.

The limited growth of the money supply and the existence of surpluses of many mass consumption goods counteracted the expansionary effects on prices of public current spending and domestic credit. According to the data available, prices did not rise by more than 1.1 per cent, i.e., approximately half the average rise during 1968.

[52] The Legislative Assembly of El Salvador authorized a bond issue up to a value of 30 million colones.

[53] Such as, for example, the 1967 revision of the Capital Taxation Act, the reform of the Property Act, and the ratification of the San José Protocol (taxes on consumption) in 1968.

Guatemala

1. Recent economic trends

The growth rate of the gross domestic product in 1969 was slightly lower—at 5.2 per cent—than the figure for 1968, as a result of several unforeseen negative factors. The El Salvador-Honduras conflict temporarily hampered the flow of trade among the other Central American countries, and the exceptionally heavy rains caused some disruption of agriculture; these factors had an unfavourable effect on the levels of economic activity during the second half of the year. The rapid expansion of the product of the trade, transport, electricity, construction and public services sectors could not offset the low growth rate of the agricultural and manufacturing sectors and the traditionally slow growth of private services (see table 108).

Table 107. El Salvador: current central government receipts and expenditure, 1963 and 1965–1969
(*Millions of colones*)

	1963	*1965*	*1966*	*1967*	*1968*	*1969*[a]
Current receipt	*181.2*	*224.5*	*223.5*	*226.9*	*231.0*	*242.0*
Tax revenue	164.7	210.6	208.2	210.2	215.2	...
Direct taxes	31.0	41.2	40.7	47.0	63.1	...
Income tax	24.2	33.8	33.8	37.9	44.4	...
Property tax	6.8	7.4	6.9	9.1	18.7	...
Indirect taxes	124.3	156.8	154.3	149.5	138.0	...
On imports	60.2	62.7	62.7	59.4	52.9	...
On exports	22.7	36.8	33.7	31.1	24.4	...
On consumption	38.9	54.5	55.3	56.4	57.6	...
Other	2.5	2.8	2.6	2.7	3.1	...
Stamp duties	9.4	12.6	13.3	13.7	14.1	...
Non-tax revenue	14.1	11.4	12.5	13.8	13.0	...
Current transfer payments and other receipts	2.4	2.5	2.8	2.9	2.8	...
Current expenditure	*150.1*	*169.2*	*182.7*	*188.1*	*211.4*	*242.0*
Operating expenditure	113.8	125.8	131.7	138.8	145.4	...
Wages and salaries	98.0	105.1	113.0	118.5	124.6	...
Goods and services	15.8	20.7	18.7	20.3	30.8	...
Current transfer payments	34.2	41.1	48.8	47.3	53.9	...
To the private sector	12.4	14.5	15.8	17.1	17.6	...
To the public sector	20.7	25.1	30.2	29.6	34.9	...
To the external sector	1.1	1.6	2.8	0.6	1.4	...
Interest on public debt	2.1	2.3	2.2	2.1	2.1	...
Current saving	*31.1*	*55.3*	*40.8*	*38.8*	*19.6*	*0.0*

SOURCE: National Economic Planning and Co-ordination Council. [a] Estimate.

Table 108. Guatemala: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	30.3	28.9	27.6	27.3	4.1	3.4	4.0
Mining	0.2	0.1	0.1	0.1	−3.6	8.2	—
Manufacturing	10.7	11.8	13.2	13.2	7.1	9.0	5.6
Construction	2.0	1.8	1.8	1.8	3.4	4.0	7.7
Subtotal goods	*43.2*	*42.6*	*42.7*	*42.4*	*4.8*	*5.1*	*4.7*
Electricity, gas and water	0.7	1.0	1.1	1.2	14.0	9.1	13.3
Transport and communications	4.1	4.7	4.5	4.5	8.0	3.7	6.0
Subtotal basic services	*4.8*	*5.7*	*5.6*	*5.8*	*9.0*	*4.7*	*7.5*
Commerce and finance	30.2	32.5	33.2	33.3	6.7	5.7	5.7
Government	6.7	5.3	5.2	5.3	0.5	4.0	7.5
Miscellaneous services	15.1	13.8	13.3	13.2	3.3	3.8	3.9
Subtotal other services	*52.0*	*51.7*	*51.7*	*51.8*	*5.0*	*5.0*	*5.4*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*5.3*	*5.1*	*5.2*

SOURCE: For 1960–1968, ECLA, on the basis of data supplied by the Banco de Guatemala; for 1969, ECLA estimates.

The increase in agricultural production was expected to be of similar magnitude to the previous year (5.6 per cent), but in fact declined to 4 per cent, as a result of bad weather conditions, which seriously affected the late sowings.[54]

Agricultural products for industrial consumption and some products for export showed the highest growth rate, while production for domestic consumption and livestock production expanded at roughly the same rate as the population increase (about 3 per cent). Agricultural development did not achieve really satisfactory levels throughout the 1960s (3.8 per cent annual growth rate). There continue to be shortfalls in the production of certain crops which affect the levels of living of very large groups of the population and supply for the domestic market. The Government is currently studying a series of programmes aimed, *inter alia,* at reforming the system of land tenure, providing more technical assistance and development services, introducing more advanced methods of cultivation and improving marketing methods. The industrial product continued to increase, though less rapidly, reflecting a falling off in domestic and regional demand.[55] The increases would have been greater had it not been for the appearance of such factors as the El Salvador-Honduras conflict, the new system of consumption taxes introduced in Nicaragua, and the restrictions placed on certain import items by Costa Rica. Another factor which somewhat discouraged investment was the delay in the approval of the regulations for the application of the Central American agreement on fiscal incentives for industrial development, owing to the breaking off of the negotiations during the second half of 1969.[56]

Two basic aspects of recent trends in the industrial sector are worth emphasizing. On the one hand, the branches of industry connected with the production of intermediate and capital goods, apart from having increased their share in the aggregate value added by the sector, seem to have made the most dynamic progress and to have the best prospects for the future;[57] and on the other hand, there is a marked interdependence between the development of the manufacturing sector and the demand generated within the Central American Common Market. By way of illustration, it may be pointed out that about 80 per cent of exports to the Common Market countries are made up of manufactures, in particular, tyres and inner tubes, pharmaceutical and toilet articles, clothing and fabrics, electrical appliances and other goods of similar importance.

[54] Hurricane Francelia and the heavy rains damaged the cotton crop, but the fall of about 19 per cent in the output of cotton fibre must be attributed to a reduction of the area under cultivation. The harvests of coffee and certain staple cereals were considerably less affected.

[55] The value added of manufactures rose by only 5.6 per cent, compared with 8.1 per cent in 1968.

[56] When the negotiations collapsed the Government began to apply, as from October, the Ministry of Foreign Affairs' provisional scheme for the application of the abovementioned agreement so as to avoid unnecessary delay in the implementation of projects for the manufacturing industry.

[57] A series of projects are currently being implemented for the production of wire, steel plate and steel shapes, tin-plate containers and steel cylinders for industrial uses. Progress was also made in the establishment of a plant for refining ferro-nickel, with an investment of approximately 150 million dollars, and in several projects for the assembly of motor-vehicles.

From another point of view, the recovery of government expenditure, which had lagged very far behind the rate of economic expansion in the previous three years, also contributed to the general expansion of effective demand and, on the supply side, to the growth of the public administration and defence sectors. A further contributing factor was the development of such sectors as electricity, which grew by 13 per cent, chiefly as a result of the electrification programmes undertaken by the Government. This increase in electricity generation is especially important since it implies the gradual elimination of what had been an obstacle to the development of many productive activities.[58]

The growth of 7.7 per cent in the construction sector reflects the higher levels of public investment achieved in 1969.

The transport and trade sectors grew by around 6 per cent as a result of the expansion of directly productive activities and the increase in international trade, but this growth rate was less than that of previous years owing to the problems encountered in agriculture, the situation in industry and the slow growth of imports.

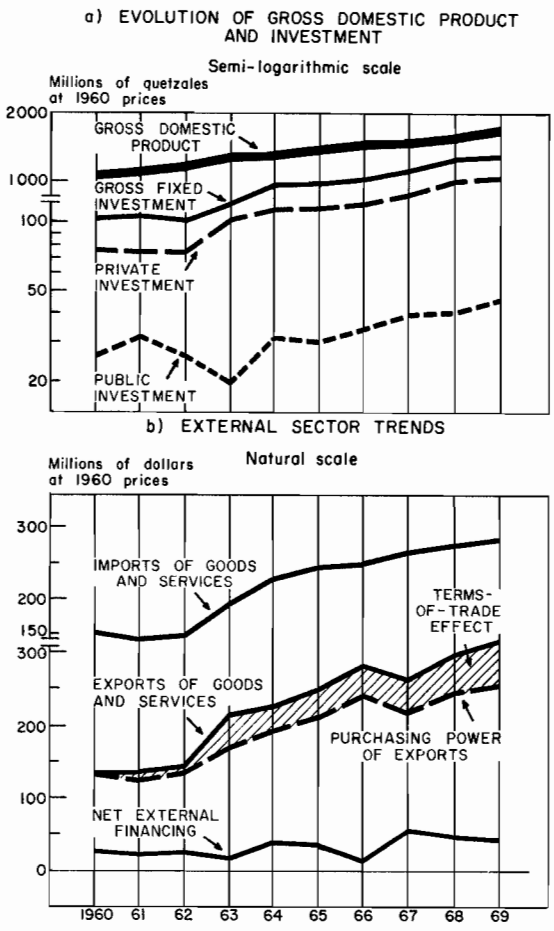
The growth of the product and of imports from abroad together led to an increase of 4.9 per cent in over-all supply (see table 109 and figure XIII), a growth rate similar to that of the period 1965–1968. Exports remained the most dynamic factor in over-all demand; the most important comprised coffee, bananas, meat, essential oils and various products for the Central American market.

The increase in domestic demand also remained below that of the previous year. Investment grew at a slower rate owing to a slowing-down in the rate of private capital investment, which was only partly offset by the increase in public investment. As regards consumption expenditure, private consumption maintained the modest past growth rate of around 4 per cent, while current government spending increased by 6.6 per cent.

In 1969, the Guatemalan economy completed more than five years of satisfactory growth (with an average annual growth rate of more than 5 per cent) which is attributable, in part, to the opportunities created by the Common Market, to relatively favourable conditions of external demand and to changes in domestic policy on development, public finance and the channelling of resources for development. However, provision must be made for a possible resurgence of structural imbalances and latent short-term disequilibria which could jeopardize continuing economic progress; the greatest potential danger in this respect would come from imbalances connected with external financing, investment and public expenditure, which may be accompanied by sluggishness in exports of traditional commodities or in inter-regional trade.

Despite the advances made on the production side, it has not been possible to meet certain requirements of social development. Progress has been made in expanding the educational and health services, but there are signs that underemployment is increasing and income-distribution patterns which are unfavourable to the growth of the domestic market and the elimination of serious social tensions still continue to exist.

Figure XIII. Guatemala: 1960–69



[58] One of the most important projects nearing completion is the Jurún-Marinalá hydroelectric plant, with a capacity of 60 MW, of which the first unit, with a capacity of 20 MW, was installed at the end of 1969. The remaining units will go into operation during the first months of 1970.

Table 109. Guatemala: total supply and demand for selected years, 1960–1969

	Millions of quetzales at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*1,195.3*	*1,589.3*	*1,837.3*	*1,928.0*	*114.5*	*117.9*	*117.5*	*117.2*	*5.9*	*5.0*	*4.9*
Gross domestic product	1,043.6	1,347.8	1,563.7	1,645.6	100.0	100.0	100.0	100.0	5.3	5.1	5.2
Imports of goods and services	151.7	241.5	273.6	282.4	14.5	17.9	17.5	17.2	9.7	4.3	3.2
Total demand	*1,195.3*	*1,589.3*	*1,837.3*	*1,928.0*	*114.5*	*117.9*	*117.5*	*117.2*	*5.9*	*5.0*	*4.9*
Exports of goods and services	131.9	249.2	296.9	318.5	12.6	18.5	19.0	19.4	13.6	6.0	7.3
Total investment	*107.5*	*158.1*	*193.1*	*206.2*	*10.3*	*11.7*	*12.3*	*12.5*	*8.0*	*6.9*	*6.8*
Gross fixed investment	102.1	149.9	193.4	206.2	9.8	11.1	12.4	12.5	8.0	8.9	6.6
Private	75.5	118.7	152.6	160.5	7.2	8.8	9.8	9.7	9.5	8.7	5.2
Public	26.6	31.2	40.8	45.7	2.6	2.3	2.6	2.8	3.2	9.4	12.0
Total consumption	*955.8*	*1,182.0*	*1,347.3*	*1,403.3*	*91.6*	*87.7*	*86.2*	*85.3*	*4.3*	*4.5*	*4.2*
General government	79.9	91.3	97.6	104.0	7.7	6.8	6.3	6.3	2.7	2.3	6.6
Private	875.9	1,090.7	1,249.7	1,299.3	83.9	80.9	79.9	79.0	4.5	4.6	4.0

SOURCE: For 1960 to 1968, ECLA estimates on the basis of data supplied by the Banco de Guatemala; for 1969, ECLA estimates.

Some of the problems mentioned are being studied by the Planning Office and other government agencies with a view to defining a development strategy to cover the problems of production, the financing of capital formation, the public sector and the balance of payments, and the broad lines of policy on employment, social services and land tenure.

2 Trends in government income and expenditure

In contrast with 1968, government expenditure became an important factor for promoting the expansion of consumption and economic activity during 1969. Government expenditure reached the unprecedented level of 164 million dollars, an increase (9 per cent) almost equal to that for the previous three-year period (see table 110).

The main increases were in expenditure on social and cultural services (25 per cent) and investment (15 per cent), while expenditure on general administration and defence remained practically unchanged compared with 1967. Parallel with these trends, there were significant advances towards a more rational pattern of government spending, more attention being given to the education, health and welfare services. The marked inadequacy of government income in previous periods and the accumulated demands on current expenditure, however, practically precluded any possibility of devoting a larger share of the budget to investment, and even prevented any increase over the absolute levels achieved between 1956 and 1958.[59]

The first steps to correct this situation have recently been taken; they include the strengthening of organizational capacity and techniques for the preparation and evaluation of specific projects. Thanks to these advances, and to the fact that there was less pressure on the resources of the public sector, investment expenditure rose from 31 to 35.5 million dollars (14.5 per cent) between 1968 and 1969. The main projects were for highway construction and high-priority electrification works, a move which was favoured by the release of funds following the completion of certain large-scale works, such as the new international airport.

The more active part played by government spending in 1969 was backed up by the significant increase in current revenue for the second successive year, with absolute levels rising from 138 to 156 million quetzales as a result of the special fiscal measures adopted at the end of 1967 and 1968, the increase in

[59] Investment expenditure for these years reached a total of about 50 million quetzales, more than 40 per cent of total central government expenditure.

Table 110. Guatemala: Central Government income, expenditure and budget deficit, 1963 and 1965–1969
(*Millions of quetzales*)

	1963	*1965*	*1966*	*1967*	*1968*	*1969*[a]
Income	*95.3*	*122.6*	*122.5*	*126.5*	*138.5*	*156.1*
Current	92.9	121.5	121.2	124.3	136.6	154.0
Transfers	2.4	1.1	1.3	2.2	1.9	2.1
Expenditure	*104.4*	*132.9*	*136.0*	*151.4*	*150.0*	*163.9*
Current	78.6	103.2	109.6	118.5	119.0	128.4
Social and cultural	26.0	31.4	33.3	36.2	37.6	46.9
General administration	35.2	49.7	50.2	53.4	51.6	52.4
National defence	11.4	14.3	14.7	16.3	15.7	16.7
Public debt servicing	3.5	4.8	5.9	6.6	7.6	8.2
Other	2.5	3.0	5.6	6.1	6.5	4.4
Investment	25.9	29.7	26.4	32.9	31.0	35.5
Highway construction	...	7.2	5.3	8.5	10.3	11.8
Other public works	...	11.5	12.2	13.7	8.0	9.2
Agricultural and socio-economic development	...	5.5	2.7	5.9	4.5	5.1
Electrification	...	4.3	3.6	2.1	6.8	7.8
Other	...	1.2	2.6	2.7	1.4	1.6
Budget deficit	*9.0*	*10.3*	*13.4*	*24.9*	*11.5*	*7.8*
Financing	*9.0*	*10.3*	*13.4*	*24.9*	*11.5*	*7.8*
Net indebtedness	13.0	16.4	8.9	13.7	9.6	13.4
Domestic	...	11.7	11.4	−4.1	−2.6	1.1
External	...	4.7	−2.4	17.8	12.2	12.3
Over-all surplus or deficit	*−4.0*	*−6.1*	*4.5*	*11.2*	*1.9*	*−5.6*

SOURCE: ECLA, on the basis of official figures.

[a] Preliminary figures.

the tax on cigarettes and the improvement of the system of collection of land taxes. These measures remained in force in 1969, and the equalization of import duties and charges agreed on in the Protocol of San José began to be applied, with the result that there was an increase in income from import duties. Changes were also introduced into the taxes on tobacco production and consumption. Income from export duties and charges also increased, although the relative share of such income tax revenue as a whole continued to decline.

As a result of these measures, the over-all tax rate rose from 7.8 to 8.6 per cent between 1967 and 1969, although it continues to be lower than that of the other Central American countries.[60] Likewise, the current account surplus rose from 8 to 27.7 million quetzales over the same period. However, investment financing continues to depend essentially on domestic or external credit.

Although there was an increase in the government sector's share of the national product as a result of improvements in the tax system, the system itself did not become more flexible, so that a dilution of these measures and a consequent loss of effectiveness may be expected before long. For these reasons and because of the need to alleviate the strain of investment financing, the authorities are trying to formulate policies for improving the methods of tax collection and administration and are considering modifications of some of the existing taxes.

[60] This is partly attributable to the relatively slow increase in taxes on sales, property and capital, to the existence of broad sectors of the population which are marginal to the market economy, and to the relatively minor importance of the external sector in national production as a whole.

3. Monetary and price trends

In 1969, monetary and financial policy was aimed mainly at regulating the degree of liquidity in the economy, with the objective of achieving stability in domestic financing and in international payments without neglecting credit for directly productive activities.

The banking system continued to encourage the growth of private savings and of loans for the support and development of production by a variety of means. There was not only an increase of more than 10 per cent in deposits of all kinds compared with the previous year, but the quasi-money share of those deposits continued to increase. As a result of incentives to deposits in time and savings accounts—interest rates and lotteries, *inter alia*—there was an increase in the lending capacity of the banking system. Apart from the fact that this change in the composition of the banking system's liabilities facilitated the granting of larger medium- and long-term loans, the difference in the cash ratios (35 per cent for demand deposits and 10 per cent for time and savings deposits) enabled the banks to maintain a higher level of operations than in 1968, with much less recourse to the Central Bank for rediscounting. To these positive features must be added others which are not quite so encouraging; these include some loss of control by the Central Bank over the sources of money supply which might prove a threat to the maintenance of a favourable balance of payments (see table 111).

Table 111. Guatemala: consolidated accounts of the banking system, 1965–1969
(Millions of quetzales)

	Monthly average				*Balance at 30 September*	
	1965	*1966*	*1967*	*1968*	*1968*	*1969*
Assets	*266.6*	*302.0*	*315.8*	*346.4*	*346.7*	*371.0*
External	75.2	82.2	70.6	79.5	52.2	46.4
Internal	191.4	219.8	245.2	266.9	294.5	324.6
Net loans to Government	22.1	20.6	29.2	32.9	32.1	36.3
Loans to private sector	145.3	159.8	179.6	199.2	207.5	233.1
Other net assets	24.0	39.4	36.4	34.8	54.9	55.2
Liabilities	*266.6*	*302.0*	*315.8*	*346.4*	*346.7*	*371.0*
Money in circulation	130.1	141.1	138.0	149.0	140.3	141.3
Cash	69.9	75.4	74.8	77.4	73.6	79.0
Deposits	60.2	65.7	63.2	71.6	66.7	62.3
Quasi-money	87.1	103.4	113.8	131.2	136.8	158.0
Subtotal	*217.2*	*244.5*	*251.8*	*280.2*	*277.1*	*299.3*
Balance on credit lines	...	6.5	10.4	9.8	11.0	11.3
Bonds	7.9	7.7	8.0	7.1	7.1	6.6
Capital	41.5	43.3	45.6	49.3	51.5	53.8

SOURCE: Banco de Guatemala.

The above-mentioned facts seem to have resulted in an increase in bank credit to the private sector.[61]

Lastly, the slower increase in the money supply of the private sector compared with 1968 meant that the liquidity coefficient[62] remained practically the same (see table 112).

As in 1968, prices increased substantially, though to a lesser degree, owing to the increase in over-all supply and to the fact that the stabilization policy precluded any disproportionate increase in the money income of the economy.

4. The external sector and the balance of payments

(a) *Exports*

In 1969 there was an appreciable rise in merchandise exports (7.1 per cent) attributable to favourable supply and demand conditions in respect of bananas, meat, coffee and essential oils. Moreover, there was an increase in sales to the other Central American countries and in the sale of several secondary products. On the other hand, there was a decline in exports of cotton, sugar and chicle. The over-all growth rate of export income was less than in 1968, when it was 14.7 per cent (see table 113).

Several factors combined to favour the growth of coffee sales. First, there was an increase in the volume of exportable stocks (6 per cent), and at the same time international prices rose by 4.2 per cent.[63] Secondly, a large part of the export quotas for the second half of 1968 was disposed of late because of the delays caused by the negotiation of the new international agreement and the strike of longshoremen in the west coast ports of the United States, with the result that sales rose in 1969. The upward readjustment of Guatemala's coffee quota, combined with expectations of a good harvest in the 1969/70 crop year, make it likely that there will be a sizable upturn in the volume of coffee exports next year.

The decrease in the value of cotton exports is due to the decline in average prices on the world market. However, the volume of exports rose once again because of the larger area brought under cultivation in the crop year 1968/69. Sales prospects for 1970 are not very encouraging, owing to unfavourable world market trends and to the reduction of the area under cultivation in some parts of the country.

Banana exports boomed and are estimated to have reached more than 19 million dollars in 1969 (an increase of 35 per cent over the figure for the previous year). The development programmes undertaken by the Ministry of Agriculture and the supplementary credit assistance provided by the Development Institute (Instituto de Fomento a la Producción) helped to rectify the sharp fall in sales between 1963 and 1967; what is more, the supply levels achieved were comparable to the highest levels recorded in the 1950s. The furtherance of projects for expanding the area under cultivation, technical assistance, financing and marketing, give grounds for hope that banana exports will continue to grow, and that their effects will continue to spread to the rest of the economy.

The value of exports of fresh meat rose from 8.6 to 9.8 million dollars, the increase in volume (12 per cent) coinciding with a slight improvement in international prices (1 dollar

[61] Preliminary data indicate that in 1969 there was an increase of little more than 12 per cent in this type of loan, while the commercial banks' holdings of government securities declined.

[62] Defined as the ratio between the means of payment in the private sector and the gross domestic product.

[63] The frosts which affected Brazilian production seem to be the main cause for the temporary rise in international prices.

Table 112. Guatemala: coefficients of liquidity, 1965–1969

	1965	*1966*	*1967*	*1968*	*1969[a]*
	Millions of quetzales				
Gross domestic product	1,331.1	1,391.3	1,454.0	1,562.3	1,678.0
Money supply of the private sector	226.2	244.8	263.0	286.1	308.3
Money in circulation	133.2	140.4	145.2	150.8	157.2
Quasi-money	93.0	104.4	117.8	135.3	151.1
	Percentages				
Ratio to gross domestic product of:					
Money supply of the private sector	17.0	17.6	18.1	18.3	18.4
Money in circulation	10.0	10.0	10.0	9.7	9.4
Quasi-money	7.0	7.5	8.1	8.7	9.0

SOURCE: ECLA, on the basis of official statistics.
[a] Preliminary figures.

Table 113. Guatemala: value, quantity and unit value index of principal exports, 1965–1969

	1965	1966	1967	1968	1969[a]	Annual growth rates (percentages) 1966	1967	1968	1969
				Millions of quetzales					
Coffee	91.7	100.1	68.4	73.4	81.0	9.2	−31.7	7.3	10.4
Cotton	34.4	44.5	31.0	40.1	37.8	29.4	−30.3	29.4	−5.7
Bananas	5.0	10.5	9.2	14.1	19.1	110.0	−12.4	53.3	35.5
Fresh meat	4.6	5.3	8.0	8.6	9.8	15.2	50.9	7.5	14.0
Sugar	4.2	6.0	8.9	8.4	7.8	42.9	48.3	−5.6	−7.1
				Millions of quetzales at 1960 prices					
Coffee	88.9	101.9	75.8	85.5	90.6	14.6	−25.6	12.8	6.0
Cotton	32.6	42.8	30.9	35.9	39.5	31.3	−27.8	16.2	10.0
Bananas	2.9	6.1	5.1	7.8	11.2	110.3	−16.4	52.9	43.2
Fresh meat	2.2	2.2	3.3	3.4	3.8	—	50.0	3.0	11.8
Sugar	4.0	6.7	7.7	7.8	6.9	67.5	14.9	1.3	−11.5
				Unit value index (1960 = 100)					
Coffee	103.1	98.2	90.2	86.8	89.4	−4.8	−8.1	−4.9	4.2
Cotton	105.5	103.9	100.3	111.7	95.7	−1.5	−3.5	11.4	−14.3
Bananas	172.7	172.7	179.9	181.3	171.0	—	4.2	0.8	−5.7
Fresh meat	208.2	239.9	239.5	253.5	259.1	15.2	−0.2	5.8	2.2
Sugar	104.5	90.0	115.0	108.2	113.5	−13.9	27.8	−5.9	4.9

SOURCE: ECLA, on the basis of official statistics.

[a] Preliminary figures.

per pound). The main obstacle to the export of larger volumes is the low elasticity of production. In this connexion, studies have been completed on a programme for the development of livestock production which will probably be implemented in the course of 1970.

The supply of sugar is favoured by the abundance of land available and the surplus capacity of the sugar mills, but the depressed situation of the free market and the comparatively high costs of production limit export possibilities to the protected market of the United States. The quota for 1969 was increased from 40,700 to 58,700 tons owing to the increase in United States consumption and the re-allocation of the amounts in short supply from the other exporting countries. Despite these facts and the increase of 5 per cent in unit prices, there was a fall in the volume and value of sales, probably as a result of the fact that in the previous year about 12,500 tons had been disposed of out of the 1969 quota.

The El Salvador-Honduras conflict gave rise to fears of an acute contraction of trade with the other members of the Common Market, but these fears are not borne out by estimates based on figures for the first nine months of 1969. Nevertheless, it is estimated that Guatemala's exports increased by only 6.2 per cent, the lowest increase since the country acceded to the General Treaty.

Income from services continued to increase rapidly (10.8 per cent) after remaining practically stationary between 1965 and 1968. There was a rise in the number of tourists visiting the country as a result of the construction of the new air terminal, the publicity campaigns carried out in various parts of the United States and the improvement of the national airlines service. At the same time, the expansion of the national merchant marine and of the fleets of lorries used for trade with the other Central American countries led to similar increases in income from transport services.

(b) *Imports*

A variety of factors influenced the scale of merchandise imports. In the last two-year period, the growth rate of imports declined by rather more than half compared with 1967 (9.9 per cent). In that year, the multiplier effect of exports from the previous year and the possibility of the adoption of restrictive measures—caused by the deterioration in the balance of payments—led to speculation on imports and accumulation of stocks, which partly explains the subsequent drop in the growth rate of imports from abroad. In addition, as from the second half of 1968, a system of import licensing—supplementary to other monetary regulations—was established in respect of purchases of non-essential articles from outside the Common Market.

Another contributing factor (though of less importance) was the Protocol of San José, which pushed up the price of certain articles from third countries, thus accentuating the trend towards increased imports from Central American countries. In 1969, about 75 per cent of the total increase in merchandise imports came from the Common Market area, and such imports have come to represent about one-fifth of total Guatemalan imports.

Trends in the different categories of imports reveal some interesting changes. Imports of capital goods, fuels and construction materials increased rapidly, in response to the increase in investment—particularly in the public sector —and the higher level of activity in the transport and electricity sectors. Purchases of consumer goods also increased, though to a lesser extent, and there was a decline of 5 per cent in imports of intermediate goods and raw materials, doubtless because of the sale of surplus stocks, since supplies to industry and other sectors seem to have been satisfied in the normal way.

The outflow of foreign currency in payment for services increased by slightly more than 4 per cent in 1969. This trend was largely bound up with the reduction in tourist expenditure, which fell from 24 to 9 million dollars between 1966 and 1969. Faced with an increase in the deficits on international payments and the accelerated outflow of foreign exchange for the purpose of foreign travel, the monetary authorities adopted certain measures at the beginning of 1967 to protect the country's balance of payments; a limit on expenditure was set at 50 dollars a day and 2,500 dollars a year, and at the same time a deposit in national currency was required, equivalent to 100 per cent of the foreign exchange requested.

In short, the comparatively slight increase in merchandise imports, the absolute decline in tourist expenditure and the slower growth of interest payments on foreign capital, helped temporarily to alleviate the usual strain on the balance of payments. On the other hand, the faster growth of imports from the Central American market, compared with sales to it, tended to reduce the surpluses which in previous years had normally resulted from such transactions.

(c) *Balance of payments*

The trade deficit in respect of goods and

services fell from 49 to just over 24 million dollars between 1967 and 1969 as a result of the above-mentioned trends. There was also a substantial reduction in the deficit on all current account transactions, despite the fact that foreign factor payments continued to increase (30 per cent) (see table 114).

The capital account reflects measures which have been taken within the last two years to contain imports and credits. The net inflow of non-compensatory capital stagnated, principally affecting long-term government and bank loans and short-term private capital movements. The former were affected by the calling in of government securities held in foreign banks, the decline in the use of national credit facilities, the decrease in deposits made at the Central Bank by international institutions, and the cancellation or cutting back of expenditure on electrification, airports and roads.

The trend of short-term private capital movements was determined by the surplus of payments over new supplier credits and, above all, by the reimbursement of the advances made to coffee and cotton exporters from foreign funds in 1968, and the increase in credits to Guatemalan exporters to the Common Market. Income from long-term private capital and short-term government and bank loans moved within margins which did not diverge from past trends or change the over-all balance of payments situation. Lastly, despite the decline in the inflow of foreign investment and credit, monetary reserves in foreign currency increased 6 million dollars, thanks to the reduction of the deficit on current account.

Guyana

1. Recent economic trends

Guyana's rate of economic growth accelerated in 1969, mainly owing to the considerable increase in production in the construction and mining sectors.

The gross product at current prices grew by 7.4 per cent during the three-year period 1965–1968 and is estimated to have grown by 8.7 per cent in 1969, a very favourable rate if account is taken of the fact that domestic prices, which had risen at an annual rate of 2.8 per cent in the period 1965–1968, appear to have increased only slightly in 1969 (see table 115 and figure XIV).

The growth of the product coincided with an

Table 114. Guatemala: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	131.5	226.1	232.7	266.8	287.0
Goods (f.o.b.)	115.9	192.1	203.9	233.4	250.0
Services	15.6	34.0	28.8	33.4	37.0
Imports of goods and services	−152.1	−256.7	−281.3	−296.2	−311.3
Goods (c.i.f.)	−124.8	−206.1	−226.5	−237.6	−250.0
Services	−27.3	−50.6	−54.8	−58.6	−61.3
Net external investment income	−5.0	−11.2	−20.8	−27.7	−36.0
Net private transfer payments	0.1	3.5	7.4	8.8	13.0
Balance on current account	−25.5	−38.3	−62.0	−48.3	−47.3
Capital account					
Net external financing	25.5	38.3	62.0	48.3	47.3
Non-compensatory external financing	40.2	63.0	48.7	52.8	50.0
Direct investment	16.8	14.1	18.2	22.8	
Long- and medium-term loans	11.1	49.1	66.0	63.5	43.0
Amortization payments	−7.0	−24.1	−38.5	−38.4	
Short-term liabilities	4.8	19.9	1.0	−2.3	5.0
Official transfer payments	14.5	4.0	2.0	2.6	2.0
Non-compensatory domestic capital and assets	−0.8	−0.3	0.4	1.6	...
Errors and omissions	−6.2	−21.4	10.3	−6.3	6.6
Compensatory movements (increase −)	−7.7	−3.0	2.6	0.2	−9.3
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	2.7	14.5	12.4	11.9	−3.2
Amortization payments	−0.4	−3.9	−2.7	−10.5	
Gold and foreign exchange (increase −)	−10.0	−13.6	−7.1	−1.2	−6.1

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21
[a] ECLA estimates.

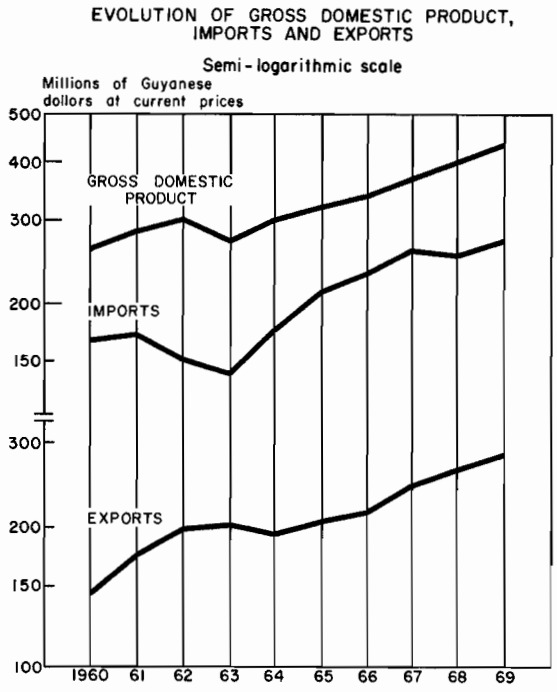
Table 115. Guyana: gross domestic product at factor cost, by sectors of economic activity, 1965 and 1967–1969

	Millions of Guyanese dollars				*Annual increase (percentages)*			*Percentage shares*	
	1965	*1967*	*1968*[a]	*1969*[a]	*1960–62*	*1965–68*	*1969*	*1960–62*	*1969*
Agriculture	68.5	69.3	70.5	76.1	7.3	1.0	7.9	22.3	17.2
Fishing and forestry	13.0	14.5	15.0	15.9	8.5	4.9	6.0	4.1	3.6
Mining and quarrying	54.0	66.5	79.7	91.4	31.2	13.9	14.6	13.5	20.7
Manufacturing	42.7	46.7	50.0	53.7	14.4	5.4	7.4	10.9	12.2
Transport and communication	21.3	24.6	26.6	27.8	5.6	7.7	4.5	7.4	6.3
Construction	17.1	25.3	30.4	35.6	−8.4	21.2	17.1	7.8	8.0
Commerce	39.4	44.7	45.2	46.5	−0.6	4.7	2.8	13.2	10.5
Renting of dwellings Financial and other services	32.1	36.8	37.5	38.6	2.4	5.3	2.9	10.7	8.7
Government	40.2	50.1	51.9	56.8	9.6	8.9	9.4	10.1	12.8
TOTAL	*328.3*	*378.5*	*406.8*	*442.4*	*8.0*	*7.4*	*8.7*	*100.0*	*100.0*

SOURCE: *Economic Survey of Latin America*, 1968, and information supplied by the Ministry of Economic Development.

[a] Provisional figures.

Figure XIV. Guyana: 1960–69



increase of about 11 per cent in gross fixed investment, which is a somewhat higher figure than the average annual increase for the period 1965–1968. The ratio of gross capital formation to the product has fluctuated around 20 per cent since the beginning of the decade, but it tapered off slightly in 1968 and 1969, following a similar trend in stocks of bauxite and alumina (see table 116).

Public sector investment, which accounts for approximately one-third of total investment, increased 2.6 times between 1962 and 1968, thus offsetting the slower growth of private investment. In 1968 and 1969, public investment was mainly in transport and communications and in construction. There was also some private investment in construction, as in the mining sector, where it helped to expand bauxite and alumina capacity.

Domestic savings on the whole followed trends in capital formation and financed about two thirds of the total; the remaining one third came from foreign sources and consisted mainly of direct investment, directed chiefly to the mining sector.

Consumption grew at a very steady annual rate of about 7 or 8 per cent throughout the decade. Generally speaking, private consumption grew more rapidly than general government consumption.

2. Major sectors of activity

Since 1965, construction has been the most dynamic sector; it grew at an annual average rate of 21.2 per cent during the period 1965–1968, and of 17 per cent in 1969. Mining investment programmes, the construction of new factories, hotels and housing and the expansion of public works contributed significantly to the boom in this sector in the second half of the decade.

Mining production showed a spectacular growth rate throughout the decade, rising by more than 30 per cent annually between 1960 and 1962, and by 14 per cent annually from 1965 onwards; it has become the most important sector in the Guyanese economy, with a 21 per cent share in the gross domestic product. The mining of bauxite is the dominant activity, and the export of bauxite and alumina accounts for more than 40 per cent of the total value of exports.

Table 116. Guyana: national income and product for selected years 1960–64 to 1969
(*Millions of Guyanese dollars*)

	1960–64	*1965*	*1968*	*1969*
Total consumption	*238.5*	*294.9*	*359.0*	*386.5*
Private	199.9	240.5	289.3	306.8
Public	38.6	54.4	69.7	79.7
Total investment	*63.8*	*80.6*	*96.2*	*107.0*
Gross fixed capital formation	61.4	70.0	92.9	102.8
Change in stocks	2.4	10.6	3.3	4.2
Total domestic expenditure	*302.3*	*375.5*	*455.2*	*493.5*
Imports of goods and services	161.6	213.7	256.9	273.9
Exports of goods and services	177.3	203.7	262.4	285.5
Gross domestic product at market prices	318.0	365.5	460.7	505.1
Indirect taxes (excluding subsidies)	30.2	37.2	54.0	62.7
Gross domestic product at factor cost	287.8	328.3	406.7	442.4

SOURCE: *Economic Survey of Latin America*, 1968, and information supplied by the Ministry of Economic Development.

The development of agriculture, has been very uneven, as has that of the forestry and fisheries sector. In 1969, the agricultural sector grew by 8 per cent, which was due to the very good sugar harvest, estimated at 17 per cent above the 1968 output, since there was no expansion in production of rice, the other main crop, during 1969. The performance of these two products influenced the manufacturing sector because of the importance of sugar processing and rice milling; and the manufacturing sector as a whole grew steadily at a moderate rate.

3. The external sector

The Guyanese economy is largely dependent on the external sector. Imports of goods and services account for about 55 per cent of the gross product and exports are of similar importance.

The growth of imports has fluctuated in recent years: the fall in 1968 and the recovery of 1969 coincided with the increase in investment in the bauxite and alumina mines, which points to the importance of the import component in capital formation. At the same time, exports increased by around 9 per cent in 1969, mainly because of the rise in sales of bauxite and sugar and despite the drop in rice exports.

In 1968 and 1969, the value of exports of goods exceeded that of imports, with the result that the deficit on current account fell from around 50 million Guyanese dollars[64] in 1967 to 26 and 28 million dollars in 1968 and 1969, respectively. Less recourse was therefore taken to compensatory foreign capital (see table 117).

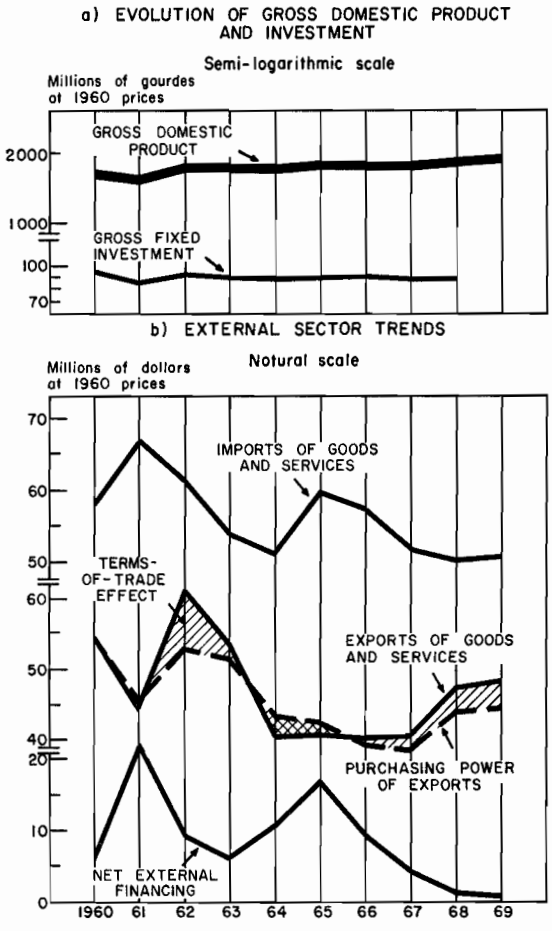
Haiti

1. Recent economic trends

According to incomplete preliminary data, the Haitian economy grew by about 2.5 per cent in real terms in 1969, signifying a recovery from the steady decline throughout the 1960s; but even so, per capita income remained below the 1960 level (see tables 118 and 119 and figure XV).

Exports exceeded the preceding year's level, with increases in sales of bauxite and the products of small-scale industry, which made up for the decrease in the volume of coffee and sugar exports. Likewise, the expansion of tourism and the increase in transfer payments

Figure XV. Haiti: 1960–69



[64] Two Guyanese dollars equal one United States dollar.

Table 117. Guyana: balance of payments, 1965–1969
(*Millions of Guyanese dollars*)

	1965	*1966*	*1967*	*1968*	*1969*[a]
Exports of goods and services . . .	203.7	217.7	244.9	262.4	285.5
Imports of goods and services . . .	213.7	234.8	262.5	256.9	273.9
Net factor payments	−27.3	−32.6	−31.8	−31.7	−39.6
Net balance on current account excluding transfer payments	−37.3	−49.7	−49.4	−26.2	−28.0

SOURCE: Estimates, on the basis of national accounts.
[a] Preliminary estimates.

Table 118. Haiti: total supply and demand for selected years, 1960–1969

	Millions of gourdes at 1960 prices				*Structure (percentages)*				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–1965*	*1965–1968*	*1969*
Total supply	*1,933.1*	*2,033.9*	*2,069.9*	*2,120.4*	*117.7*	*117.1*	*113.8*	*113.7*	*1.0*	*0.6*	*2.4*
Gross domestic product	1,642.1	1,737.4	1,818.5	1,864.0	100.0	100.0	100.0	100.0	1.1	1.5	2.5
Imports of goods and services	291.0	296.5	251.4	256.4	17.7	17.1	13.8	13.7	0.6	−5.7	2.0
Total demand	*1,933.1*	*2,033.9*	*2,069.9*	*2,120.4*	*117.7*	*117.1*	*113.8*	*113.7*	*1.0*	*0.6*	*2.4*
Exports of goods and services	272.0	205.0	235.5	241.0	16.6	11.8	12.9	12.9	−5.8	4.7	2.3
Total investment	*94.9*	*90.4*	*89.1*	...	*5.8*	*5.2*	*4.9*	...	*−1.0*	*−0.5*	...
Total consumption	*1,566.2*	*1,738.5*	*1,745.3*	...	*95.4*	*100.1*	*96.0*	...	*2.1*	*0.1*	...
General government	126.0	132.7	116.2	...	7.7	7.6	6.4	...	1.0	−4.3	...
Private	1,440.2	1,605.8	1,629.1	...	87.7	92.4	89.6	...	2.2	0.5	...

SOURCE: For 1960–1968, ECLA, on the basis of data supplied by the Haitian Statistical Institute; for 1969, ECLA estimates.

Table 119. Haiti: gross domestic product at factor cost, by sector of economic activity, 1960, 1965 and 1968

	Structure (percentages)			Annual average growth rates (percentages)		
	1960	1965	1968	1960–1965	1965–1968	1969
Agriculture	48.5	46.7	45.9	0.4	1.0	3.0
Mining[a]	2.4	3.2	3.4	6.9	4.2	...
Manufacturing	12.3	13.2	13.7	2.7	2.7	1.5
Subtotal goods	*63.2*	*63.1*	*63.0*	*1.1*	*1.5*	...
Electricity, gas and water	0.9	1.2	1.1	7.4	−2.4	7.5
Transport and communications	2.9	2.7	2.5	−0.7	−0.6	...
Subtotal basic services	*3.8*	*3.9*	*3.6*	*1.5*	*−1.1*	...
Commerce and finance	12.1	10.8	10.8	−1.3	1.5	...
Government	6.3	6.2	6.1	1.0	0.7	...
Miscellaneous services	14.6	16.0	16.5	3.0	2.6	...
Subtotal other services	*33.0*	*33.0*	*33.4*	*1.1*	*1.9*	...
TOTAL	*100.0*	*100.0*	*100.0*	*1.1*	*1.5*	*2.5*

SOURCE: For 1960–1968, ECLA, on the basis of data supplied by the Haitian Statistical Institute; for 1969, ECLA estimates.

[a] Including "Construction".

contributed to the growth of foreign exchange earnings. The growth of exports, combined with measures restricting imports to a level slightly higher than that of the previous year, resulted in a small reduction of the balance-of-payments deficit on current account.

Government investment also had a favourable effect on the growth of the economy in 1969. Central Government expenditure is estimated to have increased by 8 per cent in real terms, and government spending for capital formation by more than that. Expenditure on development increased significantly, and government investment in the Peligre hydroelectric power plant and in repairs to the north-south main highways was intensified.

The policy of incentives and the good weather led to considerable increases in the production of the principal agricultural products for domestic consumption. Thus, compared with the previous year, there were increases of between 8 and 10 per cent in the output of rice, bananas, beans and maize, and of between 12 and 16 per cent in the production of sweet potatoes, cotton and tobacco. On the other hand, with the exception of sugar-cane, there was a decline in output of the principal export products (coffee and sisal). However, the agricultural sector as a whole seems to have grown at a slightly higher rate than the total product.

The growth of the industrial product was less than that of the economy as a whole. Production of both essential oils and sugar fell; the latter decrease preventing Haiti from taking full advantage of its quota for the United States market. There was also a considerable drop in flour production. These decreases were barely offset by the progress achieved in other sectors, notably in production of cement and local handicrafts (especially articles made of wood and natural fibres).

There was a large increase in the electricity sector, which is expected to expand even more when the first stage of the Peligre project goes into operation at the end of 1970.

Lastly, there was a satisfactory expansion of the mining sector, with a steep rise in bauxite production, contrasting with the difficult situation in the copper industry.

2. THE PUBLIC SECTOR

After achieving relative equilibrium in 1968, the Central Government's fiscal situation again deteriorated in the fiscal year 1969, with a deficit equivalent to 6 per cent of total expenditure. This was chiefly due to the slow increase in income from the growing number of government undertakings. Central Government income increased by about 7.3 per cent, with a steep rise in revenue from import duties and income tax, which largely offset the decline in revenue from sales taxes and corporate profits taxes and in non-tax revenue.

Expenditure increased by about 14 per cent, mainly capital expenditure on specific high-priority projects under the 1968–1969 economic and social action plan, drawn up by the National Planning and Development Council (Conseil National de Développement et de Planification—CONADEP) towards the end of 1968. The funds allocated to the Development Budget increased by more than one-third, so that the financing of the priority projects under way could be assured: the Peligre hydroelectric plant, the main highway to the South and the harbour installations in Port-au-Prince. The fiscal deficit was largely the result of the

large capital investment in the plan and was nearly all financed by Central Bank credits to the Government.

The increase in the money supply was estimated at nearly 10 per cent, but its effect was partly offset by increases in deposits by government agencies and in savings accounts. Furthermore, the retail price index rose by more than 4 per cent, reversing the downward trend from 1967 to 1968.

3. The external sector

The value of exports of goods increased by 3 per cent compared with the previous year. This slow increase was due to the decline in sales of coffee and sugar, and essential oils, which was hardly offset by the marked rise in the value of bauxite exports (more than 50 per cent) and the increase in sales of handicraft articles to the United States which grew in value by about 20 per cent. There was also a revival of the tourist industry, while income from transfer payments showed a recovery from the previous year.

The value of imports grew by 2.8 per cent, so that the deficit on current account was slightly below the preceding year's level. For the second successive year, the deficit was covered by the slight improvement in the country's external payments position, due to income received in the form of official transfer payments and through recourse to loans from international financial institutions (AID and IDB). (See table 120.)

Honduras

1. Recent economic trends

Honduras' economic growth rate in 1969 was 3.2 per cent, which was both significantly lower than the corresponding figure for the past three years (5.8 per cent) and, apart from 1963, the lowest for the whole decade (see table 121 and figure XVI).

The factors behind this economic recession only really began affecting the country seriously in the second half of the year and stemmed from events connected with the export sector and the supply of agricultural goods for domestic consumption, though the latter was of lesser importance in over-all economic terms. Besides affecting the economy in 1969, these events may well continue to do so in the near future.

Table 120. Haiti: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	54.4	44.9	41.1	47.4	49.3
Goods (f.o.b.)	38.1	37.8	32.3	36.3	37.5
Services	16.3	7.1	8.8	11.1	11.8
Imports of goods and services	−58.1	−62.2	−56.0	−54.8	−56.2
Goods (f.o.b.)	−43.4	−42.6	−40.3	−38.7	−39.8
Services	−14.7	−19.6	−15.7	−16.1	−16.4
Net external investment income	−4.1	−5.2	−2.9	−3.1	−3.5
Net private transfer payments	2.6	4.7	13.2	8.9	9.0
Balance on current account	−5.2	−17.8	−4.6	−1.6	−1.4
Capital account					
Net external financing	5.2	17.8	4.6	1.6	1.4
Non-compensatory external financing	8.2	8.1	4.3	6.7	5.5
Direct investment	0.1	1.0	1.0	1.1	1.0
Long- and medium-term loans	1.5	2.4	—	0.1	0.7
Amortization payments	−0.3	−0.8	−1.1	−0.3	−0.7
Short-term liabilities	0.3	1.5	0.4	1.9	0.5
Official transfer payments	6.6	4.0	4.0	3.9	4.0
Non-compensatory domestic capital and assets	−2.2	3.4	−2.7	0.9	−1.0
Errors and omissions	2.1	5.2	1.1	−5.1	−1.0
Compensatory financing (increase −)	−2.9	1.1	1.9	−0.9	−2.1
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	2.6	2.8	3.1	−1.1
Amortization payments	−2.0	−2.3	−1.2	−0.9	
Gold and foreign exchange (increase −)	−0.9	0.8	0.3	−3.1	−1.0

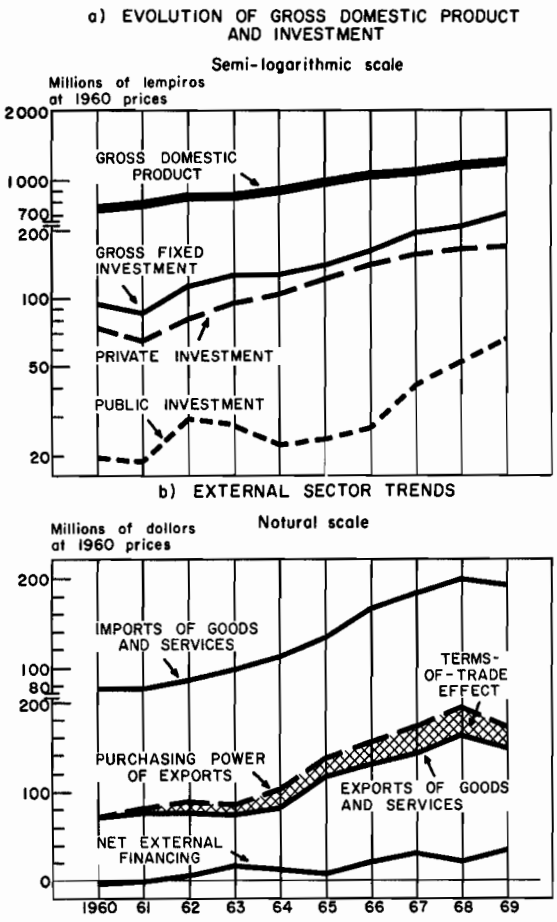
SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] Estimates.

Table 121. Honduras: total supply and demand for selected years, 1960–1969

	Millions of lempiras at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*908.6*	*1,236.6*	*1,551.1*	*1,584.4*	*120.2*	*126.9*	*133.5*	*132.1*	*6.4*	*7.8*	*2.1*
Gross domestic product	755.8	974.5	1,161.9	1,199.0	100.0	100.0	100.0	100.0	5.3	5.8	3.2
Imports of goods and services	152.8	262.1	389.2	385.4	20.2	26.9	33.5	32.1	11.4	14.1	−1.0
Total demand	*908.6*	*1,236.6*	*1,551.1*	*1,584.4*	*120.2*	*126.9*	*133.5*	*132.1*	*6.4*	*7.8*	*2.1*
Exports of goods and services	136.1	214.5	304.9	284.3	18.0	22.0	26.2	23.7	9.5	12.4	−6.8
Total investment	*104.8*	*159.6*	*225.3*	*248.8*	*13.9*	*16.4*	*19.4*	*20.7*	*8.8*	*12.2*	*10.4*
Gross fixed investment	95.7	144.5	214.4	236.8	12.7	14.8	18.5	19.8	8.6	14.1	10.4
Private	75.5	120.7	163.5	171.1	10.0	12.4	14.1	14.3	9.8	10.6	4.6
Public	20.2	23.8	50.9	65.7	2.7	2.4	4.4	5.5	3.3	28.8	29.1
Total consumption	*667.7*	*862.5*	*1,020.9*	*1,051.3*	*88.3*	*88.5*	*87.9*	*87.7*	*5.3*	*5.8*	*3.0*
General government	73.2	84.2	94.7	106.8	9.7	8.6	8.2	8.9	2.8	4.0	12.8
Private	594.5	778.3	926.2	944.5	78.6	79.9	79.7	78.8	5.5	6.0	2.0

SOURCE: For 1960–1968, ECLA estimates based on data supplied by the Central Bank; 1969, ECLA estimates.

Figure XVI. Honduras: 1960–69



One major factor was the adverse weather with hurricanes and floods damaging the banana plantations in the department of Cortés and the Sula valley area and preventing the sowing of maize, rice and sugar-cane in these and nearby areas. In the banana industry, both the unharvested crop and, to a large extent, the permanent plantations of the exporters and independent producers suffered losses. The extent of the damage was reflected in the volume of exports for 1969 and may be felt even more strongly next year.[65]

Honduras' economy also suffered from a drop in coffee and silver exports as a result of the commercial deadlock with El Salvador and the loss of trade with other neighbouring countries following the closing of the borders and the main international land route.

The fall in coffee exports can be explained by the reduction of Honduras' quota under the International Coffee Agreement (from 363,100 to 348,400 sacks), which the revival of prices towards the end of the year failed to offset. Silver exports were also lower than in 1968, when a rise in world prices encouraged exports of a large portion of accumulated stocks.

Over-all external demand fell 6.8 per cent in volume, mostly as a result of the drop in exports of coffee, silver, maize, beans, cattle, pigs and underwear, which increased exports of beef, zinc and various manufactures were not able to offset.

The decline in exports was the main reason for the slowing down of Honduras' economic growth rate in 1969 and for the estimated 2.5 million dollar depletion of its net foreign exchange reserves. The fall in revenue caused by the reduction in traditional exports and losses in staple grain crops was alleviated to some extent by an increase in current public expenditure; another factor whose positive influence was felt throughout the year was the marked rise in public investment (see table 121 and figure XVI).

Current State expenditure and real investment temporarily became the motive force behind domestic activity, a role which had traditionally belonged to the export sector. The reason for the 12.8 per cent increase in general government consumption expenditure during 1969—in sharp contrast with the years immediately preceding—is the conflict with El Salvador, followed by outlays of government funds for the resettlement of segments of the population in the areas concerned. There was also a rise in current public expenditure on emergency relief and programmes to help small producers affected by the bad weather and floods.

The estimated increase in public investment was 29 per cent in 1969—slightly higher than the growth rate for the last three years—owing to its concentration on a series of projects in the transport, health and energy sectors. As stated earlier, the rate of investment was highest during the first half of the year, while in the second half it dropped as a result of the conflict with El Salvador and the bad weather.

Private consumption and investment did little for the country's economic development. The former grew by 2 per cent—more slowly than the population—and private investment grew at less than half the 1968 rate.

[65] There was no actual decline in banana sales in 1969 but the upward trend deriving from the expansion of the area under cultivation virtually stopped. A further drop would appear inevitable in 1970, as it is thought unlikely that the damage to the plantations could begin to be made good before the middle of the year.

The weakness of private consumption stemmed from the same factors that led to the decline in revenue from abroad and from the dropping off of private investment itself. The taxes on consumption that were introduced following the approval of the Protocol of San José also left their mark. In addition, there was the absorption of purchasing power provoked, though with less serious consequences, by the issue of national defence bonds in the second half of the year.

Contrary to the trend of previous years, imports hardly moved in real terms, owing to the suspension of purchases from El Salvador, the decline in the growth rate of income, the effect of the restrictive measures connected with the economic stabilization tax (30 per cent tariff increase on imports from outside Central America) and the duties and charges on luxury articles.[66]

2. Major sectors of activity

The main productive sectors followed widely divergent trends in 1969. Whereas the volume of agricultural production fell by 1.5 per cent, the manufacturing and construction industries —particularly the latter—enjoyed relatively high growth rates, although their rate of expansion was severely curtailed in comparison with the average which had been kept up since 1963 (see table 122).

Besides the decline in banana, maize and rice production, the bean crop was rather poor owing to excessive rain during the ripening period, and unattractive market prices led to a reduction in the cotton-growing area. Cotton growers also suffered from the rise in the prices of insecticides and other inputs, in addition to restrictions on financial aid from the National Development Bank (Banco Nacional de Fomento), which cut down considerably on loans to the less efficient units.

The contraction in the supply of agricultural commodities was largely responsible for the over-all sluggishness of the sector, which the expansion of forestry (9.7 per cent) and the modest growth rate of the livestock industry could do little to offset. This setback, however, should be only temporary, since, as far as supply is concerned, there are no insuperable obstacles to the recovery and ultimate improvement of agricultural production.

Provided there are no new problems on the demand side, State-sponsored programmes should eventually set agricultural development on a firmer basis. The main aims of these programmes are to promote the production of basic foods and livestock, strengthen the support price system, improve marketing methods and techniques and implement agrarian reform and land settlement projects.[67]

Between 1963 and 1968, the annual growth rate for the manufacturing industry was high (slightly over 11 per cent), though the rate of expansion started to drop off from 1967 onwards. Provisional figures for 1969 indicate an increase of barely 6.5 per cent in the value added by industry, owing to the abnormal conditions which adversely affected the general level of economic activity and slowed down the impetus of domestic and external demand (see table 122).

The fact that manufacturing production should have grown so much faster than the economy as a whole and most of the other productive sectors needs some further explanation. The main reason is that plants were used to greater capacity because of the temporary difficulties in obtaining supplies from other Central American countries. Secondly, there was an exceptionally strong demand for certain exports of manufactures and of products (such as clothing) sold to countries outside the Common Market.

The entry into operation on a commercial scale of a series of industrial projects, and the completion of others, had an even more far-reaching impact. The oil refinery, which began operating in the middle of 1968, stepped up its output by 75 per cent in 1969. Other plants were also completed in 1969 and began producing transistor radios, cooking fat and vegetable oil, concentrated foods, processed

[66] The stabilization tax and luxury duties were introduced in September 1968.

[67] The following are the most important steps being taken to achieve these objectives. The National Development Bank has put up a loan of 8 million lempiras to finance plans for technical improvements and the marketing of basic grains and livestock and has made additional credit lines available to continue with the construction of silos which had been interrupted. With the help of the United Nations, a programme is currently being drawn up for the diversification of crop production which includes basic research and technical aid. Backed by the Central Bank, the National Agrarian Institute (Instituto Nacional Agrario) has issued bonds guaranteeing it 3 million lempiras per year for ten years so as to implement the agrarian reform programme, and it has negotiated a further loan of 15 million lempiras from IDB for various land settlement projects (Bajo Aguán, the southern area and the León valley). Finally, an agricultural development bill and a proposal to create a special institute for the price control and marketing of agricultural products and a national committee on agricultural policy to co-ordinate State action are currently being studied.

Table 122. Honduras: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Annual growth rates (percentages)*			
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1965–1968*	*1969*
Agriculture	44.1	43.6	40.0	38.5	5.3	3.9	−1.5	
Mining	1.0	1.7	2.1	2.2	17.8	13.6	6.9	
Manufacturing	12.0	13.8	15.0	15.6	8.4	10.0	6.5	
Construction	3.5	4.3	5.4	5.8	10.0	15.2	9.9	
Subtotal goods	*60.6*	*63.4*	*62.5*	*62.1*	*6.5*	*6.4*	*1.7*	
Electricity, gas and water	0.5	0.7	0.9	0.9	14.5	14.9	6.4	
Transport and communications	5.4	5.9	6.4	6.6	7.4	9.6	4.9	
Subtotal basic services	*5.9*	*6.6*	*7.3*	*7.4*	*8.0*	*10.2*	*5.1*	
Commerce and finance	14.4	14.9	15.5	15.6	6.2	8.4	3.1	
Government	4.5	2.7	2.4	2.5	−5.0	2.7	8.0	
Miscellaneous services	14.5	12.4	12.3	12.3	2.2	6.9	2.8	
Subtotal other services	*33.5*	*30.0*	*30.2*	*30.5*	*3.2*	*7.3*	*3.4*	
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*5.3*	*5.8*	*3.2*	

SOURCE: For 1960–1968, ECLA estimates based on information supplied by the Central Bank; for 1969, ECLA estimates.

fruit, cotton-seed oil and refined sugar (Choluteca sugar-mill).

Considerable progress was made in the study and implementation of other industrial projects, also including a wire-drawing plant and a milk products plant. Work was also started on the promotion of a pulp and paper project and on revising and updating forest utilization.

Other domestic measures have had a positive effect on the expansion of the industrial sector, such as the maintenance of the drawback system, introduced in Honduras in 1968, under which the import duty paid on raw materials used in the manufacture of a finished product is returned to the manufacturer if it is exported outside the Common Market. In addition, steps have been taken since 1968 to increase domestic manufacturing by means of a purchasing policy in the public sector. The budget law forbids public bodies to purchase products manufactured abroad when the same or similar goods are available in Honduras, except by special agreement. Similarly, preference is given to national products in purchasing materials for public works financed by the Central Government and autonomous institutions.

The growth rate of the construction industry was in sharp contrast to that of the other productive sectors, although it remained far below those of 1967 and 1968. Despite the conflict with El Salvador and the floods, construction was maintained at a relatively high level in comparison with other productive branches, thanks to the increase in public works (see table 122).

3. THE EXTERNAL SECTOR

The balance of payments for 1969 mirrors the main events of the year in Honduras, which affected the flow of goods, services and capital to and from other countries. The value of exports of goods fell by 5.6 per cent, in contrast with a relatively high growth rate the year before (16 per cent at current prices). Imports of goods rose by only 2 per cent. Both played a decisive role in increasing the current account deficit, which, at 39 million dollars, was almost 40 per cent higher than in 1968. The net inflow of non-compensatory official and private capital, which was 3 million dollars up on 1968, could not offset the deficit on current account, and this resulted in a reduction of 2.5 million dollars in net foreign exchange reserves, as opposed to an increase of 5.5 million dollars the year before (see table 123).

The drop in traditional exports (coffee, silver, maize, beans and livestock) was largely responsible for the contraction of total sales; another factor was the decline in cotton exports, which will probably continue into 1970 (see table 124). The poor cotton production was the result of a combination of unattractive world market prices, increased costs, financing difficulties and the abandonment of some of the crop along the El Salvador border.

Mention should also be made of the decline in exports of manufactured goods to the Central American Common Market area. The closing of the frontier with El Salvador, together with other trade restrictions, pushed income from this source down to around 3.5 million dollars; hardest hit of all were soap and soap products, cement, underwear, oils, tobacco, paints and cotton fabrics.

The difficulties facing the export market could well become even more serious in 1970, both because of the shortage of supply of basic

Table 123. Honduras: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	71.9	137.7	170.7	196.5	185.0
Goods (f.o.b.)	64.4	128.2	155.9	180.9	170.7
Services	7.5	9.5	14.8	15.6	14.3
Imports of goods and services	−77.9	−134.9	−182.4	−204.3	−206.3
Goods (f.o.b.)	−65.4	−113.2	−152.4	−169.4	−173.0
Services	−12.5	−21.7	−30.0	−34.9	−33.3
Net external investment income	9.1	−13.1	−21.2	−23.1	−20.4
Net private transfer payments	−0.6	0.4	0.5	3.0	3.0
Balance on current account	2.5	−9.9	−32.4	−27.9	−38.7
Capital account					
Net external financing	−2.5	9.9	32.4	27.9	38.7
Non-compensatory external financing	0.1	21.9	35.0	30.3	
Direct investment	−7.6	6.3	8.7	14.4	
Long- and medium-term loans	5.2	8.5	12.1	17.8	
Amortization payments	−1.6	−3.2	−3.5	−3.5	36.2
Short-term liabilities	0.9	6.1	13.5	−1.7	
Official transfer payments	3.2	4.2	4.2	3.3	
Non-compensatory domestic capital or assets	−1.6	−1.3	−7.4	0.7	
Errors and omissions	−0.7	−5.2	6.2	2.4	
Compensatory financing (increase −)	−0.3	−5.5	−1.4	−5.5	2.5
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	5.1	0.7	—	1.0	−0.6
Amortization payments	−3.7	−2.5	−6.0	−0.1	
Gold and foreign exchange (increase −)	−1.7	−3.7	4.6	−6.4	3.1

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

commodities—bananas and cotton—and in the light of problems affecting demand, such as the loss of the El Salvador market (if the present crisis continues) and a possible contraction of the United States meat market. These problems did not make themselves felt until the second half of the year. Damage caused by natural phenomena during the second half of the year to some extent disguised the shrinkage of the market, which would have been very obvious if there had been a full harvest of maize and beans (in 1968, these two crops accounted for 32 per cent of Honduras' total exports to El Salvador). The slump in exports of timber, cattle and pigs can also be put down to the standstill in trade with El Salvador.

To overcome these problems, the Government of Honduras is seeking new outlets for its timber, citrus fruit, maize and beans, mainly in other Central American countries and in South America and Europe. It is also trying to get the United States to maintain the full meat quota, without the surplus exports in 1969 being deducted from it.

Imports of goods dropped slightly in current values (2 per cent) a very much lower rate than in earlier years owing to the decline in over-all economic activity, the stoppage of all trade with El Salvador, and the measures adopted to protect the balance of payments. Provisional data suggest that imports of consumer goods went up by a little over 5 per cent in current values, as opposed to 15 per cent in 1968. In the case of raw materials and fuels the increase was almost 6 per cent, while imports of capital goods and construction materials dropped by virtually the same amount as the year before (3 per cent).

Pressure on the balance of payments was greater in 1969 as a result of the increased deficit on current account. Judging from the information available, net inflow of private capital fell by almost 10 million dollars, very likely as a result of reduced investments by the banana companies. On the other hand, the balance-of-payments figures themselves indicate a substantial increase in net loans to the public sector, which can be ascribed to an extension of State-sponsored programmes, and to improved technical and administrative ability to plan and carry out investment projects.

Table 124. Honduras: value, quantum and unit value index of main exports, 1965–1969

	1965	1966	1967	1968	1969[a]	Average annual growth rates (percentages) 1966	1967	1968	1969
				Millions of dollars					
Cotton	6.1	5.8	5.2	3.8	3.5	−4.9	−10.3	26.9	−7.9
Bananas	52.9	72.3	78.5	79.7	80.1	36.7	8.6	1.5	0.5
Coffee	22.1	19.9	17.8	20.8	16.5	−10.0	−10.6	16.9	−20.7
Fresh meat	3.2	3.9	4.3	4.6	6.8	21.9	10.3	7.0	47.8
				Millions of dollars at 1960 prices					
Cotton	5.9	6.0	5.4	3.4	...	1.7	−10.0	−37.0	...
Bananas	43.8	62.9	66.8	70.8	...	43.6	6.2	6.0	...
Coffee	18.9	17.5	17.0	19.9	15.8	−7.4	−2.9	17.1	−20.6
Fresh meat	3.6	4.2	4.3	4.5	...	16.7	2.4	4.7	...
				Unit value index (1960 = 100)					
Cotton	103.8	96.7	95.5	113.2	...	−6.8	−1.2	18.5	...
Bananas	120.8	114.9	117.6	112.6	...	−4.9	2.3	−4.3	...
Coffee	116.7	113.5	104.8	104.7	104.6	−2.7	−7.7	−0.1	−0.1
Fresh meat	89.5	93.4	99.8	103.1	...	4.4	6.9	3.3	...

SOURCE: ECLA, on the basis of official statistics.

[a] Preliminary figures.

4. Public finances

Public expenditure trends for 1969 reflected the Government's drive to promote basic social capital formation and the policy it adopted to offset depressive factors and finance emergency measures.

Estimated current Central Government income shows an increase of 5.4 per cent, which is considerably less than in 1968 (14 per cent). Tax revenue was up 6.4 per cent, the largest increase being from direct taxes (9.8 per cent). Revenue from indirect taxation rose 5.1 per cent, maintaining the irregular pattern of past years; its slower rate of expansion is a direct result of the drop in revenue, in absolute terms, from import and export taxes (15 and 16.9 per cent respectively) (see table 125).

The revenue from import taxes was a major factor in bringing about this financial situation because it accounts for a large share in total current fiscal income. This decline in revenue is largely the outcome of a lower economic growth rate and import substitution in respect of petroleum products. Export taxes also dropped partly because coffee exports slumped following the reduction of the country's quota under the International Coffee Agreement, and partly because banana sales failed to increase.

Lower income from foreign trade was offset by higher revenue from domestic taxation, particularly on petroleum products and non-essential commodities (the latter ranging from 10 to 20 per cent). Revenue from taxation on petroleum products rose rapidly with the growing output of the Puerto Cortés refinery; luxury taxes, introduced in 1968, followed a similar trend, though for different reasons. Despite the progress made towards the gradual establishment of a more flexible tax system which would be less dependent on the evolution of foreign trade, recent events go to show how little freedom the public sector has to maintain an independent spending policy. The over-all government deficit went up in 1969 and tax revenue may well suffer severely in 1970 from a fall in income tax revenue from the banana companies as a natural consequence of the losses they suffered in 1969 and the reduction in output that is to be expected. All in all income from various domestic taxes is likely to increase more slowly as a result of the sluggishness of the economy and of the decision to remove the duty on coffee exports to new markets which was recently approved by Congress in order to promote economic development, and in view of the fact that Honduras' quota under the International Coffee Agreement will cover only about 60 per cent of its exportable production in 1970.

At 10.8 per cent, current expenditure rose faster than revenue, thereby accentuating the tendency of government saving to remain stationary or even diminish (it fell from 30.9 to 26.4 million lempiras—14.6 per cent in 1969), and led to increased credit requirements in the public sector. Bank loans to the Government increased by over 10 per cent to finance

Table 125. Honduras: current income and expenditure of the Central Government, 1963 and 1965–1969
(Millions of lempiras)

Item	*1963*	*1965*	*1966*	*1967*	*1968*	*1969*[a]
Current income	*81.3*	*108.4*	*118.5*	*126.8*	*144.5*	*152.3*
Revenue from taxes	72.8	98.7	110.1	119.7	136.5	145.3
Direct, on:	12.0	18.4	28.3	35.5	40.9	44.9
Income	11.3	16.7	26.9	34.0	39.1[b]	43.1[b]
Real estate	0.7	1.7	1.4	1.5	1.8	1.8
Indirect, on:	60.8	80.3	81.8	84.2	95.5	100.4
Imports	35.7	41.0	40.5	41.1	43.5	37.0
Exports	4.2	5.3	5.1	4.4	6.5	5.4
Other	20.9	34.0	36.2	28.7	45.5	58.0
Non-tax income	4.4	5.9	5.5	4.8	4.5	4.5
Current transfers	4.1	3.8	2.9	2.3	3.5	2.6
Current expenditure	*69.2*	*85.2*	*91.4*	*99.7*	*113.6*	*125.9*
Consumption	62.7	76.7	88.5	188.5	102.6	112.7
Salaries and wages	46.5	56.4	60.7	66.0	74.7	81.5
Other	16.2	20.3	21.6	22.5	27.9	31.2
Transfers	3.7	4.9	5.1	6.9	6.2	6.7
Interest on the national debt	2.8	3.6	4.0	4.3	4.8	6.5
Current saving	*12.1*	*23.2*	*27.1*	*27.1*	*30.9*	*26.4*

SOURCE: Budget Office and Planning Council.
[a] Preliminary figures.
[b] Including social security.

investment programmes and cover some of the costs arising from the conflict with El Salvador (see table 126).

Government financing and a more liberal private credit expansion policy—chiefly aimed, once again, at agricultural and industrial development—were largely responsible for the expansion of the money supply, which increased much faster (approximately 16 per cent) than the product. Consequently, this greater liquidity may make it difficult for the Government to continue with its policy of stabilization and defence of the balance of payments before very long, especially as prospects for external demand are not encouraging (see table 127).

Jamaica

1. RECENT ECONOMIC TRENDS

According to estimates, Jamaica's gross domestic product, measured at current prices, increased by 9.4 per cent in 1969, more than the average annual rate which has prevailed since 1960 but below the 10.4 per cent rise recorded in 1968. To see this growth rate in its true light, however, it should be remembered that the upward trend of domestic prices has speeded up over the past few years, rising from around 3 per cent up to 1967 to 5.8 per cent in 1968 and approximately 9 per cent in 1969.

One of the factors accounting for the rate of growth of the product in 1969 was the slump

Table 126. Honduras: consolidated balance sheet of the banking system, 1963, and 1965–1969
(*Millions of lempiras*)

	End-of-year balance					*September balance*	
	1963	*1965*	*1966*	*1967*	*1968*	*1968*	*1969*
Assets	*180.5*	*243.1*	*280.9*	*330.2*	*367.9*	*361.3*	*405.1*
International assets	20.3	24.8	21.0	10.5	24.9	32.1	29.0
Internal credit	121.2	170.8	206.9	255.1	273.6	264.3	321.5
Public sector	33.3	36.0	36.8	41.3	31.1	34.4	38.9
Central government	28.5	27.9	29.4	34.4	23.7	27.8	32.0
Local government	2.8	5.0	4.6	4.2	3.5	3.7	3.5
Autonomous agencies	2.0	3.1	2.8	2.7	3.9	2.9	3.3
Private sector	87.9	134.8	170.1	213.8	242.6	229.9	282.6
Securities	3.5	4.4	5.0	5.8	7.0	6.9	8.0
Loans	83.1	128.6	163.4	206.0	232.8	220.6	273.7
Other credits	1.3	1.8	1.7	2.0	2.8	2.3	0.9
Other assets	39.0	47.5	53.0	64.6	69.3	65.0	54.6
Liabilities	*180.5*	*243.1*	*280.9*	*330.2*	*367.9*	*361.3*	*405.1*
Money supply	80.7	104.4	105.9	120.3	135.2	123.9	144.1
Notes and coins in circulation	41.5	49.2	53.1	53.8	59.6	56.6	66.2
Monetary deposits	39.2	55.2	53.8	66.5	75.6	67.3	77.9
Quasi-money deposits	43.8	67.4	91.2	108.0	117.4	125.4	131.1
Other savings	10.8	11.4	12.0	13.3	14.2	13.5	15.2
Non-monetary liabilities	1.4	1.6	2.4	4.1	5.7	5.5	10.1
Capital and reserves	43.8	58.3	69.4	84.5	95.5	93.1	104.1

SOURCE: Central Bank, *Revista trimestral.*

Table 127. Honduras: allocation of commercial bank credits, 1963–1969
(*Millions of lempiras*)

	End-of-year balance						*September balance*	
	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1968*	*1969*
Total	*83.4*	*99.5*	*129.6*	*164.0*	*206.4*	*239.2*	*221.0*	*274.2*
Agriculture	15.8	20.5	27.7	34.2	39.6	41.9	36.3	46.4
Livestock	7.8	9.1	12.1	15.6	20.0	27.4	26.6	33.5
Industry	9.3	13.7	21.5	31.2	38.8	45.1	44.3	54.8
Commerce	23.1	25.6	30.3	36.2	48.9	38.8	40.6	44.4
Consumption	—	4.6	5.8	8.3	12.9	14.3	13.0	15.4
Other	27.4	26.0	32.2	38.5	46.2	65.7	60.2	79.7

SOURCE: Central Bank, *Revista trimestral* and *Boletín estadístico.*

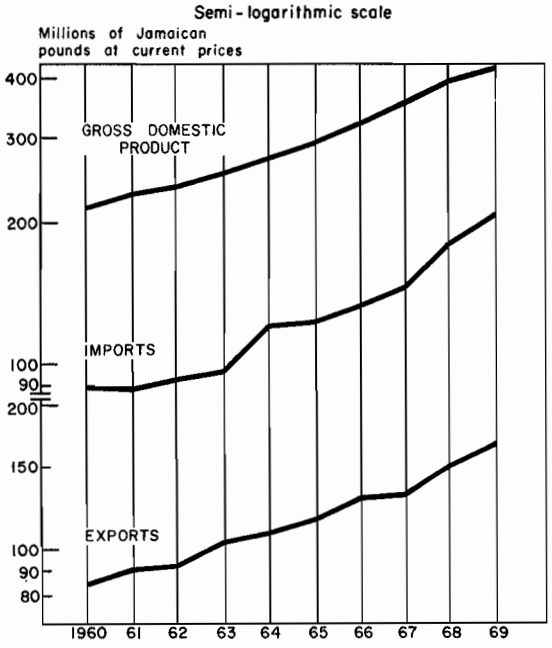
in sugar output, which directly affected both the agricultural and the manufacturing sector. In contrast, mining and quarrying, petroleum refining and construction all made significant progress (see table 128 and figure XVII).

Gross domestic investment, which had increased by 18 per cent in 1967 and 31 per cent in 1968, continued at a somewhat reduced level in 1969, in line with the downturn in construction which expanded at less than half its 1968 tempo.

The external sector still dominates Jamaica's economic activity. During the year, the trade gap widened further, despite the fact that the growth of exports (17.9 per cent) was higher than that of imports (15.3 per cent). Jamaica's sales to the other countries of the Caribbean Free Trade Association (CARIFTA) went up by 37 per cent in 1968, the year in which the CARIFTA Agreement became operative, and by 50 per cent in 1969.

Figure XVII. Jamaica: 1960–69

EVOLUTION OF GROSS DOMESTIC PRODUCT, IMPORTS AND EXPORTS



2. Major sectors of activity

In recent years, agriculture has been hard hit by a severe drought that has affected production of both sugar-cane and non-export crops. Agricultural output, which had remained at a virtual standstill since 1963, has taken a serious downward plunge over the past two years.

Mining production, however, has developed rather more favourably, with a growth rate of 11 per cent in 1968 and of 33 per cent in 1969. In the first ten months of 1969, the output of bauxite and alumina rose by 23 per cent and 25 per cent respectively compared with 1968 (see table 129). The large increase in alumina production is particularly significant since the value added in processing is high by comparison with other minerals. Alumina production is likely to climb still further over the next few years as a result of the planned expansion of the sector's processing capacity. The output of petroleum products also expanded in 1969: gasoline by 37 per cent, diesel and fuel oil by 24.3 per cent, and kerosene by 36 per cent.

The growth rate of the manufacturing sector fell from 11.6 per cent in 1968 to 5 per cent in

Table 128. Jamaica: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

Industrial sectors	*Millions of Jamaica pounds[a] at current prices*				*Average annual growth rates (percentages)*		
	1960	*1966*	*1968[b]*	*1969[b]*	*1960–66*	*1968*	*1969*
Agriculture, forestry and fishing	26.0	37.6	38.8	37.4	6.3	−0.5	−3.6
Mining, quarrying and petroleum refining	20.8	31.0	36.2	48.0	6.9	11.4	32.6
Construction	25.7	34.6	47.5	53.5	5.1	30.2	12.6
Government	13.3	25.1	34.9	32.6	11.2	15.0	10.6
Transport and communication	16.7	24.2	28.9	30.6	6.4	8.6	5.9
Commerce	38.9	45.6	51.2	56.2	2.7	8.7	9.8
Manufacturing	29.4	49.6	57.7	60.6	9.1	11.6	5.0
Others[c]	44.6	74.3	83.3	89.1	8.9	5.2	7.0
TOTAL	*215.4*	*322.0*	*378.5*	*414.0*	*6.9*	*10.4*	*9.4*

SOURCES: For 1960–1967, Department of Statistics and Central Planning Unit, Kingston; for 1968 and 1969, estimates based on partial indicators from the same source.

[a] In September 1969, Jamaica changed the denomination of its currency; the Jamaica pound, which had had a par value of 2.40 United States dollars since November 1967, was changed to the Jamaica dollar equal to 1.20 dollars.

[b] Provisional figures.

[c] Including electricity, gas and water, financial institutions, ownership of dwellings, and miscellaneous services.

Table 129. Jamaica: bauxite, alumina and gypsum production, 1963–1969
(Thousands of tons)

Year	Bauxite	Alumina	Gypsum
1963	7,013	719	242
1964	7,936	757	195
1965	8,650	753	211
1966	9,061	802	193
1967	9,267	828	187
1968	8,526	925	209
1969	10,499	1,156	255

SOURCE: Department of Statistics and Central Planning Unit, Kingston.

1969. The pattern of performance of the major industrial products was very mixed: whereas sugar output fell by 14 per cent and molasses output by 6 per cent, production of rum and alcoholic beverages rose by 26 per cent, that of textile manufactures by more than 50 per cent, and that of flour 250 per cent. Steel output rose by 62 per cent and fertilizer output by 34 per cent; but cement production remained virtually stationary and sulphuric acid production expanded by only 7 per cent.

An industrial diversification programme is currently under way and has begun to produce results, for example, in the form of greater demand for construction materials and furniture, following the boom in construction.

3. THE EXTERNAL SECTOR

In 1968, the comparatively greater growth of imports considerably enlarged the trade gap, which widened from 26 million dollars in 1967 to 46 million in 1968. In 1969, exports expanded by 17.9 per cent and imports by 15.3 per cent, with the trade balance showing a deficit of 51 million dollars.

On the export side, the largest increases were in bauxite and alumina (33.3 per cent) (see table 130).

As regards imports, demand for capital goods has risen faster than for consumer goods during the past few years, which is a reflection of the current import substitution policy (see table 131).

Imports of machinery and transport equipment rose considerably during the first half of the year but those of food-stuffs and chemicals fell off.

There have also been changes in Jamaica's trading partners over recent years and, although its biggest markets are still the United States, the United Kingdom and Canada, trade with other European countries has been stepped up. Trade with the rest of Latin America continues at a fairly low level, but considerable progress has been made in trade with other CARIFTA countries (see table 132).

To Jamaica's growing trade deficit must be added a further deficit in invisibles. The higher net income from tourism has not been large enough to offset the outward flow in the form of insurance and freight and remittances of profits and interest on foreign investment.

In 1969, unlike 1968 and earlier years, the inflow of capital was not large enough to offset the deficit on current account or to produce a balance-of-payments surplus. The net inflow of capital, chiefly private capital, contracted by 17 million Jamaican pounds, giving an over-all balance-of-payments deficit of 5.8 million Jamaican pounds (see table 133).

Mexico

1. RECENT ECONOMIC TRENDS

In 1969, the Mexican economy continued to follow its main long-term trends, although the rate of growth fell somewhat. It is estimated that the gross domestic product increased by 6.3 per cent in real terms, compared with an increase of 7.3 per cent in 1968 and an average of 6.9 per cent for the period 1960–1967. The

Table 130. Jamaica: exports of selected products, 1966–1969

Products	Millions of Jamaica pounds				Percentage variation, 1969
	1966	1967	1968	1969	
Bauxite and alumina	37.7	39.9	44.5	59.3	33.3
Sugar, rum and molasses	18.6	17.6	18.9	16.1	−14.8
Bananas	6.3	6.6	6.9	6.3	−8.7
Citrus fruit, cocoa, coffee, pimento, ginger and their products	5.3	4.6	5.1	6.0	17.6
Manufactured goods	9.0	8.5	10.5	11.4	8.6
Other products	3.2	3.2	5.5	6.8	23.6
TOTAL	*80.1*	*80.4*	*91.4*	*105.9*	*15.9*

SOURCE: Department of Statistics and Central Planning Unit, Kingston.

Table 131. Jamaica: imports, by type of goods, 1965, 1968 and 1969
(Millions of Jamaica pounds)

	1965		1968[a]		1969[a]
	Value	*Percentage*	*Value*	*Percentage*	*Value*
Consumer goods	*48.9*	*47.4*	*57.2*	*35.7*	*66.3*
Food[b]	19.5	18.9	22.0	13.7	...
Other non-durable goods	11.4	11.0	12.1	7.6	...
Durable goods	18.0	17.5	23.1	14.4	...
Raw materials	*27.3*	*26.5*	*44.6*	*27.8*	*49.8*
Fuels	9.0	8.7	12.5	7.8	...
Other raw materials and goods used in manufacture	18.3	17.8	32.1	20.0	...
Capital goods	*27.0*	*26.1*	*58.1*	*36.3*	*68.1*
Construction materials	10.8	10.4	19.7	12.3	...
Transport equipment	4.6	4.5	6.1	3.8	...
Other machinery and equipment	11.6	11.2	32.3	20.2	...
Other	—	—	*0.4*	*0.2*	*0.5*
TOTAL	*103.2*	*100.0*	*160.2*	*100.0*	*184.7*

SOURCE: Central Planning Unit and Bank of Jamaica.
[a] Preliminary figures.
[b] Excluding animal feeds.

Table 132. Jamaica: trade with CARIFTA countries, 1960–1969
(Thousands of Jamaica pounds)

Year	*Imports (-)*	*Exports (+)*	*Balance*
1960	3,252.9	757.1	−2,495.8
1961	3,526.6	751.7	−2,774.9
1962	3,748.4	1,355.0	−2,393.4
1963	3,670.9	828.2	−2,842.7
1964	2,846.0	849.0	−1,997.0
1965	1,698.0	1,116.2	−581.8
1966	1,214.7	1,834.9	+620.2
1967	1,597.5	1,800.7	+203.2
1968	1,579.5	2,475.4	+895.9
1969[a]	2,452.5	3,716.9	+1,264.4

SOURCE: Central Planning Unit and Bank of Jamaica.
[a] Preliminary figures.

over-all tempo of economic growth, however, was much the same as during the past thirty years, despite the virtual stagnation of agriculture as a result of unfavourable weather.

This return to a more moderate rate of growth may simply mean that the economy is adjusting to momentarily adverse conditions or seeking a pace that reduces the tensions inherent in excessively rapid growth. It may also be, however, an early warning sign of imbalance, which would have to be dealt with by making appreciable changes in economic policy.

Total demand grew by 6.2 per cent, compared with 7.6 per cent in 1968, and this comparative contraction was mainly attributable to the sluggishness of some of the main autonomous variables within national development. The rate of capital formation was substantially lower than during the period 1961–1968, with investment barely reaching 56,000 million pesos, i.e., an increment of no more than 4.4 per cent. Public investment is estimated to have grown at a moderate pace, especially in infrastructure projects, industrial installations and social welfare programmes. Private expenditure was concentrated in a number of branches of industry and projects to expand tourist services. The decline in capital formation can be attributed to the effect of certain measures designed to promote monetary and exchange stability, to the completion of a number of major public works—chiefly those connected with the Olympic games—and to the climate of general uncertainty caused by the relatively slow pace at which the domestic market was expanding (see table 134 and figure XVIII).

Total consumption, although increasing less than in 1968, in relative terms grew faster than the product. Family expenditure on consumer goods was very high at the beginning of the year owing to the delayed effect of the high level of economic activity during the last quarter of 1968. Everything would seem to indicate that this expenditure gradually altered during the year to take account of less dynamic conditions. Government consumption, which is estimated to have equalled the average rate of the preceding five-year period, was below the exceptionally high 1968 level. As with Government investment, this was the result of factors relating to financial balance and of the fact that expenditure patterns readjusted to normal

Table 133. Jamaica: balance of payments 1965–1969
(*Millions of Jamaica pounds*)

	1965	1966	1967	1968	1969
Current account					
Exports (f.o.b.)[a]	77.4	82.1	82.7	92.4	108.9
Imports (f.o.b.)[a]	91.0	101.6	108.6	138.5	159.7
Net balance on goods	*−13.6*	*−19.5*	*−25.9*	*−46.1*	*−50.8*
Services					
Transport	−7.4	−9.1	−11.9	−15.1	...
Merchandise insurance	−1.0	−1.2	−1.3	−1.6	...
Foreign travel	+18.9	+24.0	+24.6	+31.5	+32.7
Investment income	−15.3	−16.8	−19.0	−19.7	−22.3
Government transactions	+2.5	+2.9	+3.6	+3.6	...
Non-merchandise insurance	−5.1	−5.2	−5.4	−5.4	...
Other	+4.0	+3.6	+2.7	+7.9	...
Net balance on services	*−3.4*	*−1.8*	*−5.7*	*−1.2*	*+0.3*
Net balance on goods and services	*−17.0*	*−21.3*	*−31.6*	*−47.3*	*−50.5*
Transfer payments					
Private	+7.1	+6.5	+6.4	+6.5	...
Government	−1.0	−1.3	−1.4	−1.5	...
Net transfer payments	*+6.1*	*+5.2*	*+5.0*	*+5.0*	*+5.5*
Balance on current account	*−10.9*	*−16.0*	*−26.6*	*−42.3*	*45.0*
Capital account					
Net capital movements	+6.6	+24.4	+33.7	+56.4	+39.2
Government	+3.0	+3.7	+2.5	+6.3	+6.1
Private	+5.1	+23.1	+40.1	+53.8	33.1
Unidentified	−1.5	−2.4	−8.9	−3.7	
Surplus or deficit	*−4.3*	*+8.4*	*+7.1*	*+14.1*	*−5.8*

SOURCE: Central Planning Unit and Bank of Jamaica.
[a] Adjusted to balance-of-payments basis.

economic conditions. External demand continued to climb rapidly, but without fully compensating for the decline in the other components of total demand. In response to the prevailing situation, total supply did not grow as fast as in previous years, since the growth of the product and imports was held back. Although the volume of imports of goods and services rose by some 5.5 per cent, this was half the exceptional rate recorded in 1968, with imports of capital goods being the most affected (see table 134).

Mainly owing to the drought and flooding, the growth of the agricultural product (2.3 per cent) failed to keep pace with population increase. Industry, which has generally expanded at a high rate, performed very differently in different sectors and its over-all growth was less spectacular. Manufacturing, the petroleum industry and construction contributed comparatively less to the growth of the sector, while electric power increased moderately and mining remained virtually stationary (see table 135). Services, on the other hand, continued to increase their value added at a rate similar to that of the product, with no appreciable change in the main trends apparent since the 1950s.

Since there were no inflationary pressures or major structural shortcomings, the growth of the money supply virtually matched that of the gross domestic product, measured in constant prices, i.e., it equalled the performance of previous years when the over-all liquidity ratio fell slightly compared with the trends of transactions in real terms. At the end of 1969, the money supply was 10.6 per cent greater than in December 1968, and was sufficient to meet the monetary requirements stemming from a higher level of economic activity.

Total financing of the banking system rose by 12.3 per cent, compared with 14.6 per cent in 1968 and 19.7 in 1966. Although this contraction was to some extent due to the slower pace of economic activity, it also marks a return to what may be termed normal conditions of growth for bank deposits, which had been expanding in spectacular fashion. Moreover, there were some substantial changes in the allocation of credit resources. The private sector was especially benefited since its credit allocations rose by some 14 per cent, while federal government financing fell from 5,100 to 2,900 million pesos.[68] Loans expanded

[68] It would appear that, because of the need to alleviate temporary pressures on the balance of payments and the supply of funds, government expenditure has been financed for the most part from external sources.

Table 134. Mexico: total supply and demand, 1960 and 1967–1969

	Millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1967*	*1968*	*1969*	*1960*	*1967*	*1968*	*1969*	*1960–67*	*1968*	*1969*
Total supply	*169.4*	*262.6*	*282.6*	*300.2*	*112.6*	*109.6*	*110.0*	*110.0*	*6.5*	*7.6*	*6.2*
Gross domestic product	150.5	239.6	257.0	273.2	100.0	100.0	100.0	100.0	6.9	7.3	6.3
Imports of goods and services	18.9	23.0	25.6	27.0	12.6	9.6	10.0	10.0	2.9	11.3	5.5
Total demand	*169.4*	*262.6*	*282.6*	*300.2*	*112.6*	*109.6*	*110.0*	*110.0*	*6.5*	*7.6*	*6.2*
Exports of goods and services	15.8	21.6	23.9	25.9	10.5	9.0	9.3	9.5	4.6	10.6	10.6
Total investment	*30.2*	*51.2*	*54.1*	*56.5*	*20.1*	*21.4*	*21.1*	*20.8*	*7.8*	*5.7*	*4.4*
Gross fixed investment	...	...	...	...	...	...	...	...	...	...	...
Construction	14.0	25.1	27.3	29.3	9.3	10.5	10.6	10.7	8.7	8.8	7.3
Total consumption	*123.4*	*189.8*	*204.6*	*217.8*	*82.0*	*79.2*	*79.6*	*79.7*	*6.4*	*7.8*	*6.4*
General government	9.5	17.7	19.4	20.6	6.3	7.4	7.5	7.5	9.3	9.6	6.2
Private	113.9	172.1	185.2	197.2	75.7	71.8	72.1	72.2	6.1	7.6	6.5

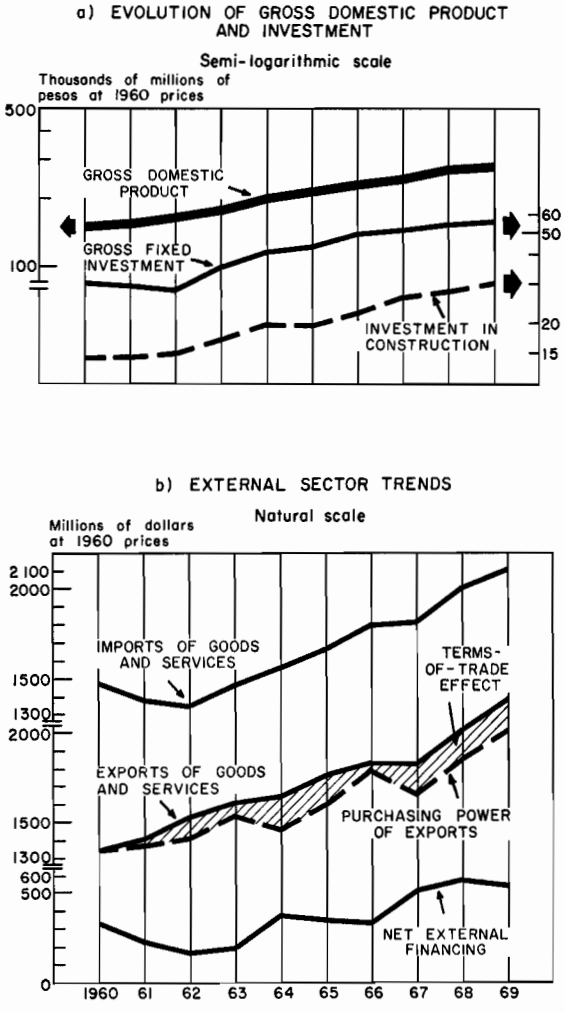
SOURCE: ECLA estimates based on data supplied by the Banco de México.

Table 135. Mexico: gross domestic product at factor cost, by sector of economic activity, 1960 and 1967–1969

	Structure (percentages)				*Annual growth rates (percentages)*		
	1960	*1967*	*1968*	*1969*	*1960–1967*	*1968*	*1969*
Agriculture	16.5	13.8	13.4	12.8	4.2	2.6	2.3
Mining	4.7	4.3	4.3	4.3	5.7	7.7	4.9
Manufacturing	19.4	21.6	21.9	22.2	8.5	8.7	7.8
Construction	4.2	4.8	4.8	4.9	8.7	8.6	7.5
Subtotal goods	*44.9*	*44.5*	*44.4*	*44.2*	*6.7*	*6.7*	*5.8*
Electricity, gas and water	0.9	1.3	1.3	1.4	11.8	11.0	11.8
Transport and communications	3.4	3.4	3.4	3.4	7.1	7.5	6.6
Subtotal basic services	*4.3*	*4.7*	*4.7*	*4.8*	*8.2*	*8.4*	*8.0*
Commerce and finance	30.6	30.2	30.2	30.3	6.6	7.4	6.6
Government	5.1	6.0	6.1	6.1	9.3	9.6	6.4
Miscellaneous services	15.0	14.6	14.6	14.6	6.5	7.1	6.4
Subtotal other services	*50.8*	*50.8*	*50.9*	*51.0*	*6.9*	*7.6*	*6.5*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*6.9*	*7.3*	*6.3*

SOURCE: Banco de México.

Figure XVIII. Mexico: 1960–69



mainly in the trade, industry and mining sectors, and contracted in the agricultural sector. Demand for credit was reduced as a result of adverse weather conditions and because many private agencies cancelled their programmes in various areas of the country or reduced them as a precautionary measure (see table 136).

External demand, either owing to an increase in volume or to price increases, was considerably strengthened in 1969. Merchandise exports rose by some 13 per cent at current prices, while imports grew by only 4.7 per cent. Tourist receipts increased by some 11 per cent, while border transactions grew less rapidly than previously, owing to the problems caused by "Operation Intercept". The net result was that the standing deficit in the trade balance fell by 69 million dollars, although the deficit on current account (over 700 million dollars) remained virtually unchanged, owing to the considerable volume of external factor payments (see table 141 on page 206).

Federal government receipts totalled approximately 29,000 million pesos at current prices, an increase of slightly over 9 per cent, as against a 16.3 per cent increase in 1968. The comparatively slower tempo of over-all economic activity, and of imports in particular, accounts for the small increase in tax revenue, since no substantial changes or reforms were made in taxation systems. In 1969, some measures were implemented to improve the state's capacity to collect revenue. In addition to improvements in administrative and collection systems, tax exemptions on lotteries and raffles were eliminated, and the rates of taxation on accumulated income and the ownership of vehicles,

Table 136. Mexico: total bank loans, 1966–1969
(*Thousands of millions of pesos*)

	1966	1967	1968	1969[a]
End-year balance	*104.6*	*121.1*	*138.8*	*155.9*
To enterprises and individuals	77.2	91.0	103.6	117.8
To the Federal Government	27.4	30.1	35.2	38.1
Net annual variations	17.3	16.5	17.7	17.1
To enterprises and individuals	10.3	14.0	12.5	14.2
Securities	0.3	1.1	0.9	0.8
Credit	10.1	12.9	11.7	13.4
To trade	3.1	3.3	3.9	6.1
To production	7.0	9.5	7.8	7.3
Industry	4.6	7.7	6.3	8.3
Agriculture (including livestock)	1.9	1.3	1.3	−1.2
Mining	0.4	0.5	0.2	0.2
To the Federal Government	6.9	2.7	5.1	2.9
Securities	6.1	3.1	4.7	0.2
Credit	0.8	−0.4	0.4	2.7

SOURCE: Banco de México, S.A.
[a] Estimates.

inter alia, were raised.[69] Relatively little progress was made, however, in making the tax system more flexible and relieving the pressure on public funds (see table 137).

Government expenditure continued to grow faster than the economy as a whole; in 1969 it is estimated to have risen by 11 per cent at current prices, despite the restrictions imposed for budgetary or balance-of-payments reasons. Spending increased mainly under the head of transfer payments and interest payments on the public debt. Given these trends, provisional figures indicate that government savings (the surplus on current account) remained at their 1968 level (5,400 million pesos), the effect of which seems to have been that the Government had more and more recourse to external sources of financing to cover capital expenditure[70] (see table 138).

[69] At present under study is the imposition of a value added tax, to replace the present tax on trade income.
[70] Net government indebtedness rose to over 4,500 million pesos.

Although definitive data are not available, the consolidated accounts of the public sector appear to have evolved in a similar manner. There are indications that the level of savings remained relatively unchanged, at approximately 13,900 million pesos, covering some 45 per cent of investment costs and debt amortization payments.

As the pressures caused by the high rate of activity in 1968 died down, the traditional objective of maintaining stable prices again came to the fore. In early 1969, however, the inflationary effects of expenditure during the Olympic games were still apparent, while later in the year prices were forced up as a result of crop losses in various agricultural areas.

The wholesale price index for Mexico City rose by 2.2 per cent, mainly due to increased prices for processed agricultural food-stuffs and consumer durables. Prices of producers' goods rose by barely 1.9 per cent, while those of agricultural products increased by double that figure. This was reflected in the cost-of-living

Table 137. Mexico: current income of the Central Government, 1966–1969
(*Thousands of millions of pesos*)

	1966	1967	1968[a]	1969[b]
Total	*20.9*	*22.7*	*26.4*	*28.8*
Revenue from taxes on:	18.9	20.4	23.9	26.1
Income	8.6	10.2	12.1	13.5
Business profits	2.4	2.6	3.3	3.5
Production and consumption	2.5	2.9	3.4	3.6
Imports	2.4	2.6	2.8	3.1
Exports	0.8	0.6	0.6	0.6
Other	2.1	1.5	1.7	1.8
Non-tax income	2.0	2.3	2.5	2.7

SOURCE: Ministry of Finance and Public Credit.
[a] Preliminary.
[b] ECLA estimates based on official statistics.

Table 138. Mexico: Federal Government finances, 1966–1969
(Thousands of millions of pesos)

	1966	1967	1968[a]	1969[b]
Current receipts	*20.9*	*22.7*	*26.4*	*28.8*
Current expenditure	*17.6*	*18.8*	*21.1*	*23.4*
Operating expenditure	8.9	9.5	11.3	11.9
Interest on public debt	2.5	2.7	3.0	3.5
Other transfer payments	6.0	6.2	6.4	7.2
Other expenditure	0.2	0.3	0.4	0.8
Saving	*3.3*	*3.9*	*5.3*	*5.4*
Capital inflows	0.8	0.1	0.3	...
Net loans received	3.5	4.5	4.1	...
Total financing	*7.6*	*8.5*	*9.7*	...
Capital expenditure	*7.6*	*8.5*	*9.7*	...
Real investment	4.4	5.2	5.8	...
Financial investment	1.8	1.1	1.8	...
Capital transfers	1.4	2.2	2.1	...

SOURCE: Ministry of Finance and Public Credit.
[a] Preliminary.
[b] ECLA estimates based on official statistics.

index for wage-earners which rose by 2.5 per cent.

If a number of different factors occur in combination, there may be a substantial rise in prices, although this is unlikely to provoke a dangerous inflationary spiral. First, there is the 7.9 per cent increase in the price of steel, which will affect the manufacture of a vast number of products; secondly, there is the fact that in 1970 minimum wages are due for their biennial readjustment, an increase of around 14 per cent; and lastly, the benefits included in the new labour act will raise the cost of the labour factor.[71] In 1970, it can be expected that the combined effect of all these factors will be to double the rate of inflation (2.1 per cent) recorded in the past unless very strict price restraint measures and restrictions on public spending are implemented or the growth rate of the economy falls.

2. Major sectors of activity

(a) *The agricultural sector*

Agriculture was the victim of extremely unfavourable weather conditions in 1969. The northern and central plains of the country suffered a severe drought lasting throughout the year which affected major crops, such as maize and cotton. In contrast, on the Gulf of Mexico and Pacific seaboards there was excessively heavy rainfall which caused flooding in some areas and serious damage to crops. This is why agricultural production barely managed to increase by 2.3 per cent, one of the lowest figures of the decade. Adverse weather curbed the expansion of crops for domestic consumption and for export, and also livestock output (see table 135).

Cotton was the crop most seriously affected. The 1969/70 harvest was 25 per cent less than for the preceding crop year as a result of the adverse weather and also because the area sown to cotton was reduced owing to the decline in world prices. Other contributory factors were the appearance of pests, and, most particularly, the rise in the price of inputs and machinery and equipment, and in rates of interest, which have gradually reduced margins of profit.[72] The harvest, amounting to 413,000 million tons, will provide enough for exports of only 1 million bales, after domestic consumption needs have been satisfied (see table 139).

Coffee production reacted to the depressed condition of external demand throughout most of the year, and was not able to reap full benefit from the rise in world prices in the last quarter. Other reasons for the 6.7 per cent drop in production include the policy of restricting output and replacing coffee by other crops in order to adjust supply to the obligations assumed under the International Coffee Agreement, and in particular, the effects of the coffee plant's life-cycle.

In contrast, other crops showed an upward trend. Tomato, melon and strawberry production rose by more than 9 per cent, under the stimulus of favourable conditions in the

[71] The new act provides, *inter alia*, for the payment of a 25 per cent bonus for Sunday or holiday work; an annual bonus of a half-month's wages; and four extra days of vacation for each five years of service.

[72] Recent data indicate that harvests declined in eight of the nine main cotton-producing areas of the country.

Table 139. Mexico: indexes and volume of agricultural production, 1966–1969
(Thousands of tons)

	1966	1967	1968	1969
Total agricultural production (1959–61 = 100)	*142.4*	*144.3*	*148.6*	*150.9*
For export				
Cotton	508.1	453.4	555.1	413.0
Coffee	162.0	174.0	180.0	168.0
Henequen	176.0	147.2	147.7	150.4
Tomatoes	496.6	578.7	620.0	675.0
Cocoa beans	24.5	25.2	26.7	28.2
Peanuts	89.9	92.0	97.6	101.4
Pineapples	231.5	251.1	262.5	275.0
Chickpeas	138.4	133.3	135.0	138.3
Melons	210.6	211.2	235.7	264.0
For domestic consumption				
Rice	372.2	429.6	454.5	525.0
Beans	1,010.8	1,022.4	1,001.6	1,200.0
Maize	8,915.8	9,033.4	9,126.3	8,500.0
Wheat	1,797.7	2,301.4	1,954.7	2,200.0
Sugar-cane	27,367.0	30,223.3	28,816.0	28,800.0
Tobacco (raw)	56.5	61.3	62.0	62.0
Sesame	187.1	201.6	215.0	250.0
Cotton-seed	866.1	772.8	946.0	906.8
Oranges	880.0	882.2	892.4	937.3
Safflower	158.9	123.1	140.4	200.0
Sorghum	1,399.9	1,241.8	1,380.0	2,000.0
Soya beans	93.9	102.9	111.6	300.0
Alfalfa	5,724.0	5,261.0	6,050.0	7,500.0

SOURCE: Department of Agriculture and Banco de México S.A.
[a] Estimate.

United States market; pineapple production also increased, by approximately 5 per cent.

Products grown mainly for domestic consumption in irrigated areas continued to increase rapidly, with a few exceptions, while those grown in non-irrigated areas generally felt the effects of less favourable conditions. Among the former, sorghum, soya beans, safflower, rice and alfalfa increased at a very rapid rate, most of them benefiting from support-price and credit systems, and an expanding domestic market.[73] Harvests of wheat and beans also increased rapidly (by 13 and 20 per cent respectively), since they had replaced other crops and sowings had increased under the stimulus of favourable prices. (see table 139 again).

Maize production was especially affected by the weather. Output is estimated to have dropped by slightly over 600,000 tons, or some 7 per cent less than in 1968. Nevertheless, surpluses were exported, to a lesser extent than in the previous crop year, although it is possible that maize may have to be imported on some scale in 1970 to cover temporary shortages. As a result of flooding, sugar-cane production contracted for the second year in the states of Veracruz and Oaxaca. While the total harvest of 28.8 million tons was below the level attained in 1967 (30.2 million tons), it will be large enough to satisfy domestic demand and meet the export quota for the United States market.

Thus the performance of agriculture was only moderately affected by natural factors. Agricultural development policy continued to generate production incentives by means of support prices and the expansion of irrigated areas,[74] and in particular through the provision of credit, chiefly for cash crops and expanding storage facilities for basic grains.

A number of adverse factors continued to affect agriculture. Added to the unpredictable conditions of dry farming—in which most agricultural workers are engaged—there were the frequent surpluses common in irrigated areas, pointing up a number of structural

[73] The increase in the surface area harvested is generally due to policies to promote the production of animal fodder and vegetable oils and fats.

[74] The area under irrigation increased by 129,000 hectares during 1969, approximately one third of which corresponds to small-scale projects; this would appear to be the first result of the small-scale irrigation plan, under which it is planned to irrigate 350,000 hectares over a ten-year period.

imbalances in the agricultural sector that are the result of insufficient demand and also of the excessive concentration of the labour force in rural areas. The measures taken in recent years to alter the structure of supply have not been forceful enough to change the domestic or external cost-price ratio, nor have they achieved their aim of promoting the more profitable exports and of reducing subsidies to assist the disposal of grains on world markets.

The rate of growth of livestock production fell slightly (3.3 per cent) compared with 1968, as a result of the drought in northern areas which led to a shortage of fodder. Although this is not a serious setback, it is possible that the shortfall in production may make it difficult to satisfy the domestic market and to sustain export expansion.

Forestry activities continued to grow at a moderate pace (2 per cent) in line with their main trends throughout the 1960s, while fishing declined by 9 per cent, mainly due to the drop in shrimp yields. The movement of fishing grounds, over-fishing or a lack of suitable equipment may be the reasons why the volume of operations of fishing fleets has declined appreciably over the past three years (see table 135 again).

(b) *The industrial sector*

As a whole, the industrial sector—manufacturing, petroleum, mining, electric power and construction—grew at a satisfactory pace (7.5 per cent) during 1969, although at a less rapid rate than in 1968 and than the average for the 1960s (see table 135 again). The policy of protectionism continued to be the main growth-promoting agent in the manufacturing sector. The import substitution process has moved gradually from non-durable consumer goods to certain intermediate and capital goods and consumer durables. The production of the latter has been growing appreciably faster than industry as a whole and it has contributed—albeit on a modest scale as yet—to the increase in exports of manufactures.

Manufacturing grew at a rate of 7.8 per cent, which is somewhat lower than the average rate for the 1960s (8.5 per cent). There were also some notable changes in the performance of the various branches. The industries producing intermediate and capital goods grew faster than those producing traditional goods, although generally at a much slower rate than in 1968. The opposite occurred in the industries producing consumer goods. The relative decline in demand for intermediate and capital goods was due to the slow growth of investment; while demand for consumer goods was stimulated by the delayed effect of the injection of funds into the economy at the end of 1968 in connexion with the Olympic games.

The market for non-durable consumer goods expanded substantially, however, despite the rise in domestic prices. Production of foodstuffs, beverages, tobacco and clothing achieved the highest rates of growth recorded in the 1960s (around 7 per cent).[75]

The textile industry showed some recovery from the low level of activity in 1968 resulting from union disputes and United States restrictions on Mexican exports. Cotton textile production grew by 7 per cent, while that of artificial fibres grew by 14 per cent, partly as a result of modernization programmes which have resulted, *inter alia*, in a substantial increase in the total number of automatic looms installed in the industry. The effects of these programmes on costs and productivity are still marginal, however, since only slightly more than half of installed capacity is being used. Even so, exports of cotton thread, chiefly to the United States market, have shown a strong recovery.

Among the intermediate goods industries, the paper industry grew particularly rapidly (a 9 per cent increment in output) (see table 140). The expansion of installations and improved use of productive capacity have made it possible to replace virtually all paper imports, with the exception of newsprint. Pulp production grew at a similar pace, although not fast enough to curb the sharp rise in imports. The construction of a plant with a daily capacity of 140 tons in the state of Guerrero may help to close the gap between demand and domestic production.

With regard to fertilizers, import substitution policy,[76] the expansion of demand (chiefly from irrigated areas), and government investment in the industry account for the marked rise in the production of fertilizers (15 per cent), with exports increasing threefold. Another contributory factor was the establishment of a plant which began producing 1,500 tons of phosphate fertilizers daily, with the aim of achieving self-sufficiency and producing exportable surpluses, and also the establishment of installations to produce ammonia and ammonium sulphate and nitrate.

Generally speaking, the chemicals industry continued to grow rapidly. Its rate of growth in 1969 was 14.3 per cent, mainly attributable

[75] It was even necessary to import some complementary items, for example, certain types of milk.

[76] For the first time imports were reduced in absolute terms, despite the substantial increase in demand.

Table 140. Mexico: gross domestic product of the manufacturing industry, 1966–1969

	Millions of pesos at 1960 prices				*Average annual growth rates (percentages)*		
	1966	*1967*	*1968*	*1969*	*1960–67*	*1968*	*1969*
Total	*46,284*	*51,208*	*55,658*	*59,977*	*8.5*	*8.7*	*7.8*
Foodstuffs, beverages and tobacco	15,210	16,237	16,986	18,155	6.2	4.6	6.9
Textiles	4,014	4,034	4,239	4,555	5.8	5.1	7.5
Footwear and clothing	3,370	3,550	3,726	4,045	6.1	5.0	8.6
Wood and cork products	1,207	1,289	1,331	1,365	5.3	3.3	2.6
Paper and paper products	1,501	1,617	1,808	1,967	11.8	11.8	8.8
Printing, publishing and associated activities	1,153	1,175	1,293	1,438	7.4	10.0	11.2
Leather and leather products	474	567	595	604	6.2	4.9	1.5
Rubber products	1,101	1,192	1,292	1,419	10.6	8.4	9.8
Chemicals	678	744	817	934	10.4	9.8	14.3
Non-metallic ores	2,018	2,262	2,550	2,812	9.7	12.7	10.3
Iron and steel	3,218	3,427	3,815	4,022	9.8	11.3	5.4
Machinery	4,329	4,016	4,648	4,813	15.6	15.7	3.6
Transport equipment	2,889	3,158	3,600	4,005	15.1	14.0	11.3
Other industries	5,122	7,940	8,958	9,843	10.6	12.8	9.9

SOURCE: Banco de México, S.A.

to increased production of sulphuric acid and caustic soda in the industrial complexes producing fertilizers. Another factor was the continued progress of the petrochemicals industry, which raised its output of benzene, toluene and methanol. Moreover, certain installations are nearing completion[77] and the future growth of the industry seems to be assured by the approval of seventeen projects (representing an investment of some 340 million dollars), including plants to produce triethanolamine, aliphatic amines, polyesters and plastifiers.

The iron and steel industry virtually halved the high rate of growth prevailing during the 1960s (10 per cent) (see table 140 again). This was the result of the decline in capital formation and pressure on costs, culminating in the approval of an 8 per cent increase in the price of steel. Steel ingot production totalled 3.4 million tons, 4.4 per cent higher than in 1968. Although rolled-steel production increased by 7 per cent, it was affected by the fire in one of the main plants (Altos Hornos) which was paralysed for almost two months. Nevertheless, production capacity continued to expand significantly in 1969, and a number of new projects[78] were under study, including the establishment of a semi-public enterprise to exploit the iron ore deposits at Las Truchas and the installation of a steelworks with an estimated capacity of 1 million tons.

Output of vehicles and transport equipment continued to grow at a very fast rate (13 per cent), although at a slower pace than in the period 1967–1968. The main reasons for this were probably the less favourable trends of demand and high costs and prices which limited the size of the market.

As a result of improved use of installed capacity and the completion of two new furnaces, with a daily capacity of 2,000 and 500 tons respectively, cement production grew by almost 10 per cent in 1969. The growth of supply was mainly attributable to increased demand from public works,[79] since the rate of growth of private building fell. However, precisely for the same reasons, the construction industry grew by 7.5 per cent, which compares unfavourably with the figure for 1968 (8.6 per cent) (see table 135 again).

For the second year in succession, mining amply overcame the stagnation that had been evident since the 1950s, with the production index rising by 5 per cent. Favourable domestic demand and possibly favourable world prices promoted appreciable growth in the production of silver (7.5 per cent), copper (18 per cent), manganese (12 per cent) and arsenic (7 per cent). There was also an increase in the production of ores for construction materials. On the

[77] Plants to process or produce sulphur (20,000 tons annually); ethylbenzene (39,500 tons annually); and ethylene (182,000 tons annually); and the expansion of plants producing polyethylene (51,000 additional tons).

[78] The following projects were completed: an oxygen plant (200 tons daily capacity) to supply the Altos Hornos plant at Monclova; a pelletizing plant with an annual capacity of 1.1 million tons; expansion of the Hylsa plant at Monterrey through the installation of a continuous rolling process with an annual capacity of 750,000 tons; and expansion of the Durango iron alloy plant to an annual capacity of 170,000 tons.

[79] The main projects promoting cement production and the growth of construction included the public transport system in Mexico City (Metro), the construction of hotels and a number of infrastructure projects.

other hand, lead, iron ore and coal had supply problems. Coal production, in particular, suffered a marked decline (3.2 per cent), attributable to the falling-off of production at the Palau mines and the accident that paralysed the Barroterán mines in Coahuila state for three months. Special mention must be made of the decline in sulphur production (some 1.4 per cent less than in 1968), attributable to the drop in world prices and policies designed to prevent over-working of non-renewable natural resources.

Petroleum production did not perform as well as in 1968, with the growth rate falling to below 5 per cent. This was due to the weakening of demand for gasoline, petroleum, gas and fuels (affected by the use of cheaper sources of energy), and the accident that paralysed the refinery at Ciudad Madero. Worthy of mention in this connexion is the recent cancellation of the exploration licences granted to foreign enterprises, which leaves PEMEX in complete control of the productive process.

The comprehensive programmes for electric power generation and distribution amply covered the rapid rise in demand in urban areas and made it possible to provide improved service to rural areas. Power generation increased by 10 per cent and installed capacity by 8.2 per cent. In addition, marked progress was made in interconnecting distribution systems with the main hydroelectric systems—chiefly the Malpaso system[80]—and in the incorporation and consolidation of electricity companies and systems within the Federal Electricity Commission (Comisión Federal de Electricidad). One of the most important projects under study is the standardization of cycles throughout the country.

3. The external sector and the balance of payments

The vigorous growth of exports and tourism in 1969, combined with the slow growth in imports, held down the deficit on current account —which almost doubled between 1966 and 1968—to a figure of slightly more than 700 million dollars (see table 141).

Deficits in respect of goods and services account for approximately 18 per cent of the balance-of-payments gap, while the remainder is attributable to external factor payments which have doubled between 1963 and 1969. Although the growth of merchandise exports has not been entirely satisfactory in recent years and is largely dependent on the performance of commodities, while at the same time import substitution is becoming increasingly difficult, the main weak spot in the balance of payments is the rapid growth of the foreign debt.

Owing to its sustained growth and monetary and exchange stability, Mexico has so far been able to attract large amounts of foreign capital. Between 1967 and 1969, loans—a large part of which went to the public sector—averaged 850 million dollars annually, while direct investment fluctuated between 130 and 250 million dollars (see table 141).

This is the result both of a structural trade gap and of the need for an increasing amount of external credit to finance public sector investment, given the inelasticity of domestic sources of funds. The pressure generated by financial amortization and interest payments will in all probability require further borrowing on a large scale, unless it proves possible to increase public saving and expand export markets.

Exports of goods grew by 13 per cent, at current prices, a higher rate than in 1968 despite the atmosphere of uncertainty surrounding exports of textiles, tomatoes, coffee and other products. The main reason was the increase in the volume of exports, since the unit value index improved only very slightly (1 per cent). Exports of agricultural commodities were benefited by the excellent 1968/69 harvest and in some cases by favourable prices.

The volume of cotton exports rose by 24 per cent, amply compensating for the slight decline in prices. Exports of tomatoes and melons also grew extremely rapidly (by 13 and 35 per cent respectively). Exports of surpluses of wheat (275,000 tons), maize (805,000 tons) and beans yielded receipts of over 60 million dollars, compared with 55 million in 1968. Exports of henequen and sorghum, however, declined, although they had comparatively less impact on the total export figures.

Commodity exports grew considerably, attaining a value of approximately 1,100 million dollars. Livestock exports increased by 14 per cent and meat exports by 16 per cent. A large proportion of these increases, however, were due to temporary factors rather than to a genuine increase in supply capacity. The drought affecting large areas in the north of the country prompted increases in the slaughtering rate and exports in an attempt to reduce livestock losses to the minimum. Fisheries exports continued to decline. As in previous years, the volume of shrimp exports again fell (by 8 per

[80] During 1969 the third and fourth units entered into operation, providing an additional installed generating capacity of 360,000 kW.

Table 141. Mexico: balance of payments, 1966–1969
(*Millions of dollars*)

	1966	1967	1968	1969[a]
Current account				
Exports of goods and services	2,103	2,149	2,447	2,703
Goods (f.o.b.)	1,199	1,145	1,258	1,421
Services	904	1,004	1,189	1,282
Tourism	328	362	429	476
Border transactions	521	596	713	756
Other	55	46	47	50
Imports of goods and services	−2,121	−2,328	−2,648	−2,835
Goods (c.i.f.)	−1,619	−1,767	−1,968	−2,060
Services	−502	−561	−680	−775
Tourism	−135	−162	−207	−260
Border transactions	−332	−364	−437	−465
Other	−35	−35	−36	−50
Net foreign investment servicing	−373	−469	−551	−610
Direct investment	−250	−322	−368	−390.0
Other	−123	−147	−183	−220.0
Net private transfer payments	−5	1	13	10
Balance on current account	−396	−647	−739	−732
Capital account				
Net external financing	396	647	739	732
Non-compensatory capital	460	732	529	493
Direct investment	186	130	227	250
Loans	141	319	287	300
Inflows	627	779	860	900
Amortization payments	−486	−460	−572	−600
Other long-term capital	18	60	30	90
Short-term liabilities	117	227	−15	−150
Official transfer payments	−2	−4	—	3
Non-compensatory domestic capital and assets	71	−88	−261	172
Long-term	−27	14	2	19
Short-term	98	−102	−263	153
Errors and omissions	−153	87	542	77
Compensatory capital movements (increase—)	18	−84	−71	−10
External capital	−12	−13	−38	16
International Monetary Fund position	−32	−9	−38	21
Other	20	−4	—	−5
Gold and foreign exchange (increase—)	30	−71	−33	−26

SOURCE: IMF, Banco de México S.A., and ECLA estimates.
[a] Estimates.

cent) because of the contraction and movement of fishing grounds (see table 142).

Exports of manufactures continued to thrive. For example, in trade with ALALC countries —mainly manufactures—exports rose by 30 per cent and imports by 20 per cent, giving a favourable trade balance of 29.5 million dollars, with the share of ALALC trade rising from 2 to 2.4 per cent in 1969 (see table 143). In addition to the natural advantages favouring trade with the rest of Latin America, the Government intends to expand and diversify foreign markets and for this purpose is intensifying its export promotion and support programmes and taking measures to make domestic production more competitive by reducing tariff protections, establishing quality control procedures, and introducing drawback or export quota systems for selected assembly plants importing parts and components.

Exports of mining products generally followed the trends of earlier years. The limits of supply and the growth of domestic demand reduced the possibilities of increasing exports for the most part, despite favourable prices. Hence, exports of zinc, crude petroleum, sulphur and natural gas remained constant or declined compared with 1968; the only exports to increase were common salt, calcium fluoride and copper (see table 142).

Revenue from tourism within the country rose by more than 10 per cent, despite the abnormally high figures recorded in 1968, as a result of the Olympic games. The development

Table 142. Mexico: major exports, 1966–1969
(Millions of dollars)

	1966	1967	1968	1969[a]
Total commodity exports	*1,199.0*	*1,152.0*	*1,258.0*	*1,421.0*
Raw cotton	221.9	143.6	170.3	194.7
Green coffee	83.5	60.2	77.4	82.7
Tomatoes	62.9	49.6	57.6	76.0
Melons	13.7	12.6	9.1	12.7
Leaf tobacco	6.2	5.5	4.6	8.6
Beans		8.0	8.4	5.0
Maize	46.7	72.6	46.5	43.6
Wheat	3.9	12.6	—	11.8
Strawberries (sweetened and unsweetened)	17.8	15.4	15.1	22.9
Pineapple in syrup	5.9	4.1	5.1	5.0
Sugar	55.6	67.2	85.4	91.3
Cattle	42.3	38.0	56.7	64.5
Beef	26.1	20.4	33.5	38.7
Honey	5.0	4.7	4.7	5.3
Shrimps	53.5	61.4	49.6	45.6
Medicines	4.8	5.3	6.0	6.8
Printed books	7.4	11.3	11.9	13.6
Accessories for electrical installations	0.5	1.2	2.1	7.4
Parts for machinery	3.6	4.5	14.1	18.9
Crude petroleum	19.4	19.2	19.4	20.8
Fuel oil	9.1	10.4	5.9	27.8
Natural gas	8.4	8.9	8.1	8.0
Zinc	45.5	44.4	47.6	50.2
Lead	27.6	23.6	22.4	22.3
Copper	8.5	7.2	8.0	9.7
Sulphur	35.4	48.0	56.7	42.0
Common salt	4.6	7.3	8.3	10.0
Calcium fluoride	19.1	16.7	22.0	24.2
Mercury	6.5	4.7	5.6	12.8
Lead oxide	8.3	8.2	8.6	12.4
Henequen yarn and cord	14.2	12.6	8.8	10.2
Cotton yarn	13.5	5.3	5.5	7.0
Non-crystallizable syrups	9.2	14.5	10.5	12.4
Iron and steel pipes	8.7	6.6	9.4	11.0
Iron and steel sheets		7.3	11.7	15.3
Copper wire	1.0	—	1.4	6.9
Natural and synthetic hormones	16.4	17.2	16.7	18.7
Resin	3.3	3.9	3.7	6.0

SOURCE: Statistical Department and Banco de México S.A.
[a] Preliminary figures.

Table 143. Mexico: trade with the ALALC countries, 1963–1969
(Millions of dollars)

Year	Exports	Imports
1963	31.9	11.4
1964	45.8	19.0
1965	44.0	30.0
1966	64.3	34.7
1967	57.2	38.5
1968	62.2	42.8
1969[a]	80.8	51.3

SOURCE: Banco de México S.A.
[a] Preliminary estimate.

of tourism was stimulated by the establishment of special excursion rates for flights, which reduced the cost of air travel by some 30 per cent, and by an appreciable increase in the number of hotels in most of the country's tourist centres. Other factors had the reverse effect, for example Operation Intercept, which specially affected the flow of tourists visiting the northern border cities or using private cars as their main means of transport.

For the same reason, the net balance of border transactions grew more slowly than in the past. Revenue increased by barely 6 per

cent, as opposed to close to 19 per cent in 1968, while the percentage increase in expenditure was only less than half that of 1968.

As noted earlier, imports of goods in relative terms were severely reduced, with their growth rate falling from 11.4 to 4.7 per cent (see table 141). Measured in constant prices, imports of goods were virtually stationary. Generally speaking—and without discounting the effect of certain import restrictions—this was attributable to the slow pace of the economy and in particular its sluggish rate of capital formation.

A closer look at the behaviour of imports shows up the marked decline—even in absolute terms—of imports of capital goods and construction materials.[81] As was to be expected, imports of intermediate goods continued to expand, although at a slower pace than in 1968. In contrast, imports of consumer durables strengthened (4.5 per cent) and imports of non-durables increased for the third year in succession (see table 144).

The only item on the trade balance which continued to grow rapidly (26 per cent) was expenditure by national tourists abroad. Outflows of foreign exchange under this head totalled 260 million dollars, or the equivalent of about 9 per cent of total imports.[82] (See table 141.)

In order to finance the current account deficit, long-term loans were taken out for a value of some 900 million dollars, approximately a third of which was used to amortize debts contracted earlier. At the same time, the inflow of direct investment amounted to some 250 million dollars. In addition, recourse to domestic assets or capital helped to reduce the amount of short term liabilities.[83] While the net inflow of foreign capital fell compared with earlier years, the total capital inflow remained at roughly the 1968 level as a result of the return of non-compensatory domestic capital that helped to swell the international reserves.

The balance-of-payments prospects for 1970 do not appear very promising. Several significant agricultural exports may contract as a result of the unfavourable weather during the crop year 1969/70 which affected production levels. It may also happen that imports will increase substantially as capital formation regains momentum. Similarly, account will have to be taken of the influence of the increase in amortization and servicing payments on the external debt, and also of fairly sizable price increases. This is not to discount, however, the possibility that matters may be improved by certain compensatory factors, for example, an upsurge in foreign exchange revenue from tourism or exports of certain goods, or an increased inflow of foreign capital.

[81] Imports of capital goods for agriculture remained at the 1968 level while those for the transport sector declined; only imports of capital goods for industry remained in line with earlier trends (see table 144).

[82] In response to concern about the balance-of-payments position, studies are under way of measures to restrain excessive outflows of tourist foreign exchange, including the possibility of imposing special taxation.

[83] These comments might have to be modified to some extent if the amount given under errors and omissions could be broken down. In 1968, this item accounted for some 600 million dollars and therefore may hide underestimates of the flow of short-term capital or sizable movements of goods and services that were under-recorded.

Table 144. Mexico: imports of goods, 1960 and 1966–1969
(Millions of dollars at 1960 prices)

	1960	*1966*	*1967*	*1968*	*1969*
Total	*1,192*	*1,329*	*1,412*	*1,597*	*1,684*
Non-durable consumer goods	74	57	63	68	69
Durable consumer goods	83	87	78	88	92
Fuels and lubricants	47	43	47	50	54
Raw materials and intermediate goods for agriculture	41	33	31	44	47
Raw materials and intermediate goods for industry	439	673	696	782	847
Construction materials	22	16	22	26	19
Capital goods for agriculture	26	39	35	38	38
Capital goods for industry	344	314	351	382	420
Capital goods for transport	108	65	86	118	96
Other goods, and adjustments	8	2	3	1	2

SOURCE: ECLA, on the basis of official statistics.

Nicaragua

1. Recent economic trends

In 1969, Nicaragua's economic growth rate was 3.3 per cent; thus the trend—begun in 1966—towards relatively low increments in the level of economic activity was maintained. The domestic product grew by 4.2 per cent annually during 1965–1969, compared with the rate of 8.1 per cent achieved in 1960–1965 (see table 145).

In contrast with 1966–1968, when the factors adversely affecting the country's economy were bad weather and the eruption of the Cerro Negro volcano, in 1969 it was economic factors, both external and internal, which conditioned the evolution of the principal economic variables.

During 1966–1968, in addition to the decline in export production caused by the above-mentioned natural phenomena, prices were low on the international markets, consequently, income from merchandise exports did not reach the 1965 level in either 1966 or 1967, although there was a slight recovery in the latter year, but they exceeded the 1965 level in 1968 only to contract in 1969. External financing also was conditioned by the irregular growth of exports and balance-of-payments pressures, though certain limitations stemming from the relative dearth of economic projects have held down the volume of financing and investment. The stagnation or decline of exports could not, therefore, be offset by capital transfers, so that it was necessary to draw on reserves and ask for stand-by credit from the IMF.

In recent years, government policy has been chiefly concerned with the balance-of-payments deficits. Much attention has also been devoted to improving the government finances, which had been gradually dwindling. While State responsibility and expenditure had increased, the tax system had shown a marked inability to yield revenue. The situation was further aggravated by a fall in the economic growth rate and by the need to adopt credit and tariff restrictions, which in recent years have led first to a levelling off and then to a decline in tax revenue that could not be offset by the efforts to improve tax collection.

The unusual size of the 1967 budget deficit made it necessary to adopt more drastic measures. Although there was a certain improvement in government income following the adoption of the San José Protocol, the continuing shortage of resources forced the fiscal authorities to adopt a series of measures to restrict public expenditure and thus alleviate the above-mentioned deficits.

The reduction of the trade and budget deficits inevitably restricted economic activity. The contraction of public expenditure basically affected investment, while there were slight increases in current spending. Central Government investment, for instance, was limited during 1967 and 1968 to the completion of certain infrastructural works which had already been begun, and more ambitious plans were postponed.

Thus, the expenditure of autonomous State institutions came to play a compensatory role, with such institutions taking an active part in large-scale investment projects to produce goods to supply the Central American Common Market and for export to the rest of the world. Some of these projects have begun operating commercially and others will soon be doing so. By means of such industrialization projects, it is hoped to give greater impetus to the economy and at the same time substantially remedy external imbalances, especially in trade with the other members of the Common Market. In 1969, some of the plants installed under these projects had already begun to counteract the effects of the factors which had been limiting economic activity and affecting the balance of payments.

However, the most significant feature of 1969 was the failure of exports to continue their upward trend. For part of the year coffee prices remained low and although Nicaragua sold more, its quotas were not large enough to enable it to increase the value of its total sales; the drop in the price of cotton, Nicaragua's principal export, had an even greater impact.

Consequently, the area under cotton was reduced and production was also affected by increases in costs and by the amortization of losses incurred in earlier years. The recession in the cotton sector affected agricultural production as a whole, which declined by about 1.5 per cent between 1968 and 1969.

Similarly, prospects in the external sector largely determined short-term government policy. The restrictive measures adopted earlier were maintained, and new restrictions were imposed which reduced imports even further and held consumption practically stationary.

Purchases on the international markets, measured at constant prices, fell by 5.8 per cent, the greatest reduction occurring in purchases of consumer goods. Imports from the other Central American countries were also affected, and from the first quarter of 1969

Table 145. Nicaragua: total supply and demand for selected years, 1960–1969

	Millions of córdobas at 1960 prices				*Structure (percentages)*				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*3,090.1*	*5,035.6*	*5,684.5*	*5,733.9*	*124.8*	*137.6*	*136.3*	*133.1*	*10.3*	*4.1*	*0.9*
Gross domestic product	2,476.2	3,659.4	4,169.7	4,307.3	100.0	100.0	100.0	100.0	8.1	4.4	3.3
Imports of goods and services	613.9	1,376.2	1,514.8	1,426.6	24.8	37.6	36.3	33.1	17.5	3.3	−5.8
Total demand	*3,090.1*	*5,035.6*	*5,684.5*	*5,733.9*	*124.8*	*137.6*	*136.3*	*133.1*	*10.3*	*4.1*	*0.9*
Exports of goods and services	554.4	1,108.1	1,220.8	1,173.2	22.4	30.3	29.3	27.2	14.9	3.3	−3.9
Total investment	*337.2*	*754.4*	*791.0*	*810.6*	*13.6*	*20.6*	*19.0*	*18.8*	*17.5*	*1.6*	*2.5*
Gross fixed investment	337.2	670.3	695.3	713.4	13.6	18.3	16.7	16.6	14.7	1.2	2.6
Private	260.8	548.7	567.2	574.2	10.5	15.0	13.6	13.6	16.0	1.1	1.2
Public	76.4	121.6	128.1	139.2	3.1	3.3	3.1	3.0	9.8	1.8	8.7
Total consumption	*2,198.5*	*3,173.1*	*3,672.7*	*3,750.1*	*88.8*	*86.7*	*88.1*	*87.1*	*7.6*	*5.0*	*2.1*
General government	210.0	309.9	411.2	404.6	8.5	8.5	9.9	9.4	8.1	9.9	−1.6
Private	1,988.5	2,863.2	3,261.5	3,345.5	80.3	78.2	78.2	77.7	7.6	4.4	2.6

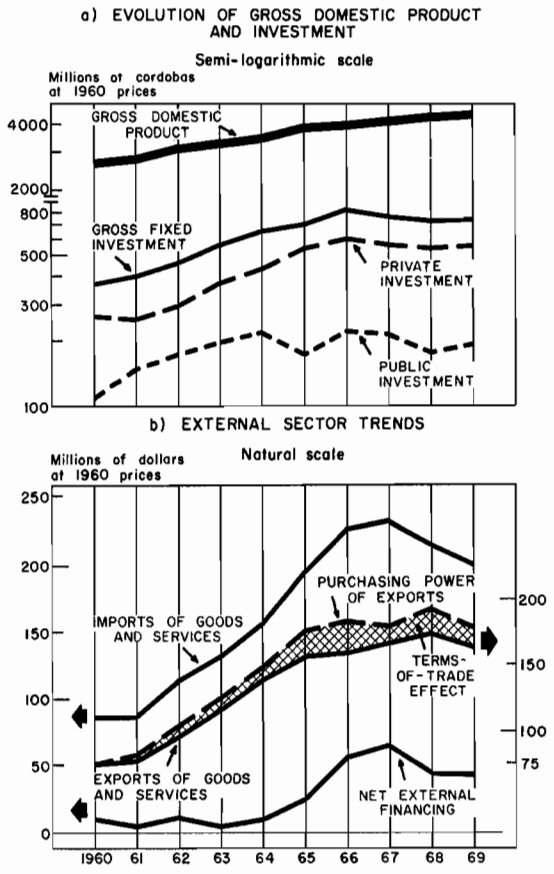
SOURCE: For 1960–1968, ECLA, on the basis of data supplied by the Banco Central de Nicaragua; for 1969, ECLA estimates.

were made subject to an import duty which was later changed to a tax on consumption.

Of the components of total demand, investment showed a slight increase, though it remained below the 1966 level. The principal stimulus came from the recovery of public investment, with the initiation of new infrastructural works and the continuation of projects promoted by various semi-government agencies with the help of private investment. Private investment did not rise above the levels of previous years, since the growth of the construction and manufacturing sectors was offset by the decline in the rate of capital formation in the agricultural sector (see figure XIX).

Consumption reflected the slow growth of the economy and the Government's restrictive economic policy. General government consumption expenditure declined by 1.6 per cent, and private consumption rose by 2.6 per cent, less the rate of population growth.

Figure XIX. Nicaragua: 1960–69



2. Major sectors of activity

As noted above, agricultural production decreased by about 1.5 per cent. The reduction of the area under cotton caused a decline of about 15 per cent in the production of cotton fibres. This was partly absorbed by the increased production of other export products, which benefited from favourable conditions. The supply of articles for domestic consumption barely reached the levels of previous years (see table 146).

Both external and internal factors influenced cotton production. Externally, the low prices on the international market were the major factor which discouraged producers; internally, there was a rise in costs due to pest control measures, the rise in the price of locally produced insecticides, and the upswing in land values (owing to the boom in real estate during the early 1960s). To this must be added the

Table 146. Nicaragua: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	37.2	33.2	29.2	27.9	5.7	−0.1	−1.5
Mining	2.2	1.9	1.4	1.4	4.1	−4.6	1.5
Manufacturing	10.9	11.4	13.5	14.4	9.1	10.3	10.2
Construction	4.7	3.0	3.0	3.2	−1.5	4.1	10.4
Subtotal goods	*55.0*	*49.5*	*47.1*	*46.9*	*5.8*	*2.6*	*2.7*
Electricity, gas and water	1.4	2.0	3.0	3.3	16.0	19.0	12.6
Transport and communications	5.3	4.9	4.8	4.8	6.3	3.6	3.8
Subtotal basic services	*6.7*	*6.9*	*7.8*	*8.1*	*8.7*	*8.6*	*7.2*
Commerce and finance	19.9	21.6	21.5	21.7	9.9	4.2	4.0
Government	6.5	6.5	8.4	8.2	8.3	13.6	0.2
Miscellaneous services	11.9	15.5	15.2	15.1	14.1	3.4	2.5
Subtotal other services	*38.3*	*43.6*	*45.1*	*45.0*	*10.2*	*5.4*	*2.8*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*8.1*	*4.4*	*3.3*

SOURCE: 1960–1968, ECLA, on the basis of data supplied by the Banco Central de Nicaragua; 1969, ECLA estimates.

financial difficulties faced by cotton producers as a result of losses in previous years and the necessity of paying back the loans then contracted. These factors explain why the area under cultivation declined by about 20 per cent, with a corresponding reduction in production levels.

The chances of a rapid recovery of the cotton sector in the near future appear remote. The slight increases in world prices have been offset by the growing use of synthetic fibres, the export subsidies of the industrialized countries and the greater growth of world supply compared with demand, to say nothing of the fact that the new techniques adopted in Japan—the chief market for Nicaragua's cotton—now call for a longer fibre than Nicaragua now produces.

The coffee crop grew by about 22 per cent compared with the previous year, thanks to the National Coffee Programme initiated in 1966, which aims, *inter alia*, at improving yields and reducing the area under cultivation. It is proposed not to sow coffee on land which is not very suitable for cultivation or which could be more profitably used in other ways, and at the same time to carry out campaigns in favour of applying improved techniques and using higher yielding varieties of coffee, and to open credit lines.

Livestock production increased by about 4 per cent. The national development, credit and technical assistance programmes, combined with an abundance of natural resources, will surely favour substantial growth in the livestock industry; to date, limited domestic demand and the absence of a diversified market have made modern commercial production almost exclusively dependent on export quotas to the United States, where restrictions have been growing over the last two years. In the short term, the Common Market could become the principal stimulus to growth, particularly if the regional demand for dairy products is turned to good account.[84]

Fishing is another activity where growth prospects are good and which has increased in importance in recent years. This sector expanded considerably between 1968 and 1969 (20 per cent), as a result of intensified exploitation of species such as shrimp and lobsters on the Pacific coast.

The remainder of the export diversification and promotion programmes, the most important of which are for the production and marketing of bananas and tobacco, have not had much effect on the balance of payments so far.[85]

Agricultural production to meet domestic consumption needs remained at levels similar to those of the previous year. The increase in the supply of rice and maize was slightly higher than the population growth rate; production of cotton seed and beans declined while that of sesame, sugar-cane, and sorghum remained at the same level as in the previous crop year.

On the other hand, a series of specific investment projects in the manufacturing sector and the establishment of new production plants caused the over-all value of industrial production to rise by about 10 per cent (see table 146). The soda chlorine plant which began operating at the end of 1967 with the production of insecticides, continued to raise its level of production, and it is estimated that regional demand will have to increase if accumulated stocks are to be reduced. The plant producing polyvinyl chloride (PVC), which began operating commercially in 1968, has a productive capacity of 7,000 metric tons of resin, destined for the Central American market.

On the Atlantic coast, a start was made on production of colophony (13,000 tons), pine oil (1,500 tons) and turpentine (2 million litres). Investment amounts to 3.5 million dollars, and it is hoped that exports will reach 3 million dollars annually, estimating that about two thirds of sales will be directed to the Common Market countries or to other importing countries.

The powdered milk plant began operating on an experimental basis, with an investment of 2 million dollars; it is expected to produce 2,300 tons annually for an approximate value of 3.5 million dollars. More than 85 per cent of the volume produced is intended for export to the Central American market.

Despite the levelling off of private consumption, production of some traditional manufactures—food-stuffs, textiles and clothing—increased considerably owing, to some extent, to the intensification of the import substitution process which was favoured, in regard to supplies from the rest of Central America, by the obstacles to the growth of regional trade.

The recovery of the construction industry went a long way towards preventing a major contraction of the over-all growth rate of the

[84] In 1970, a powdered milk plant will begin operating at the regional level.

[85] It is hoped that banana exports will increase in the near future, with the help of one of the largest foreign firms specializing in technical assistance, financing and marketing.

economy. The recovery was due to the implementation of public works, mainly electrification and highway construction; there was also a resurgence of private investment in buildings and dwellings.

3. The external sector and the balance of payments

The unfavourable conditions affecting cotton and coffee exports were not offset by other exports, and total foreign sales declined by about 6 per cent. In the light of the danger of too much pressure building up on international reserves, the Government decided to continue applying import restrictions, which, together with the lower growth rate of the economy, explain the falling off in imports (see table 147).

Cotton prices were on average 7 per cent less than in 1968. This fall was determined by the increase in world production of similar fibres and by the marked preference of the Japanese textile industry for longer fibres than those exported by Nicaragua. Apart from the price situation, there was a decline in the 1968/69 harvest. Consequently, the value of cotton exports fell by 16 per cent (see table 147).

Coffee exports were conditioned by a variety of factors. In the first place, the supply surpluses and the decline in prices for Mexican and Central American coffee in 1967 and 1968 led to a reduction in the quotas assigned to the countries of the region. The new quotas were in force until September 1969, when the shortfalls of certain producing countries led to a recovery of international prices, the positive effects of which will be reflected mainly in 1970 exports. In 1969, despite the rise in prices and the increase in the volume of exports during the last three months of the year, taking the year as a whole, there was a 7 per cent decline in coffee exports (see table 147).

Other exports were generally favoured. Meat sales increased by 19 per cent, because of the rise in prices and the increase in the volume exported; however, quotas and agreements on the United States market limited the potential expansion of Nicaragua export production. There were no great changes in sugar prices, but the total value of exports increased by 27 per cent, since Nicaragua was assigned part of the United States quota which had not been filled by other countries. The fall in cotton exports was partially offset by exports of shrimp to a value of approximately 7 million dollars.

As has already been mentioned, imports were affected by the economic recession and by the restrictive measures which had entered into force in previous years, and also by the regional agreements protecting the balance of payments. There was a considerable decline in purchases of certain consumer goods, such as food-stuffs (35 per cent) and motor vehicles and spare parts (25 per cent). Imports of chemical and pharmaceutical products fell by a similar amount, though this was due to the replacement of imports by, *inter alia*, nationally produced insecticides, fungicides and disinfectants.

On the other hand, imports of machinery

Table 147. Nicaragua: value, quantum and unit value index of main exports, 1965–1969

							Annual growth rates (percentages)		
	1965	*1966*	*1967*	*1968*	*1969[a]*	*1966*	*1967*	*1968*	*1969*
				Millions of dollars					
Cotton	66.1	56.8	56.0	59.7	50.0	−14.1	−1.4	6.6	−16.3
Coffee	26.4	21.8	21.1	22.6	21.0	−17.5	−3.2	7.1	−7.1
Fresh meat	6.7	10.2	12.5	15.9	19.0	52.2	22.5	27.2	19.4
Sugar	5.5	2.1	5.9	5.5	7.0	−61.8	180.9	−6.8	27.3
				Millions of dollars at 1960 prices					
Cotton	67.1	59.7	58.9	56.2	50.7	−11.0	−1.3	−4.7	−9.8
Coffee	24.9	20.5	22.8	25.1	23.6	−17.7	11.2	10.3	−6.2
Fresh meat	6.3	8.5	9.8	11.5	13.5	36.2	14.9	17.7	17.3
Sugar	4.5	1.7	4.6	4.1	5.3	−62.1	170.0	−9.5	28.1
				Unit value index (1960 = 100)					
Cotton	98.6	95.1	95.0	106.2	98.6	−3.5	−0.1	11.8	−7.2
Coffee	105.9	106.2	92.6	90.2	89.0	0.3	−12.8	−2.6	−1.3
Fresh meat	106.6	119.7	127.6	138.1	140.4	12.3	6.6	8.2	1.7
Sugar	123.2	126.2	129.9	131.7	131.8	2.4	2.9	1.4	0.1

SOURCE: ECLA, on the basis of official statistics.
[a] Preliminary figures.

grew by about 20 per cent, owing to new investment in infrastructure and other projects currently under way.

Trade with the other members of the Central American Common Market was affected primarily by the conflict between Honduras and El Salvador, and also by the imposition of taxes on consumption which restricted the supply of goods of regional origin. Both these factors coincided with the entry into operation of several regional industrial plants, which had been installed mainly in order substantially to reduce Nicaragua's trade deficit with the rest of Central America.

It is to be hoped that the country's balance-of-payments position with the Common Market will continue to improve in the future, bearing in mind that imports may increase when consumption levels recover or rise, and that the regional manufacturing projects should stimulate the growth of exports, to say nothing of any progress that may be made in import substitution and the possibility of new production opportunities within the Common Market.

For the second successive year, foreign transactions showed a slight increase in the deficit on current account from 43.2 to 44.3 million dollars, reflecting the decline in exports in 1969. This was due both to the expansion of the trade deficit and to the levelling off of factor payments, which had grown at a spectacular rate between 1963 and 1968 (see table 148).

Movements on capital account in 1969, together with the strain on current account transactions led to a balance-of-payments deficit before compensation. Nevertheless, the diminution in net capital inflows may reflect the presence of certain administrative and technical obstacles to the preparation of projects qualifying for foreign financing. Accordingly, a small fraction of the deficit on current account (some 3.7 million dollars) had to be covered by drawing on foreign reserves.

4. Government finances and credit

The Government's tax and expenditure policy and its monetary and credit measures were aimed essentially at protecting the balance

Table 148. Nicaragua: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	79.2	171.8	182.5	192.9	183.1
Goods (f.o.b.)	63.9	149.2	148.0	161.0	151.3
Services	15.3	22.6	34.5	31.9	31.8
Imports of goods and services	−87.7	−188.7	−233.7	−214.3	205.7
Goods (f.o.b.)	−56.4	−133.9	−172.2	−165.2	155.5
Services	−31.3	−54.8	−61.5	−49.1	50.2
Net external investment income	−2.8	−12.8	−18.7	−24.7	−24.9
Net private transfer payments	0.2	2.3	2.7	2.9	3.2
Balance on current account	−11.1	−27.4	−67.2	−43.2	−44.3
Capital account					
Net external financing	11.1	27.4	67.2	43.2	44.3
Non-compensatory external financing	7.7	51.6	38.7	57.0	
Direct investment	1.7	8.2	14.5	16.4	
Long- and medium-term loans	2.3	14.8	22.4	34.5	
Amortization payments	−2.9	−4.2	−5.5	−7.9	
Short-term liabilities	3.9	28.6	4.2	10.6	40.6
Official transfer payments	2.7	4.2	3.1	3.4	
Non-compensatory domestic capital and assets	−0.9	2.2	5.3	−7.3	
Errors and omissions	0.2	−6.9	5.6	−5.2	
Compensatory movements (increase—)	4.1	−19.5	17.6	−1.3	3.7
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	4.0	0.4	—	19.8	14.4
Amortization payments	—	−1.7	−13.1	−0.1	−15.0
Gold and foreign exchange (increase—)	0.1	−18.2	30.7	−21.0	4.3

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

of payments and placing the public finances on sound footing.

As has already been pointed out, the restrictions on foreign spending led to a reduction of imports (6 per cent); since the goods concerned—consumer goods and vehicles, *inter alia*—were high-tariff articles, this reduction in turn led to a more than proportional drop (21 per cent) in revenue from import duties. Consequently, total revenue from traditional taxes fell by 5.5 per cent. For this reason, the Government was obliged to introduce measures to improve the system of tax collection and administration, to levy new taxes and to restrict non-essential spending (see table 149).

The slight increase in revenue from taxes on consumption (2.8 per cent) and direct taxes (4.5 per cent) helped to alleviate some of the more obvious pressures on government expenditures, but a reduction in State revenue in absolute terms could be avoided only by establishing "economic stabilization taxes" and by applying the provisions of the San José Protocol, which together brought in about 55 million córdobas.

Thanks to the partial recovery of Central Government income, the level of government spending recovered after the plunge of 1968, but it was necessary to have recourse to internal and—above all—external borrowing (75 per cent of total credits negotiated in 1969 were foreign loans).

The structure of government expenditure improved appreciably, if it is viewed in terms of the importance attached to the formation of basic social capital. While the increase in current expenditure was the lowest recorded in the last five-year period (1.9 per cent), capital expenditure rose from 124 to 156 million córdobas, and physical investment from 71 to 90 million[86] (see table 149).

There is no denying that much progress has been made towards eliminating the bottlenecks in government finances, but special attention must be paid to a number of essential points. One is the excessive dependence on taxes on foreign trade. Although the tax structure seems to have been modified and emphasis shifted from import duties to taxes on consumption, this is mainly due to the effect of special factors arising out of restrictions on foreign imports. If there is to be a more coherent and far-reaching policy regarding taxes and the balance of payments, the tax structure will have to be gradually changed so that it is based more on internal taxes, particularly direct taxes, than it is at present. At the same time, much could still be done to improve tax collection by means of administrative reforms, such as closer super-

[86] Most government investment went into the construction of highways, electrification works, sewerage and drinking water systems, and the building of schools.

Table 149. Nicaragua: Central Government income and expenditure, 1965–1969
(*Millions of córdobas*)

	1965	1966	1967	1968	1969[a]
Current income	*444.3*	*474.3*	*481.0*	*470.0*	*479.0*
Tax revenue	391.5	411.5	437.4	403.6	381.0
Direct taxes	83.8	95.5	106.4	95.7	100.0
Income tax	53.2	61.3	69.5	52.3	57.0
Other	30.6	34.2	36.9	43.4	43.0
Indirect taxes	307.7	316.0	331.0	307.8	281.0
On exports	6.8	9.8	10.3	4.7	4.0
On imports	169.2	161.2	152.5	126.8	100.0
On consumption	125.3	135.0	145.6	150.8	155.0
Other	6.4	10.0	22.6	25.6	22.0
Non-tax revenue	52.8	62.8	43.6	66.5	98.0
Total expenditure	*441.6*	*541.1*	*591.9*	*551.0*	*591.0*
Current expenditure	309.3	333.8	411.6	426.7	435.0
Wages and salaries	182.7	203.5	259.7	260.7	256.0
Goods and services	62.2	58.3	63.6	66.8	66.0
Transfer payments	49.8	50.7	71.8	80.4	93.0
Interest on the public debt	5.8	6.9	8.4	8.4	13.0
Other	8.8	14.4	8.1	10.4	7.0
Capital expenditure	132.3	207.3	180.3	124.3	156.0
Real investment	87.3	140.6	128.7	70.8	90.0
Other	45.0	66.7	51.6	53.5	76.0

SOURCE: Banco Central de Nicaragua.
[a] ECLA estimates based on official statistics.

vision of tax payments by the larger groups of taxpayers. Lastly, since it is impossible to remedy certain structural imbalances in the short term, it may be advisable to improve the technical and administrative methods used for the preparation of investment projects with a view not only to developing the economy but also to facilitating foreign investment.

Monetary and credit instruments and variables seem to have had little influence on the development of the economy. Generally speaking, the slowing down of economic growth and the depression in the agricultural sector have made them ineffective as means of channelling loans, directing investment or eliminating inflationary pressures. Bank loans grew by barely 3.5 per cent, less than in 1968. In fact, taking into account the ceilings on portfolio holdings, the supply of credit was more than enough to meet the real demand of the productive sectors. Although a 10 per cent limit was placed on new loans to industry, the actual amount of new credits did not exceed 3 per cent, and the same was true of loans to agriculture.

The financing of the trade sector is a special case. Bank loans increased by about 15 per cent, probably as a result of the increase in exports to the Common Market, or perhaps on account of trade with third countries, since the real growth of domestic commerce was only moderate in 1969, quite apart from the fact that its financing was subject to the restrictions on portfolio holdings.

The excess supply of loan funds was increased by changes in the composition of the banking system's liabilities. Partly as a result of the inducements to building up savings and time deposits, there was a large-scale transfer of resources from money to quasi-money deposits. Since the required cash ratio for money deposits is much higher (28 per cent as against 10 per cent), the credit capacity of the commercial banks increased considerably, while the liquidity ratio of the economy as a whole declined (see table 150).

This phenomenon, in conjunction with the unusual growth of international liabilities (as from 1965), may well have helped to eliminate short-term inflationary pressures and strengthen the potential range of action of the banking system, but it may also become a source of instability, for the situation described above might well permit an expansion of credit or a massive movement of funds over which the Central Bank has little control.[87]

[87] In 1969 measures were adopted to restrict the growth of international liabilities by fixing ceilings on loans contracted with foreign banks by government agencies or national financial institutions.

Table 150. Nicaragua: balance sheet for the commercial banks, 1963–1969
(Millions of córdobas)

	End-of-year balances						*September balance*	
	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1968*	*1969*
Assets	*614.3*	*767.8*	*976.6*	*1,253.1*	*1,393.6*	*1,510.8*	*1,403.7*	*1,500.8*
Cash in hand	30.3	34.0	34.0	38.8	41.2	43.4	33.2	41.0
Deposits and securities in the Central Bank	52.8	72.6	90.6	143.7	152.5	138.5	142.5	143.3
International assets	12.8	22.3	37.4	48.9	28.7	41.8	22.6	29.2
Internal credit	458.2	564.9	718.1	890.8	1,012.3	1,107.3	1,029.9	1,089.5
Sales	452.8	556.0	709.3	883.1	1,002.7	1,086.7	1,011.8	1,046.1
Government agencies	4.9	4.7	4.7	4.7	4.7	4.7	4.7	4.6
Private sector	447.9	551.3	704.6	878.4	998.0	1,082.0	1,007.1	1,041.4
Investments	5.3	8.9	8.9	7.7	9.6	20.6	18.1	43.4
Other assets	60.2	73.9	96.5	130.9	158.9	180.0	175.5	197.8
Liabilities	*614.3*	*767.7*	*976.6*	*1,253.1*	*1,393.6*	*1,510.8*	*1,403.7*	*1,500.8*
Monetary	220.2	274.9	339.4	337.9	318.3	299.0	293.1	291.3
Private sector	200.9	257.1	320.2	315.5	299.4	276.2	270.1	266.7
Government agencies	19.3	17.8	19.2	22.4	18.9	22.8	23.0	24.6
Non-monetary	51.5	82.7	127.8	182.8	217.7	241.7	235.2	248.5
Private sector	37.9	70.5	120.3	175.3	197.8	218.1	214.0	218.2
Government agencies	13.6	12.2	7.5	7.5	19.9	23.6	21.2	30.3
International liabilities	27.7	73.1	239.8	382.4	417.0	525.2	450.1	534.4
Central Bank debt	93.8	102.2	11.4	39.8	114.3	99.2	84.3	64.3
Capital and reserves	188.3	200.3	213.8	243.9	256.4	263.2	261.9	263.0
Other liabilities	32.8	34.5	44.4	66.3	69.9	82.3	79.1	99.4

SOURCE: Banco Central de Nicaragua.

Panama

1. General economic trends

In 1969, there was a resurgence of the trends in the Panamanian economy which had prevailed during a decade of dynamic expansion.

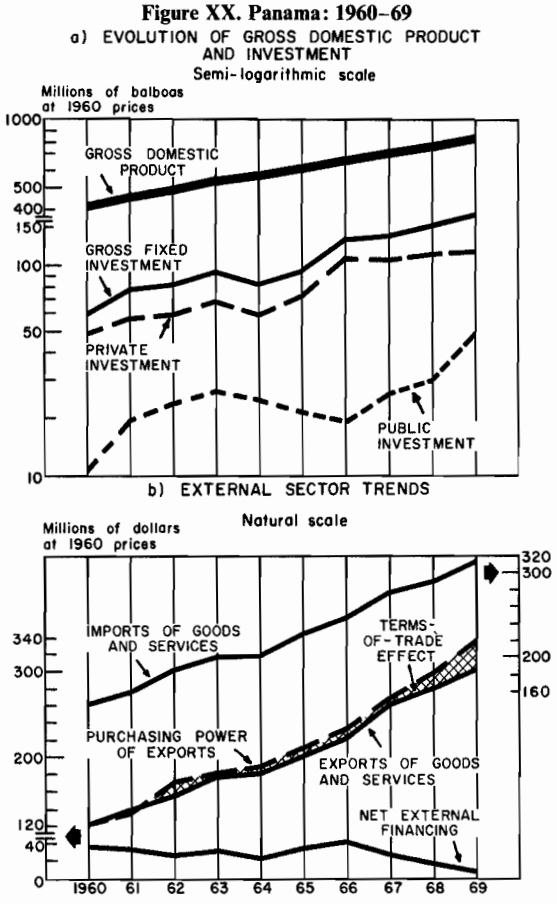
The gross domestic product grew by 8.6 per cent, which compares favourably with the figure of 7 per cent for 1968, although it should be pointed out that in the latter year economic activity was adversely affected by political developments and other unforeseen factors; several components of final demand grew at a slower tempo, which affected several branches of production and particularly the services sector.

The return to normality, combined with a substantial increase in government investment expenditure and a rapid rise in external demand were largely responsible for the higher growth rate of the domestic product. However, the government policy of incentives and the growth of demand did not meet with an immediate response from every sector of production; in some, supply expanded very little and in others investment continued to be limited by extra-economic factors (see tables 151 and 152 and figure XX).

Export of goods and services expanded rapidly (by 13 per cent at constant prices) but the principal sources of income were the increase in sales of only two products and some services. There was a boom in banana sales owing to favourable conditions on the world markets and the headway made in programmes of expansion, pest and disease control and the use of improved varieties, which had been encouraged since 1963. The expansion of oil-refining capacity (from 50,000 to 70,000 barrels a day) and in sales of petroleum products went a long way towards improving the balance-of-payments situation, and exports regained their 1966 levels after declining in the two subsequent years owing to the rise in domestic consumption and the inelasticity of supply. The growth of income from services continued to follow a favourable trend, particularly in respect of sales to the Canal Zone and tourism.

Central Government expenditure also grew considerably. Provisional estimates show an expenditure of more than 160 million balboas, well above the previous year's level of 138 million; measured at constant prices, government consumption and investment grew by 7 and 64 per cent respectively. The bulk of the additional expenditure was for capital formation, with the result that within a year, Central Government investment increased from about 12 million to 33 million balboas at current prices (see table 153). This notable increase in government activity, mainly aimed at the improvement of the country's infrastructure, is attributable to two convergent lines of policy; the intensification of work which had been partially suspended in the last quarter of 1968, financed from both domestic and external sources, and the "crash programme" aimed at reducing unemployment and counteracting the effects of the slow growth of private investment. This programme includes projects for highway maintenance and construction, street paving and repair, construction of sewerage systems, etc., the implementation and supervision of which were the direct responsibility of the public administration, which obtained funds for the purpose from external agencies.[88]

Figure XX. Panama: 1960–69



[88] The Government imported construction equipment to the value of 12 million dollars to increase the public administration's capacity to carry out public works; the work was financed by paying 15 per cent of the costs in 1969 and issuing 5-year promissory notes for the rest. In addition, the Banco Nacional obtained about 15 million dollars in the form of short- and medium-term loans from foreign banks and negotiated another 7.5 million with private banking institutions in the United States, to supplement the resources of the programme and for other works.

Table 151. Panama: total supply and demand for selected years, 1960–1969

	Millions of balboas at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*564.9*	*851.0*	*1,070.2*	*1,164.2*	*135.9*	*137.9*	*138.8*	*138.9*	*8.5*	*7.9*	*8.8*
Gross domestic produc	415.8	617.3	771.2	837.9	100.0	100.0	100.0	100.0	8.2	7.7	8.6
Imports of goods and s vices	149.1	233.7	299.9	326.3	35.9	37.9	38.8	38.9	9.4	8.6	9.1
Total demand	*564.9*	*851.0*	*1,070.2*	*1,164.2*	*135.9*	*137.9*	*138.8*	*138.9*	*8.5*	*7.9*	*8.8*
Exports of goods and sc vices	127.3	212.5	292.6	331.3	30.6	34.4	37.9	39.5	10.8	11.2	13.2
Total investment	*67.8*	*112.8*	*179.5*	*198.5*	*16.3*	*18.3*	*23.3*	*23.7*	*10.7*	*16.8*	*10.6*
Gross fixed investment	61.4	97.1	161.1	183.3	14.8	15.7	20.9	21.9	9.6	18.4	13.8
Public	12.0	21.7	30.8	50.4	2.9	3.5	4.0	6.0	12.6	12.4	63.6
Private	49.4	75.4	130.3	132.9	11.9	12.2	16.9	15.9	8.8	20.0	2.0
Total consumption	*369.8*	*525.7*	*598.1*	*634.4*	*88.9*	*85.2*	*77.6*	*75.7*	*7.3*	*4.4*	*6.1*
General government	46.9	67.0	88.7	95.0	11.3	10.9	11.5	11.3	7.4	9.8	7.1
Private	322.9	458.7	509.4	539.4	77.6	74.3	66.1	64.4	7.3	3.6	5.9

SOURCE: For 1960–1967, Statistics and Census Office, Office of the Controller; for 1968–1969, ECLA estimates based on data from the same source.

Table 152. Panama: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	24.9	23.1	21.5	21.0	1.1	5.2	6.0
Mining	0.3	0.3	0.3	0.6	9.1	7.3	104.8
Manufacturing	12.8	15.6	17.1	17.6	12.6	11.0	12.1
Construction	6.0	6.1	6.4	6.5	8.6	9.9	9.4
Subtotal goods	*44.0*	*45.1*	*45.3*	*45.7*	*8.8*	*7.9*	*9.4*
Electricity, gas and water	2.2	2.5	2.7	2.5	11.5	9.2	3.2
Transport and communications	4.9	5.7	6.0	6.3	11.4	10.0	13.7
Subtotal basic services	*7.1*	*8.2*	*8.7*	*8.8*	*11.4*	*9.8*	*10.5*
Commerce and finance	11.9	13.0	12.9	12.9	10.3	7.3	8.9
Government	3.0	2.8	3.0	3.0	6.6	10.7	8.9
Miscellaneous services[a]	34.0	30.9	30.1	29.6	6.3	6.6	6.8
Subtotal other services	*48.9*	*46.7*	*46.0*	*45.5*	*7.3*	*7.1*	*7.5*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*8.2*	*7.7*	*8.6*

SOURCE: For 1960–1967, Statistics and Census Office, Office of the Controller; for 1968 and 1969, ECLA estimates based on data from the same sources.

[a] Including services to the Canal Zone.

The increase in tax revenue also helped the Government to broaden its expenditure programmes. The improvement in the system of tax collection and the inspection and investigation of tax-payers largely explains the increase of 12 per cent in the Central Government's ordinary income. In addition, steps were taken to cut back current expenditure, which has been soaring in recent years,[89] with the result that savings on current account increased more than fourfold (from 4.2 to 17.1 million balboas between 1968 and 1969) and at the same time, the share of total expenditure devoted to fixed capital formation increased from less than 9 per cent to more than 20 per cent (see table 153).

There is no denying the enormous headway made in improving the structure of government expenditure, supervising tax collection and assigning a more active role to the State in the field of capital formation, but there are some points which must be given urgent attention if there is not to be a loss of impetus in the near future. For instance, more use should be made of foreign loans with lower interest rates and longer repayment periods, and some effort might even be made to consolidate the accumulated debt. According to rough estimates, amortization and interest payments on the accumulated debt will double in 1970. On the other hand, given the relative inflexibility of current expenditure and the lack of sources capable of supplying a rapidly increasing volume of external financing, large-scale tax reforms may be required to ensure the future expansion of savings and public investment. If such reforms are introduced, special attention should be given to a well-thought-out scheme of positive measures to reassure the private investor. Private investment rose by 2 per cent in 1969 to 133 million balboas at constant prices (see table 151).

[89] With this end in view, quite a large number of posts in the public administration were classified as superfluous and abolished, and stricter standards were established for the control and justification of public expenditure.

Table 153. Panama: Central Government current saving and capital expenditure, 1966–1969
(Millions of balboas)

	1966	*1967*	*1968*	*1969[a]*
Income	100.3	112.7	119.4	133.6
Expenditure	94.7	105.0	115.2	116.5
Current saving	5.6	7.7	4.2	17.1
Total capital expenditure	*19.4*	*24.4*	*22.3*	*44.5*
Fixed capital formation	11.1	15.1	11.8	33.0
Amortization of the public debt	5.8	6.5	7.5	8.5
Capital transfer payments	2.5	2.8	3.0	3.0

SOURCE: For 1966–1968, Statistics and Census Office, Office of the Controller; for 1969, ECLA estimates on the basis of official statistics.

[a] Estimates.

On the supply side, the agricultural sector expanded by 6 per cent in 1969, slightly more than the expansion recorded in the period 1965–1968. This was mainly attributable to increases in agricultural production for export, and in livestock and forestry production. In contrast, agricultural production for domestic consumption grew more slowly than the population, as did the fisheries sector.

Manufacturing production grew by 12 per cent during 1969, further strengthening the steady upward trend evident throughout the 1960s.

As a logical consequence of the broadening of the gap between domestic production and demand, imports of goods increased by slightly more than 9 per cent in value, and this was associated with changes in the composition of expenditure and other factors of similar importance. The large-scale imports of machinery, equipment and materials by the public sector helped to maintain the import coefficient at a high level, as did the increased output of petroleum products and the expansion of tourism, both of which require a high proportion of external inputs. It should be added that as a result of the climate of caution and uncertainty prevailing in 1968—which was reflected in fewer sales and the reduction of stocks—purchases of imports were deferred and these needs had to be met at a later date. From the financial point of view, too, circumstances changed considerably. In 1969, commercial and consumer credit, which had remained practically stagnant in the previous year, grew by around 34 per cent.[90]

2. The external sector and the balance of payments

Exports of goods and services followed a fairly satisfactory rising trend in 1969; their value increased by 15 per cent, mainly owing to the increase in sales of bananas (17.4 per cent) and petroleum products (31 per cent). Income from services also grew considerably, by about 14 per cent (see table 154).

In respect of exports, banana production completed its sixth year of rapid, uninterrupted growth, in response to investment programmes and the favourable prices prevailing on the

[90] The special importance of this type of credit in Panama can be seen from the fact that it represents about 60 per cent of total commercial bank loans.

Table 154. Panama: exports of goods and services,[a] 1966–1969
(Millions of balboas)

	1966	1967	1968[b]	1969[c]
Total	*266.1*	*298.5*	*327.9*	*376.8*
Goods	*103.3*	*119.2*	*116.6*	*136.5*
Bananas[d]	44.5	49.6	57.5	67.5
Cocoa[d]	0.4	0.4	0.4	0.4
Petroleum	25.9	22.9	18.9	24.8
Sugar	1.6	3.9	4.6	4.7
Shrimps	9.0	9.2	9.7	9.6
Fish-meal	1.4	1.1	1.0	0.3
Coffee	0.6	1.4	0.6	1.0
Livestock and meat	1.8	1.4	1.7	1.8
Other sales to the Canal Zone	12.0	13.4	16.2	18.4
Other goods and adjustments	6.1	5.9	6.0	8.0
Services	*162.8*	*189.3*	*211.3*	*240.3*
Travel	45.3	56.7	59.1	68.6
Canal Zone	20.5	30.7	33.9	37.6
Other countries	24.8	26.0	25.2	31.0
Transport (including sale of tickets)	15.9	19.6	26.3	31.5
Colon Free Zone	14.2	16.6	18.0	19.5
Other services to the Canal Zone	71.2	76.8	86.7	87.7
Wages and salaries	58.1	63.7	70.0	78.3
Other	13.1	13.1	16.7	19.4
Other services and adjustments	16.2	19.6	21.2	23.0

SOURCE: For 1966–1968, Statistics and Census Office, Office of the Controller General of the Republic; for 1969, ECLA estimates based on official statistics.

[a] These figures differ from those given in table 156 owing to differences in the adjustments made for balance-of-payments purposes.

[b] Preliminary figures.

[c] Estimates.

[d] Including adjustments due to revaluation.

world markets.[91] The increase—production reached 19 million stems—is attributable to the renewed cultivation of areas particularly suited to bananas which had been left partially unproductive because of various crop pests and diseases. The advances made in this field and the introduction of more resistant varieties contributed to the rehabilitation of the region of Almirante in Bocas del Toro province. The increase in the volume of petroleum products exported (about 35 per cent), on the other hand, really represents a partial recovery after two years of appreciable decline. Foreign sales (excluding sales to aircraft and ships in transit) had reached a record level of some 398 million gallons in 1966, but fell to 343 and 261 million gallons in 1967 and 1968 respectively, owing to the progressive expansion of the domestic market—which offers better prices—side by side with a close to optimum utilization of productive capacity. In 1969, as the work of expanding plant capacity advanced, the higher level of domestic consumption could be satisfied, and a surplus of some 350 million gallons was exported.

The country's purchasing power seems to have been strengthened by a considerable increase in capital inflows. Although full information on this aspect of the balance of payments is not available, the high level of government investment financed with foreign resources and the expansion of domestic credit facilities granted by the banking system point to a considerable inflow of funds from abroad. It should be pointed out, however, that there were significant changes in the sources of the inflows on capital account. In the first quarter of the year the flow of funds from credit arrangements with international agencies and other governments was interrupted, but the situation was stabilized later, and at the end of the year loans from these sources exceeded the 1968 figures; the additional resources came largely from private organizations.

The above-mentioned conditions helped to raise the level of imports of goods, which grew by 10 per cent. Capital and intermediate goods showed the most dynamic increases; the most important imports of the former were machinery and transport equipment, and of the latter, fuels (particularly crude petroleum), lubricants and chemical products. Generally speaking, there was little change in the trends of imports of consumer goods (see table 155).

Comparing Panama's total purchases and sales on world markets, there was a deficit of about 12 million dollars on current account, somewhat lower than the figure for previous years (see table 156). However, there seems to have been a sufficient inflow of foreign capital to cover the deficit on current transactions and to increase the foreign exchange reserves.

Everything seems to point to the fact that 1969 saw the end of the liquidity crisis which affected the official banks for much of 1968 and resulted in depositors transferring large sums to private institutions. While deposits were returning to a more stable level, the Government negotiated a new contingency loan with the International Monetary Fund to the value of 3.2 million dollars with a view to increasing the liquid reserves of the Banco Nacional and other government agencies. Although the financial difficulties of 1968, great as they were, apparently did not result in a flight of capital, they again demonstrated the economy's vulnerability in monetary and balance-of-payments matters, which is largely attributable to the lack of suitable instruments for government control.

[91] It is estimated that between 1960 and 1969 the unit value of bananas grew by about 25 per cent.

Table 155. Panama: imports of goods, 1966–1969
(*Percentage shares*)

	1966	*1967*	*1968*[a]	*1969*[b]
Total	*100.0*	*100.0*	*100.0*	*100.0*
Foodstuffs	8.6	8.1	8.1	7.4
Beverages and tobacco	0.9	0.9	1.0	0.9
Fuels and lubricants	21.8	20.4	21.5	21.8
Chemical products	8.9	9.1	9.7	9.7
Machinery and transport equipment	26.0	23.3	23.8	25.4
Miscellaneous manufactures	32.7	36.0	33.9	32.7
Other imports and adjustments	1.1	2.2	2.0	2.1

SOURCE: For 1966–1968, Statistics and Census Office, Office of the Controller; for 1969, ECLA estimates based on official statistics.
[a] Preliminary figures.
[b] Estimates.

Table 156. Panama: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	122.2	228.6	292.9	323.0	371.5
Goods (f.o.b.)	39.0	92.5	109.2	116.5	137.0
Services	83.2	136.1	183.7	206.5	234.5
Imports of goods and services	144.2	241.9	299.2	312.3	347.1
Goods (f.o.b.)	108.7	192.4	232.2	246.0	270.6
Services	55.5	49.5	67.0	66.3	76.5
Net external investment income	−10.4	−20.4	−22.8	−25.4	−30.0
Net private transfer payments	−5.3	−5.8	−7.0	−6.1	−6.0
Balance on current account	−37.7	−39.5	−36.1	−20.8	−11.6
Capital account					
Net external financing	37.7	39.5	36.1	20.8	...
Non-compensatory external financing	30.0	56.4	19.7	50.8	...
Direct investment	17.3	10.9	3.9	13.2	...
Long- and medium-term loans	7.8	16.7	14.9	15.4	...
Amortization payments	−2.5	−3.1	−4.5	−5.2	...
Short-term liabilities	1.3	22.2	−3.3	21.0	...
Official transfer payments	6.1	9.7	8.7	6.4	...
Non-compensatory domestic capital or assets	5.4	−20.8	17.9	−26.6	...
Errors and omissions	2.3	3.9	−1.5	−3.4	...
Compensatory movements (increase —)	—	—	—	—	...
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	2.7	—	—	...
Amortization payments	—	—	—	—	...
Gold and foreign exchange (increase —)	—	−2.7	—	—	...

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

3. MAJOR SECTORS OF ACTIVITY

Agricultural production expanded by 6 per cent in 1969, compared with 5.7 per cent in 1968, thus continuing to show the steady expansion recorded in the latter half of the 1960s, in contrast to the stagnation of the period 1960–1965 when the annual average rate of growth was 1.1 per cent.

The preliminary data available indicate that the main source of this expansion, as in recent years, was agricultural production for export, especially banana production which increased by 10.6 per cent. Agricultural production for domestic consumption, on the other hand, grew by barely 2.8 per cent, and the fisheries sector grew at a similar pace.

Production of rice, the country's staple crop, increased by barely 2.9 per cent, owing chiefly to higher yields, since the area under cultivation seems to have declined slightly. Production of beans, which had been declining in importance since the beginning of the 1950s—in 1951 the harvest was about 50 per cent larger than in 1969—again fell by a little more than 8 per cent (estimated). This is doubtless due to the fact that out-of-date farming methods are being used; that it is a secondary crop, grown with other crops; and that consumers prefer the imported varieties. The maize crop, on the other hand, recovered somewhat compared with the slight increase in output of the previous crop-year. A small rise in average productivity combined with the extension of the area sown to maize resulted in an expansion of production of about 4.2 per cent.

Production of sugar-cane and coffee, which had been expanding slowly for some years, showed an above average increase (4.7 and 3.3 per cent respectively). Since part of these crops is exported, there are additional incentives for their cultivation, besides the natural expansion of the domestic market (see table 157).

The stagnation of the fishing industry is due to the decline in the catch of shrimp and other marine products for export. Sales reached a peak in 1964 and since then have been fluctuating with a slight downward trend. There appear to be serious obstacles to increasing the volume

Table 157. Panama: gross value of agricultural production, 1967–1969

	Thousands of balboas at 1960 prices			*Annual growth rates*	
	1967	*1968*[a]	*1969*[b]	*1968*	*1969*
Total	*179,835*	*190,170*	*201,500*	*5.7*	*6.0*
For domestic consumption	131,222	137,450	144,000	4.7	4.8
For export	48,613	52,720	57,500	8.4	9.1
Agriculture	111,684	117,883	124,800	5.6	5.9
For domestic consumption	69,671	71,683	73,700	2.9	2.8
Rice	10,947	11,076	11,400	1.2	2.9
Maize	3,949	4,029	4,200	2.0	4.2
Beans	1,373	1,418	1,300	3.3	−8.3
Sugar-cane	4,903	5,063	5,300	3.3	4.7
Coffee	3,870	4,067	4,200	5.1	3.3
Tobacco	529	529	600	—	13.4
Tomatoes	2,409	3,827	4,000	12.3	4.5
Other	40,691	41,674	42,700	2.4	2.5
For export	42,013	46,200	51,100	10.0	10.6
Bananas	41,652	45,752	50,600	9.8	10.6
Other	361	448	500	24.1	11.6
Livestock	40,005	43,205	46,700	8.0	8.1
Beef	14,688	15,058	16,000	2.5	6.3
Pork	2,370	2,413	2,800	1.8	16.0
Other livestock products	22,947	25,734	27,900	12.1	8.4
Forestry	1,322	1,454	1,600	10.0	10.0
Fishing	26,824	27,628	28,400	3.0	2.8
For export	6,600	6,520	6,400	−1.2	−1.8
For domestic consumption	20,224	21,108	22,000	4.4	4.2

SOURCE: For 1967, Statistics and Census Office, Office of the Controller; for 1968 and for 1969, ECLA estimates on the basis of official statistics.

[a] Preliminary figures.

[b] Estimates.

of output, owing largely to the limitations of the available financial resources. In addition, the stagnation of production at the fish-meal and fish-oil processing plant greatly restricted demand for other kinds of fish in 1969.

On the other hand, the programmes for the expansion of the banana crop continued to make rapid progress. Production grew by 10.6 per cent, exceeding the high rate of increase of the previous year (9.8 per cent). As has already been said, the plantations of Bocas del Toro province have shown a recovery—most plantations were previously located in Chiriquí—and at the same time, numerous groups of independent smallholders are now engaged in banana production; they receive technical and financial assistance from the principal exporting company, which has an exclusive right to purchase their crop. Mention should be made of other positive factors, such as the advances made in pest control techniques, the development of more resistant varieties, and the incentive of rising world prices.

Livestock production is beginning to show the effects of the development programmes of recent years. In 1969, the gross value of production was 8.1 per cent above the 1968 level[92] (see table 157). Generally speaking, the livestock sector has benefited from a rapidly expanding supply of credit from both private and government agencies: loans totalled more than 15 million balboas in 1968, compared with 9 million in 1966. However, the rapid growth of domestic demand, price ratios that were not very favourable to exports, and the physical difficulties of increasing the volume of livestock in the short term prevented a substantial rise in sales on the international markets.

Certain well-known difficulties stand out from the over-all picture of Panama's agriculture, deriving from the concentration of land ownership, under-employment, lack of infrastructural works, credit and technical assistance, and the fact that a large number of farmers have not been incorporated in the market economy. Many of these problems are now being tackled in government programmes and policy. In 1969 a great effort was made to push

[92] Between 1968 and 1969 the slaughter of cattle increased from 153,000 to more than 164,000 head; that of pigs from 64,500 to about 78,000.

on with agricultural reform at the national level and to develop technical assistance projects (agricultural extension services, improved seeds, credit, infrastructure, education and health) in specific areas of the province of Veraguas. A start has been made on the promotion—though still on a small scale—of fruit, vegetables and tubers, with a view to increasing exports, promoting import substitution, and facilitating the processing of certain agricultural commodities.

Throughout the 1960s the manufacturing sector recorded a high and steady average annual growth rate of 12 per cent, a level that was matched in 1969 (see table 158). Temporary circumstances may have had some influence, but perhaps the most important reason for this trend will be found in the nature of the import substitution process itself, and in the scope of national development policy. Although the dynamic process of replacing imports from abroad by locally produced goods, initiated around 1957, began to lose its impetus around 1964–1965, import substitution remains a valid model for growth; there is still ample room for replacing imports despite the fact that there are fewer substitutes which are easy to produce and new projects have difficulties to contend with, in some cases because of the small size of the market, and in others because they require more capital and technical know-how. On the other hand, the essentially open nature of the Panamanian economy and its dependence on the services sector as the generator of growth, have created price ratios which are unfavourable to the diversification of industry and have set limits to the possibilities of promoting manufacturing. Panama is one of the few Latin American countries where a definitely protectionist strategy has not been put into effect. Tariff instruments have been little used and quotas have been granted on the merits of each individual case, and have not been used as a means of restricting imports in general. Fiscal incentives and, in particular, financial support and credit have provided an effective impetus for industrialization in the past; but present circumstances appear to call for supplementary measures.

In 1969, the rate of expansion of food-stuffs production declined compared with the marked increases recorded in 1967 and 1968. Petroleum refining, too, failed to grow following the high rates of growth achieved in the two preceding years. Output of construction materials contracted, despite the fact that the product of the construction sector expanded by 9.4 per cent (see table 158). These trends were amply offset, however, by the high rates of growth recorded in virtually all the other sectors of activity, including those producing traditional goods.

Paraguay

1. Recent economic trends

The gross domestic product grew by about 5.1 per cent in 1969, a rate similar to that of the previous year. This rise was due to increases of 5.6 per cent in the services sector, 5.5 per cent in industry and 3.1 per cent in agriculture (see

Table 158. Panama: value added in manufacturing,[a] 1966–1969

	Millions of balboas at 1960 prices				*Annual growth rates (percentages)*		
	1966	*1967*	*1968*	*1969[b]*	*1967*	*1968*	*1969*
Total	*107.0*	*120.1*	*131.7*	*147.6*	*12.2*	*9.7*	*12.1*
Foodstuffs	29.3	33.7	37.6	39.9	15.0	11.6	6.1
Beverages	13.9	14.9	15.4	17.6	7.2	3.4	14.3
Tobacco industry	3.3	3.6	3.7	3.8	9.1	2.8	2.7
Footwear and clothing	7.4	7.8	9.9	12.0	5.4	26.9	21.2
Sawnwood and other wood products	2.1	2.9	2.5	2.8	38.1	−13.8	12.0
Furniture and accessories	5.6	6.8	8.2	9.8	21.4	20.6	19.5
Paper and paper products	5.8	5.2	5.3	5.9	−10.3	1.9	11.3
Printing and associated industries	7.0	7.9	8.5	12.4	12.9	7.8	45.9
Chemical substances and products	2.7	3.6	3.4	3.5	33.3	−5.6	2.9
Petroleum products	4.6	6.1	7.1	7.1	32.6	16.4	—
Non-metallic mineral products	8.4	9.5	10.5	11.2	13.1	10.5	6.7
Basic metal-transforming industries	0.3	0.3	0.3	0.4	—	—	3.3
Metal products, except machinery and transport equipment	11.0	11.9	12.7	13.9	8.2	6.7	9.4
Other products	5.6	5.9	6.6	7.3	5.4	11.9	10.6

SOURCE: Statistics and Census Office, Office of the Controller.

[a] At market prices.

[b] Preliminary figures.

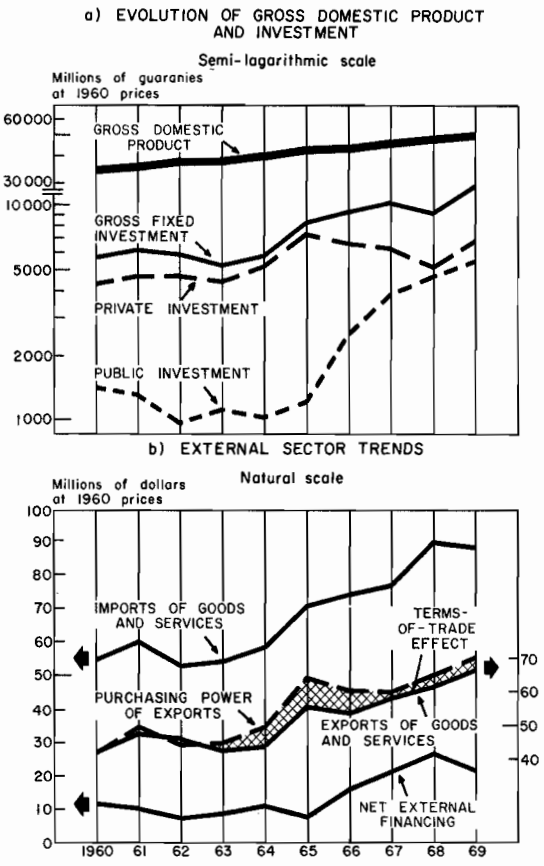
table 159). In addition, there was a notable increase in investment (27.6 per cent), mainly as a result of imports of capital goods, and a 2.3 per cent drop in consumption (private consumption fell by 1.5 and government consumption by 9.6 per cent) (see table 160 and figure XXI). In the external sector, foreign exchange reserves shrank, and there were no great changes in economic policy; other noteworthy features were the reduction of the fiscal deficit and continuing price stability.

2. Major sectors of activity

The agricultural sector as a whole grew by 3.1 per cent, comprising increases of 2.5 per cent in crop farming and 12.8 per cent in forestry, and a decline of 2.5 per cent in the livestock industry.

The growth in agriculture was due mainly to increased production of rice, cotton, soya and wheat (see table 161). The cotton crop was 40,530 tons, a rise of 34.7 per cent over the previous year, despite adverse weather conditions which particularly affected production in Concepción and a number of plantations in the Chaco area. Output of soya amounted to 22,000 tons (63 per cent more than in 1968), a rise encouraged by the use of soya bean in the national edible oil industry. Rice and wheat output also showed spectacular increases of 41.1 and 19.5 per cent, respectively; in the case of wheat, a crop of 40,000 tons was expected, but bad weather plus pests and disease reduced output to 30,000 tons. There was a good tobacco harvest (24,000 tons), and exports were facilitated by the standardization of the tobacco grown, thanks to proper supervision of cultivation. Production of sugar-cane increased by

Figure XXI. Paraguay: 1960–69



17 per cent, marking a recovery after the severe drought of 1968. But conditions were not favourable for all crops; output of maize and peanuts, *inter alia,* declined.

In the livestock industry, the number of

Table 159. Paraguay: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960-65*	*1965-68*	*1969*
Agriculture	38.8	38.1	34.8	34.2	4.5	0.7	3.1
Mining	0.1	0.1	0.1	0.2	7.7	−17.6	138.1
Manufacturing	17.3	18.3	18.9	19.0	6.1	5.1	5.5
Construction	2.4	2.7	3.0	3.1	7.2	7.0	10.0
Subtotal goods	*58.7*	*59.2*	*56.8*	*56.5*	*5.1*	*2.3*	*4.4*
Electricity, gas and water	0.8	0.8	1.0	1.0	5.0	8.7	5.5
Transport and communications	4.0	4.7	4.9	5.1	8.0	5.7	8.7
Subtotal basic services	*4.8*	*5.5*	*5.9*	*6.1*	*7.5*	*6.2*	*8.2*
Commerce and finance	18.4	17.8	18.1	18.3	4.1	4.5	6.0
Government	4.4	4.3	5.4	5.1	4.4	11.6	−1.1
Miscellaneous services	13.7	13.2	13.8	14.0	4.1	5.4	6.7
Subtotal other services	*36.5*	*35.3*	*37.3*	*37.4*	*4.2*	*5.8*	*5.2*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*4.8*	*3.7*[a]	*5.1*

SOURCE: ECLA, on the basis of data from the Central Bank.

[a] The discrepancy between this figure and that given in table 160 is due to the fact the former was calculated at factor cost and the latter at market prices.

Table 160. Paraguay: total supply and demand for selected years, 1960–1969

	Millions of guaranies at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*40,652.0*	*51,317.1*	*59,337.7*	*61,748.9*	*117.8*	*117.9*	*120.0*	*118.8*	*4.8*	*5.0*	*4.1*
Gross domestic product	34,523.0	43,525.6	49,451.5	51,973.5	100.0	100.0	100.0	100.0	4.8	4.3	5.1
Imports of goods and services	6,129.0	7,791.5	9,886.2	9,775.4	17.8	17.9	20.0	18.8	4.9	8.3	−1.1
Total demand	*40,652.0*	*51,317.1*	*59,337.7*	*61,748.8*	*117.8*	*117.9*	*120.0*	*118.8*	*4.8*	*5.0*	*4.1*
Exports of goods and services	6,117.0	7,926.8	8,600.3	9,343.9	17.7	18.2	17.4	18.0	5.3	2.8	8.6
Total investment	*5,841.0*	*8,802.3*	*9,727.4*	*12,344.1*	*16.9*	*20.2*	*19.7*	*23.7*	*8.5*	*3.4*	*26.9*
Gross fixed investment	5,841.0	8,421.5	9,465.4	12,077.8	16.9	19.3	19.1	23.2	7.6	4.0	27.6
Public[a]	1,401.0	1,237.0	4,543.8	6,789.3	4.1	2.8	9.2	13.1	−2.4	55.0	49.4
Private[a]	4,440.0	7,565.3	5,183.6	5,554.8	12.8	17.4	10.5	10.6	11.2	−11.8	7.2
Total consumption	*28,694.0*	*34,588.0*	*41,010.0*	*40,060.9*	*83.1*	*79.5*	*82.9*	*77.1*	*3.8*	*5.8*	*−2.3*
General government	2,629.0	2,933.2	4,194.9	3,792.2	7.6	6.7	8.5	7.3	2.2	12.7	−9.6
Private	26.065.0	31,654.8	36,815.1	36,268.7	75.5	72.8	74.4	69.8	4.0	5.2	−1.5

SOURCE: ECLA estimates on the basis of data supplied by the Central Bank.

[a] Including changes in stocks.

Table 161. Paraguay: output of major agricultural products, 1967–1969
(*Thousands of guaranies at 1968 prices, and tons*)

	1967		*1968*		*1969*		*Indexes*		
	Volume	*Value*	*Volume*	*Value*	*Volume*	*Value*	*1967*	*1968*	*1969*
Raw cotton	26,750	398,575	30,100	448,490	40,530	603,897	88.8	100.0	134.7
Tobacco	13,500	324,000	22,000	528,000	24,000	576,000	61.4	100.0	109.1
Alfalfa	24,100	120,500	24,823	124,115	24,070	120,350	97.1	100.0	97.0
Peas	3,750	51,750	3,990	55,062	3,670	50,646	94.0	100.0	92.0
Rice	21,000	203,700	21,380	207,386	30,160	292,552	98.2	100.0	141.1
Sweet potatoes	122,500	392,000	116,375	372,400	128,834	412,269	105.3	100.0	110.7
Sugar-cane	1,046,300	757,521	889,400	643,926	1,040,600	753,394	117.6	100.0	117.0
Wheat	9,200	98,440	25,100	268,570	30,000	321,000	36.7	100.0	119.5
Onions	17,000	307,700	18,000	325,800	17,100	309,510	94.4	100.0	95.0
Broad beans	5,790	65,427	4,280	48,364	4,150	46,895	135.3	100.0	97.0
Peanuts	20,740	263,398	18,000	228,600	16,200	205,740	115.2	100.0	90.0
Manioc	1,542,900	3,354,265	1,567,600	3,408,225	1,614,628	3,510,201	98.4	100.0	103.0
Potatoes	10,000	159,000	9,800	155,820	10,110	160,590	102.0	100.0	103.1
Beans	34,500	372,600	27,600	298,080	26,770	289,116	125.0	100.0	97.9
Soya	18,000	149,400	13,500	112,050	22,000	182,600	133.3	100.0	163.0
Sorghum for brooms	4,950	10,964	6,000	13,290	6,000	13,290	82.5	100.0	100.0
Maize	277,100	1,468,630	221,600	1,174,480	153,000	810,900	125.0	100.0	69.0
Tartago	5,000	56,850	12,780	145,347	11,200	127,344	39.1	100.0	87.6
Unshelled tung nuts	96,000	236,640	96,000	236,640	92,000	226,780	100.0	100.0	96.2
TOTAL		*8,791,360*		*8,794,645*		*9,013,074*	*99.9*	*100.0*	*102.5*

SOURCE: Central Bank.

cattle slaughtered was 637,000 head (2.5 per cent less than in 1968); in particular, slaughtering for domestic consumption increased by 4.2 per cent and slaughtering for refrigeration plants decreased by 22.4 per cent. There was a recession in the refrigerating industry for the second successive year, with the result that the 1969 quota of 250,000 head could not be filled. In the same year the industry cut back on buying and set very low prices for meat, partly owing to the level of prices and external demand (see table 162).

Output of roundwood increased by 12.8 per cent, mainly owing to the increased amounts used in domestic industry. As a result of the policy of promoting the wood industry, exports of roundwood dropped by 8.4 per cent and those of sawnwood increased (see table 163).

The growth rate of industrial production rose considerably—5.5 per cent compared with 2.4 per cent the previous year (see table 164). This rise was mainly due to increased production of sawnwood, textiles, palmito and cement, while there was a drop in production of preserved meat, industrial oils and horse meat.

The increase of 30 per cent in the production of sawnwood was the direct result of the policy of restricting exports of roundwood. The growth of cotton production resulted in increased textile production for both domestic consumption and export, under the stimulus of steady demand. Palmito is another export product for which there is a strong demand, especially in Argentina: production grew by 14 per cent, which led to the construction of new processing plants. With regard to cement, one plant was closed down and another put into operation in October. The new plant—the Industria Nacional de Cemento—has a much greater installed capacity, with the result that production grew by 68 per cent compared with the previous year, and there was a resumption of exports, after an interval of four years. In contrast to these expanding industries, there were others that declined, including the preserved meat industry, which has great importance in the sector, and which declined by 19 per cent compared with 1968, owing to the recession in the refrigerating industry. Production of industrial oils and horse meat also decreased because of the fall in external demand; in the particular case of tung oil, it was not possible to take advantage of favourable prices because of the inelasticity of supply.

The services sectors grew by 5.6 per cent, with a relatively greater rise in "other services" and government, while the growth rate of commerce and housing was below average.

3. Price trends

The price index, which measures changes in the prices of a basket of goods and services consumed by an average working family in Asunción, showed a drop of 0.9 per cent between the end of 1968 and the end of 1969. The greatest decrease was in food (4.2 per cent), while housing, clothing and miscellaneous expenditure showed rises of 1.9, 5 and 1.2 per cent, respectively.

4. Monetary and credit policy

Monetary control measures continued to be applied in 1969, together with new measures limiting the external indebtedness of the national banks to 80 per cent of their total capital and reserves. In addition, operational regulations were issued empowering mortgage banks and bank mortgage departments to issue long-term loans for the construction, remodelling or purchase of housing, at an annual interest rate of 12 per cent to a total value of 3 million guaraníes.

At 31 December 1969, the monetary liabilities of the Central Bank stood at 7,474 million guaraníes, an increase of 277 million compared with the same date in 1968. On this figure, 49.7 per cent were notes and coins in circulation, 39.8 per cent bank deposits, and 10.5 per cent government deposits (see table 165). The amount of money in circulation increased by 166 million guaraníes, equivalent to 4.7 per cent of the total recorded in December 1968.

By the end of 1969, the money supply had increased by 280 million guaraníes, signifying an increase of 4.3 per cent over the total for December 1968 (see table 166). The increase was due to domestic factors, in particular, the credits and short-term advances to cover financial emergencies granted to the public sector by the Central Bank; on the other hand, money was tight in the external sector, which had a contracting effect. By the end of 1969, the Central Bank had granted 2,732.4 million guaraníes to the Government in the form of loans and advances, 3.1 per cent less than in the previous year.

Net loans granted by the Central Bank to autonomous agencies and government enterprises amounted to 1,811.8 million guaraníes; recipients of loans included the Línea Aérea Paraguaya, Corposana, Flota Mercante del Estado, Línea Aérea de Transporte Nacional, Corporación Paraguaya de Carnes and the Administración Nacional de Electricidad.

Loans to the commercial banks and to the Banco Nacional de Fomento (National Development Bank) increased by 220.1 million

Table 162. Paraguay: livestock production, 1967–1969
(*Guaranies at 1968 prices*)

	1967		1968		1969		Index		
	Heads	*Value*	*Heads*	*Value*	*Heads*	*Value*	*1967*	*1968*	*1969*
Domestic consumption . . .	445,371	3,036,984	484,161	3,301,978	504,800	3,442,231	92.0	100.0	104.2
Refrigerating industry . . .	229,706	1,516,059	170,395	1,124,607	132,214	872,612	134.8	100.0	77.6
TOTAL .	*675,077*	*4,553,043*	*654,556*	*4,426,585*	*637,014*	*4,314,843*	*102.9*	*100.0*	*97.5*

SOURCE: Central Bank.

Table 163. Paraguay: forest products, 1967–1969
(*Tons and thousands of guaranies*)

	1967		1968		1969		Index		
	Volume	*Value*	*Volume*	*Value*	*Volume*	*Value*	*1967*	*1968*	*1969*
Roundwood exports . . .	182,000	577,486	151,266	480,000	138,641	439,907	120.3	100.0	91.6
Roundwood for domestic consumption	128,100	467,308	153,645	560,500	201,081	733,543	83.4	100.0	130.9
TOTAL .	*310,100*	*1,044,794*	*304,911*	*1,040,500*	*339,722*	*1,175,450*	*100.4*	*100.0*	*112.8*

SOURCE: Central Bank.

Table 164. Paraguay: industrial production, 1967–1969

(*Guaranies at 1968 prices and tons*)

	1967		1968		1969		Index		
	Volume	*Value*	*Volume*	*Value*	*Volume*	*Value*	*1967*	*1968*	*1969*
Canned and preserved meat	19,564	1,950,922	15,670	1,562,625	12,700	1,266,444	124.8	100.0	81.0
Processed rice	13,500	297,000	14,110	310,420	19,906	437,932	95.7	100.0	141.1
Wheat flour	59,900	1,066,220	67,195	1,195,921	66,875	1,190,375	89.1	100.0	99.5
Maté	17,962	252,905	18,688	263,120	19,752	278,108	96.1	100.0	105.7
Sugar	35,680	713,243	34,148	682,760	42,275	845,077	104.5	100.0	123.8
Edible oils (thousands of litres)	3,189	128,612	3,663	147,754	4,579	184,671	87.0	100.0	125.0
Spirits (thousands of litres)	10,315	237,245	8,252	189,796	9,490	218,270	125.0	100.0	115.0
Wines (thousands of litres)	7,276	120,054	5,980	98,670	6,458	106,557	121.7	100.0	108.0
Beer (thousands of litres)	9,905	218,405	10,653	234,957	12,121	267,268	93.0	100.0	113.7
Carbonated beverages	12,695	309,758	17,751	433,123	21,919	534,824	71.5	100.0	123.5
Cigarettes (thousands of packets)	26,141	442,567	22,920	388,000	21,611	365,874	114.1	100.0	94.2
Cotton fibres	8,929	410,734	9,676	445,096	13,011	598,506	92.3	100.0	134.5
Sawnwood	85,852	467,893	98,333	535,915	127,928	697,207	87.3	100.0	130.0
Quebracho extract	13,928	170,896	17,557	215,508	17,700	217,179	79.3	100.0	100.8
Industrial oils	23,048	586,110	27,445	698,007	23,900	607,777	84.0	100.0	87.1
Matches (thousands of boxes)	17,041	68,147	17,788	11,150	18,671	74,665	95.8	100.0	104.9
Portland cement	14,423	86,538	23,823	133,408	37,535	224,118	64.9	100.0	168.0
Lime	17,600	52,800	18,222	54,700	19,133	57,399	96.5	100.0	104.9
Horse meat	3,649	108,521	5,822	173,149	4,070	121,041	62.7	100.0	69.9
Palmito	4,018	220,990	4,852	266,860	5,548	305,140	82.8	100.0	114.3
Cotton fabrics (thousands of metres)	16,508	815,627	17,513	865,285	18,800	928,870	94.3	100.0	107.3

SOURCE: Central Bank.

Table 165. Paraguay: currency issued, 1968 and 1969
(*Millions of guaraníes*)

	Changes compared with previous year		Total at end of 1969
	1968	1969	
Notes and coins in circulation	311	166	3,713
Bank deposits . . .	366	85	2,978
Government deposits . .	...	26	783
TOTAL .	*677*	*277*	*7,474*

SOURCE: Central Bank.

Table 166. Paraguay: money supply, 1968 and 1969
(*Millions of guaraníes*)

	Changes compared with previous year		Total supply at end of 1969
	1968	1969	
Notes and coins in circulation	221	186	3,455
Demand deposits in current accounts . . .	197	106	2,460
Government deposits . .	−30	−12	806
TOTAL .	*388*	*280*	*6,721*

SOURCE: Central Bank.

guaraníes, the greater part of which was granted to the Development Bank, mainly for the financing of the national wheat programme and, to a smaller extent, for discounting bills for industry. Loans to the commercial banks were for stock breeding, commerce and industry.

In 1969, the commercial banks and the Development Bank granted credits to the private sector to a total value of 24,803.5 million guaraníes, 24.3 per cent more than in 1968 (see table 167); 83 per cent of this total was granted by the commercial banks.

5. PUBLIC INCOME AND EXPENDITURE

The cash deficit on the national budget was 149 million guaraníes, which shows a significant improvement over the corresponding figure of more than 440 million for the previous year. The deficit was financed with Central Bank loans and short-term advances to a total of 58.5 million guaraníes and by using funds from agricultural surpluses.

Tax revenue amounted to 8,567 million guaraníes, exceeding that of the previous year by 17.6 per cent, thanks to improved methods of collection, the introduction of new taxes and the upturn in economic activity. The main sources of tax revenue were customs duties (20 per cent of the total), domestic taxes (29 per cent) and taxes on income, exports and alcoholic beverages.

Expenditure amounted to 8,716 million guaraníes, that is, 17.6 per cent more than in 1968. Government expenditure was distributed as follows: national security and defence, 27 per cent; administration, 13 per cent; education, 13 per cent; public works, 6 per cent; health, 7 per cent; amortization and interest payments on the public debt, 7 per cent; agricultural development, 2.5 per cent; other State liabilities, 25 per cent. Government investment was chiefly directed to the building of the hydroelectric plant at Acaray and the construction of highways, airports and public buildings.

As at 31 December 1969, the balance on the Government's credit transactions with the Central Bank was 2,732 million guaraníes, of which 2,123 million comprised long-term securities, 537,000 short-term advances, and 72 million loans to government agencies. The increase of 11 per cent in long-term securities was due to the consolidation of the Corposana short-term debt and the long-term loans granted for the construction of the Francisco Solano López Military College.

6. THE EXTERNAL SECTOR

(a) *Exports*

According to customs records, which differ from balance-of-payments figures owing to the adjustments to the latter, the value of exports of goods amounted to 50.9 million dollars (7

Table 167. Paraguay: bank loans to the private sector, 1968 and 1969
(*Millions of guaraníes*)

	1968		1969	
	Loan	Balance	Loan	Balance
Agriculture	1,192.9	1,583.6	1,985.0	2,845.6
Livestock	2,160.4	2,303.9	2,135.9	2,623.4
Industry	3,410.8	2,513.5	3,946.0	2,746.6
Commerce	12,317.4	3,837.9	14,771.2	4,436.7
Other	871.0	250.9	1,969.4	464.3
TOTAL .	*19,952.5*	*10,489.8*	*24,803.5*	*13,116.6*

SOURCE: Central Bank.

per cent more than in 1968). Forest and livestock products were prominent among exports, accounting for nearly half the total value. Exports of forest products amounted to 11.7 million dollars (in 1968 they had been worth 8 million) the most notable increase being in sales of sawnwood, which rose from 2.4 million dollars in 1968 to 5.4 million in 1969. On the other hand, exports of processed meat declined in both quantity and value, from 14.9 million dollars in 1968 to 12.9 million in 1969; this was mainly due to the falling off in the production of canned meat and other sub-products, as a result of the recession in the refrigerating industry. Exports of tobacco amounted to 5.6 million dollars (24 per cent more than in 1968); the improved quality commanded higher prices, which in turn stimulated production. There were also increases in exports of cotton, tung oil (owing to the rise in world prices, since the volume of exports declined), and essential oils; in contrast, there was a decline in exports of coconut oil, maté (owing to the reduction of the quota for export to Argentina), fresh fruit (owing to Argentina's ban on grapefruit because of canker), quebracho extract and, above all, coffee, which fell by 50 per cent owing to frosts in the coffee-growing area.

(b) *Imports*

The value of imports of goods in 1969 amounted to 70.4 million dollars, according to customs records, which differ from balance-of-payments data; for instance, they include 7.1 million dollars' worth of cigarettes and whisky in transit for re-export, which are subject to a special tax. The main categories of imports were: machinery, equipment and motors (13.5 million), transport equipment and spare parts (13 million), beverages and tobacco (7.3 million), and foodstuffs (6.7 million). A noteworthy item of transport equipment was the civil aircraft and spare parts, valued at 3.7 million dollars, imported for Líneas Aéreas Paraguayas.

(c) *Balance of payments*

The balance of payments showed a current account deficit of 23.9 million dollars, which is nearly 5 million less than in 1968 (see table 168). There was a noteworthy increase (4.3

Table 168. Paraguay: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	43.6	66.4	61.9	67.5	74.8
Goods (f.o.b.)	37.3	60.8	50.3	50.0	53.0
Services	6.3	5.6	11.6	17.5	21.8
Imports of goods and services	−55.3	−72.4	−80.9	−93.7	−94.3
Goods (f.o.b.)	−44.7	−53.0	−61.5	−69.8	−70.4
Services	−10.6	−19.4	−19.4	−23.9	−23.9
Net external investment income	−1.5	−3.0	−5.5	−5.1	−7.0
Net private transfer payments	0.8	1.1	2.2	2.5	2.6
Balance on current account	−12.4	−7.9	−22.3	−28.8	−23.9
Capital account					
Net external financing	12.4	7.9	22.3	28.8	23.9
Non-compensatory external financing	10.4	17.7	28.4	31.7	
Direct investment	2.4	3.3	1.9	1.2	
Long- and medium-term loans	5.7	11.0	25.7	28.7	
Amortization payments	−1.8	−3.4	−3.8	−5.2	
Short-term liabilities	1.4	3.7	1.8	4.9	22.4
Official transfer payments	2.7	3.1	2.8	2.1	
Non-compensatory domestic capital and assets	−0.6	−0.9	−0.6	−0.9	
Errors and omissions	−0.2	−1.1	−5.7	−2.3	
Compensatory movements (increase −)	2.8	−7.8	0.2	0.3	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	—	0.7	0.3	1.5
Amortization payments	−0.9	−2.8	−0.2	—	
Gold and foreign exchange (increase −)	2.6	−5.0	−0.3	—	

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] ECLA estimates.

million dollars) in exports of services, which totalled 21.8 million dollars, double the 1967 figure and nearly four times the 1965 figure; this spectacular growth is due to the boom in tourism. Exports of goods, however, continued to be inelastic, since they stayed below the 1965 levels, while imports grew rapidly, causing the notable increase in the current account deficit.

The net inflow of non-compensatory capital declined from the previous year, and was not enough to cover the current account deficit, so that it was necessary to draw on the foreign exchange reserves.

(d) *Foreign exchange market and reserves*

The only modification of the exchange system introduced in 1969 was the ban on banks accepting prior deposits on imports financed with foreign funds. On the foreign exchange market there were no marked fluctuations in the supply and demand for foreign currency.

The gross foreign exchange reserves of the Central Bank amounted to 6.593 million dollars, of which 3.804 million dollars were in gold and freely convertible dollars, 293,000 in other convertible currencies and 2.496 million in units of account. After deduction of net external liabilities at 31 December 1969, the net reserve was 5.462 million dollars, 20 per cent lower than at the same date in 1968. Adding the gold tranche of the International Monetary Fund, the foreign exchange reserves amount to 9,212,000 dollars. In addition, under the stand-by arrangements with the IMF, Paraguay has a contingency reserve of 7.5 million dollars, which was not used in 1969.

Peru

1. Recent economic trends

In 1969, Peru's gross domestic product increased by 1.7 per cent, a slightly more rapid rate than the 1.4 per cent recorded in 1968. Since the total population is increasing by 3 per cent annually, both 1968 and 1969 have been years in which the Peruvian economy has declined (see table 169 and figure XXII).

This decline is linked with a longer-term trend which—with the exception of the years in which ecological factors were excessively unfavourable—has been apparent at least throughout the 1960s. The annual growth rate of the gross domestic product was above 8 per cent in 1960 and 1961, and then gradually fell to 7 per cent in 1964, 6 per cent in 1966 and 5 per cent in 1967. This, combined with the effect of a number of adverse factors, led to a sharp decline in the growth rate in 1968 and 1969.

Although this long-term trend can be attributed to many factors, it has been particularly influenced by the declining rate of return from: (*a*) efforts to expand investment and public consumption without an effective reform of the tax system; (*b*) the external debt, as a result of the ever-increasing amount of interest and amortization payments; (*c*) industrial development based on a market that does not include the majority of the population (because their incomes are too low) or the mining enclaves, and that is not export-oriented, as is also the case in most Latin American countries. These structural shortcomings continued during 1968 and 1969 to exert a downward effect, although measures have been adopted recently to eliminate them in the near future.

The sharp decline in the growth rate in 1968 and 1969 is directly associated with the short-term policy initiated in 1968 to curb inflationary

Figure XXII. Peru: 1960–69

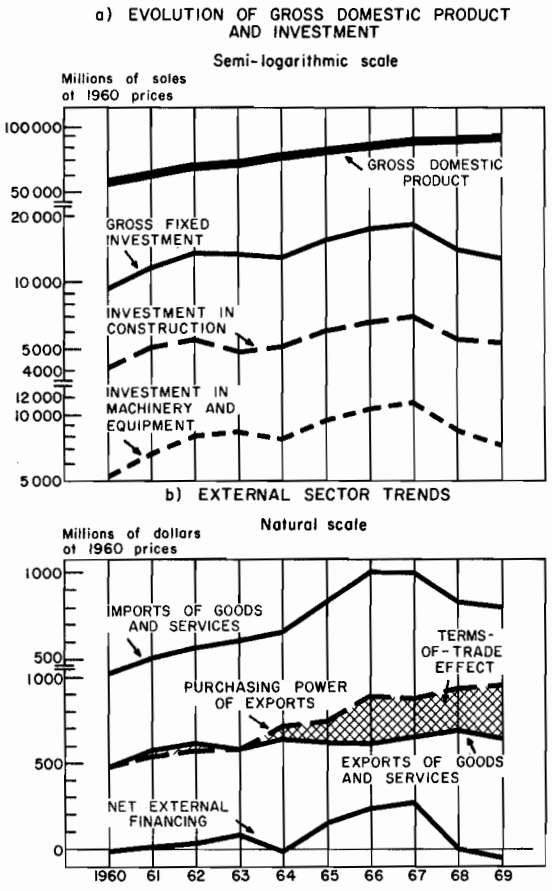


Table 169. Peru: total supply and demand

	Millions of soles at 1960 prices					*Structure (percentages)*					*Annual growth rates (percentages)*			
	1960	*1965*	*1967*	*1968*	*1969*	*1960*	*1965*	*1967*	*1968*	*1969*	*1960–65*	*1965–67*	*1968*	*1969*
Total supply	*68,939*	*101,799*	*116,514*	*112,443*	*112,986*	*121.1*	*129.8*	*133.0*	*126.6*	*125.1*	*8.1*	*7.0*	*—3.5*	*0.5*
Gross domestic product	56,909	78,433	87,603	88,829	90,339	100.0	100.0	100.0	100.0	100.0	6.6	5.7	1.4	1.7
Imports of goods and services	12,030	23,366	28,911	23,614	22,647	21.1	29.8	33.0	26.6	25.1	14.2	11.2	—18.3	—4.1
Total demand	*68,939*	*101,799*	*116,514*	*112,443*	*112,986*	*121.1*	*129.8*	*133.0*	*126.6*	*125.1*	*8.1*	*7.0*	*—3.5*	*0.5*
Exports of goods and services	13,466	17,262	17,837	19,233	18,009	23.7	22.0	20.4	21.7	19.9	5.1	1.7	7.8	—6.4
Total investment	*12,292*	*17,452*	*22,643*	*17,889*	*16,619*	*21.6*	*22.2*	*25.8*	*20.1*	*18.4*	*7.3*	*13.9*	*—21.0*	*—7.1*
Gross fixed investment	9,541	15,636	18,664	14,259	13,004	16.8	19.9	21.3	16.1	14.4	10.4	9.3	—23.6	—8.8
Private	1,242	5,029	5,547	...	...	2.2	6.4	6.3	...	...	32.0	5.0	...	...
Public	8,299	10,607	13,117	...	...	14.6	13.5	15.0	...	...	5.0	11.2	...	...
Total consumption	*43,181*	*67,085*	*76,034*	*75,321*	*78,358*	*75.9*	*85.5*	*86.8*	*84.8*	*86.7*	*9.2*	*6.5*	*—0.9*	*4.0*
General government	4,776	7,569	7,744	7,837	7,978	8.4	9.6	8.8	8.8	8.8	9.6	1.2	1.2	1.8
Private	38,405	59,516	68,290	67,484	70,380	67.5	75.9	78.0	76.0	77.9	9.2	7.1	—1.2	4.3

SOURCE: For 1960–1967, ECLA estimates based on data supplied by the Banco Central de Reserva del Perú; for 1968–1969, ECLA estimates.

pressure on prices and the balance of payments. The main components of this policy were the reduction of the fiscal deficit, which had been covered with Central Bank credit and loans from foreign commercial banks; the curtailing of commercial credit through the imposition of additional requirements governing cash reserves; and the prohibition of imports of goods produced in the country and of non-essential goods.[93]

This policy made its effects strongly felt in construction activities—which employ a large part of the wage-earning population—and, hence, on employment. The contraction of public consumption expenditure led to a decline in the real wages paid in the public sector, and this, added to the decline in employment and the drop in agricultural production, meant that effective domestic demand for manufactured goods fell. Manufacturing, however, managed to expand by 5.1 per cent, owing to the gap in the domestic supply of manufactures caused by the contraction of imports.

There was also a significant fall in private savings, which since the beginning of the 1950s had become the main source of resources for the commercial deposit banks. Account being taken of the rise in the cost-of-living index, private savings fell by 9 per cent in 1969.

The measures described above were to some extent expanded in 1969. The fiscal deficit fell to only 645 million soles for the period April–December 1969, compared with 1,185 million soles in the fiscal year January 1968–March 1969. This was the result of the increase in public sector revenue, owing to higher rates of taxation, the imposition of new taxes, and strict controls on expenditure. Although investment expenditure remained at its 1968 level, consumption expenditure generally fell. With respect to imports, the 10 per cent *ad valorem* surcharge was maintained, the list of prohibited imports was expanded and public sector imports were controlled.

In the private financial sector, strict control was not possible and sources of funds were restructured. Personal deposits continued to decrease, with a consequent decline in the amount of resources available to finance the non-financial sectors. The most affected of these was manufacturing, since the Industrial Development Bank (Banco de Fomento Industrial) did not have the financial resources it needed to increase its assistance to the sector either. Although they had done so occasionally in 1968, the commercial banks were at last able in 1969, after fifteen years, to increase the amount rediscounted with the Central Bank, to some extent replacing the Government and the Industrial Development Bank. Their resources were also swelled by the deposits received from the public sector in the second half of the year. As a result of its high and rising liquidity, the commercial banking system was able towards the end of the year to expand its loans, *inter alia,* to industry.

The results of this short-term policy were in line, as regards prices and the balance of payments, with the objectives behind it. Had agricultural supply not been so inflexible, the consumer price index might have risen less than the 5.7 per cent that it actually did, which is nevertheless a satisfactory rate if contrasted with the figure recorded in 1968 (19 per cent). This policy also helped to relieve pressure on the balance of payments, which improved significantly before compensation. The rate of exchange for foreign exchange certificates remained unchanged, while the rate mainly used for private transfer payments improved from 44.19 soles to the dollar in January to 43.47 in December.

The Government also adopted a number of measures to promote future economic growth aimed at gradually eliminating major structural weaknesses. Of primary importance is the new legislation governing the ownership of rural property and the supply of irrigation water. If this legislation is fully applied, it will have the effect of forming small- and medium-scale farm enterprises to replace the existing latifundia and minifundia. The new entrepreneurs will have sufficient income to adopt up-to-date techniques and to increase effective demand for manufactures. The implementation of these measures—which is usually the Achilles' heel of agrarian reform legislation in Latin America—has begun fairly rapidly in most agricultural areas and latifundia are beginning to be converted into co-operatives.

Although a new mining law is in course of preparation, the contract signed in December for the development of the Cuajone copper mine already shows important changes in mining policy. It is designed not to "peruvianize" the share capital of private enterprises but, as is clear from the text, to break up the enclaves which the principal mining companies have gradually formed in isolation from the economy of the country. Under the contract, foreign exchange transactions must be carried out through the Central Bank and purchases by the mining company must take

[93] See *Economic Survey of Latin America, 1968* (United Nations publication, Sales No.: E.70.II.G.1).

domestic supply into account, in line with the practice followed by the governments of the industrialized countries. Also during 1969, the system of mining concessions was altered, and it was made compulsory for those holding concessions to submit a definite plan of operations. By the end of 1969, almost 150 such plans for large deposits had been filed.

In addition to reducing pressure on the balance of payments in 1969, the fact that the Government is engaged in refinancing the external public debt will be of considerable importance in the near future. Because of the difficulties encountered since 1964 in obtaining development credit, external indebtedness has been dominated by medium-term commercial credit. Although the external debt totalled only 847 million dollars, payments falling due in 1969–1973 amount to the equivalent of 175 million dollars per year. These payments would have substantially limited the supply of external resources and hence the Government has sought to improve the structure of the external debt.

By the end of 1969, the Government had signed agreements with creditors in four countries to which it owed 179 million dollars and was actively negotiating refinancing with two other countries for a total of 244 million dollars. The agreements call for the payment of 25 per cent of the debt in 1970, with the balance payable in 1976, 1977 and 1978. This means that the four-year debt is becoming a ten-year debt.

Also worthy of mention are the reforms in the taxation and banking systems, but as the regulations for implementing the reforms are still in preparation, they had no great impact on economic activity in 1969. As regards banking reform, under the timetable laid down in the relevant legislation the "peruvianization" of the assets of private commercial banks has not yet begun.

2. Major sectors of activity

The sluggish rate of growth of the gross domestic product in 1969 (1.7 per cent) is attributable to a general decline in sectoral growth rates, the only exceptions being agriculture and housing (see table 170).

(a) *Agriculture*

Agriculture, excluding fisheries, made a recovery in 1969, although production expanded by barely 2.5 per cent. The recovery was not complete because the effects of the 1968 drought continued to be felt early in the year in major agricultural areas, partly hampering expansion of the cultivated area. Moreover, world prices for the main agricultural exports took a downward turn, although some made an eleventh-hour recovery towards the end of the year.

In the case of sugar cane, which has a crop cycle lasting eighteen months, the reduction of the area sown during the drought led to an appreciable decline in the tonnage available for crushing and subsequently in the production of sugars and alcohols. Incomplete data indicate that sugar production fell by approximately 24 per cent compared with 1968. In contrast, the cotton crop increased by 10 per cent, owing both to the abundance of water in

Table 170. Peru: gross domestic product at factor cost, by sector of economic activity for selected years, 1960–1969

Sector	*Structure (percentages)*					*Annual growth rates (percentages)*			
	1960	*1965*	*1967*	*1968*	*1969*	*1960–65*	*1965–67*	*1967–68*	*1969*
Agriculture	22.5	18.4	17.0	16.3	16.4	2.1	1.1	−2.4	2.5
Fisheries	1.6	1.7	2.1	2.1	1.7	7.8	16.3	3.9	−16.0
Mining	8.2	7.0	6.7	7.0	7.1	5.1	3.0	6.7	2.7
Manufacturing	17.9	20.2	21.2	22.0	22.0	8.9	7.7	5.1	1.9
Construction	4.0	4.2	4.4	3.6	3.4	7.7	7.0	−16.7	−3.4
Subtotal goods	*54.2*	*51.5*	*51.4*	*51.0*	*50.6*	*5.3*	*5.0*	*0.9*	*1.1*
Electricity, gas and water	0.8	1.0	1.1	1.1	1.1	11.8	8.6	4.6	3.9
Transport and communications	4.6	5.1	5.1	5.3	5.4	8.5	5.3	4.3	3.9
Subtotal basic services	*5.4*	*6.1*	*6.2*	*6.4*	*6.5*	*9.0*	*5.8*	*4.4*	*3.9*
Commerce and finance	14.3	15.8	15.9	15.6	15.4	8.5	5.2	−0.5	0.6
Government	7.4	7.9	8.0	8.1	8.2	7.7	6.1	3.0	3.0
Miscellaneous services	18.7	18.7	18.5	19.0	19.3	6.4	4.5	3.9	3.7
Subtotal other services	*40.4*	*42.4*	*42.4*	*42.6*	*42.9*	*7.4*	*5.1*	*2.1*	*2.4*
TOTAL *product*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*6.6*	*5.7*	*1.4*	*1.7*

SOURCE: For 1960–1967, ECLA calculations on the basis of statistics from the Banco Central de Reserva del Perú; for 1968–1969, ECLA estimates.

the central coastal areas and to favourable weather which reduced the effects of disease. Even so, low world prices for Peruvian long-fibre cotton have led farmers to sow other crops in cotton areas, which may have an adverse effect on future foreign exchange earnings since the new crops are for the domestic market.

The drought of 1968 had some effect on the rice-growing areas in northern Peru. Although rice production grew in 1969, the increase was less than was expected owing to the fact that supplies of water for irrigation in the coastal area did not reach normal levels at the proper time. Total production grew by less than 6 per cent, despite large increases in output in forest areas, and in the northern and coastal areas. In forest areas, the introduction of new varieties with high unit yields helped to triple output where there are abundant reserves of land; unfortunately, they lack adequate means of communication with the centres of consumption. This has been the case in Contamaná, where output has outgrown the milling capacity available. In the south, the Ministry of Agriculture is engaged in disseminating the new varieties, some of which have shown experimentally that they can yield over ten tons per hectare. The prospects have improved for expanding the production of rice, which is a basic component of the Peruvian diet and which is imported to a value of as much as 10 million dollars a year, with the completion of the first phase of the Tinajones project to regulate the irrigation of 80,000 hectares in the former rice-growing area of Lambayeque.

In the Andes region, there was a general increase in agricultural production, although farmers had to put off late-winter sowing in some instances until the weather became more settled. At the end of 1969, the prospects were favourable since the area had abundant rainfall which should increase production in the first half of 1970. As a result of the lateness of the sowings, there was a relatively late harvest, which, by slowing down the supply of foodstuffs to the coastal cities, produced temporary shortages and an increase in the official consumer price index.

Grain and cereal production in the Andes region rose appreciably in 1969, with production of brewer's barley increasing by some 10 per cent, judging from the data from the main producing areas in the south.

Wheat production is estimated to have risen by 16 per cent, but once again there were disposal problems since the wheat mills have maintained their policy of preferring imported wheat.[94] The Government has started to solve the problem by bringing back the policy of requiring mills to purchase a certain proportion of nationally produced wheat, which in the past has helped to promote wheat production.

In 1969, part of the olive groves planted in the southern and central coastal areas, mainly on sandy land that it would be uneconomic to prepare for other crops, began to bear. These groves, which were planted mainly because of difficulties in importing processed olives for direct consumption, occupy a very large area, and it may be assumed that the short fall in domestic supply will be eliminated and also that the production of vegetable oil, which is also a significant item in food imports, will increase.

Fisheries production, which is dominated by the anchoveta used for producing fish meal, appears to have reached a bio-technical ceiling in 1969 which will prevent it from growing at the same rate as hitherto. As a result of the special closed seasons for fishing declared by the Government during the year, owing to the fact that shoals contained too high a proportion of very young fish, or *peladilla*, the share of the fisheries sector in the gross domestic product fell by 16 per cent.

It might have been possible to maintain production at its former high level, but only at the cost of markedly and seriously depleting anchoveta stocks, which would have affected yields in future years. The special closed seasons, therefore, were designed to maximize yields over the long term, even though they meant a decline in current production.

In this connexion, it should be noted that according to estimates made public at the meeting of international experts convened by the Peruvian Sea Institute (Instituto del Mar) from 12 to 16 January 1970, the maximum annual catch of anchoveta should be 9.5 million tons until the equipment currently in use is modified. At present the annual catch amounts to 9.8 million tons.

(b) *Mining*

Mining production expanded by 2.7 per cent in 1969, as opposed to 6.7 per cent in 1968. The sluggish growth in 1969 was mainly due to the forty-day strike at the Toquepala mine, which produces approximately four fifths of Peru's copper. The drop in copper output appre-

[94] This is due partly to the purchase price and partly to the fact that Peruvian wheat is less homogeneous; there are many more different strains, and harvesting is only partially mechanized.

ciably affected the domestic product of the mining sector.

In 1969 the remainder of metal-ore mining grew at a faster pace than in 1967 and 1968, when world prices showed a downward trend which was not arrested until late 1968. In 1969 world prices for virtually all Peru's mining exports rose, which led to recovery in the sector.

As a result of the increased activity in metal-ore mining, exports substantially increased. For example, the gross tonnage of iron exports during the first ten months of 1969 was 7 per cent higher than in the same period in 1968. Exports of silver, lead and zinc, which are usually found together in their natural state in Peruvian mines, expanded by 3 per cent, 2 per cent and 2 per cent, respectively. As was to be expected, the combination of favourable prices and the growth of the volume of exports meant that the mining sector significantly raised its share in the value of Peruvian exports, offsetting the decline in the export value of other products.

Crude oil extraction contracted by 2.6 per cent, as a result of the downturn in the output of the oldest inland deposits in the second half of the year. This decline was almost completely offset, however, by the steady expansion of output from the offshore deposits on the continental shelf. The exploration and development of oilfields continued at the same pace as in 1968, although in mid-year one of the new concession-holders temporarily cut back operations. Preliminary studies were initiated to determine the feasibility of a gas pipeline to link the Petroperú deposits on the northern coast with Lima, and thus provide a suitable outlet for the natural gas which is at present being lost.

The changes in the Government's mining policy did not affect mining production in 1969, but they did affect other aspects of mining. Of particular importance was Legislative Decree 17792, enacted in mid-year, which modifies the concessions system. Formerly, mineral deposits could be claimed without it being necessary to begin operations. Under the Decree, existing concession-holders were obliged to file a timetable of operations by no later than 31 December 1969 specifying the precise dates on which exploitation of the deposit was to begin. Concession-holders failing to file timetables would lose their concessions, and their claims would revert to the State. It should be noted that the deposits covered included some of considerable size, for example, the Cuajone mine, which has estimated reserves of 400 million tons of copper ore.

By the date specified more than a hundred timetables of operations had been filed, covering deposits accounting for a very high proportion of Peru's mineral reserves. In several instances, applications were made to the Government requesting the extension of exploitation contracts, specially worthy of note in terms of future exports being the deposits at Quellaveco, Michiquillay, Cerro Verde and Morococha.[95]

In view of the above, the contract that the company holding the Cuajone concession signed with the Government in December is of special importance. Although it does not necessarily set the pattern for the contracts requested when the timetables were filed, since the Government has announced that it will enact new mining legislation in 1970, it does give an idea of the new approach to enterprises that will be used in order to incorporate the mining sector into the rest of the economy.

The big mines form enclaves that have direct links with foreign countries. Their purchases of local goods and services are relatively small, excluding bank credit and the subsidiaries that they have established to ensure a supply of resources by taking advantage of the exemptions granted under industrial promotion legislation. There is to be a special régime covering the foreign exchange such companies acquire, especially the Southern Peru Copper Company, which exploits Toquepala and at present holds the concession for the Cuajone mine.

Under the contract, the foreign exchange obtained by the Southern Peru Copper Company from exports will be handed over to the Central Bank of Peru, which will return such sums as are required for capital and operating expenditure. Purchases by the Company, however, must be in line with the Industrial Promotion Act which is designed to foster the development of the Peruvian manufacturing sector. For this purpose, the Government is to grant tariff exemptions only when the price of domestically produced goods is more than 25 per cent higher than the c.i.f. price of the imported equivalent, an arrangement which is common in the industrialized countries, *inter alia*, when calling for bids for public works.

The Cuajone contract, and probably all the other contracts that will be signed in 1970, will not produce substantial amounts of foreign exchange over the short term. Although total planned investment amounts to 335 million dollars, it will be barely 25 million dollars over

[95] *El Comercio*, 1 January 1970.

the first eighteen months. Over the longer term, however, it is anticipated that the inflow of foreign exchange will be greater than under previous contracts, both because of control by the Central Bank and increased purchases of local goods and services, and because a period has been set aside to allow investment to recover, after which the rate of taxation is to rise from 47.5 to 54.5 per cent.

(c) *Manufacturing*

The product of the manufacturing sector expanded by 1.9 per cent in 1969, which compares unfavourably with the rate of 5.1 per cent achieved in 1968 and the average of 8 per cent during the period immediately preceding 1968. The decline in 1969 is due both to the contraction of effective demand for manufactures and to the unfavourable performance of the main sources of industrial capital. Only when more detailed data become available will it be possible to gauge its real impact on Peru's industrial development.

The main cause for concern is the effect of this decline on medium-scale industry and industry situated outside the Lima area. As has been noted on other occasions,[96] a serious weakness of the Peruvian manufacturing industry is its excessive concentration in the Lima area. The establishment of industrial estates in provincial cities has promoted regional diversification and, hence, the development of the tertiary sectors. Data collected in early 1970 in the southern provinces and published in the Peruvian press[97] indicate that the development of industrial estates suffered a sizable setback in 1969, not only because some of the established enterprises ceased operations but also because certain projects that it had been hoped to start in the near future were cancelled or postponed indefinitely.

This situation is attributable to the decline that took place in effective demand for manufactures during 1968, when the current economic stabilization plan was put into effect. Personal consumption fell by 1.2 per cent in 1968, and the decline must have been much greater in non-food manufactures, which are the first goods sacrificed when incomes fall. Manufacturing production did rise, however, because over the same period prohibitions were placed on imports of a number of goods, most of which were being produced in the country by industries using only a part of their installed capacity. These included the canned food, textiles, clothing, domestic electrical and non-electrical equipment industries and certain industries in the chemicals and metal-transforming sectors.

By 1969, this new margin for the import substitution process had been partly taken up, and although personal consumption rose by 4.3 per cent, it did so mainly under the stimulus of increases in the supply of agricultural foodstuffs. In contrast, one of the main indicators of urban demand, i.e., construction, again declined. Given weak effective demand, several of the major manufacturing groups had to cut back production either by reducing the working day or by suspending work on certain days in the week. No data are available for the sector as a whole, but one of its main components—textiles—operated at 40 per cent capacity in 1969, compared with an estimated 60 per cent in 1968.

Manufacturing production was also adversely affected by the decrease in credit made available to the sector by development banks and the commercial banking system. Loans by the Industrial Bank, which had risen by 14 per cent in 1968,[98] fell by 1.3 per cent in 1969. Direct credit to manufacturing enterprises from commercial banks grew at the same rate (15 per cent) as in 1968. However, the sharp contraction in bank credit to commerce, a fall of 20 per cent, created liquidity problems in the manufacturing sector because of the reduction in the amount of financing usually obtained from suppliers and in the demand for credit from wholesalers distributing manufactured goods.

Nevertheless, owing to a rise in direct investment, some industries managed to expand either their installations—the case of some enterprises in the chemicals industry—or their production, the case of the vehicle assembly industry, whose production rose appreciably in 1969, when it delivered a total of 16,860 units (67 per cent more than in 1968). In the Pucallpa region, the marine-engine assembly industry also expanded, although at a slower pace (22 per cent).

3. Recent developments in agrarian reform

In Peru, the ownership of agricultural land has over the years become increasingly con-

[96] See ECLA, *Análisis y proyecciones del desarrollo nacional económico. VI. El desarrollo industrial del Perú* (United Nations publication, Sales No.: 59.II.62).

[97] See, for example, *El Comercio,* 1 January 1970.

[98] The figures given in this paragraph were calculated from data covering nine months in each year.

centrated,[99] and this has led to rather unsatisfactory working methods. As a result, in 1965–1966, 1 per cent of rural families owned four fifths of all agricultural land, while one million peasant families had incomes that allowed them only a bare level of subsistence. It was not possible for the Agrarian Reform Act (No. 15037) of 1964 to change the situation very much, since on the one hand it maintained procedures which made the process of expropriation extremely lengthy, while on the other it contained special exceptional provisions for the largest latifundia in both forest and coastal areas. Between its enactment and 1968, progress in land reform has been the result not of the expropriation of private land[100] but rather of transfers of public land to the land reform agency.

During the first half of 1969, one of the largest and most recently established latifundia (around 1930) was expropriated under the Act owing to the fact that the owner, the Cerro de Pasco Corporation, did not dispute the decision of the land reform agency. It accepted the valuation of its investments, and agreed to accept payment for its installations and livestock in cash and reimbursement for its land in Government bonds.

On 26 June 1969, the Government promulgated Legislative Decree No. 17716, which has the avowed purpose of eliminating latifundia and minifundia, redistributing rural income in favour of the peasants, promoting technological improvements and agricultural production, and, as a corollary, helping expand domestic demand for manufactures. Basically, however, this Decree does away with the exceptions included in the 1964 Act. First, it provides for reforming agrarian structures throughout the country, simply laying down maximum and minimum sizes for future agricultural enterprises in line with current levels of land productivity in the various regions of the country. Secondly, it streamlines the procedures covering expropriations to such an extent that, as has been shown in the brief period that it has been in force, notification of expropriation to owners and effective possession by the land reform agency of an estate are virtually simultaneous. Lastly, it facilitates the financing of expropriations by stipulating that a small proportion of the valuation of the estate, which is to be the amount declared by the owner to the internal revenue service, will be reimbursed in cash[101] and the remainder in Government bonds with maturity periods ranging from twenty to thirty years.

The Decree also provides that owners may sell their land in lots which are not larger than the legal maximum limits. This kind of voluntary land reform is designed to achieve its objectives without involving the land reform agency in debts or the costs of intervention. In certain cases, estates have been broken up into lots with beneficial results, but in others owners have been distributing lots to persons with whom they are associated. In some areas, for example the valleys of Sullana and Cañete, attempts have been made to move tenant farmers from the fertile land they were on to larger but infertile areas, on the grounds that the land they formerly occupied did not satisfy the legal requirements governing size. As a result, the land reform agency has been obliged to keep a closer eye on this voluntary dividing up of estates.

Nevertheless, agrarian reform has progressed fairly rapidly, compared with what has happened in other Latin American countries. During the second half of 1969, the land reform agency took possession of seven sugar latifundia in the central and northern coastal areas; these latifundia comprise a total of 70,000 hectares of irrigated land, produce 700,000 tons of crude sugar, supply most of the potable alcohol consumed in the country, and have industrial installations that qualify them as agro-industrial complexes. More recently, the agency has taken over some large estates in the rice-growing areas, and some others in the mountain areas.

The agro-industrial complexes have not been split up. Special committees have been established to administer them, comprising for the most part government officials and officials from the development banks and representatives of permanently employed wage- and salary-earners. At the end of 1969, organizational committees were set up to lay the groundwork for the eventual conversion of these complexes into co-operatives. The co-

[99] This process has been continuous in the mountain areas. In the coastal areas it was stepped up in sugar-growing regions at the end of the 1900s and again the 1930s, when latifundia were able to expand by making intensive use of ground water. In the forest areas, latifundia have appeared more recently, coinciding with unemployment in mountain areas. See Inter-American Committee for Agricultural Development (CIDA), *Tenencia de la tierra y desarrollo socio-económico del sector agrícola del Perú* (Washington, D.C., Pan American Union, 1966), chapters II and III.

[100] Except for the isolated cases of the valleys of Convención and Lares, and the Algolán estate, which were regulated by special regimes.

[101] At present, the maximum payable in cash is 23,000 dollars.

operative system will ensure that unity is maintained and hence that current production levels do not fall; it should also help to foster continued expansion into new lines of production.

It is still too early to assess what type of structure the land reform agency will seek to impose on other latifundia. It is clear, however, that it will endeavour to replace the rather makeshift administration of peasants' communities with co-operative-style administration, and they enable peasants to use bank credit, which was previously inaccessible to them.

4. The external sector

In 1969, the external sector maintained the over-all trends of 1968. Exports again rose and imports fell, despite their sharp contraction in 1968. The balance of payments on current account again showed a surplus, slightly higher than in 1968, although not large enough to offset the increased outflow of non-compensatory capital, particularly short-term capital. The balance of payments before compensation, which reflects the net external position of the monetary authorities, was again in deficit—55 million dollars—somewhat less than in 1968. The result of the refinancing of the public debt, however, was that gross international reserves, despite the balance-of-payments deficit, increased for the first time in four years (see table 171).

The rise in exports, which amounted to a total value of 997 million dollars, was the result of increased exports of both goods and services. Under the head of services, income in respect of air and sea freight rose to 60 million dollars, attributable to the expansion of air fleets and shipping and their field of operation and to the fact that international airlines used Peruvian airports more frequently. Tourist receipts which had dropped sharply in 1968, rose to 30 million dollars, although still remaining below the 1966–1967 level.

Exports of goods rose from 846 million

Table 171. Peru: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
Current account					
Exports of goods and services	494.1	772.0	885.0	963.0	997.0
Goods (f.o.b.)	444.4	685.0	755.0	846.0	867.0
Services	49.7	87.0	130.0	117.0	130.0
Imports of goods and services	−426.5	−845.0	−1,025.0	−854.0	−835.0
Goods (f.o.b.)	−326.6	−653.0	−801.0	−663.0	−655.0
Services	−99.9	−192.0	−224.0	−191.0	−180.0
Net external investment income	−54.9	−91.0	−140.0	−113.0	−126.0
Net private transfer payments	2.5	5.0	8.0	8.0	8.0
Balance on current account	15.2	−159.0	−272.0	4.0	44.0
Capital account					
Net external financing	−15.2	159.0	272.0	−4.0	−44.0
Non-compensatory external financing	12.2	200.0	185.0	31.0	12.0
Direct investment	11.1	36.0	33.0	10.0	...
Long- and medium-term loans	29.3	173.0	180.0	150.0	165.0
Amortization payments	−35.8	−49.0	−73.0	−116.0	−140.0
Short-term liabilities	3.9	29.0	30.0	−32.0	−28.0
Official transfer payments	3.7	11.0	15.0	19.0	15.0
Non-compensatory domestic capital and assets	0.9	−39.0	−13.0	−10.0	13.0
Errors and omissions	4.4	−40.0	19.0	−96.0	−124.0
Compensatory movements (increase −)	32.7	38.0	81.0	71.0	55.0
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	—	60.0	71.2	102.0	116.0
Amortization payments	−15.5	−7.0	—	−42.0	−5.0
Gold and foreign exchange (increase −)	−17.2	−15.0	9.8	11.0	−56.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 20.
[a] Central Bank estimates.

dollars in 1968 to 867 million in 1969. The increase did not come in all items but was the result of variations in the major export goods. The value of mining exports rose by some 50 million dollars, attributable both to an increase in volume and to higher prices for basic metals. Agricultural and fisheries exports, in contrast, decreased, roughly cancelling out the increase in mining exports.

As a result of the strike at the main copper mine at Toquepala, the volume of mining exports fell by 30 per cent, while their value, owing to the rise in world prices, increased by 11 per cent. Lead exports increased by 2 per cent in volume and 18 per cent in value, since world prices showed a clearly favourable trend throughout 1969. Prices for zinc also moved upwards but, owing to lack of refining capacity, the volume of zinc exports rose by barely 2 per cent. The unit value of iron ore exports declined, rising by only 4 per cent, while their volume increased by 7 per cent.

The drop in anchoveta catches resulted in an 18 per cent decrease in exports of fish meal, the major fisheries export. However, because of Peru's dominant position in the world market, this decline led to an increase in prices and a drop of only 2 per cent in export earnings.

The 42 per cent decline in the volume of sugar exports seriously affected agricultural exports, which fell by 28 million dollars. Another contributory factor was the downward turn taken by world prices for long-fibre cottons of the kind exported by Peru. Hence the 3 per cent increase in the volume of cotton exports was matched by only a 17 per cent increase in their f.o.b. value. The production of coffee, Peru's third major agricultural export, began to decline as a result of very few new plantations having been established in recent years because of coffee's two-year crop cycle. The volume of coffee bean exports fell by 18 per cent, and their value declined by virtually the same percentage, despite the fact that world prices picked up at the end of the year.

As regards outflows, payments in respect of interest and dividends rose from 113 million dollars in 1968 to 126 million in 1969. Interest payments increased owing to the expansion of the external debt and higher interest rates on loans from the world capital market, while dividend payments increased owing to the favourable cost-price ratio of the output of the foreign-owned mines. In this connexion, it should be noted that enterprises in other sectors of the economy earned profits running down the scale from moderate to a negative figure during 1969.

Payments in respect of services for the transport of goods and passengers generally showed a downward trend, especially expenditure by Peruvian residents abroad (tourists and students) which remained at the low level attained after the devaluation of the sol in 1967.

A distinction must be made, moreover, between imports recorded and not recorded by the Peruvian customs authority, which performed quite differently. According to the customs authority, the value of imports contracted for the second year in succession, falling by 150 million dollars in 1968 and 39 million in 1969. However, if these figures are adjusted in the light of other imports, the total value of goods imports in 1969 only fell to 655 million dollars, i.e., were only 8 million dollars less than in 1968.

The net result of all these movements was a surplus on current account of 44 million dollars. Before looking at the capital account, however, it is necessary to add a rider to the data given. During 1969 several enterprises were nationalized and thus the fixed assets of foreign companies operating in Peru diminished. To take account of this, having in mind the methods used for compensating companies, chiefly those laid down in the Agrarian Reform Act, the corresponding items should be added in under other heads in both current and capital accounts. While the assets in question are relatively sizable, the data needed to make the necessary adjustments are unfortunately not available. The paragraphs that follow, therefore, are liable to be substantially modified once the relevant data do become available.

Non-compensatory capital, including capital under the head of errors and omissions, fell by almost 100 million dollars in 1969. This was the second year in succession that capital outflows had been at such a high level (in 1968 the figure was 71 million dollars). In both years, non-compensatory capital outflows have mainly come under the head of errors and omissions, an item which has rose from more than 19 million dollars in 1967 to almost 96 million in 1968 and, including a small amount of short-term credit, to almost 124 million in 1969. In this connexion, it should be noted that the Government has confined itself to controlling, by means of the certificate system, only part of the foreign exchange earnings and holdings of the private sector. Moreover, although there is full convertibility, prohibitions on investment abroad have been in effect since 1968, especially

with respect to international mutual funds.[102]

Long- and medium-term loans during 1969 made a positive, albeit modest, contribution to the balance of payments (25 million dollars) under the head of non-compensatory foreign capital. Their individual components, however, were quite sizable. Gross loans received increased by 15 million dollars to 165 million; but amortization payments grew at a more rapid rate. The net inflow, therefore, was much lower than in 1968, when it amounted to 34 million dollars.

Only partial data are available for the other non-compensatory items (see table 171) although generally speaking there were no significant variations compared with 1968.

In view of the surplus on current account of 44 million dollars, and the deficit of almost 100 million dollars under the head of non-compensatory capital, the balance-of-payments position before compensation, although better than in 1968, showed a large deficit (55 million dollars) in 1969. Financing the deficit increased the indebtedness of the monetary authorities, and balance-of-payments loans received, including loans for restructuring the external debt, totalled 111 million dollars in net terms. Since this figure was larger than the deficit, gross gold and foreign exchange reserves increased by 56 million dollars, providing the monetary authorities, whose gross reserves had fallen in 1967 and 1968, with some degree of autonomy for their decision-making.

[102] Subsequently, in May 1969, the Government completed its foreign exchange control régime and brought the foreign exchange market under exclusive State control.

Dominican Republic

1. Recent economic trends

Judging from preliminary estimates, the gross domestic product rose by about 7 per cent in 1969—more than twice the 3.3 and 3.1 per cent growth rates registered in 1967 and 1968 respectively (see table 172). Some of the reasons for this improvement were the expansion of the agricultural sector, better use of external credit and a relatively high level of direct foreign investment. Economic policy measures were effective in developing trade with the Caribbean countries, holding down the external deficit and increasing public and private investment. The implementation of the First National Development Plan (1970–1974) is expected to rationalize further the operation of the various policy instruments.

Total supply expanded by 6.2 per cent, somewhat less than the product. The increase in available goods and services was to a large extent channelled into capital formation, which was up by 8.9 per cent. The Government played the most important role in giving renewed impetus to the formation of capital, since public investment climbed by 17 per cent in real terms, although private investment was virtually stationary. This increase in public capital expenditure did not affect fiscal and monetary stability, thanks to the maintenance of the policy of austerity which restricted current Government spending despite increased government income. Public consumption therefore rose by only 2.7 per cent, whereas the corresponding figure for private consumption was 5.6 per cent (see table 173 and figure XXIII).

Table 172. Dominican Republic: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Agriculture	30.7	26.8	24.2	24.8	−1.5	2.6	9.6
Mining	1.6	1.6	1.6	1.6	1.0	5.9	10.0
Manufacturing	14.0	11.7	12.3	12.6	−2.4	7.6	9.4
Construction	3.1	4.0	5.7	5.9	6.5	18.9	11.8
Subtotal goods	*49.5*	*44.1*	*43.8*	*45.0*	*−1.1*	*5.8*	*9.9*
Electricity, gas and water	1.1	1.3	1.6	1.6	5.1	13.7	8.6
Transport and communications	4.8	6.5	7.1	6.9	7.6	9.2	4.2
Subtotal basic services	*5.9*	*7.8*	*8.7*	*8.5*	*7.2*	*10.0*	*5.3*
Commerce and finance	16.7	15.6	18.5	...	0.0	12.0	...
Government	11.4	12.5	10.2	...	3.1	−0.9	...
Miscellaneous services	16.5	19.9	18.8	...	5.1	4.0	...
Subtotal other services	*44.6*	*48.1*	*47.5*	*46.4*	*2.8*	*5.6*	*4.6*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*1.0*	*6.2*	*7.0*

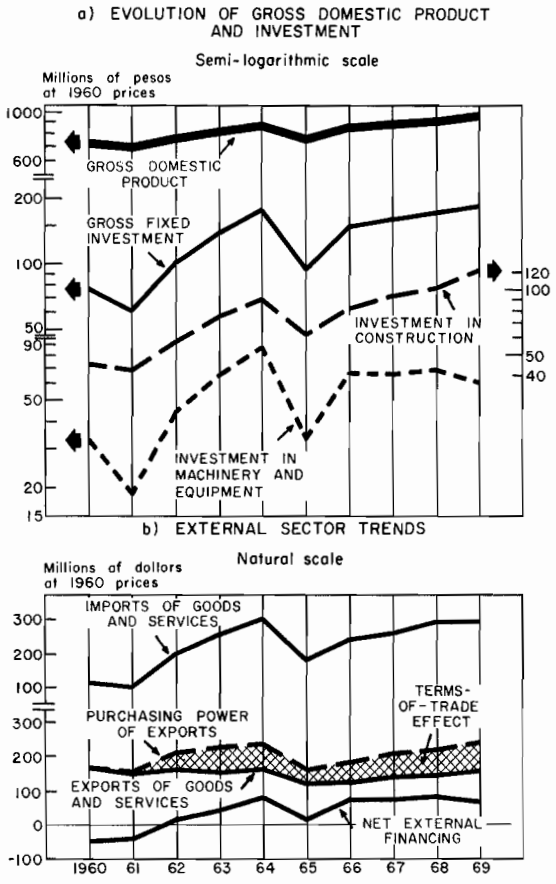
SOURCE: For 1960–1968, ECLA calculations based on information supplied by the Central Bank; for 1969, ECLA estimates.

Table 173. Dominican Republic: total supply and demand for selected years, 1960–1969

	Millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*840.8*	*946.1*	*1,203.8*	*1,278.9*	*116.1*	*124.5*	*132.3*	*131.4*	*2.4*	*8.4*	*6.2*
Gross domestic product	723.9	759.8	909.9	973.6	100.0	100.0	100.0	100.0	1.0	6.2	7.0
Imports of goods and services	116.9	186.3	293.9	305.3	16.1	24.5	32.3	31.4	9.8	16.4	3.9
Total demand	*840.8*	*946.1*	*1,203.8*	*1,278.9*	*116.1*	*124.5*	*132.3*	*131.4*	*2.4*	*8.4*	*6.2*
Exports of goods and services	172.1	127.4	149.5	162.8	23.8	16.8	16.4	16.7	6.0	5.5	8.9
Total investment	*95.2*	*94.6*	*167.8*	*182.7*	*13.1*	*12.4*	*18.4*	*18.8*	*—0.1*	*21.1*	*8.9*
Gross fixed investment	75.7	94.2	171.9	182.2	10.5	12.4	18.9	18.7	4.5	22.4	6.0
Construction	44.3	60.5	101.8	120.1	6.1	8.0	11.2	12.3	6.4	19.0	18.0
Machinery and equipment	31.4	33.7	70.1	62.1	4.4	4.4	7.7	6.4	1.4	27.7	—11.4
Total consumption	*573.5*	*724.1*	*886.5*	*933.4*	*79.2*	*95.3*	*97.4*	*95.9*	*4.8*	*7.0*	*5.3*
General government	92.2	106.5	92.0	94.5	12.7	14.0	10.1	9.7	2.9	—4.8	2.7
Private	481.3	617.6	794.5	838.4	66.5	81.3	87.3	86.2	5.1	8.8	5.6

SOURCE: For 1960 to 1968, ECLA estimates on the basis of data supplied by the Central Bank; for 1969, ECLA estimates.

Figure XXIII. Dominican Republic: 1960–69



2. Major sectors of activity

Unlike the previous two years, the weather was good in 1969, which led to a marked improvement in the agricultural sector whose product rose by 9.6 per cent, as against an average rate for 1967 and 1968 of less than 2 per cent. Production of sugar-cane was up by more than 30 per cent and of tobacco by about 20 per cent, while coffee and cocoa output fell off slightly in absolute terms compared with the previous two years. Production of food-stuffs for domestic consumption soared, thereby facilitating import control measures; preliminary estimates also indicate increases in the production of rice and in particular, beans.

Improving considerably on the sluggish 1.3 per cent growth rate of the period 1966–1968, the industrial product expanded by 9.4 per cent, partly as a result of the recovery of sugar-cane and tobacco production. Stimulated by new investment, the electricity and construction sectors improved on their 1968 performance by 8.6 per cent and 11.8 per cent respectively. As a whole, the subsector of basic services expanded by 5.3 per cent. "Other services" recorded a growth rate of 4.6 per cent, somewhat below average.

3. Employment, wages and prices

The fragmentary data that are available suggest that the economic expansion of 1969 had hardly any effect on the high unemployment rate. The First National Development Plan estimates that unemployment will reach 15 per cent in 1970 and proposes to cut it down to 11 per cent by 1974. This pressure on the labour market has made it possible to reduce some wages and salaries in the public sector—in line with the austerity plan introduced in 1966—and to freeze those of the private sector. Following the introduction of austerity legislation in September 1969, current Central Government expenditure is likely to remain close to the previous year's figure in absolute terms.

The fact that there was no rise in salaries and wages, combined with the recovery of the goods-producing sectors, caused wholesale prices to drop by 4.4 per cent on average over the first ten months of 1969 compared with the same period in 1968; retail prices fell by a little more than 2 per cent. On the other hand, the cost-of-living index for Santo Domingo remained about the same as in 1968, partly on account of the difficulty of controlling prices of food-stuffs and rents.

4. The external sector

Preliminary estimates show that the value of exports of goods rose 12.5 per cent (compared with 4.4 per cent the year before), thanks to the recovery of the agricultural sector, which was reflected mostly in greatly increased sugar-cane and tobacco production. The rise in the value of the country's staple exports was also due to higher world prices. The value of raw sugar and cocoa exports, for example, climbed by 11 and 46 per cent respectively, although in terms of volume the growth rate was only 7 per cent for coffee and nil for cocoa. Income from exports of coffee and tobacco was up on 1968, owing to higher prices and increased volume. Bauxite exports rose by 15 per cent in value compared with 1968, and by 12 per cent in volume. Non-traditional exports, such as tomatoes, essential vegetable oils and meat, did very well, increasing by 15.6 per cent in the first nine months of 1969 compared with the same period in 1968.

As a result of policies to hold down the external deficit, the growth rate of merchandise

imports fell from 13 per cent in 1968 to 7.4 per cent in 1969. Despite policy measures and the expansion of exports, however, there was still a trade gap, although it was slightly smaller than the 1968 deficit which also led to a deficit on current account (see table 174).

Although it dropped to half the 1968 figure, net direct investment was relatively high and is likely to remain so for the next two years as a result of the agreements reached or being negotiated with Falconbridge Dominicana for the production of ferro-nickel and with Shell Petroleum Company for the installation of an oil refinery. The total inflow of non-compensatory foreign capital, however, again rose, with the result that there was a slight improvement in net foreign exchange reserves.

5. First National Development Plan

Towards the end of the year the draft Development Plan for 1970–1974 was published. Its main objective is to create a highly efficient agro-industrial economy, the first step towards which will be to concentrate on increasing productivity in the traditional economic sectors, particularly agriculture and sugar production. At later stages, a new direction will be given to industry so as to increase intersectoral relations within the country and the number of employment opportunities in relation to capital invested. New activities such as mining and tourism are to be developed under the Plan, which also recognizes the need for new links with foreign countries, an economic integration policy, and better marketing techniques, especially for sugar.

Clear priority in the allocation of funds is given to production; as regards social services (health, housing, water supply, etc.), all that will be done is to try to avoid the accumulation of deficits.

The Plan's specific goals are: (*a*) an annual per capita income of 316 dollars by 1974; (*b*) a reduction of the present unemployment rate by 19 per cent; (*c*) schooling for the entire population between the ages of 7 and 14; (*d*) reduction of the trade deficit to 22.8 million dollars by 1974; (*e*) doubling the current energy production; and (*f*) provision of drinking water for about 800,000 people. If these

Table 174. Dominican Republic: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	*1965*	*1967*	*1968*	*1969*[a]
Current account					
Exports of goods and services	172.1	143.1	181.6	198.1	222.7
Goods (f.o.b.)	157.4	125.5	156.6	163.5	184.0
Services	14.7	17.6	25.0	34.6	38.7
Imports of goods and services	−116.9	−163.9	−229.3	−258.7	−274.7
Goods (f.o.b.)	−90.3	−120.7	−174.2	−196.8	211.3
Services	−26.6	−43.2	−55.1	−61.9	−63.4
Net external investment income	−9.6	−12.0	−22.2	−19.0	−23.5
Net private transfer payments	−3.0	12.4	6.0	8.9	7.0
Balance on current account	42.6	−20.4	−63.9	−70.7	−68.5
Capital account					
Net external financing	−42.6	20.4	63.9	70.7	68.5
Non-compensatory external financing	−18.2	45.8	39.6	57.4	70.0
Direct investment	1.0	6.0	...	18.0	9.0
Long- and medium-term loans	—	19.2	46.5	37.5	53.2
Amortization payments	−0.5	−5.7	−6.6	−7.7	−9.7
Short-term liabilities	−18.6	−38.9	−0.3	8.5	16.0
Official transfer payments	−0.1	65.2	...	1.1	1.5
Non-compensatory domestic capital or assets	3.3	−3.5	−0.4	12.7	...
Errors and omissions	−28.1	−24.3	19.5	7.7	—
Compensatory movements (increase −)	0.4	2.4	5.2	−7.1	−1.5
Balance-of-payment loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	9.0	5.0	12.4	11.0	2.8
Amortization payments	−20.7	−4.4	−8.0	−14.5	
Gold and foreign exchange (increase −)	12.1	1.8	0.8	−3.6	−4.3

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 21.
[a] Estimates.

objectives are to be achieved, the product will have to grow by about 6.6 per cent annually.

To reach these goals, the Plan provides for the Government to extend and intensify the agrarian reform programmes, provide irrigation for 1.1 million hectares and expand agricultural research programmes and agricultural extension services. It also covers the adoption of a policy to improve the conditions of the urban marginal sectors and lays stress on the need for training at both the intermediate and the lower levels.

As to the private sector, the Plan aims at: (*a*) sufficient investment to enable the industrial sector to achieve an annual growth rate of about 9 per cent; (*b*) irrigation for 40,000 hectares of private sugar plantations; (*c*) production of ferro-nickel; (*d*) construction of hotels; and (*e*), construction of 1,400 classrooms.

The economic and social objectives set by the Plan would necessitate a net investment of 1,386 million pesos, i.e., double the investment over the past five years. Of this, 38 per cent would go to the public sector, which would concentrate on investment in infrastructure, while investment by the private sector would mostly be in industry, mining, agriculture and housing. According to the Plan, public saving would have to double between 1969 and 1974 and private saving increase by two thirds, while around 550 million dollars would have to come from abroad. When these figures were compared with the volume of investment needed, it was found that some 215 million dollars' worth of additional financing would be required.

Trinidad and Tobago

1. Recent economic trends

The preliminary data available for 1969 indicate that the gross product, which grew at an annual rate of 6.9 per cent at current prices in the period 1960–1967, and of 12.4 per cent in 1968, is estimated to have risen by only 2.7 per cent in 1969. In comparing these rates it should be borne in mind that domestic prices rose by just over 2 per cent in 1969, which was similar to the increase in 1960–1967 and far below that recorded in 1968.

During 1969 the growth of the main production sectors was very uneven. Petroleum output, after a relatively rapid increase in recent years, declined 1.6 per cent; agriculture followed much the same trend; manufacturing pursued its upward trend, and construction showed a significant increase for the second year in succession (see tables 175, 176 and figure XXIV).

In the external sector, exports of goods fell off slightly but imports continued to expand at an estimated rate of 7 to 8 per cent, which must have increased the balance-of-payments deficit on current account.

Unemployment continued to be a major socio-economic problem in 1969, being estimated at 14 per cent of the total labour force, without counting disguised unemployment, which appears to be fairly extensive. There are no signs of any change in this situation despite the decreasing population growth, which is due partly to the decline in the gross birth rate (25.7 per cent in 1969) and partly to the marked increase in emigration since 1964,

Table 175. Trinidad and Tobago: gross domestic product at factor cost by economic sector, for selected years, 1960–1969

	Millions of Trinidad and Tobago dollars at current prices				*Structure (percentages)*		*Growth rates (percentages)*		
	1960	*1965*	*1968*[a]	*1969*[b]	*1960*	*1969*	*1960–1965*	*1965–1968*	*1969*
Agriculture, forestry, fishing and quarrying	108.4	105.5	127.0	126.9	12.5	8.0	−0.5	6.4	—
Mining and refining of petroleum, asphalt and gas	263.4	284.1	379.0	373.0	30.4	23.5	1.5	10.1	−1.6
Manufacturing	108.2	179.2	269.9	293.0	12.5	18.5	10.6	14.6	8.5
Construction	40.6	58.6	58.1	63.5	4.7	4.0	7.6	−0.3	9.3
Transport and distribution	149.6	211.7	273.0	277.5	17.2	17.5	7.2	8.9	1.6
Public utilities	40.6	64.9	89.0	81.0	4.7	5.1	9.8	11.1	−9.0
Government	82.5	118.6	162.0	173.0	9.5	10.9	7.5	11.0	6.8
Ownership of dwellings	16.8	47.3	54.5	58.7	1.9	3.7	23.0	4.8	7.7
Banking and finance	20.0	39.4	47.0	50.8	2.3	3.2	14.5	6.1	8.1
Other services	34.9	66.6	83.7	89.0	4.0	5.6	13.8	7.9	6.3
TOTAL	*865.0*	*1,175.9*	*1,543.9*	*1,586.0*	*100.0*	*100.0*	*6.3*	*9.5*	*2.7*

SOURCES: Annual *Statistical Digest*, and draft Third Five-Year Plan, 1969–1973.

[a] Provisional.
[b] ECLA, estimate on the basis of official statistics.

Table 176. Trinidad and Tobago: product, consumption, investment and external sector for selected years, 1960–1969

	Millions of Trinidad and Tobago dollars, at current prices				*Annual growth rates (percentages)*		
	1960	*1965*	*1967*	*1968*[a]	*1960–65*	*1965–67*	*1968*
Gross domestic product at market prices	918	1,249	1,469	1,628	6.4	8.5	10.8
Total investment	...	328	296	...	...	−5.0	...
Gross fixed investment	268	326	298	304	4.0	−4.4	2.0
Public	47	69	57	65	8.0	−9.1	14.0
Private	221	257	241	239	3.1	−3.2	−0.9
Total consumption	643	966	1,093	1,232	8.5	6.4	12.7
Public	68	153	184	199	17.6	9.7	8.2
Private	555	813	909	1,032	7.9	5.8	13.5
Exports of goods and services	552	815	892	1,025	8.1	4.6	14.9
Imports of goods and services	562	876	812	932	9.3	−3.8	14.8

SOURCES: Annual *Statistical Digest* and draft Third Five-Year Plan, 1969–1973.

[a] Preliminary estimates.

mainly to the United States and Canada, involving an estimated net figure of 13,000 persons in 1969.

In addition to the growth of unemployment, the last few years have witnessed some deceleration in the rate of industrial wage increases, but during the decade they rose more rapidly than domestic consumer prices.

2. SOME ECONOMIC POLICY MEASURES

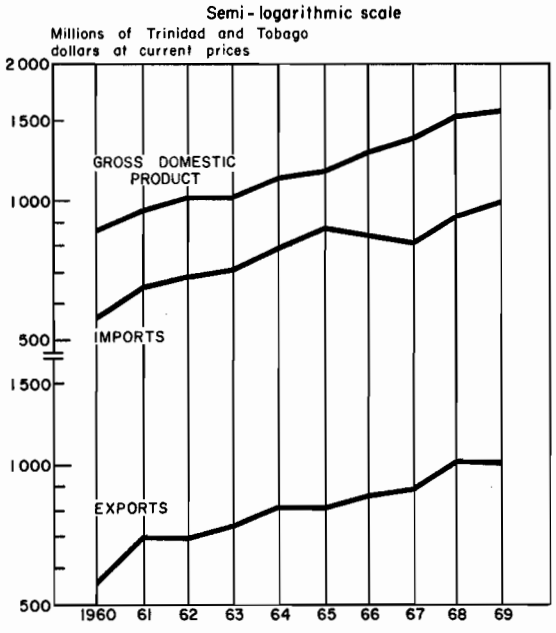
The impetus of the manufacturing sector has been buttressed by direct government incentives and by investment in infrastructure in accordance with the guiding principles of the third Five-Year Development Plan. Recently the incentives to industry were reviewed and a study was made of fiscal incentives in the CARIFTA countries,[103] with the result that more selective criteria are now being used in their application.

Studies are also under way for the promotion of agricultural production by means of incentives, with a view to import substitution and the opening-up of export markets, particularly in the CARIFTA area.

Recently there has been a growing tendency to restructure activities in the public sector. On the one hand, the Government took over the local assets of an international petroleum company and formed a national petroleum company and on the other hand, it sold shares in public utilities to the private sector.

Figure XXIV. Trinidad and Tobago: 1960–69

EVOLUTION OF GROSS DOMESTIC PRODUCT, IMPORTS AND EXPORTS



3. MAJOR SECTORS OF ACTIVITY

The value added by the petroleum industry is estimated to have dropped by 1.6 per cent as the result of the fall in domestic crude petroleum output from 67 million barrels in 1968 to about 58 million barrels in 1969. At the same time, refining output increased from 151 million to 154 million barrels, which meant an estimated 12 per cent rise in crude petroleum imports.

Trinidad and Tobago currently imports more than 60 per cent of the crude oil it refines. This situation may change in the future, since prospecting off the east coast of Trinidad has revealed some reserves of high-quality low-sulphur-content crude, and some natural gas, while the encouraging results of the seismic survey undertaken on the north coast have

[103] See ECLA, "Report of the Expert Team on Harmonization of Fiscal Incentives to Industries in the Caribbean Free Trade Area" (E/CN.12/845).

induced several international petroleum companies to explore this area.

Agriculture once again stagnated, after a brief recovery in 1968. Agriculture promotion programmes have centred on production for the domestic market, which fared considerably better than export agriculture.

The main export crops were affected by adverse weather conditions. Sugar production fell from 239,000 to 237,000 tons, while cocoa output declined by an estimated 43 per cent and coffee by about 33 per cent. Citrus fruit production, however, showed an increase of approximately 1.4 per cent. Nevertheless, the export value of these commodities as a group increased, owing to a rise in the export price of cocoa and the use of sugar stocks to satisfy increasing United States demand.

Agricultural production for home consumption continued to improve. Milk production rose 25 per cent, with the establishment of eighty-two new dairy farms, and the output of pork products, which are now being exported to Venezuela, the Bahamas and the CARIFTA countries, showed a 15 per cent increase. Trinidad and Tobago has become self-sufficient in some vegetables and poultry products.

Manufacturing continued to be the most dynamic economic sector in 1969, with a growth rate of 8.5 per cent and a share in the total product which rose from 12.5 per cent in 1960 to 18.5 per cent in 1969. Although production of traditional manufactures (alcoholic beverages, oils and fats, and cement) registered significant increases, output of petrochemical products also grew rapidly and the range of new manufactures broadened. The motor-vehicle-assembly industry—with a low value added locally—pushed up its output from 2,900 units assembled in the first eleven months of 1968 to 5,100 during the same period in 1969 (see table 177).

4. The external sector

The incomplete data available for 1969 indicate a drop in exports of goods, the reason being the reduction in sales of petroleum products (net of crude petroleum imports) and of machinery and transport equipment which are of relatively little importance. Other exports —mainly manufactures, chemical products and food-stuffs—show appreciable increases.

Imports of goods—particularly manufactured products and food-stuffs in general—are estimated to have grown by 7 to 8 per cent during 1969, from which it may be assumed that the trade balance showed a deficit in 1969, in contrast to the results in 1967 and 1968 (see tables 178, 179 and 180).

Table 177. Trinidad and Tobago: production of selected industrial products, 1965–1969

Product	*Units*	*1965*	*1966*	*1967*	*1968*	*1969*[a]
Rum	Thousands of proof gallons	2,338	1,724	1,503	1,524	1,711
Beer and stout	Thousands of liquid gallons	2,162	2,207	2,289	2,296	3,030
Tobacco and cigarettes	Thousands of pounds	1,551	1,718	1,670	1,619	1,696
Edible oils	Thousands of gallons	2,042	2,011	2,079	2,116	2,300
Margarine, lard and butter substitutes	Thousands of pounds	7,027	7,678	8,642	10,224	9,995
Soap	Thousands of pounds	11,446	12,133	12,680	12,923	13,807
Cement	Thousands of tons	186	209	187	207	236
Fertilizers	Thousands of short tons	...	...	...	572[a]	617[a]
Motor vehicles assembled	Units	...	...	...	2,894[a]	5,100[a]

SOURCE: *Quarterly Economic Report*, 1969 and ECLA estimates based on official data.

[a] January–November.

Table 178. Trinidad and Tobago: main imports, excluding petroleum 1964–1969

	Total imports (millions of Trinidad and Tobago dollars)				*Share of total imports (percentages)*	
	1964	*1965*	*1968*	*1969*[a]	*1964*	*1969*[a]
Manufactures	126.5	141.8	135.0	157.8	17.3	16.9
Food, beverages and tobacco	93.7	98.1	97.1	114.3	12.8	11.6
Chemicals	29.0	34.6	35.8	40.8	4.0	4.4
Crude raw materials other than fuel	10.4	9.8	12.1	13.4	1.4	1.4
Machinery and transport equipment	95.7	129.1	103.8	84.5	13.1	11.6
Motor vehicles and parts	21.7	25.2	20.9	24.7	3.0	2.6

SOURCES: *Overseas Trade Report* (annual and monthly issues).

[a] Estimates based on data for ten months.

Table 179. Trinidad and Tobago: major exports for selected years, 1964–1969

Product	Total exports (millions of Trinidad and Tobago dollars)				Share of total exports (percentages)	
	1964	1965	1968	1969[a]	1964	1969[a]
Fuels and lubricants[b]	211.8	30.3	168.6	272.7	221.3	23.6
Manufactured goods	13.5	1.9	14.3	23.0	29.8	3.2
Chemicals	27.9	4.0	37.3	82.6	88.2	9.4
Machinery and transport equipment	5.0	0.7	4.9	13.3	5.8	0.6
Raw materials	5.2	0.7	4.8	5.0	5.5	0.6
Food	66.0	9.4	59.3	76.7	88.0	9.4

SOURCE: *Overseas Trade Report* (annual and monthly issues).
[a] Estimates based on data for ten months.
[b] Net of crude petroleum imports.

Table 180. Trinidad and Tobago: balance of payments, 1964–1968
(Millions of Trinidad and Tobago dollars)

	1964	1965	1966	1967	1968
Current account					
Goods					
Exports f.o.b.[a]	693.4	710.5	752.7	750.2	947.1
Imports c.i.f.[b]	731.0	816.9	772.6	710.1	853.3
Balance on goods	−37.6	−106.4	−19.9	40.1	93.8
Services					
Transport	61.8	57.8	57.8	52.9	60.9
Foreign travel	0.3	0.2	3.2	−0.7	7.9
Investment income	−121.4	−103.3	−107.6	−121.8	−132.6
Other	6.3	8.5	9.8	−8.9	−34.1
Balance on services	−46.3	−36.8	−28.4	−78.5	−97.9
Balance on goods and services	−83.9	−143.2	−48.3	−38.4	−4.1
Transfer payments	1.2	21.3	8.4	−1.6	—
Public	−0.1	20.7	7.8	−3.2	−2.0
Private	1.3	0.6	0.6	1.6	2.0
Capital account					
Net capital inflows	75.2	119.3	50.3	45.6	52.2
Private sector	52.3	102.0	37.6	42.9	45.0
Public sector	22.9	17.3	12.7	2.7	7.2
Net errors and omissions	−22.9	9.9	−1.7	−3.7	−0.6
Surplus or deficit	−31.6	7.3	−9.7	1.9	47.5
Financing of the deficit					
Net movements of foreign exchange reserves (increase −)	31.6	−7.3	9.7	−1.9	−47.5

SOURCES: *Annual Statistical Digest;* for 1967, preliminary figures; for 1968, preliminary estimates.
[a] Adjustments in "overseas trade" exports comprise addition of coverage adjustment, and valuation and subtraction of ships' stores and bunkers.
[b] Adjustments in "overseas trade" imports comprise addition of coverage adjustment, and subtraction of freight paid to resident carriers.

Uruguay

1. RECENT ECONOMIC TRENDS

In 1969, the gross domestic product grew by some 5.3 per cent, mainly owing to the significant expansion of the agricultural sector (15 per cent). Despite this notable recovery compared with previous years, the level achieved was still lower than the 1966 level, in absolute terms. Gross fixed investment increased by 32.3 per cent, and consumption, which had declined the previous year, grew by 3.5 per cent (see tables 181, 182 and figure XXV).

In the external sector, exports of goods amounted to about 200 million dollars, and imports f.o.b. to 176 million, owing to the increase in exports of meat and hides and to purchases of machinery and equipment. Between December 1968 and December 1969, retail prices rose by 14.5 per cent and wholesale prices by 7.3 per cent, remaining below the ceilings fixed by the Executive at the beginning

Table 181. Uruguay: total supply and demand for selected years, 1960–1969

	Millions of pesos at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–1965*	*1965–1968*	*1969*
Total supply	*16,299.0*	*15,982.0*	*15,977.5*	*17,082.9*	*120.0*	*112.7*	*115.4*	*117.1*	*−0.4*	—	*6.9*
Gross domestic product	13,583.0	14,184.5	13,848.2	14,582.1	100.0	100.0	100.0	100.0	0.9	−0.8	5.3
Imports of goods and services	2,716.0	1,797.5	2,129.3	2,500.8	20.0	12.7	15.4	17.1	−7.9	5.8	17.4
Total demand	*16,299.0*	*15,982.0*	*15,977.5*	*17,082.9*	*120.0*	*112.7*	*115.4*	*117.1*	*−0.4*	—	*6.9*
Exports of goods and services	1,952.0	3,061.4	2,749.0	2,840.2	14.4	21.6	19.8	19.5	9.4	−3.5	3.3
Total investment	*2,392.0*	*1,496.2*	*1,663.0*	*2,276.6*	*17.6*	*10.5*	*12.0*	*15.6*	*−8.9*	*3.6*	*36.9*
Gross fixed investment	2,045.0	1,566.7	1,685.8	2,230.3	15.1	11.0	12.2	15.3	−5.2	2.5	32.3
Construction	1,371.0	927.9	974.9	974.9	10.1	6.5	7.1	6.7	−7.5	1.6	—
Machinery and equipment	674.0	638.8	710.9	1,255.4	5.0	4.5	5.1	8.6	−1.1	3.6	76.6
Total consumption	*11,955.0*	*11,424.4*	*11,565.5*	*11,966.1*	*88.0*	*80.5*	*83.5*	*82.1*	*−0.9*	*0.4*	*3.5*
General government	1,228.0	1,446.4	1,484.0	1,518.1	9.0	10.2	10.7	10.4	3.3	0.9	2.3
Private	10,727.0	9,978.0	10,081.5	10,448.0	79.0	70.3	72.8	71.7	−1.5	0.3	3.6

SOURCE: ECLA. calculations on the basis of data supplied by the Central Bank.

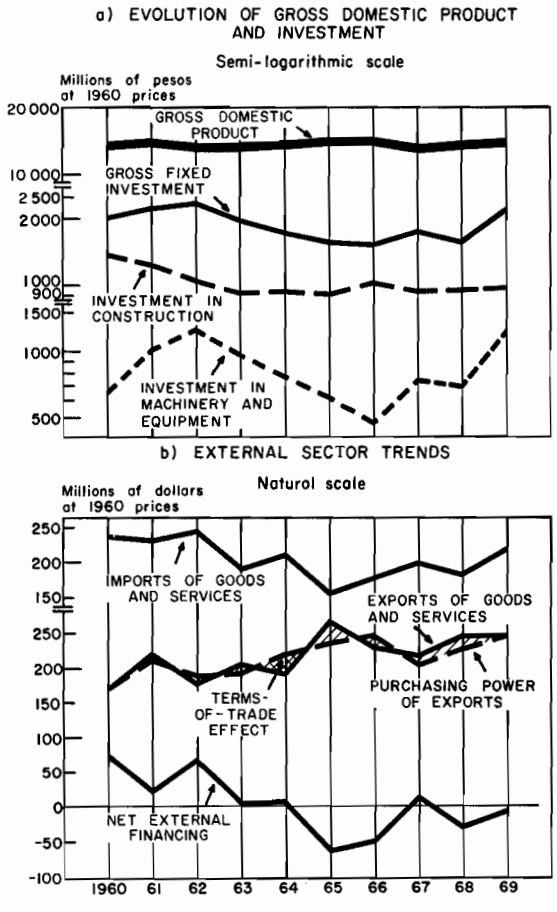
Table 182. Uruguay: gross domestic product at factor cost, by sector of economic activity

	Structure (percentages)				Average annual growth rates (percentages)		
	1960	*1965*	*1968*	*1969*[a]	*1960–65*	*1965–68*	*1969*
Agriculture	19.3	21.3	19.3	20.9	3.0	−4.3	15.0
Manufacturing[b]	21.2	21.2	22.4	22.1	1.0	0.8	4.8
Construction	5.2	3.3	3.6	3.4	−7.8	2.0	—
Subtotal goods	*45.7*	*45.8*	*45.3*	*46.4*	*1.1*	*−1.4*	*8.8*
Electricity, gas and water	1.5	1.8	2.0	2.0	4.5	3.5	6.6
Transport and communications	7.5	7.4	6.9	7.0	0.7	−3.1	7.6
Subtotal basic services	*9.0*	*9.2*	*8.9*	*9.0*	*1.3*	*−1.7*	*7.3*
Commerce and finance	21.4	20.7	21.0	21.0	0.3	−0.5	6.1
Government	8.2	8.3	8.4	7.9	1.4	−0.8	—
Miscellaneous services	15.7	16.0	16.4	15.6	1.4	−0.1	0.4
Subtotal other services	*45.3*	*45.0*	*45.8*	*44.5*	*0.9*	*−0.4*	*2.9*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*0.9*	*−0.8*	*5.3*

SOURCE: ECLA estimates on the basis of data supplied by the Central Bank.

[a] Provisional estimates.
[b] Including mining.

Figure XXV. Uruguay: 1960–69



of 1969. It was thus possible to continue to hold back inflation, which had been the main problem of economic policy in 1967 and the first half of 1968, when there were increases in consumer prices of 135 and 64 per cent, respectively. At the same time, there was a clear improvement in liquidity, with no special pressure on the exchange market and a significant increase in international reserves. The Central Government had a deficit of about 14 per cent of total expenditure.

2. MAJOR SECTORS OF ACTIVITY

The agricultural sector was favoured by good weather conditions, which were a decisive factor in the 15 per cent increase in output. Crop production expanded by 48 per cent and livestock production by 2 per cent. Noteworthy in crop farming were the increases in the output of cereals (12.9 per cent), roots and tubers (144 per cent) and oil-seeds (55 per cent). Table 183 shows the marked increases in the area under cultivation and in the output of wheat, oats and linseed. A contributory factor in this respect was state action to promote the expansion of the area sown to wheat, linseed, brewer's barley and sorghum, which included the provision of increased credit to producers. The implementation of the agricultural plan continued, mainly aimed at expanding man-made pastures and improving natural pastures. The abundance of fodder throughout the year favoured the livestock industry, chiefly milk production, which grew by 12 per cent, while meat production increased by 3 per cent. Wool output in 1968/69 amounted to some 80,000 tons, almost 5 per cent below the figure for 1967/68 in volume, although of better quality.

The impact of the ups and downs in domestic demand is clearly observable in the development of the industrial sector. Thus, the decree of 28 June 1968 freezing prices and wages

Table 183. Uruguay: areas sown, production and yield for principal crops, 1966/67–1968/69
(Hectares, tons and kilogrammes per hectare)

	1966/67	1967/68	1968/69	Percentage variation 1968/69 / 1967/68
Wheat				
Area sown (ha)	379,550	222,060	535,200	141.0
Production (ton)	328,760	143.776	469,790	226.8
Yield (kg/ha)	866	647	878	35.7
Oats				
Area sown (ha)	91,730	54,150	89,200	64.7
Production (ton)	71,708	32,954	73,155	122.0
Yield (kg/ha)	782	609	820	34.6
Linseed				
Area sown (ha)	66,100	51,250	81,680	59.4
Production (ton)	40,403	26,838	56,458	110.4
Yield (kg/ha)	611	524	691	31.9
Maize				
Area sown (ha)	226,000	161,700	175,800	8.7
Production (ton)	116,885	69,165	128,820	86.3
Yield (kg/ha)	517	428	733	71.3
Rice				
Area sown (ha)	33,976	30,747	34,340	11.7
Production (ton)	115.617	104,456	134,496	28.8
Yield (kg/ha)	3,403	3,397	3,917	15.3
Sunflower				
Area sown (ha)	164,050	108,970	90,750	—16.3
Production (ton)	75,995	48,558	62,515	28.7
Yield (kg/ha)	463	446	689	54.5

SOURCE: Ministry of livestock and agriculture.

weakened demand, causing a decline in production, until in the second quarter of 1969, the market revived as a result of an increase in real wages. In 1969, the industrial sector expanded by 4.8 per cent. The largest increases were recorded in activities aimed at the domestic consumer market (beverages, tobacco, printing, petroleum products, chemicals, electrical appliances and metal products). The export industries grew unevenly, with food processing expanding and textile production contracting (see table 184).

Other factors promoting the growth of the sector, in addition to the increase in demand, were the increased supply of agricultural raw materials and policies to promote exports of non-traditional items. Noteworthy in this connexion is the 9 per cent rise in the output of the food-stuffs industry, which accounts for close to one quarter of total industrial production. Within the food-stuffs industry, the refrigerating branch grew by 4 per cent, despite a protracted labour conflict and the decision of the United Kingdom Government to buy only boned meat from countries where foot-and-mouth disease had not been totally eradicated. The milk products industry expanded by 15 per cent, and milling by almost 10 per cent.

Table 184. Uruguay: physical volume of manufacturing production, 1969
(Percentage variation compared with 1968)

	Percentage variation
Foodstuff	9.0
Beverages	26.3
Tobacco	16.9
Textiles	—12.0
Clothing and made-up garments	—11.1
Paper and printing	8.7
Rubber	6.3
Chemicals	8.9
Petroleum products	7.8
Construction materials	3.2
Metallurgy	5.3
Electronics industry	12.2
TOTAL	*4.8*

SOURCE: Central Bank, Economic Research Department, *Reseña de la actividad económica correspondiente al año 1969*, Montevideo, February 1970.

The construction sector maintained its 1968 level of activity over-all, with private construction contracting by 4 per cent and public

construction expanding by 25 per cent. The cutback in private building was partly attributable to a lengthy labour conflict in the principal enterprise producing cement. Expenditure by the Ministry of Public Works increased by 25 per cent, one quarter being financed with external resources, and one half of the remainder being covered by treasury bills.

The services sector grew by 3.2 per cent, reflecting increased agricultural and industrial activity and an increase in imports.

3. Prices, wages and employment

Between December 1968 and December 1969, consumer prices rose by 14.5 per cent (see table 185); the increase was relatively small because meat prices remained stable, but other food-stuffs and the clothing industry showed a rise; the upward adjustment of rents was also of great importance. Wholesale prices increased by 7.3 per cent, covering an increase of 10.5 per cent for agricultural commodities and of 6.2 per cent for manufactures; the smaller rise in industrial prices is due to the fact that the enterprises partly absorbed the increase in costs as from July 1968. This was possible because of the early rise in prices in the first half of 1968 and the fact that there were no substantial increases in salaries or in the prices of intermediate goods. The marked disparity between the consumer and wholesale price indexes is largely due to the law decontrolling rents, which provided for an average 200 per cent rise in rent ceilings; but owing to the slowness of the decontrol procedures, the average rise for 1969 was only 70 per cent. The Commission on Productivity, Prices and Wages (Comisión de Productividad, Precios e Ingresos —COPRIN) was established to implement price and wages policy and was empowered to fix maximum prices for a number of goods and services.

To sum up, it was possible to keep price rises within reasonable limits thanks to the stability of the exchange rate, wages policy, controls to prevent certain costs being passed on to the consumer, the limitation of commercial intermediaries' profit margins, the favourable weather conditions which ensured a normal supply of agricultural products, and the protracted legal procedures for fixing new rents.

Real wages rose on average by 5 per cent in 1969. The workers most favoured proportionally were those in the private sector (see table 186). There were two wage adjustments in the private sector, as from 1 April and as from 1 December 1969; in both cases increases

Table 185. Uruguay: consumer price index, 1969
(Percentage increase over 1968)

	Percentage increase
Foodstuffs	9.7
Beverages	24.0
Meat, sausages and fish	10.4
Cereals and cereal products	1.9
Fruit, pulses and vegetables	22.9
Fats and oil	18.1
Milk, milk products and eggs	0.4
Unclassified foodstuffs	1.1
Clothing	25.9
Housing	50.4
Rents	69.4
Electricity	25.2
Telephone	23.6
Miscellaneous	9.8
General index	14.5

SOURCE: Statistics and Census Office.

Table 186. Uruguay: real wages index, 1967–1969

Year	*Real wages index*		
	General index	*Public sector*	*Private sector*
1967			
Average	—	—	113.0
December	—	—	95.3
1968			
Average	100.0	100.0	100.0
December	108.5	104.5	112.0
1969			
Average	111.5	111.7	111.2
January	114.8	119.4	110.7
April	113.0	112.6	113.4
November	107.2	106.7	107.6
December	113.6	105.9	120.7

SOURCE: Statistics and Census Office.

of 8 per cent on basic salary were granted, with an additional 6 per cent for family allowances on the second occasion. Civil servants were granted an increase of 30 per cent on 1 January 1968.

The employment situation also improved as a result of increased economic activity. A tendency to take on more staff—particularly in certain refrigeration plants and transport companies—is observable in the industrial survey carried out in the last quarter of the year.

4. Public income and expenditure

In 1969, the budget of the Central Government showed a deficit of 8,200 million pesos, equivalent to 11.7 per cent of expenditure. Receipts were satisfactory—8.3 per cent up on 1968 in real terms—but income was still 1,900 million pesos below the budget estimates. Expenditure, too, was 1,900 million pesos higher than the estimates, and this meant that the budgetary deficit of 8,200 million pesos was 3,800 million more than estimated. To finance the deficit, the Government hoped to sell treasury bills to a value of 1,400 million pesos and to take out a loan from the Banco de la República for 3,000 million. However, since receipts and also the income from the sale of treasury bills yielded less than expected, the final debit balance with the Banco de la República amounted to 8,800 million pesos (see table 187).

Government income amounted to 61,800 million pesos, 14,600 million higher than in 1968 and an increase of 8.3 per cent in real terms. Expenditure amounted to 70,000 million pesos, 20.6 per cent up in real terms on 1968.

Gross investment by the Ministry of Public Works amounted to 6,500 million pesos, 31 per cent of which was financed from tax revenue, 43 per cent from treasury bills and 26 per cent from external resources.

5. Money and credit

During 1969, the liquidity of the economy (measured in terms of the money in circulation plus private deposits of all kinds in the banking system) rose by 27.5 per cent in real terms. The most important contributory factors were the growth of foreign exchange reserves and the increase in credit to the private sector. To ensure that the liquidity of the economy did not adversely affect its stability, It was decided to retain the ceilings on portfolio holdings in national currency in private commercial banks, although exceptions were made for special rediscount lines covering transactions having priority under credit policy. Total credit granted by the banking system to the private sector rose by 11.4 per cent in real terms.

The monetary liabilities of the banking system rose from 67,200 million pesos to 98,100 million between 31 December 1968 and 31 December 1969, an increase of 28 per cent in real terms. The monetary liabilities of the Central Bank and the Banco de la República rose by 33 per cent in real terms (see table 188).

Table 187. Uruguay: income and expenditure and financial position of the Central Government
(Thousands of millions of pesos)

	1968 final figures	1969		Increase in 1969 over 1968	Difference from estimates in 1969
		Estimates	Final figures		
Total cash income	*47.2*	*63.7*	*61.8*	*14.6*	*−1.9*
Sums withheld	9.4	7.0	5.8	−3.6	−1.2
Charges	2.5	4.0	4.1	1.6	0.1
Other income	35.3	52.7	61.9	16.6	−0.8
Total cash expenditure[a]	*48.0*	*68.1*	*70.0*	*22.0*	*1.9*
Remuneration	31.7	45.4	48.6	16.9	3.2
Wages and salaries and social security benefits	27.3	38.9	43.4	16.1	4.5
Payments to social security fund	4.4	6.5	5.2	0.8	−1.3
Current expenditure	5.0	10.6	7.6	2.6	−3.0
National subsidies fund	2.4	0.8	3.8	1.4	3.0
Other transfers	4.0	3.6	4.2	0.2	0.6
Interest on the public debt	3.3	5.5	3.8	0.5	−1.7
Investment of tax revenue	1.6	2.2	2.0	0.4	−0.2
Financial position[a]	*−0.8*	*−4.4*	*−8.2*	*−7.4*	*−3.8*
Short/all to be financed	*0.8*	*4.4*	*8.2*	*7.4*	*3.8*

SOURCE: Central Bank, Economic Research Department, op. cit.
[a] Excluding investment financed by treasury bonds, foreign loans and under United States Public Law 480.

Table 188. Uruguay: monetary liabilities of the consolidated banking system, 1962–1969
(Thousands of millions of pesos)

End of year	At current prices for each year	At 1967 prices	Deflated (December 1967 = 100)
1962	5.8	74.7	7.8
1963	7.5	67.3	11.1
1964	10.3	68.2	15.1
1965	16.1	56.7	28.4
1966	21.4	50.5	42.4
1967	41.8	41.8	100.0
1968	67.2	40.4	166.3
1969	98.1	51.5	190.5

SOURCE: Central Bank, Economic Research Department, op. cit.

6. THE EXTERNAL SECTOR

Exports of goods amounted to 201 million dollars in value, a growth of 12.2 per cent compared with the previous year, owing to significant increases in sales of meat, hides and non-traditional products; imports of goods f.o.b. amounted to 176 million dollars (20.9 per cent more than in 1968), owing to the large increase in imports of machinery and equipment. As regards services, exports remained at the same level as the previous year, while imports rose from 49.9 to 58 million dollars. As a result, the balance of payments showed a current account surplus of only 5.3 million dollars (compared with 22.1 million in 1968), which, together with the net inflow of non-compensatory capital, made up the 17 million dollar surplus on the balance of payments before compensatory financing and improved the net position of the monetary authorities (see table 189).

In 1969, international assets grew by 2.7 million dollars and international liabilities fell by 23.9 million, of which only 14.3 million were short-term liabilities. The most important movement of assets was the increase of 31.6 million dollars in gold holdings, because of the re-purchase of gold consignments sold by the Banco de la República under a resale agreement. On the other hand, foreign exchange holdings, which had amounted to 61 million dollars at the end of 1968, declined to 32 million dollars because of payments on the external debt. With regard to international

Table 189. Uruguay: balance of payments for selected years, 1960–1969
(Millions of dollars)

	1960	1965	1967	1968	1969[a]	
Current account						
Exports of goods and services	171.2	252.5	218.0	240.2	262.0	
Goods (f.o.b.)	129.4	196.3	159.8	179.2	201.0	
Services	41.8	56.2	58.2	61.0	61.0	
Imports of goods and services	−239.8	−168.3	−208.4	−195.5	−234.0	
Goods (f.o.b.)	−187.9	−123.1	−146.4	−145.6	−176.0	
Services	−51.9	−45.2	−62.0	−49.9	−58.0	
Net external investment income	−6.6	−15.4	−25.8	−22.7	−23.2	
Net private transfer payments	−0.3	−0.6	0.6	0.1	0.5	
Balance on current account	−75.5	68.2	−15.6	22.1	5.3	
Capital account						
Net external financing	75.5	−68.2	15.6	−22.1	−5.3	
Non-compensatory external financing	25.7	−1.5	8.9	37.0		
Direct investment	5.8	...	...	...		
Long- and medium-term loans	11.9	11.5	21.1	39.2		
Amortization payments	−5.5	−23.8	−12.5	−12.9		
Short-term liabilities	12.4	7.0	−11.1	10.7		11.7
Official transfer payments	1.1	3.8	11.4	...		
Non-compensatory domestic capital and assets	10.4	−0.5	1.9	−1.3		
Errors and omissions	11.5	−80.4	4.1	−22.8		
Compensatory movements (increase −)	27.9	14.2	0.7	−35.0		
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	32.1	58.0	19.0	29.5		−17.0
Amortization payments	−0.5	−47.5	−40.5	−45.5		
Gold and foreign exchange (increase −)	−3.7	3.7	22.2	−19.0		

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 20.
[a] ECLA estimates.

liabilities, there was a decrease of 10 million dollars in borrowings from United States banks and of 11 million in those from the International Monetary Fund, while trade arrears declined by more than 20 million dollars.

Venezuela

1. Recent economic trends

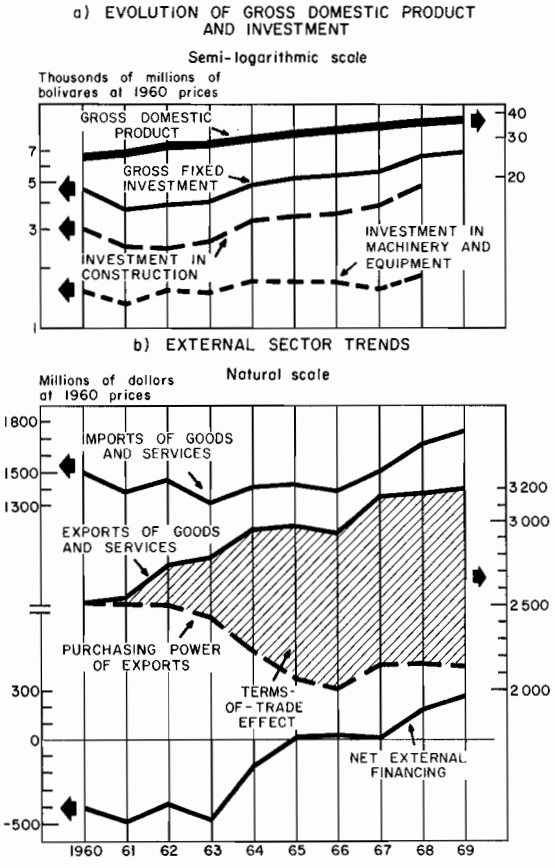
In 1969, the growth rate of the Venezuelan economy declined in comparison with previous years. Preliminary data show that the gross domestic product grew by 3.5 per cent, compared with rates of 5.8 per cent in 1968 and 4.3 per cent in 1967. This was also a lower rate than the averages for 1960–1965 and 1965–1968 (see table 190 and figure XXVI).

Generally speaking, the decline in the growth rate seems to have been dictated by factors connected with the change of government. The same basic pattern which has persisted throughout the 1960s continues to characterize the Venezuelan economy; although the external sector continues to be of great importance, it no longer provides the mainspring of the country's economy.

Economic development was slowed down in 1969 by the fall in the growth rate of the goods-producing sectors, which was not offset by the expansion of basic services. In agriculture, manufacturing, energy, gas and water, and transport and communications there were smaller increases than in previous years; the construction sector remained stagnant, and there was a slight decline in oil production and refining. The only substantial growth of output was in mining—not including petroleum—as a result of increased external demand for iron ores (see table 191).

Other features of economic development in 1969 were a deceleration in the rate of increase of government investment, which was largely offset by a steep rise in private investment, particularly in housing construction; an increase in the fiscal deficit; an increase in the public debt in respect of investment financing and a slight increment in foreign exchange reserves. On the other hand, the price indexes rose more steeply than in previous years. The cost-of-living index for the metropolitan area of Caracas rose by 2.4 per cent in 1969, which is almost double the average annual rate for the period 1962–1968 (1.4 per cent). The wholesale price index rose by 1.5 per cent during the first ten months of the year, mainly owing to the increased prices of imported products.

Figure XXVI. Venezuela: 1960–69



2. Major sectors of activity

(a) *Agriculture*

Agricultural production expanded by 4 per cent in 1969, marking a further decline from the annual average rate of 6 per cent recorded in the first half of the 1960s. Crop farming was mainly responsible for this sluggish performance, expanding by barely 1.9 per cent owing to bad weather. Livestock output grew by more than 7 per cent and fisheries output by more than 9 per cent. Some crops, however, did show substantial increases: rice output rose by 10.9 per cent; sesame by 8.4 per cent; sugar-cane by 5.9 per cent and cotton and fruit both by more than 5 per cent.

In 1969, the agricultural sector was favoured by credits from the Banco Agrícola y Pecuario to a total of 312 million bolívares, a figure 6.8 per cent higher than that of the previous year, and purchases of agricultural products under the price support programme amounted to 268 million bolívares.

Table 190. Venezuela: total supply and demand for selected years, 1960–1969

	Millions of bolivares at 1960 prices				*Structure (percentages)*				*Annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960*	*1965*	*1968*	*1969*	*1960–65*	*1965–68*	*1969*
Total supply	*30,502.0*	*37,352.1*	*42,229.0*	*44,237.4*	*119.1*	*114.4*	*114.7*	*114.8*	*4.1*	*4.5*	*3.9*
Gross domestic product	25,620.0	32,661.8	36,778.4	38,532.1	100.0	100.0	100.0	100.0	5.0	4.4	3.8
Imports of goods and services	4,882.0	4,690.3	5,450.6	5,705.3	19.1	14.4	14.7	14.8	−0.8	5.1	4.7
Total demand	*30,502.0*	*37,352.1*	*42,229.0*	*44,237.4*	*119.1*	*114.4*	*114.7*	*114.8*	*4.1*	*4.5*	*3.9*
Exports of goods and services	8,096.0	9,632.1	10,233.6	10,366.5	31.6	29.5	27.6	26.9	3.5	2.0	1.3
Total investment	*4,510.0*	*6,386.1*	*7,501.5*	*7,743.4*	*17.6*	*19.5*	*20.2*	*20.1*	*7.2*	*5.4*	*3.5*
Gross fixed investment	4,607.0	5,432.6	6,870.9	7,143.4	18.0	16.6	18.5	18.5	3.4	8.2	3.8
Construction	3,089.0	3,657.1	4,964.7	...	12.1	11.2	...	...	3.4	2.2	...
Machinery and equipment	1,518.0	1,775.5	1,906.2	...	5.9	5.4	...	...	3.2	−1.7	...
Total consumption	*17,896.0*	*21,333.9*	*24,493.9*	*26,127.5*	*69.8*	*65.3*	*77.0*	*67.8*	*3.6*	*5.2*	*5.1*
General government	3,544.0	4,812.9	5,919.2	6,221.4	13.8	14.7	16.0	16.1	6.3	7.2	5.0
Private	14,352.0	16,521.0	18,574.7	19,906.1	56.0	50.6	51.0	51.7	2.8	4.7	5.1

SOURCE: For 1960–1967, ECLA estimates on the basis of data supplied by the Central Bank; for 1968–1969, ECLA estimates.

Table 191. Venezuela: gross domestic product at factor cost, by sector of economic activity, for selected years, 1960–1969

	Structure (percentages)				*Average annual growth rates (percentages)*		
	1960	*1965*	*1968*	*1969*	*1960–1965*	*1965–1968*	*1969*
Agriculture	7.2	7.7	7.8	7.8	6.3	4.4	4.0
Mining[a]	27.3	25.7	23.5	22.8	3.7	1.0	0.8
Manufacturing	10.6	12.9	13.0	13.1	9.0	4.3	4.4
Construction	3.9	2.8	3.3	3.2	−1.3	9.3	—
Subtotal goods	*49.0*	*49.1*	*47.6*	*46.9*	*5.0*	*2.9*	*2.2*
Electricity, gas and water	1.5	2.3	2.8	3.0	14.7	12.2	9.9
Transport and communications	4.0	4.0	4.0	4.2	4.8	4.4	7.1
Subtotal basic services	*5.5*	*6.3*	*6.8*	*7.2*	*7.8*	*7.4*	*8.3*
Commerce and finance	12.6	13.7	13.8	14.0	6.8	4.4	5.0
General government	10.9	9.8	10.1	10.2	2.8	5.1	5.0
Miscellaneous services	22.0	21.1	21.7	21.7	4.0	5.1	3.7
Subtotal other services	*45.5*	*44.6*	*45.6*	*45.9*	*4.6*	*4.9*	*4.4*
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*5.0*	*4.0*	*3.5*

SOURCE: For 1960–1968, ECLA, on the basis of data supplied by the Central Bank; for 1969, ECLA, on the basis of data supplied by CORDIPLAN.

[a] Including the whole of the petroleum sector, except in 1969, when refining is included in manufacturing.

(b) *Mining*

There was a slight decrease in production in the petroleum industry (0.6 per cent) owing to a falling off in international demand, particularly from the United States market, where the adoption of restrictions on the sulphur content of crude petroleum affected Venezuelan production. In order to comply with United States regulations, one desulphurizing plant will begin operating in the early months of 1970 and another in 1971. Average output was 3.59 million barrels daily, compared with 3.2 million in 1968.

The Government submitted a bill to Congress specifying the bases of the contracts whereby the Venezuelan Petroleum Corporation (Corporación Venezolana de Petróleo), a State-run organization, may enter into agreements with the companies selected under the new service contract policy that is to replace traditional concessions.

Oil drilling increased for the second successive year, the number of new wells being 12.6 per cent greater than in 1968, when the increase was 37.7 per cent over 1967.

Mining production, excluding petroleum, grew by 23.9 per cent, owing to the expansion of output of iron ore and diamonds. Iron ore production rose from 15.5 million tons in 1968 to 19.4 million in 1969 (an increase of 25.2 per cent). This was due to increased demand on the United States market, where there were problems in the supply of iron ore from Canada. The Government also signed a contract with an international consortium for the exploitation of the San Isidro deposits and for the construction of a pelletizing plant with an annual capacity of 2.5 million tons. Consideration is now being given to the possibility of broadening the scope of the original contract, to include building an ore pipe from the deposit to the port of embarcation, so as to double its previous capacity. The discovery of new diamond deposits, particularly the mines at San Salvador de Paul, led to a 59 per cent increase in production.

In 1969, progress was made in negotiations to initiate exploitation of the Loma de Hierro nickel ores in the near future. A State-owned company is to be formed and granted the mining concession; this company would combine with the Sociedad Le Niquel to form a semi-government enterprise in which the State-owned company would hold at least 50 per cent of the shares. The investment required is estimated at 283 million bolívares, of which 208 million would be in the form of a long-term loan from France. The final decision is expected at the beginning of 1970.

The level of coal output was similar to that for the previous year. At the end of 1969, negotiations were started with a British consortium which is to carry out a feasibility study of the mines at Naricual and in the state of Zulia. The consortium is reported to be interested in part ownership of a coke-producing plant with an estimated annual capacity of 1 million tons.

(c) *Manufacturing*

According to preliminary estimates, the manufacturing industry grew by 4.4 per cent in 1969, a rate similar to the annual average for 1965–1968 (4.3 per cent) and appreciably lower

than the average for 1960–1965 (9 per cent). The rate was the result, on the one hand, of the new industrial policy applied by the new Government, particularly with regard to tariff protection, credit and direct government investment and, on the other hand, of the fact that the impetus provided by import substitution of certain traditional products was beginning to slacken.

The metal-transforming industries expanded by 11.4 per cent compared with 1968; the traditional industries maintained a moderate growth rate, while those producing intermediate goods grew at much the same rate as in 1968.

The steel industry produced 840,110 tons of ingot steel, a decline of 2.4 per cent compared with the previous year, attributable to labour conflicts at the Siderurgia de Orinoco (SIDOR) steelworks during the last two months of the year. The domestic market absorbed 70 per cent of SIDOR's production and most of the rest was sold on Latin American markets (Argentina, Colombia and Mexico).

During 1969, the United States Orinoco Mining Company continued with the construction of its briquette plant, which should be completed in mid-1970 and will have an initial annual capacity of one million tons of briquettes, with an 85 per cent iron content.

There was a drop of 2.8 per cent in oil refining compared with 1968, owing to a reduction of demand both in the traditional international markets and in the domestic market. In the latter case there was a drop in sales of bunker oil, while industrial and household consumption of crude increased slightly.

The petrochemical complex at Morón increased its production of chlorine soda and explosives, but output of fertilizers decreased by about 15 per cent, as the fertilizer plant was closed for one month for maintenance and repairs.

During 1969, 211 projects, involving an investment of 372 million bolívares, were registered with the Ministry of Development; if carried out, they will generate about 7,000 new jobs.

(d) *Construction*

The decline of construction in the public sector was offset by increased activity in the private sector. But, in contrast to the boom of 1968, construction over-all failed to expand.

The mortgage banks and the national savings and loan system financed the expansion of private construction. Current mortgages amounted to more than 1,000 million bolívares, while national savings grew by about 60 per cent and loans doubled. The membership of the savings system grew from 84,220 to 127,426.

According to an official estimate, about 39,000 dwellings were built in 1969, 26,600 in the public sector and 15,400 in the private sector. A further 13,000 new dwellings were under construction at the end of the year.

(e) *Electric energy*

Compared with 1968, electricity generation and installed capacity both increased by some 11 per cent, a very satisfactory performance for the year.

Work continued on the major projects in this sector. The two units of the Guri hydroelectric power station installed at the end of 1968 were put into operation, a third unit was installed, and a start was made on the expansion of the power-house and the installation of a fourth generator. CADAFE, a State-owned enterprise, also made a start with the construction of the Santo Domingo dam, which will supply western Venezuela and will be connected to the national grid.

3. Finance

(a) *Monetary and credit position*

Preliminary estimates show that in 1969 the monthly average for money in circulation rose 10 per cent, compared with 12.6 per cent in 1968. The money supply is estimated to have grown by 5 per cent over the previous year and quasi-money by 15 per cent. The relatively quicker growth of quasi-money is characteristic of the second half of the 1960s; it was speeded up during the second half of 1969 as a result of the changes in the interest rates paid by banks on savings and time deposits[104] and of the stabilization of the rates of interest on bank loans, which took place at the same time.

Temporary restrictions were imposed in view of the new banking situation to prevent firms with more than 50 per cent of their capital owned by natural persons or legal entities resident or domiciled abroad from making more use of loans financed by domestic savings than of funds provided by their parent corporations. These monetary measures and the international financial situation resulted in the repatriation of an estimated 160 million dollars of Venezuelan capital that had been deposited

[104] Decrees Nos. 68 and 67 provide for a 4 per cent annual rate of interest on savings deposits and differential rates according to the period on time deposits (minimum 25,000 bolívares), ranging from 4.5 per cent (deposits for up to ninety days) to 7 per cent (deposits for more than 360 days).

in the United States. Money in circulation grew by 3 per cent, deposits by 10 per cent and placements and investments by 8 per cent.

The foreign exchange reserves increased slightly from 922 million dollars in 1968 to 933 million in 1969.

A study group was set up to determine the legal and operational bases of the national capital market, whose operations have hitherto covered only a part of transactions in the country.[105] During 1970 bills will be submitted to the Executive and to Congress on the reorganization of the securities market, aimed at a more effective channelling of domestic resources.

(b) *Fiscal trends*

Government activity in 1968 was affected by a shortfall of 5 per cent in revenue, which forced the Government to use more credit, thus increasing the total public debt by 29 per cent compared with 1968. It had greater recourse to medium-term indebtedness, issuing treasury bills which fall due in 1971 and taking out five-year loans from foreign commercial banks.

Preliminary estimates show that the public revenue collected in 1969 was 5.7 per cent greater than in the previous year, amounting to 9,680 million bolívares. The break-down of this amount is as follows: 8,664 million bolívares, regular revenue; and 1,016 million extraordinary revenue, mainly from treasury bills and foreign loans.

Government expenditure amounted to slightly over 10 million bolívares, a growth of 10 per cent over 1968. Of this sum, 61 per cent comprised regular current spending and amortization and interest payments on the public debt, and 36 per cent was investment, which increased its share from the 34.5 per cent recorded in 1968.

In the course of 1969, steps were taken to launch a programme of administrative reform[106], to which particular importance is attached.

4. Composition of total demand

In 1969, the amount of goods and services available for domestic use increased more rapidly than the total gross product. This was due to the fact that imports grew much more rapidly than exports (see table 190). The increment in goods and services basically made itself felt on total consumption, which grew by 4.5 per cent compared with 1968. Private consumption grew by 4.4 per cent and general government consumption by 5 per cent. Gross fixed investment grew by only 3.5 per cent in 1969, compared with a growth rate of 8.2 per cent in the period 1965–1968. The investment coefficient in 1969 was similar to that of 1968.

5. The external sector

The outstanding feature of the external sector was the slight decline in exports of goods and services (0.2 per cent), mainly owing to the drop in petroleum prices, despite the recovery of iron ore and coffee exports, the growth of cocoa exports and the initiation of aluminium exports.

Income from crude petroleum and refined petroleum products fell by 3 per cent owing to the decline in prices. Exports to the United States—the principal market for Venezuelan petroleum—declined by 10 per cent; sales to Latin America remained fairly steady compared with 1968, the fall in sales to Argentina being offset by increased exports to the Brazilian and Chilean markets. There was a significant rise in sales to Japan, which were almost double the 1968 figure; exports to Spain and the United Kingdom also increased significantly.

According to preliminary estimates, the value of imports of goods and services again increased, as did external investment income payments, resulting in a deficit on current account of 360 million dollars, 140 million dollars higher than in 1968. In both 1968 and 1969, this deficit reached a very high level compared with previous years, reflecting the inelasticity of demand for Venezuelan petroleum on world markets, in contrast to growing imports and the high level of factor payments.

The outstanding feature of the capital account was the repatriation of 160 million dollars' worth of domestic capital and assets deposited abroad, as a result of the monetary policy adopted by the Government. These funds, together with the net inflow of loans and foreign investment, helped to finance the current account deficit and produced a small balance-of-payments surplus before compensatory financing (see table 192).

6. Principal characteristics of Venezuelan development in the period 1962–1968

Broadly speaking, the development of the Venezuelan economy in 1969 corresponds to

[105] Decree No. 41 of 24 June 1969.

[106] Decree No. 28 of 9 April 1969 attaches the Public Administration Commission to the Central Office for Planning and Co-ordination; Decree No. 103 of 23 July 1969 lays down the functions of the Public Administration Commission, and Decree No. 141 of 17 September 1969 sets up the machinery for the reform of the public administration.

Table 192. Venezuela: balance of payments for selected years, 1960–1969
(*Millions of dollars*)

	1960	1965	1967	1968	1969[a]
			Current account		
Exports of goods and services	2,509.2	2,532.0	2,582.0	2,635.0	2,629.0
Goods (f.o.b.)	2,383.9	2,436.0	2,462.0	2,475.0	2,455.0
Services	125.3	96.0	120.0	160.0	174.0
Imports of goods and services	−1,505.0	−1,764.0	−1,814.0	−2,050.0	−2,181.0
Goods (f.o.b.)	−1,145.4	−1,341.0	−1,337.0	−1,565.0	−1,649.0
Services	−359.6	−423.0	−477.0	−485.0	−532.0
Net external investment income	−522.0	−706.0	−695.0	−703.0	−708.0
Net private transfer payments	−87.6	−91.0	−105.0	−103.0	−100.0
Balance on current account	394.6	−29.0	−32.0	−221.0	−360.0
			Capital account		
Net external financing	−394.6	29.0	32.0	221.0	320.0
Non-compensatory external financing	−333.2	134.0	178.0	260.0	192.0
Direct investment	−126.0	3.0	78.0	163.0	100.0
Long- and medium-term loans	17.6	106.0	110.0	110.0	100.0
Amortization payments	−212.9	−20.0	−27.0	−21.0	
Short-term liabilities	−12.0	46.0	21.0	12.0	−4.0
Official transfer payments	0.1	−1.0	−4.0	−4.0	−4.0
Non-compensatory domestic capital and assets	−18.1	−52.0	−63.0	−10.0	160.0
Errors and omissions	−353.9	−59.0	31.0	36.0	19.0
Compensatory movements (increase—)	310.6	6.0	−114.0	−65.0	−11.0
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	300.4	32.0	—	2.0	−8.0
Amortization payments	−104.9	−15.0	−28.0	−25.0	
Gold and foreign exchange (increase—)	115.1	−11.0	−86.0	−42.0	−3.0

SOURCE: IMF, *Balance of Payments Yearbook*, vols. 17 and 20. [a] ECLA estimates.

the same basic growth pattern that has characterized the economy since the beginning of the 1960s: the chief economic impetus is no longer provided by the external sector, but rather by government spending and investment in import substitution.

It is thus considered useful at this stage to review in brief the chief aspects of the development of the Venezuelan economy during the period 1962–1968, when this growth pattern took shape, bearing in mind that the Venezuelan economy has special features not common to the other Latin American countries.

(a) *Historical background*

The transformation of the Venezuelan economy was achieved within a relatively short period. Up to the 1930s, it was still a slow-growing agricultural economy similar to that of many other Latin American countries. With the initiation of large-scale exploitation of petroleum, the economy received a dynamic stimulus, but at the same time inherited the weaknesses and vulnerability of a country dependent on a single product. In the 1950s an intensive programme was initiated to transform a petroleum-oriented economy into a modern diversified economy.

The structural transformation of the economy has been achieved in the last few years thanks to the establishment of suitable planning machinery. By means of government spending and credit, income from petroleum has been channelled to strategic sectors—basic industries and services such as steelmaking, petrochemicals, metal-transforming, construction, energy, transport and communications. A large part of such resources was also devoted to large-scale education, health and housing programmes.

Although the planning process was begun with the setting up of the Central Office for Planning and Co-ordination (Oficina Central de Coordinación y Planificación—CORDIPLAN) at the end of 1958, Venezuela's recent development is really defined in the national plans covering the periods 1963–1966 and 1965–1968.

(b) *General features*

Ever since the petroleum industry was started on a large scale in Venezuela, there has been a close relationship between the growth of petroleum production and that of the gross domestic product. In fact, between 1936 and 1968, petroleum output increased at an annual cumulative rate of 7.9 per cent and the gross

domestic product at a rate of 8 per cent. In contrast, the growth of the product in the period 1962–1968 (5.6 per cent) greatly exceeded that of the petroleum industry (2.1 per cent).

It is precisely during the latter period that structural changes have been made and the current growth pattern established. Over a period of only six years there was a significant diminution in primary activities and great advances in secondary activities, while the tertiary sector grew at the same rate as the economy as a whole (see table 193).

Table 193. Venezuela: growth rates and structure of the gross domestic product, 1962 and 1968

	Growth rates (percentages)	*Structure (percentages)*	
	1962–68	*1962*	*1968*
Primary sector	*3.0*	*29.9*	*25.8*
Agriculture	6.0	6.4	6.5
Petroleum and gas[a]	2.1	22.5	18.4
Mining	3.1	1.0	0.9
Secondary sector	*8.3*	*23.2*	*27.0*
Manufacturing[b]	7.5	16.8	18.7
Construction	10.0	4.8	6.2
Electricity, gas and water	11.3	1.6	2.1
Tertiary sector	*5.7*	*46.8*	*47.2*
Transport and communications	7.0	4.2	4.6
Commerce	6.2	15.3	15.9
Services	5.2	27.3	26.7
Gross domestic product	*5.6*	*100.0*	*100.0*

SOURCE: Central Office for Planning and Co-ordination (CORDIPLAN).

[a] Excluding petroleum refining.

[b] Including petroleum refining.

The share of the petroleum sector shrank while secondary activities grew considerably and agriculture only slightly, although at a high growth rate (6 per cent). There was thus vigorous development in both agriculture and industry, for which the chief support came from import substitution.

Import substitution certainly provided a spur for over-all development, but towards the end of the period 1962–1968 there was pressure on the balance of payments owing to a sharp rise in imports of intermediate and capital goods. This trend coincided with a deceleration in the growth of petroleum exports, which in the last analysis determine the country's capacity to import. At the same time, the terms of trade have seriously deteriorated since the beginning of the 1960s. In 1969, the terms-of-trade effect amounted to −1,057 million dollars and affected the purchasing power of exports proportionally.

The per capita product, measured at constant 1960 prices, grew by 12.7 per cent during the period considered, and unemployment, measured as a percentage of the labour force, fell from 13.1 per cent at the end of November 1961 to 6.4 per cent in July 1968, according to information supplied by the National Statistics and Census Office. Both indicators reflect the expansion of the Venezuelan economy, which took place against a background of relative monetary stability. The cost of living in the metropolitan area of Caracas rose by 5.6 per cent between 1962 and 1968, while the wholesale price index for the country as a whole rose by 15.9 per cent during the same period, owing to the increase in prices of imports and the currency devaluation of 1963.

(c) *Agricultural and industrial development*

The chief characteristic of the evolution of the Venezuelan economy during the period 1962–1968 was the vigorous development of the agricultural and industrial sectors. To this should be added the significant expansion of activities connected with construction, energy, and transport and communications.

The annual growth rate of agriculture (6 per cent) enabled the country to achieve a position of self-sufficiency in a number of products and in some cases, such as sugar and rice, to produce exportable surpluses. As a result of import substitution, the share of imports in the total supply of agricultural products shrank from 18 per cent in 1962 to 15 per cent in 1968. Over the same period the livestock industry grew at an average annual rate of 7 per cent, and a substantial proportion of import substitution was achieved in meat and milk products. Forest industries also grew, at an annual rate of 6.8 per cent.

The agrarian reform was consolidated during the period. The National Agrarian Institute (Instituto Agrario Nacional) distributed 3.8 million hectares to 145,000 families between 1959 and 1967, with an investment of 924 million bolívares. In addition, 46,950 hectares of land were made suitable for farming by irrigation, a greater area than the 41,600 hectares brought under cultivation up to and including 1962.

The manufacturing sector, including oil refining, maintained a high annual growth rate during the period (7.5 per cent) and increased its share of the gross domestic product from 16.8 per cent to 18.7 per cent. There was intensive import substitution, especially in the traditional industries, which, by the end of the

period, provided 94.4 per cent of total supply, while the intermediate goods industries covered 75.3 per cent of total supply. There were notable advances in the steelmaking industry. The State-owned Orinoco steelworks consolidated its operations and by the end of the period was producing at full capacity and had initiated expansion programmes. The private firm of SIVENSA modernized its plant, introducing the continuous casting system. There were also significant increases in production in the petrochemical industry as a result of more intensive exploitation of the Morón complex and the entry into operation of new plants. During the period ambitious programmes were drawn up for new petrochemical complexes, also with a view to producing for export, and these plants are currently under construction (El Tablazo and Bajo Grande). In the non-metallic minerals industry numerous new plants were established, and the installed capacity of the cement industry was increased, so that some surplus production could be sold on Caribbean markets. The proportion of needs covered by national production in this sector reached 90.5 per cent in 1968.

Important structural changes in manufacturing production were carried out over a very short period. On the one hand, the growth of manufacturing (7.9 per cent), which, generally speaking, comprises the modern sector of the economy, was much more rapid than that of artisan-type industry (3 per cent), and the latter's share of the industrial product fell to less than 8 per cent. On the other hand, the share of the intermediate goods and metal-transforming industries in the industrial product increased considerably. At the same time, oil refining, which at the beginning of the period accounted for 12 per cent of the industrial product, dropped to 7 per cent by 1968. Lastly, there was significant progress in the metal-transforming industries (see table 194).

Table 194. Venezuela: breakdown of value added by manufacturing, 1961 and 1966
(*Percentages*)

Branches of industry	*1961*	*1966*
Traditional industries . .	54.0	45.7
Intermediate goods industries	32.4	35.0
Metal-transforming industries	9.7	14.4
Other industries . . .	3.9	4.9

SOURCE: Central Office for Planning and Co-ordination (CORDIPLAN), *Encuesta industrial*, 1961 and 1966.

Another positive aspect of industrial development in Venezuela was the notable increase in exports of manufactures, especially food-stuffs, steel, chemicals and non-metallic minerals, which have opened up favourable prospects for the economy.

Important infrastructural works were carried out during the period with a view to providing a basis for agricultural and industrial development, particularly in the energy and transport sectors, side by side with large-scale manpower-training programmes.

Part Three

SPECIAL STUDIES

Chapter I

THE TERMS OF TRADE IN LATIN AMERICA

1. General remarks

It is generally recognized that the external sector is one of the areas with the most bottlenecks in the Latin American economies and that it is therefore a factor limiting the over-all growth rate. For this reason, it is necessary to analyse not only the structure of Latin America's international trade—as was done in the *Economic Survey of Latin America*, 1968—but also certain specific problems, such as the question of the relative prices of exports and imports. The theory that the terms of trade between Latin America and the rest of the world were growing unfavourable to Latin America was put forward as long ago as 1949, in the *Economic Survey* for that year, and it is interesting to review what has happened over the last two decades, so as to establish whether this trend, which has a considerable influence on export capacity, has persisted or been reversed. For this purpose, we shall first examine the unit value indexes for imports and exports; secondly, world prices of the principal export products; and lastly, the terms of trade between Latin America and the world market. In addition, the method used to compile the indexes of foreign trade is set forth in an appendix, and compared with the methods used by other international organizations.

In general terms, the outstanding feature of the 1960s was characterized by the fact that the bulk of Latin American exports continued to be raw materials, fuels and food-stuffs, and although the proportion of such exports was smaller than in 1955, it was still larger than for the developing countries as a whole; the exports of the developed countries, on the other hand, were basically manufactures (see table 195). As regards the structure of the region's imports, nearly half consisted of raw materials and fuels, while capital goods accounted for only one third (see table 196). The terms of trade of Latin America as a whole worsened in comparison with previous decades.

2. The over-all terms of trade between Latin America and the world market

The terms of trade between Latin America and the world market depend essentially on the unit value of Latin American exports, which fluctuated widely between 1948 and 1968 while imports were more stable (see table 197). Thus, if we consider the annual averages of the first and second halves of the 1950s and the first eight years of the 1960s with the base year (1963 = 100), it can be seen that the unit value index of exports fell from 125 in 1951–1955 to 111 in 1956–1960, and to 103 in 1961–1968; on the other hand, the index of the unit value of imports remained at 98 in the 1950s and rose to 103 for the period 1961–1968. The terms of trade, therefore, fell from 127 to 113 and then to 100 over the three periods considered. This deterioration is much more pronounced (from 158 to 126 and 98 for the same periods) if the unit value of imports of capital goods and consumer durables only is taken into account,[1] since the prices of raw materials, fuels and non-durable consumer goods are affected by the decline in the world prices of primary commodities (see table 197 and figures XXVII and XXVIII).

At the international level, Latin America's position, which had been more favourable than that of the other developing nations and that of the developed countries during the period 1955–1960, deteriorated during the 1960s, when the index—again taking 1963 as the base year—dropped to the same level as that of the other regions (see table 198).

3. Prices and unit values of staple exports

Since raw materials, fuels and foodstuffs account for 85 per cent of Latin American exports,[2] the movements in the unit value

[1] In examining the greater increase in prices of manufactures—especially capital goods—compared with the prices of raw materials, the changes in the composition of imports of manufactures over the last twenty years must be borne in mind.

[2] This proportion would be much greater if non-ferrous metals (SITC division 68), which are listed as manufactures, were included.

Table 195. Latin America and the rest of the world: structure of exports, 1955, 1965 and 1967
(*Millions of dollars, and percentages*)

Goods (classified according to the SITC)	Latin America						Developing countries[a]		Developed countries[b]	
	Millions of dollars			Percentages			Millions of dollars 1967	Percentages 1967	Millions of dollars 1967	Percentages 1967
	1955	1965	1967	1955	1965	1967				
Food (0 and 1)	3,760	4,870	4,970	47	44	43	10,550	26	19,410	13
Crude materials (2 and 4)	1,540	2,130	2,140	19	19	18	7,880	20	14,340	10
Fuels (3)	1,900	2,740	2,860	24	25	24	13,210	33	4,950	3
Sub-total (0–4)	*7,200*	*9,740*	*9,970*	*90*	*88*	*85*	*31,640*	*79*	*38,700*	*26*
Chemical products (5)	85	160	235	1	1	2	660	2	12,960	9
Machinery (7)	12	64	115	—	1	1	600	2	48,980	33
Other manufactures (6 and 8)	660	1,060	1,380	8	10	12	6,890	17	46,160	31
Sub-total (5–8)	*757*	*1,284*	*1,730*	*9*	*12*	*15*	*8,150*	*20*	*108,100*	*73*
TOTAL *exports*	*7,970*	*11,060*	*11,700*	*100*	*100*	*100*	*40,000*	*100*	*149,240*	*100*

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1969.

[a] Latin America, Africa, Asia and Oceania excluding developed areas, Mainland China, Eastern Europe, Mongolia, North Korea and North Viet-Nam.

[b] Australia, Canada, Japan, New Zealand, South Africa, United States, Western Europe.

Table 196. Latin America: composition of imports, average annual indexes, 1951–1955, 1956–1960 and 1961–1968
(Percentages)

	Crude materials and fuels	*Non-durable consumer goods*	*Capital goods*	*Durable consumer goods*
1951–55	51	12	30	6
1956–60	48	11	34	6
1961–68	49	10	33	6

SOURCE: ECLA.

Table 197. Latin America: terms of trade with other regions, based on total imports of durable consumer goods and capital goods, 1948–1968
(Index: 1963 = 100)

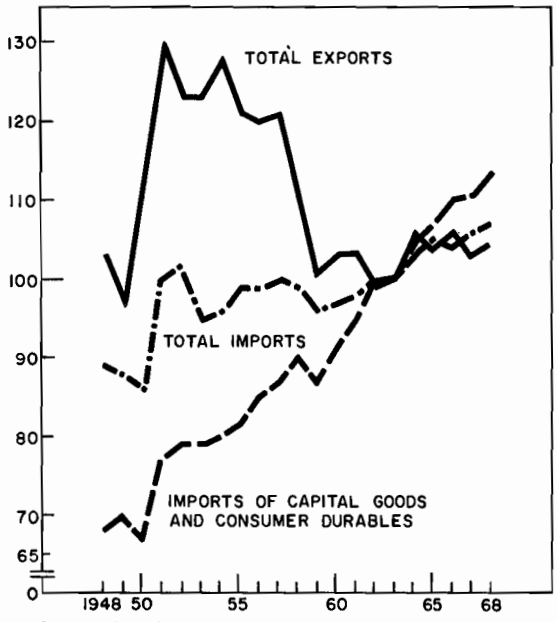
		Unit value of imports		*Terms of trade*	
	Unit value of exports total	*Total*	*Durable consumer goods and capital goods*	*Total*	*Imports of durable consumer goods and capital goods*
1948	103	89	68	116	151
1949	97	88	70	110	139
1950	111	84	67	132	166
1951	130	100	77	130	169
1952	123	102	79	121	156
1953	123	95	79	129	156
1954	128	96	80	133	160
1955	121	99	82	122	148
1956	120	99	85	121	141
1957	121	100	87	121	139
1958	111	99	90	112	123
1959	101	96	87	105	116
1960	103	97	91	106	113
1961	103	98	95	105	108
1962	99	100	100	99	99
1963	100	100	100	100	100
1964	106	104	105	102	101
1965	104	105	107	99	97
1966	106	104	110	102	96
1967	103	106	111	97	93
1968	105	107	114	98	92
	Averages of annual index				
1951–1955	125	98	79	127	158
1956–1960	111	98	88	113	126
1961–1968	103	103	105	100	98

SOURCE: ECLA.

index of total Latin American exports are more or less parallel to the movements in the price indexes of the twenty principal exports, provided that the changes in the indexes are always related to the same base year—1960 or 1963—and are not expressed in absolute terms (see figure XXIX).

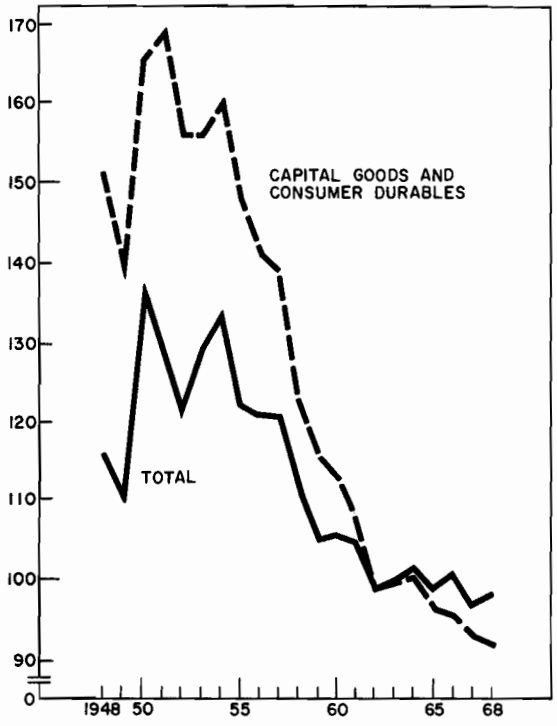
Table 199 shows the trend in the world market price and unit value of twenty staple exports (sugar, bananas, cocoa, coffee, tobacco, beef, maize, wheat, linseed oil, cotton, cattle hides, quebracho extract, fish meal, wool, copper, tin, iron ore, lead, zinc and crude petroleum) over the period 1960–1968. There are three main reasons for the differences between the unit value indexes and world prices: first, world prices for one period become export values in later periods; secondly, world prices may or may not correspond to the prices on the markets where the products were actually sold; and, thirdly, in some cases prices and conditions of sale are fixed by agreements and contracts without reference to the market prices. An analysis of the extent to which the export prices of each product are affected by these separate factors would entail

Figure XXVII. Latin America: unit value of imports and exports
(Index : 1963 = 100)
Natural scale



SOURCE: ECLA.

Figure XXVIII. Latin America: terms of trade with other regions calculated on the basis of total imports and imports of capital goods and consumer durables
(Index: 1963 = 100)
Natural scale



SOURCE: ECLA.

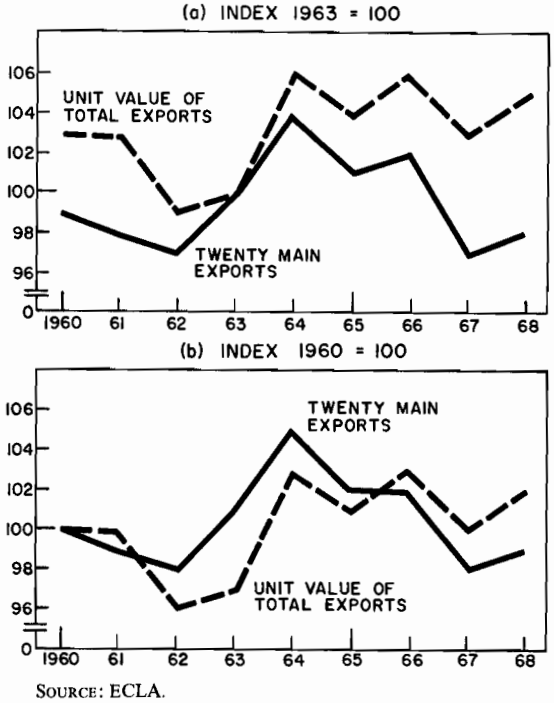
Table 198. Latin America, developed and developing countries: terms of trade[a]
(Index: 1963 = 100)

	Developed countries	*Developing countries*	*Latin America*
1955	95	115	122
1956	96	112	121
1957	97	108	121
1958	98	106	112
1959	99	103	105
1960	99	103	106
1961	100	100	105
1962	100	98	99
1963	100	100	100
1964	100	101	102
1965	101	97	99
1966	101	98	102
1967	101	97	97
1968	101	97	98
Average annual indexes			
1955–1960	97	108	115
1961–1968	101	99	100

SOURCE: For developed and developing countries, United Nations, *Monthly Bulletin of Statistics*, November 1969; for Latin America, table 197.

[a] The terms-of-trade indexes for developed and developing countries do not include the trade of countries with centrally planned economies. See footnotes to table 195 for the countries and areas included in these two groups.

Figure XXIX. Latin America: price indexes of twenty main exports and unit values of total exports
Natural scale



SOURCE: ECLA.

a detailed examination of the trends in each country. Despite such short-term anomalies, however, the export price index provides a fairly reliable picture of the influence of the various export commodities on the terms of trade.

The trend in the price indexes of staple exports for the period 1964–1968 (see table 199, section A) reveals an improvement during 1964–1966 compared with previous years, which is chiefly due to the sudden and sustained upsurge in metal prices from 1964 onwards and the relative stability of prices of agricultural products; this improvement shows up even more clearly if petroleum products, the prices of which dropped, are left out of account. In the next two years (1967–1968) the index dropped owing to the steady fall in prices of petroleum and of the most important agricultural commodities in terms of regional exports (chiefly coffee, maize, wool and cattle hides). From a comparison of annual averages for the past two decades it can be seen that, during the 1960s there was a sharp drop in most agricultural commodity prices which could not be entirely offset by the upswing in metal prices, since metals accounted for a smaller share of total exports. Moreover, annual average figures for the price and unit value indexes of most staple exports followed similar trends during the period 1961–1968.

Consideration will now be given to the trends of export prices by categories of commodities: tropical zone agricultural products, temperate zone agricultural products, metals, petroleum and petroleum products.

As shown in table 199, section A, the most salient feature was the sudden and sustained upswing of the metal prices index, which in 1966 was 52 per cent higher than in 1963 and remained high during the following years (142 and 148 in 1967 and 1968, compared with the base year 1963). A major factor in this remarkable boom, which had no precedent in the previous decade, was the high prices of copper and, to a lesser extent, of other non-ferrous metals, such as tin, lead and zinc. On the other hand, after 1963 the price of iron ore settled at a somewhat lower level than at the beginning of the decade. The sudden upsurge in prices can be put down, not only to the world financial crisis but also to the unforeseen events of the second half of the 1960s, such as the fighting in South-East Asia and the Middle East; there were also other incidental factors with short-term effects, such as strikes, including a particularly long one in the United States. The effect of this was to stimulate demand for non-ferrous metals, both for direct industrial use and for speculation. Another causal factor was the normal working of demand, which became more important as the effects of these exceptional circumstances wore off.

After a marked increase in 1963 and 1964 compared with previous years, prices of tropical products declined between 1965 and 1968, and their over-all level is now lower than in the 1950s. The decline after 1965 was largely due to the drop in the prices of coffee and sugar, which together account for almost 30 per cent of total exports of the twenty basic commodities included in the index under consideration. As regards sugar specifically, while prices rose on the United States market after 1966, free market prices after 1965 did not exceed 25 per cent of 1963 prices. Banana prices also dropped steadily after 1965, while cocoa picked up considerably in 1967 and 1968, after a long period of stagnation which forced down the 1961–1968 average to well below the figures for the previous decade. Cotton prices also improved in 1967–1968, though, unlike cocoa, cotton had remained fairly steady during 1961–1968, albeit at a lower level than in the previous decade.

The prices of tropical-zone products are affected by many more factors than are the prices of non-ferrous metals. The weather in the producing region has an influence on supply, and there is a long-term tendency for output to increase faster than consumption, thereby causing prices to fall. Consequently, imports of Latin America's three main tropical products (coffee, sugar and cocoa) into developed countries, especially the United States, have not kept pace with output (see table 200). The corresponding decline in prices following the flooding of the market with these commodities during the 1960s could be counterbalanced neither by the international commodity agreements (on sugar and coffee, for instance), nor by the increase in demand from both socialist and developing countries, whose share of world imports of tropical products is in any case still very small.

Prices of temperate-zone products fluctuated less during the 1960s than did those of tropical-zone products, settling at around the 1963 level, except during the period 1964–1967, when they rose following an increase in beef prices. These were much higher for the five years 1964–1968 than for 1960–1963, when they were already above the figures for the previous decade.[3] Cereal prices on the other hand were

[3] This also reflects an improvement in the quality of beef exports.

Table 199. Latin America: price indexes and unit values for staple exports, 1960–1968
(Index: 1963 = 100)

	1960	1961	1962	1964	1965	1966	1967	1968	Annual averages (percentages) 1951–55[a]	1956–60[a]	1961–68	Weight[b]
A. *Prices*												
Food, beverages and tobacco	92	89	87	108	100	96	92	90	...	...	95	41.6
Tropical zone	91	88	85	107	97	93	89	90	...	...	94	35.4
Sugar (open market)	37	34	35	69	25	22	24	25	46	43	42	6.6
(United States)	77	77	79	84	83	85	89	92	72	73	86	3.9
Bananas	95	95	95	90	96	92	93	89	130	127	94	2.9
Cocoa	101	85	80	87	64	87	100	124	149	122	91	1.5
Coffee (Santos—Brazil)	107	106	100	137	131	120	111	110	177	139	114	9.8
(Manizales—Colombia)	113	110	103	123	123	120	106	108	162	141	112	9.8
Tobacco	82	81	84	62	79	...	...	...	...	...	81	0.8
Temperate zone	99	98	99	111	116	114	112	96	...	...	106	6.2
Beef	107	101	106	122	133	125	121	...	89	95	115	2.8
Maize	91	90	88	101	108	108	101	94	133	102	99	1.7
Wheat	96	100	100	105	98	101	107	98	107	99	101	1.8
Agricultural crude materials	101	101	98	105	101	102	95	97	...	...	100	12.1
Linseed oil	121	133	120	112	100	91	98	111	139	129	108	0.8
Cotton (Matamoros—Mexico)	100	103	100	101	98	96	105	106	145	108	101	3.9
(Sao Paulo—Brazil)	99	106	101	99	99	92	100	102	171	106	100	1.3
(Pima—Peru)	119	110	102	117	105	109	118	127	150	126	111	0.4
Cattle hides	130	121	117	106	121	165	121	129	...	...	122	1.0
Quebracho extract	92	78	89	105	115	116	115	122	154	130	105	0.2
Fish meal	77	87	98	106	128	123	107	111	...	...	108	1.1
Wool (Montevideo—Uruguay)	86	79	87	111	83	94	83	72	136	100	89	1.2
(Buenos Aires—Argentina)	99	95	82	110	90	84	56	55	...	...	84	2.1
Metals	107	104	103	117	129	152	142	148	...	...	124	12.5
Copper	105	98	100	118	136	186	170	183	114	105	136	6.6
Tin	88	98	99	136	155	142	135	125	93	85	124	0.6
Iron ore	111	115	114	96	97	98	98	98	...	...	102	3.8
Lead	114	101	89	159	182	150	131	138	187	135	131	0.9
Zinc	116	101	88	154	147	133	131	124	147	108	122	0.6
Petroleum and petroleum products	105	105	102	94	93	91	88	89	99[c]	104[c]	95	33.7
Total	*99*	*98*	*97*	*104*	*101*	*102*	*97*	*98*	...	...	*100*	*100.0*
Total, excluding petroleum and petroleum products	*96*	*94*	*95*	*109*	*105*	*108*	*102*	*103*	...	...	*102*	*66.3*

B. *Unit values*

Food, beverages and tobacco												
Tropical zone												
Sugar	64	77	80	108	70	72	74	87	...	...	84	...
Bananas	118	101	117	108	98	114	110	107	...	...	107	...
Cocoa	107	88	92	92	69	89	99	107	...	...	92	...
Coffee	111	109	102	129	131	118	109	109	...	...	113	...
Tobacco	98	95	99	88	90	83	78	...	...	...	90	...
Temperate zone												
Beef	118	109	95	136	170	156	137	151	...	...	132	...
Maize	93	93	80	97	106	103	100	93	...	...	97	...
Wheat	90	97	96	103	88	87	93	90	...	...	94	...
Agricultural crude materials												
Linseed oil	124	126	115	102	100	88	85	106	...	...	103	...
Cotton	100	101	100	102	100	98	100	111	...	...	102	...
Cattle hides	144	102	113	100	101	148	123	97	...	...	111	...
Quebracho extract	89	77	86	104	112	113	113	121	...	...	103	...
Fish meal	76	70	94	100	110	137	108	98	...	...	102	...
Wool	90	86	82	109	79	78	74	63	...	...	84	...
Metals												
Copper	107	99	100	107	126	167	169	181	...	...	131	...
Tin	88	98	100	133	155	144	134	127	...	...	124	...
Iron ore	106	107	107	98	95	95	91	90	...	...	98	...
Lead	123	107	89	141	181	165	149	145	...	...	135	...
Zinc	112	104	97	136	140	130	118	125	...	...	119	...
Crude petroleum	104	104	101	94	93	92	91	91	...	...	96	...

SOURCE: ECLA.

[a] Recalculated according to the index for seventeen products with base 1958 = 100; see *Economic Survey*, 1964, p. 225.

[b] Based on the share of each commodity in the total value of exports for 1963.

[c] Crude petroleum.

Table 200. Growth in production and imports of tropical products, 1962–1964, 1967 and 1968
(Index: 1955–57 = 100)

	Coffee			*Sugar*			*Bananas*			*Cocoa*		
	1962–64[a]	*1967*	*1968*	*1962–64*[a]	*1967*	*1968*	*1962–64*[a]	*1967*	*1968*	*1962–64*[a]	*1967*	*1968*
Total world production . . .	170	146	170	131	162	166	...	...	...	138	158	158
Total world imports . . .	133	138	154	124	139	140	137	177	181	138	146	137
(*a*) Developed countries . . .	130	133	150	109	116	108	135	177	182	132	134	123
(*b*) United States	114	103	123	104	115	118	108	128	132	119	121	98

SOURCE: ECLA, on the basis of information contained in FAO, *Commodity Review*, 1968.

[a] Averages of annual indexes.

down compared with the 1950s, and they fluctuated widely from year to year, owing not only to changeable weather conditions in the producing countries but also to the harvests in the countries which import when they have a bad crop year. After a short-lived increase in 1964, wool prices fell in the following years, largely as a result of competition from synthetic fibres.

The prices of petroleum and petroleum products, which account for a third of the value of the twenty products included in the index, showed a steady downward trend throughout the decade. In the last three years, the index fluctuated around 90 per cent of the 1963 figure.

It should be borne in mind that, because of the decisive influence of international prices on Latin America's terms of trade, the trend of the terms of trade in the various countries of the region depended mainly on how their staple exports fared, as indicated below.

4. Trends of Latin America's terms of trade, by countries

The preceding section described the development of prices for Latin America's main exports, by area of origin—tropical or temperate zone—with metals and petroleum shown separately. The present section lists seventeen countries in the region[4] by main export, showing the share of each commodity in their total exports over the period 1966–1968.

	Percentage share of country's total exports
Tropical-zone products	
Coffee	
Brazil	43
Colombia	64
Costa Rica	36
El Salvador	48
Guatemala	42
Bananas	
Honduras	47
Panamá	54
Ecuador	61
Cotton	
Nicaragua	42
Sugar	
Dominican Republic	56
Livestock products	
Argentina	38
Uruguay	83
Tropical-zone products	
Mining products	
Copper	
Chile	74
Peru	26
Tin	
Bolivia	56
Petroleum	
Venezuela	93
Diversified exports	
Mexico	
cotton	15
sugar	7
coffee	6

Tables 201 to 207 give price and unit value indexes for exports and imports and the terms of trade for these products, by countries. The periods covered are 1951–1955, 1956–1960 and 1961–1968, with 1963 taken as the base year at 100; the figures show the trend of the terms of trade during the 1960s up to 1968, as compared to those during the 1950s.

As noted earlier, non-ferrous metals improved considerably as regards prices and unit values. The terms of trade of the three countries with the largest share of exports of such metals (Bolivia, Chile and Peru) reached an index of 118 in the period 1961–1968, compared with 110 in 1951–1955 and 102 in 1956–1960. By contrast, the terms of trade declined, in the fourteen other Latin American countries studied, moving from an index of 129 in 1951–1955 to 115 in 1956–1960 and 97 in 1961–1968 (see table 201 and figure XXX); this difference is even more apparent if the figures for capital goods and consumer durables are considered, rather than those for total imports. Of the three mining countries, Bolivia showed the greatest improvement in its terms of trade during the 1960s, in line with the increases in world prices for tin. Similarly, the rise in copper prices was the reason for the improvement in the terms of trade of Chile and Peru.

In contrast to the situation of the metal-exporting countries, the terms of trade of the coffee-exporting countries (Brazil, Colombia, Costa Rica, El Salvador and Guatemala) worsened, owing to the drop in coffee prices, the index falling from 150 in 1951–1955 to 130 in 1956–1960 and 109 in 1961–1968, with 1963 taken as the base year at 100 (see table 202). The largest drop was in Costa Rica, which was affected not only by the decline in the prices, not only of coffee but also of bananas, which was even more serious. The terms of trade of the banana-exporting countries (Ecuador, Honduras and Panama) also declined, from an

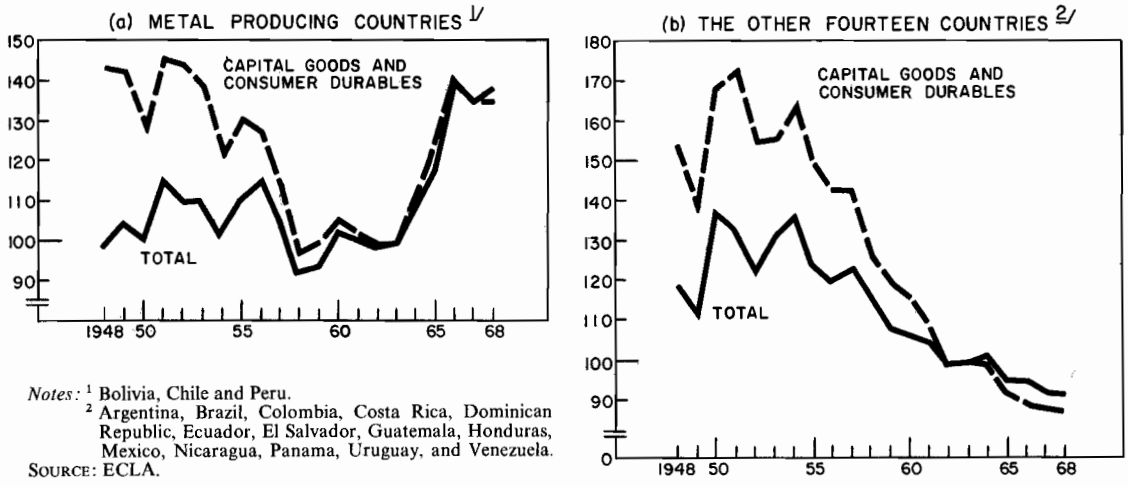
[4] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

Table 201. Latin America: foreign trade position of metal-exporting countries
(Index: 1963 = 100)

	Share of total exports, 1966–1968 (percentages)			Averages of annual index		
	Main commodity	Second commodity		1951–55	1956–60	1961–68
Prices						
Copper				114	105	136
Tin				93	85	124
Lead				187	135	131
Zinc				147	108	122
Iron				...	...	102
Unit values						
Copper				...	...	131
Tin				...	...	124
Lead				...	...	135
Zinc				...	...	119
Iron				...	...	98
Copper exporters						
Chile	74	Iron	9			
Unit value: total exports				110	103	119
total imports				102	100	100
Terms of trade				108	103	119
Peru	26	Fish meal	21			
Unit value: total exports				108	98	114
total imports				88	93	98
Terms of trade				121	105	117
Tin exporters						
Bolivia	56	Petroleum	12			
Unit value: total exports				105	89	126
total imports				121	97	101
Terms of trade				86	91	125
Three metal-exporting countries	52	Various	15			
Unit value: total exports				108	99	117
total imports				98	97	99
Terms of trade				110	102	118
Other countries	—	—	—			
Unit value: total exports				127	113	101
total imports				98	98	104
Terms of trade				129	115	97

SOURCE: ECLA.

Figure XXX. Terms of trade with other regions calculated on the basis of total imports and imports of capital goods and consumer durables
(Index: 1963 = 100)
Natural scale



Notes: [1] Bolivia, Chile and Peru.
[2] Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Uruguay, and Venezuela.
SOURCE: ECLA.

index of 131 in 1951–1955 to 119 in 1956–1960 and 104 in 1961–1968. This was the result not only of the fall in export prices but also of the increase in the unit value of imports (see table 203). During the 1960s the terms of trade of the Dominican Republic, a sugar-exporting country, showed no improvement over 1951–1955, during which there was a recovery compared with the period 1956–1960 (see table 204). The terms of trade of Nicaragua, which exports cotton and some coffee, dropped from an index of 120 in 1951–1955 to 97 in 1956–1960, and rose again slightly to 102 in 1961–1968 (see table 204).

In the temperate-zone countries—Argentina and Uruguay—the terms of trade improved during the period 1961–1968 compared with 1956–1960 but did not return to their 1951–1955 level. There was an increase in meat prices and a decline in wool prices. In agriculture, the price of wheat remained steady and that of maize fell. In addition, there was a significant decline in the unit value of exports, probably as a result of import substitution (see table 205).

Last, come Venezuela and Mexico, with completely different export structures in terms of degree of diversification. As 93 per cent of Venezuela's exports consist of petroleum and its derivatives, the unit value of exports followed the downward curve of prices for petroleum, while, at the same time, import prices rose thus further aggravating the decline in the terms of trade (see table 206). Unlike Venezuela's, Mexico's exports are very diversified, since tropical-zone products (cotton, sugar and coffee) account for 28 per cent of the total, and metals (zinc, lead and copper) for 7 per cent; the unit value of Mexico's exports returned to their 1951–1955 level, after a decline during the period 1956–1960. The worsening of the terms of trade is attributable in the main to an increase in the unit value of imports (see table 206).

Table 207 shows the terms of trade of seventeen Latin American countries, grouped according to main exports.

5. Latin America's share in the world market for selected exports

As has already been said, the decline in the terms of trade during the 1960s was greater in

Table 202. Latin America: foreign trade position of the coffee-exporting countries
(Index: 1963 = 100)

	Share of total exports, 1966–1968 (percentages)			*Average annual indexes*		
	Coffee	*Second commodity*		*1951–1955*	*1956–1960*	*1961–1968*
Price of coffee (Santos, Brazil)				177	139	114
(Manizales, Colombia)				162	141	112
Unit value of coffee				...	...	113
Brazil	43	Cotton	6			
Unit value: total exports				160	125	105
total imports				105	97	101
Terms of trade				153	129	104
Colombia	64	Petroleum	14[a]			
Unit value: total exports				145	129	106
total imports				99	104	101
Terms of trade				146	124	105
Costa Rica	36	Bananas	25			
Unit value: total exports				129	121	99
total imports				94	97	99
Terms of trade				137	125	100
El Salvador	48	Cotton	13[a]			
Unit value: total exports				142	124	104
total imports				96	96	97
Terms of trade				148	129	107
Guatemala	42[a]	Cotton	18[a]			
Unit value: total exports				157	141	108
total imports				93	92	101
Terms of trade				169	153	106
Five coffee-exporting countries	46		10			
Unit value: total exports				153	127	105
total imports				103	98	100
Terms of trade				150	130	109

SOURCE: ECLA.

[a] Average, 1965–1967.

Table 203. Latin America: foreign trade position of the banana-exporting countries
(Index: 1963 = 100)

	Share in total exports, 1966–1968 (percentages)			Average annual indexes		
	Bananas	Second commodity		1951–1955	1956–1960	1960–1968
Price of bananas				130	127	94
Unit value of bananas				...	...	107
Honduras	47[a]	Coffee	14[a]			
Unit value: total exports				104	98	98
total imports				92	93	98
Terms of trade				113	106	102
Panama	54	Petroleum products	24			
Unit value: total exports				107	100	103
total imports				92	93	101
Terms of trade				117	108	102
Ecuador	61[b]	Coffee	13[b]			
Unit value: total exports				139	127	108
total imports				92	99	100
Terms of trade				151	129	108
Three banana-exporting countries	52		16			
Unit value: total exports				120	113	104
total imports				92	95	100
Terms of trade				131	119	104

SOURCE: ECLA.
[a] 1965–1967.
[b] 1962–1964.

Table 204. Latin America: foreign trade position of the sugar and cotton-exporting countries
(Index: 1963 = 100)

	Share in total exports, 1966–1968 (percentages)			Average annual indexes		
	Sugar and cotton	Second commodity		1951–1955	1956–1960	1961–1968
Sugar						
Price of sugar: free market				46	43	42
United States				86	72	73
Unit value of sugar				...	...	84
Dominican Republic	56	Coffee	13			
Unit value: total exports				93	86	94
total imports				102	112	104
Terms of trade				91	77	91
Cotton						
Price of cotton				145	108	101
Unit value of cotton				...	...	102
Nicaragua	42	Coffee	16			
Unit value: total exports				118	103	101
total imports				98	107	100
Terms of trade				120	97	102

SOURCE: ECLA.

Latin America than in other developing regions. Looked at from another standpoint, i.e., in terms of Latin America's share in the world market for eight exports—which account for 60 per cent of the region's total exports—it would seem that, with the exception of bananas and copper, Latin America's share of the world export trade contracted appreciably (see table 208). A comparison of the average for the period 1955–1957 and that for the year 1968 shows that Latin America's share in world exports fell from 75 to 64 per cent in the case of coffee; from 55 to 47 per cent in the case of sugar (if Cuba is excluded it grew from 20 to 23 per cent); from 28 to 19 per cent in the case of cocoa; from 8 to 3 per cent in the case of Argentine wheat; and from 27 to 16 per cent in the case of Venezuelan petroleum. Thus, the products and countries for which the decline in the terms of trade was greatest, also lost ground in the world export market. Exceptions to this trend were bananas, of which

Table 205. Latin America: foreign trade position of countries exporting livestock products (meat, leather, wool)
(Index: 1963 = 100)

	Share in total exports, 1966–1968 (percentages)			Average annual indexes		
	Livestock products	Second commodity		1951–1955	1956–1960	1961–1968
Price of: beef				89	95	115
cattle hides				...	...	122
wool				136	100	89
wheat				107	99	101
maize				133	102	99
Unit value of: beef				...	...	132
cattle hides				...	...	111
wool				...	...	84
wheat				...	...	94
maize				...	...	97
Argentina	38	Wheat and maize	25			
Unit value: total exports				125	97	100
total imports				126	115	106
Terms of trade				99	85	95
Uruguay	83	—	—			
Unit value: total exports				127	96	102
total imports				104	102	99
Terms of trade				123	94	102
Two countries exporting livestock products	43	Wheat and maize	25			
Unit value: total exports				125	97	101
total imports				121	113	105
Terms of trade				103	86	96

SOURCE: ECLA.

Table 206. Venezuela and Mexico: share of main exports: prices indexes, total unit value, and terms of trade
(Index: 1960 = 100)

	Composition of exports 1966–1968 (percentages)	Average annual indexes		
		1951–1955	1956–1960	1961–1968
Venezuela				
Total exports	100[a]	—	—	—
Petroleum and petroleum products	93[a]	—	—	—
Iron	5[a]	—	—	—
Price of petroleum and petroleum products		99[b]	104[b]	95
Unit value of crude petroleum		...	...	96
Unit value: total exports		114	120	97
total imports		81	92	109
Terms of trade		141	131	90
Mexico				
Total exports	100		*Prices*	
Cotton	15	145	108	101
Sugar	7	72[c]	73[c]	86[c]
Coffee	6	177	139	114
Zinc	4	147	108	122
Lead	2	187	135	131
Copper	1	114	105	136
Unit value: total exports		104	96	104
total imports		(83)	(92)	(107)
Terms of trade		(125)	(104)	(97)

SOURCE: ECLA.
[a] Average, 1965–1967.
[b] Crude petroleum.
[c] United States.

Table 207. Latin America: terms of trade of seventeen countries[a] grouped according to main exports
(Index: 1963 = 100)

Countries exporting	Average annual indexes		
	1951–1955	1956–1960	1961–1968
Metals			
Bolivia, Chile and Peru	110	102	118
Coffee			
Brazil, Colombia, Costa Rica, El Salvador, Guatemala	150	130	109
Bananas			
Honduras, Panama, Ecuador	131	119	104
Sugar			
Dominican Republic	145	108	101
Cotton			
Nicaragua	120	97	102
Livestock products			
Argentina and Uruguay	103	86	96
Petroleum			
Venezuela	141	131	90
Diversified exports			
Mexico	125	104	97
Fourteen countries (excluding Bolivia, Chile and Peru)	129	115	97
TOTAL *Latin America*	*127*	*113*	*100*

SOURCE: ECLA, summary of tables 201 to 206.
[a] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

Table 208. Latin America: position in the world market for selected export commodities, 1955–57, 1967 and 1968
(Percentages)

	1955–1957	1967	1968
Coffee			
World exports	100	100	100
Latin America	75	64	64
Brazil	41	33	34
Colombia	15	12	12
Bananas			
World exports	100	100	100
Latin America	77	76	79
Central America	33	33	37
South America	33	32	31
Caribbean	11	11	11
Sugar			
World exports	100	100	100
Latin America	55	50	47
Cuba	35	28	24
Rest of Latin America	20	22	23
Cocoa			
World exports	100	100	100
Latin America	28	21	19
Brazil	16	11	7
Beef			
World exports	100	100	100
Latin America	43	32	29
Argentina	38	24	16
Uruguay	3	4	6
Wheat and wheat flour			
World exports	100	100	100
Argentina	8	4	5
Crude petroleum			
World exports	100	100	100
Venezuela	27	16	16

SOURCE: ECLA, on the basis of information from FAO, United Nations, *World Energy Supplies* and United Nations, *Statistical Yearbook* 1959 and 1968.

Latin America continued to be a large exporter; and copper, where it held its ground owing to the upward trend in prices.

The sections that follow give a more detailed account of Latin America's share in the world market for the eight exports mentioned above.

(a) *Sugar*

During the 1960s, three main trends were apparent in the world sugar market: first, the growth rate of world production tended to outstrip that of consumption, with the result that stocks grew and prices on the free market fell; secondly, Latin America's share of the world market continued to shrink, owing to the relative stagnation of Cuban production; and thirdly, the countries with centrally planned economies doubled their production and consumption (see table 209).

In the latter half of the 1960s, world sugar production amounted to more than 62 million tons, and in 1967 it was 27 per cent higher than the average for the period 1962–1964, and 66 per cent higher than over the period 1955–1957. World imports of sugar in 1966 were 12 and 38 per cent higher than in 1962–1964 and 1955–1957, respectively. The surplus of supply over demand led to an increase in stocks which in absolute terms came close to equalling the annual volume of exports. As a result of this imbalance in the sugar market, the unit value of exports fell appreciably: for example, the price of sugar on the free market fluctuated during the period 1965–1968 around a figure which was approximately 25 per cent of the peak level it had reached in 1963. At the same time, there was some recovery in domestic sugar prices on the United States market after 1966.

As regards Latin America's position in the world market, both production and exports grew more slowly than in the rest of the world; Latin America's share of world production fell from 34 to 28 per cent between 1955–1957 and 1968, while its share of exports over the same period fell from 55 to 47 per cent. The

highest rise was in the share of the countries with centrally planned economies, which increased from 18 to 24 per cent for production, and from 5 to 15 per cent for exports over the same period.

Within the region, the trend in Cuba was different from that of other countries. It maintained its position as the largest single exporter of sugar, although its share of the market fell from 35 to 24 per cent between 1955–1957 and 1968; during the same period, the remainder of Latin America increased its share from 20 to 23 per cent. Naturally, this picture would change a great deal if Cuba were to attain—or come close to—the target of 10 million tons it has set for 1970.

Table 210 shows the exports of a group of five Latin American countries, and those of Cuba, by area of destination.

In recent years, prices for Latin American exports have improved, since it has been able to increase its share in preferential markets with relatively stable prices. This was the case in countries like Peru, which took up part of what was formerly the Cuban quota in the United States market, and also in Cuba, which since 1961 has been selling most of its exports to the countries with centrally planned economies on the basis of long-term contracts at fixed prices.

(b) *Coffee*

During the 1960s, world production of coffee, like that of sugar grew at a faster rate than imports. This imbalance led to stockpiling, with the result that in 1968 Brazil had nearly 4 million tons of stocks, or six times the total stocks for 1955–1957, an amount equal to total Brazilian exports over the last three years (see table 211). In 1967 the unit values of world exports of coffee dropped almost 33 per cent in relation to the 1955–1957 average, but after 1965 there was a slight improvement over the average for 1962–1964. The unit values of African coffee are getting closer to Latin American values, which have always been higher; nevertheless, the lower prices of African coffee helped to increase its share of world exports in the 1960s, from 17 per cent in 1955–1957 to 30 per cent in 1968. On the other hand, Latin America's share of the world market and world production has declined, slowly but surely, throughout the post-war period. This steady loss of ground is linked with changes in the relative importance of the importing countries, European coffee imports having almost doubled in the last ten years, whereas those of the United States have shown no improvement. Thus, in 1967, for the first time since 1914, more coffee was imported by the countries of Western Europe than by the United States, where per capita consumption of coffee seems to have reached saturation point (see table 211). But even on the United States market, Latin American coffee continued to lose ground to African coffee during the 1960s: its share fell from 83 per cent in 1960 to 65 per cent in 1968. Latin America's share of the European market fluctuated between 60 and 63 per cent from 1960 onwards (see table 212). This unfavourable trend may worsen in years to come, with the entry into full force of the agreement between the European Economic Community and the Associated African and Malagasy States, exempting the latter from import duties.

(c) *Bananas*

The major sources of world demand for bananas are the United States, Western Europe and, more recently, Japan. Owing to relatively high and sustained economic growth, and despite fluctuating business trends, imports of bananas by these countries reached high level in the 1960s. World exports increased by 75 per cent between 1955–1957 and 1968, and from 1966 onwards exceeded 5 million tons. Within this context, Latin America continues to supply more than three quarters of the world banana sales. On the other hand, Africa's declining share of the world banana market has been offset by the rapid growth of exports from Asia, particularly Taiwan (see table 213).

An analysis of imports shows that the West European and Japanese markets are growing in importance, at the expense of the United States, whose share of world imports declined from 42 per cent in 1955–1957 to 30 per cent in 1968; the highest growth rates were recorded for exports to the Japanese market (which rose from 1 to 12 per cent during the same period), to Italy (from 1 to 6 per cent) and to West Germany (from 9 to 11 per cent).

(d) *Wheat*

There were severe fluctuations in the world wheat market during the 1960s, chiefly owing to changes in weather conditions in the importing countries which supplement domestic production with imports. Indeed, the simultaneous decrease in production in Western Europe and the Soviet Union in 1963/64 caused world exports of wheat to rise by 12.7 million tons between 1962/63 and 1963/64. Subsequently, however, the growth of domestic

Table 209. Sugar: Latin America's

	1955–57	1962–64	1965	1966	1967	1968[a]	1969[a]	1962–64 / 1955–57	1966 / 1965
	Millions of tons								
Production[b]									
World total	40.0	52.3	66.1	62.8	64.7	66.3	67.3	131	95
Cane sugar	24.4	30.2	35.9	36.2	37.2	36.3	37.5	124	101
Beet sugar	15.6	22.2	30.2	26.6	27.6	30.0	29.8	142	88
Developed countries	12.4	15.9	19.8	17.8	19.3	20.5	21.1	128	90
Western Europe[c]	6.9	8.4	11.0	9.6	10.2	10.9	10.8	122	87
North America[d]	3.4	4.5	5.3	4.9	4.9	5.0	5.7	132	92
Developing countries	20.2	24.7	29.1	29.8	29.7	28.4	29.8	122	102
Cuba	5.0	4.3	6.1	4.5	6.1	5.0	5.0	87	73
Rest of Latin America	8.6	11.6	12.7	14.1	14.0	13.4	14.1	135	112
Countries with centrally planned economies[e]	7.4	11.8	17.2	15.3	15.7	17.4	16.4	160	89
Soviet Union	3.7	6.3	10.2	9.2	9.0	10.4	9.7	169	90
Consumption									
World total	41.3	54.4	59.7	61.7	63.6	65.8	68.2	132	103
Developed countries	21.3	25.2	26.4	26.9	27.4	28.4	29.1	119	102
Western Europe[c]	10.2	12.3	12.9	13.1	13.3	13.8	14.1	121	101
North America[d]	8.7	9.8	10.1	10.3	10.4	10.7	10.9	113	102
Developing countries	12.1	16.0	17.8	18.7	19.5	19.8	20.8	132	105
Latin America[d]	5.7	7.8	8.5	8.5	8.8	9.4	9.7	136	100
Countries with centrally planned economies[e]	7.9	13.2	15.5	16.1	16.8	17.6	18.4	167	104
Soviet Union	4.6	8.2	10.0	10.2	10.5	11.0	11.5	178	102
Exports									
World total	14.6	18.1	19.5	19.1	20.5	20.2	...	123	98
Developed countries	2.8	3.3	3.2	3.5	3.9	4.1	...	120	111
Western Europe[c]	1.8	1.5	1.6	1.3	1.2	1.3	...	88	83
Australia and New Zealand	0.8	1.2	1.2	1.4	1.7	1.8	...	158	124
Developing countries	11.1	12.1	13.9	12.9	13.9	13.2	...	109	93
Cuba	5.2	4.3	5.3	4.4	5.7	4.8	...	83	82
Rest of Latin America	2.9	3.8	4.0	4.3	4.6	4.7	...	130	105
Countries with centrally planned economies[e]	0.8	2.6	2.4	2.7	2.8	3.0	...	347	112
Soviet Union	0.2	0.7	0.7	1.1	1.1	1.2	...	333	164
Eastern Europe	0.6	1.6	1.4	1.1	1.3	1.5	...	298	81
Imports									
World total	14.4	17.8	18.9	19.2	20.0	20.2	...	124	102
Developed countries	10.3	11.2	10.9	11.5	11.9	12.1	...	109	105
Western Europe[c]	4.7	4.9	4.7	5.0	4.8	4.5	...	105	106
United States	3.7	3.9	3.5	3.9	4.3	4.6	...	104	110
Developed countries	3.2	3.5	4.5	4.5	4.1	4.3	...	109	101
Asia and Oceania	1.7	1.9	2.8	2.5	2.3	2.5	...	113	92
Africa	1.1	1.3	1.5	1.7	1.5	1.5	...	122	114
Countries with centrally planned economies[e]	0.9	3.2	3.5	3.2	4.0	3.9	...	340	93
Soviet Union	0.7	1.8	2.3	1.8	2.5	2.4	...	273	79
Eastern Europe	0.2	0.7	0.6	0.7	0.7	0.7	...	419	111
Carry-over stocks									
World total	10.6	11.6	18.4	18.7	18.6	18.9	...	109	102
Total value of exports				*Millions of dollars*					
World total[f]	1,462	1,928	1,759	1,678	1,815	1,800	...	132	95
Developed countries	320	414	313	284	299	330	...	129	91
Western Europe[c]	221	231	180	130	135	...	...	105	72
Developing countries	1,142	1,514	1,446	1,394	1,516	1,470	...	133	96
Latin America	786	960	971	952	1,101	...	...	122	98
Asia and Oceania	246	419	343	300	278	...	...	170	87
Unit value of exports				*Dollars per ton*					
World total[f]	105	125	103	88	88	89	...	119	85
Developed countries	115	124	99	80	77	81	...	108	81
Western Europe[b]	126	150	111	97	110	...	...	119	87
Developing countries	103	125	104	108	109	112	...	121	104
Latin America	97	119	104	111	107	...	...	123	107
Asia and Oceania	117	143	108	100	116	...	...	122	93

SOURCE: FAO, *Commodity Review*, 1968, pp. 104 and 105.

[a] Provisional figures.

[b] Crop year ending in the year shown.

[c] Including Cyprus, Israel and Turkey.

1967/1966	1968/1967	1969/1968	1967/1955–57	1967/1962–64	1968/1955–57	1968/1962–64	1955–57	1962–64	1967	1968	1969
			Indexes				*Percentages of world total*				
103	102	102	162	124	166	127	100	100	100	100	100
103	98	103	153	123	149	120	61	58	57	55	56
104	109	99	177	124	193	135	39	42	43	45	44
109	106	103	156	122	165	129	31	30	30	31	31
106	108	99	147	121	158	130	17	16	16	16	16
100	101	115	145	109	147	111	8	9	8	7	8
100	96	105	147	120	141	115	51	47	46	43	44
137	82	100	123	141	100	115	12	8	9	8	7
99	96	105	162	120	156	116	22	22	22	20	21
103	111	94	214	133	237	148	18	23	24	26	24
98	116	93	240	143	280	166	9	12	14	16	14
103	103	104	154	117	160	121	100	100	100	100	100
102	104	102	129	109	134	113	52	46	43	43	43
102	104	103	130	107	135	112	25	23	21	21	21
101	103	102	119	106	123	109	21	18	16	16	16
104	102	105	160	121	163	124	29	30	31	30	30
104	107	103	154	113	164	121	14	14	14	14	14
104	105	104	213	128	224	134	19	24	26	27	27
103	105	105	228	128	239	134	11	15	17	17	17
107	98	...	140	114	138	112	100	100	100	100	100
109	105	...	139	116	146	122	19	18	19	20	...
92	106	...	70	80	74	84	12	9	6	6	...
120	102	...	222	140	227	143	5	7	8	9	...
108	95	...	125	115	118	109	76	67	68	65	...
130	85	...	110	133	93	112	35	24	28	24	...
108	103	...	155	120	160	123	20	21	22	23	...
104	107	...	368	106	395	114	5	15	14	15	...
104	107	...	533	160	571	171	1	4	5	6	...
120	115	...	238	80	273	91	4	9	6	7	...
104	101	...	139	112	140	114	100	100	100	100	100
104	101	...	116	107	118	108	71	63	60	60	...
98	93	...	103	98	96	91	33	28	24	22	...
110	107	...	115	110	123	118	26	22	21	23	...
90	104	...	128	118	133	122	22	19	20	21	...
92	105	...	139	124	146	130	12	11	12	12	...
90	100	...	136	112	136	112	8	8	8	7	...
123	99	...	425	125	419	123	7	18	20	19	...
135	97	...	370	136	358	131	5	10	12	12	...
106	95	...	463	110	438	104	1	4	4	3	...
99	102	...	175	160	178	163	—	—	—	—	...
108	99	...	124	94	123	93	100	100	100	100	100
105	110	...	93	72	103	80	22	21	16	18	...
104	...	...	61	58	...	...	15	12	7	...	...
109	97	...	133	100	129	97	78	79	84	82	...
116	...	...	140	115	...	...	54	50	61	...	...
93	...	...	113	66	...	...	17	22	15	...	...
100	101	...	84	70	85	71	...	...	...	...	...
96	105	...	67	62	70	65	...	...	...	...	...
113	...	...	87	73	...	...	...	...	...	...	...
101	103	...	106	87	109	90	...	...	...	...	...
96	...	...	110	90	...	...	...	...	...	...	...
116	...	...	99	81	...	...	...	...	...	...	...

[d] Including Hawaii.
[e] Including North Korea, Mongolia and North Viet-Nam.
[f] Excluding countries with centrally planned economies.

Table 210. Centrifugal sugar: exports of some selected Latin American countries by main areas of destination, 1953, 1955 and 1963

Year	Cuba (Millions of tons)	Percentage despatched to		Total of five other exporters[a] (Millions of tons)	Percentage despatched to	
		United States	Rest of world		United States	Rest of world
1953	5.5	45.2	54.8	1.3	7.0	93.0
1958	5.6	57.6	42.4	2.1	11.2	88.8
1963	3.5	—	100.0	2.3	80.2	19.8

SOURCES: International Sugar Council, *Sugar Yearbook*, 1963; ECLA, *Economic Survey*, 1964.

[a] Argentina, Brazil, Dominican Republic, Mexico, Peru.

output in the importing countries led to a decline of world exports in the second half of the decade, from 62 million tons in 1965 to about 53 million in 1967 (see table 214).

A few countries have a virtual monopoly of world wheat exports. Two countries—the United States and Canada—supply two thirds of these exports, while Argentina and Australia between them account for 15 to 20 per cent. The International Wheat Agreement operated smoothly as so few exporting countries were involved, and any major price fluctuations were prevented. Moreover, there was an increase in exports, mainly from the United States, under government programmes for the disposal of agricultural surpluses. Sales of such surpluses

Table 211. Coffee: Latin America's

	Thousands of tons							
	1955–1957	1962–1964	1965	1966	1967	1968[a]	1969[a]	1962–1964 / 1955–1957
Production[b]								
World total	2,449	4,156	3,583	5,007	3,579	4,171	3,691	170
Brazil	982	1,754	1,084	2,260	1,056	1,386	990	179
Rest of Latin America	895	1,253	1,266	1,333	1,274	1,349	1,301	140
Africa	455	917	1,033	1,169	974	1,129	1,118	202
Asia and Oceania	117	232	200	245	275	307	282	198
Exports								
World total	2,160	2,830	2,670	2,975	3,027	3,216	...	131
Brazil	896	1,017	809	1,010	1,004	1,080	...	114
Colombia	315	382	338	334	366	395	...	121
Rest of Latin America	402	533	534	553	566	593	...	133
Africa	483	792	838	938	900	983	...	164
Asia and Oceania	64	106	151	140	191	165	...	166
Net imports								
World total	2,138	2,839	2,750	2,967	2,948	3,300	...	133
Developed countries	2,014	2,626	2,542	2,673	2,678	3,013	...	130
European Economic Community	480	707	754	762	790	845	...	147
Rest of Western Europe[c]	246	412	420	471	481	510	...	167
United States	1,217	1,386	1,246	1,294	1,254	1,496	...	114
Countries with centrally planned economies	19	92	112	119	131	130	...	484
Soviet Union	3	27	31	28	25	30	...	900
Eastern Europe	16	65	81	91	106	100	...	406
Stocks (at 30 June)								
Brazil	486	3,516	3,316	3,954	2,964	3,129	...	723
United States	135	219	157	208	147	197	...	162
Value of exports				*Millions of dollars*				
World total	2,279	2,002	2,135	2,292	2,153	2,300	...	88
Brazil	907	717	707	764	705	745	...	79
Colombia	450	343	344	328	322	342	...	76
Rest of Latin America	507	416	479	479	433	445	...	82
Africa	377	474	534	648	606	668	...	126

SOURCE: FAO, *Commodity Review*, 1968, pp. 78–79.

[a] Provisional figures.

for despatch to developing countries have grown fivefold over the last ten years, under special agreements to which the International Wheat Agreement's limitations with respect to prices, forms of payment, credit, etc. do not apply (see table 215). The sale of surpluses has caused some concern to Argentina, since in certain cases they were sold on some of its traditional markets.

The market position of Argentina, which is the only Latin American wheat-exporting country of any importance, fluctuated widely during the 1960s, as a result of very changeable weather conditions (see table 214).

In the second half of the decade world production showed an upward trend, while imports appeared to decline. According to preliminary estimates, in 1969 production exceeded 300 million tons for the fourth consecutive year, compared to 218 and 261 million in 1955–1957 and 1963–1965 respectively; on the other hand, world imports, which increased from 30 to 56 million tons between 1955–1957 and 1963–1965, subsequently declined. It is worthy of note that there was a rapid growth of production by the countries with centrally planned economies and developing countries, which tended to raise their level of self-supply. Consequently, there was excessive stockpiling in the main exporting countries (stocks accumulated in 1969 were equivalent to the annual volume of world trade), which caused world prices to sink below the minimum prices laid down in the International Wheat Agreement.

(e) *Copper*

World production of copper has doubled since 1950, and since 1965 it has been more than 5 million tons a year (see table 216). The major part of this increase took place in the

share of the world market

Indexes								*Percentages of world total*				
1966 / *1965*	*1967* / *1966*	*1968* / *1967*	*1969* / *1968*	*1967* / *1955–1957*	*1967* / *1962–1964*	*1968* / *1955–1957*	*1968* / *1962–1964*	*1955–1957*	*1962–1964*	*1967*	*1968*	*1969*
140	71	117	88	146	86	170	100	100	100	100	100	100
208	47	131	71	108	60	141	79	40	42	29	33	27
105	96	106	96	142	102	151	108	36	30	36	32	35
113	83	116	99	214	106	248	123	19	22	27	27	30
123	112	112	92	235	119	262	132	5	6	8	7	8
111	102	106	...	140	107	149	114	100	100	100	100	...
125	99	108	...	112	99	121	106	41	36	33	34	...
99	110	108	...	116	96	125	103	15	13	12	12	...
104	102	105	...	141	106	148	111	19	19	19	18	...
112	96	109	...	186	114	204	124	22	28	30	31	...
93	136	86	...	298	180	258	156	3	4	6	5	...
108	99	112	...	138	104	154	116	100	100	100	100	...
105	100	113	...	133	102	150	115	94	92	91	91	...
101	104	107	...	165	112	176	120	22	25	27	26	...
112	102	106	...	196	117	207	124	12	15	16	15	...
104	97	119	...	103	90	123	108	57	49	43	45	...
106	110	99	...	689	142	684	141	1	3	4	4	...
90	89	120	...	833	93	1,000	111	—	1	1	1	...
112	116	94	...	663	163	625	154	1	2	3	3	...
119	75	106	...	610	84	644	89	—	—	—	—	—
132	71	134	...	109	67	146	90	—	—	—	—	—
107	94	107	...	94	108	101	115	100	100	100	100	...
108	92	106	...	78	98	82	104	40	36	33	32	...
95	98	106	...	72	94	76	100	20	17	15	15	...
100	90	103	...	85	104	88	107	22	21	20	19	...
121	94	114	...	161	128	182	145	17	24	28	30	...

[b] Crop year ending in the year shown.
[c] Including Cyprus, Israel and Turkey.

Table 212. Coffee: United States and European imports by main area of origin for selected years, 1934–38 to 1968

(Percentages of total imports)

	United States			Europe		
	Latin America	*Africa*	*Other areas*	*Latin America*	*Africa*	*Other areas*
1934–38	97	2	1	71	16	13
1949–50	97	3		59	40	1
1960	83	17		62	33	5
1961	79	20	1	61	32	7
1962	78	21	1	63	31	6
1963	77	21	2	62	32	6
1964	71	27	2	60	32	8
1965	67	29	4	60	32	8
1966	66	29	5	60	32	8
1967	66	28	6	62	30	8
1968	65	30	5	63	30	7

SOURCE: Pan-American Coffee Bureau. *Annual Coffee Statistics*, 1966, 1967 and 1968.

Table 213. Bananas: Latin America's

	Thousands of tons						
	1955–1957	*1962–1964*	*1965*	*1966*	*1967*	*1968[a]*	*1962–1964 / 1955–1957*
Exports							
World total	3,270	4,364	4,881	5,374	5,546	5,716	133
Developing countries	2,992	4,018	4,496	4,918	5,122	5,314	134
Central America	1,089	1,175	1,308	1,598	1,810	2,100	108
Costa Rica	291	283	316	359	371	480	97
Honduras	318	355	527	739	825	885	112
Panama	271	272	335	385	454	524	100
South America	1,076	1,678	1,692	1,800	1,784	1,747	156
Brazil	206	216	216	205	171	160	105
Colombia	203	174	254	311	326	295	86
Ecuador	662	1,274	1,200	1,265	1,262	1,252	192
Caribbean	365	510	631	677	636	635	140
Jamaica	165	163	203	204	194	156	99
Africa	398	479	460	370	370	366	120
Cameroon	149	124	119	45	48	45	83
Ivory Coast	29	127	117	127	132	136	438
Asia	36	143	377	452	496	442	397
China (Taiwan)	19	106	337	370	427	386	558
Imports							
World total	3,053	4,181	4,963	5,308	5,402	5,526	137
Developed countries	2,794	3,776	4,539	4,847	4,949	5,076	135
Western Europe	1,349	1,985	2,417	2,602	2,612	2,527	147
European Economic Community	708	1,137	1,462	1,586	1,561	1,497	161
France	282	371	399	460	444	431	132
Germany (Federal Republic)	287	476	585	606	605	566	166
Italy	45	153	317	322	319	322	340
United Kingdom	317	364	376	369	353	347	115
United States	1,276	1,379	1,565	1,618	1,638	1,683	108
Canada	111	140	167	175	182	194	126
Japan	24	230	358	416	481	638	958
Countries with centrally planned economies	3	45	55	65	75	85	1,500
Soviet Union	2	19	23	22	18	...	950
Eastern Europe	1	26	32	43	57	...	2,600

SOURCE: FAO, *Commodity Review*, 1968.

1950s; in the 1960s the rate of increase was slower, and in 1967 there was a slump owing to a protracted strike in the United States. The Soviet Union considerably increased its output and became the second largest world copper producer after the United States. On the other hand, there was practically no change in the share of Chile and Zambia, which remained fairly steady at about 13 per cent of world production. The other Latin American copper producers—Peru and Mexico—supplied, respectively, 4 and 1 per cent of world production. The exports of Chile and Peru grew with their production, since little use is made of copper in local industries; a point worth noting is that there was an increase in the share of copper manufactures (copper wire and plate) in Chile's total exports (see table 217).

The value of Chile's copper exports[5] rose from 310 million dollars in 1960 to 588 million in 1968, or by 90 per cent (in 1968, the total value of Chile's exports amounted to 913.6 million dollars). The increase in the value of exports was due mainly to the rise in world prices for copper and, to a lesser degree, to the increase in the total volume of exports, which rose by 18 per cent between 1960 and 1968.

In view of the importance of copper in the Chilean balance of payments, it is interesting to note the distribution of earnings from large-scale copper mining, which produces about 80 per cent of the national total; table 218 shows that only a little more than 25 per cent of these

[5] Large-scale mining only.

share of the world market

Indexes							*Percentages of world total*			
1966 / 1965	*1967 / 1966*	*1968 / 1967*	*1967 / 1955–1957*	*1967 / 1962–1964*	*1968 / 1955–1957*	*1968 / 1962–1964*	*1955–1957*	*1962–1964*	*1967*	*1968*
110	103	103	170	127	175	131	100	100	100	100
109	104	104	171	127	178	132	91	92	92	93
122	113	116	166	154	193	179	33	27	33	37
114	103	129	127	131	165	170	9	6	7	8
140	112	107	259	232	278	249	10	8	15	15
115	118	115	168	167	193	193	8	6	8	9
106	99	98	166	106	162	104	33	38	32	31
95	83	94	83	79	78	74	6	5	3	3
122	105	90	161	187	145	170	6	4	6	5
105	100	99	191	99	189	98	20	29	23	22
107	94	100	174	125	174	125	11	12	11	11
100	95	80	118	119	95	96	5	4	3	3
80	100	99	93	77	92	76	12	11	7	6
38	107	94	32	39	30	36	5	3	1	1
109	104	103	455	104	469	107	1	3	2	2
120	110	89	1,378	347	1,228	309	1	3	9	8
110	115	90	2,247	403	2,032	364	1	2	8	7
107	102	102	177	129	181	132	100	100	100	100
107	102	103	177	131	182	134	92	90	92	92
108	100	97	194	132	187	127	44	47	48	46
108	98	96	220	137	211	132	23	27	29	27
115	97	97	157	120	153	116	9	9	8	8
104	100	94	211	127	197	119	9	11	11	10
102	99	101	709	208	716	210	1	4	6	6
98	96	98	111	97	109	95	10	9	7	6
103	101	103	128	119	132	122	42	33	30	30
105	104	107	164	130	175	139	4	3	3	4
116	116	133	2,004	209	2,658	277	1	6	9	12
118	115	113	2,500	167	2,833	189	—	1	1	2
96	82	...	900	95	...	...	—	—	0.3	...
134	133	...	5,700	219	...	...	—	1	1	...

[a] Preliminary figures.

Table 214. Wheat: Latin America's

	Thousands of tons						
	1955–1957	1962–1964	1965	1966	1967	1968	1962–1964 / 1955–1957
Production[a]							
World total	218.0	256.8	265.8	308.7	298.8	333.4	118
Developed countries	90.1	115.1	120.4	127.1	129.2	138.8	128
European Economic Community	22.6	27.8	30.5	26.5	31.0	32.2	123
United Kingdom	2.8	3.6	4.2	3.5	3.9	3.7	129
Rest of Western Europe	11.4	14.0	14.2	14.6	16.8	15.8	123
Japan	1.4	1.2	1.3	1.0	1.0	1.0	86
United States	26.2	32.0	35.8	35.7	41.4	42.7	122
Canada	13.5	17.1	17.7	22.5	16.1	17.7	127
Australia	3.9	9.1	7.1	12.7	7.5	14.5	233
Developing countries	34.4	41.0	40.7	36.7	42.7	50.3	119
Asia	20.9	24.1	26.8	23.9	27.2	34.5	115
Africa	3.2	3.7	3.8	2.4	3.4	5.2	116
Latin America	10.3	13.2	10.1	10.4	12.1	10.6	128
Argentina[b]	6.1	8.6	6.1	6.2	7.4	5.9	141
Countries with centrally planned economies	93.5	100.7	104.7	144.9	126.7	144.3	108
Soviet Union	57.6	64.9	59.7	100.5	77.4	96.2	113
Exports[c]							
World total	32.6	50.2	62.3	55.9	52.8	...	154
Developed countries	25.6	43.7	50.8	47.7	43.9	...	171
United States	11.7	20.0	23.4	20.0	20.5	...	171
Canada	8.0	12.0	14.8	14.8	8.9	...	150
Australia	2.6	6.4	5.7	7.3	7.0	...	246
Developing countries	3.6	3.7	8.7	3.6	1.9	...	103
Argentina	2.7	2.9	7.8	3.1	1.4	...	107
Countries with centrally planned economies	3.4	2.8	2.8	4.6	7.0	...	82
Soviet Union	3.1	...	1.7	3.5	5.0	...	...

	Thousands of tons					
	1955–1957	1962–1964	1965	1966	1967	1968
Imports[c]						
World total	30.5	49.6	61.4	55.6	52.1	...
Developed countries	17.7	16.2	17.5	16.4	14.8	...
European Economic Community	5.6	4.2	4.7	4.4	4.7	...
United Kingdom	5.1	4.4	4.7	4.2	4.1	...
Rest of Western Europe	3.3	3.1	3.4	2.6	1.8	...
Japan	2.4	3.7	3.6	4.3	4.0	...
Developing countries	9.8	19.2	23.0	25.6	26.9	...
Asia	5.6	12.1	15.0	15.9	17.3	...
Africa	0.8	1.5	2.4	3.5	3.1	...
Latin America	3.3	5.0	5.5	6.2	6.5	...
Countries with centrally planned economies	3.0	14.2	20.9	13.6	10.4	...
Final stocks[d]						
Argentina	1.4	2.0	0.2	0.3	1.4	1.0
Australia	1.3	0.6	0.5	2.3	1.4	6.0
Canada	17.8	13.2	11.4	15.7	18.2	20.6
France	0.9	2.5	2.7	1.7	1.8	2.8
United States	25.6	26.4	14.6	11.6	14.6	21.0
Value of exports[e]						
World total	2,131.0	3,304.0	3,451.0	3,888.0	3,478.0	...
Developed countries	1,646.0	2,798.0	2,848.0	3,300.0	2,761.0	...
Developing countries	271.0	229.0	453.0	312.0	162.0	...
Countries with centrally planned economies	214.0	277.0	150.0	276.0	555.0	...
Unit value of exports[f]						
Developed countries	64.3	64.0	56.1	69.2	62.9	...
Developing countries	75.3	61.9	52.1	86.7	85.3	...
Countries with centrally planned economies	62.9	98.9	53.6	60.0	79.3	...
World total	65.4	65.8	55.4	69.6	65.9	...

SOURCE: FAO, *Commodity Review*, 1968.
[a] Crop years beginning in the year shown.
[b] Inter-American Statistical Institute, *América en cifras*, 1967.
[c] Marketing year, July–June.

share of the world market

Indexes							Percentages of world total			
1966/1965	1967/1966	1968/1967	1967/1955–1957	1967/1962–1964	1968/1955–1957	1968/1962–1964	1955–1957	1962–1964	1967	1968
116	97	112	137	116	153	130	100	100	100	100
106	102	107	143	112	154	121	41	45	43	42
87	117	104	137	112	142	116	10	11	10	10
83	111	95	139	108	132	103	1	1	1	1
103	115	94	147	120	139	113	5	5	6	5
77	100	100	71	83	71	83	1	1	—	—
100	116	103	158	129	163	133	12	13	14	13
127	72	110	119	94	131	104	6	7	5	5
179	59	193	192	82	372	159	2	4	3	4
90	116	118	124	104	146	123	16	16	14	15
89	114	127	130	113	165	143	10	9	9	10
63	142	153	106	92	163	141	1	1	1	2
103	116	88	117	92	103	80	5	5	4	3
102	119	80	121	86	97	69	3	3	2	2
138	87	114	136	126	154	143	43	39	42	43
168	77	124	134	119	167	148	26	25	26	29
90	94	...	162	105			100	100	100	100
94	92	...	171	100			79	87	83	
85	103	...	175	103			36	40	39	
100	60	...	111	74			25	24	17	
128	96	...	269	109			8	13	13	
41	53	...	53	51			11	7	4	
40	45	...	52	48			8	6	3	
164	152	...	206	250			10	6	13	
...	143	...	161	...			9	...	9	

Indexes					Percentages of world total			
1962–1964/1955–1957	1966/1965	1967/1966	1967/1955–1957	1967/1962–1964	1955–1957	1962–1964	1967	1968
163	91	94	171	105	100	100	100	100
92	94	90	84	91	58	33	28	
75	94	107	84	112	18	8	9	
86	89	98	80	93	17	9	8	
94	76	69	55	58	11	6	3	
154	119	93	167	108	8	7	8	
196	111	105	274	140	32	39	52	
216	106	109	309	143	18	24	33	
188	146	89	388	207	3	3	6	
152	113	105	197	130	11	10	12	
473	65	76	347	73	10	28	20	
143	150	467	100	70	—	—	—	—
46	460	61	108	233	—	—	—	—
74	138	116	102	138	—	—	—	—
278	63	106	200	72	—	—	—	—
103	79	126	57	55	—	—	—	—
155	113	89	163	105	100	100	100	100
170	116	84	168	99	77	85	79	
84	69	52	60	71	13	7	5	
130	184	201	259	200	10	8	16	
100	123	91	98	98	—	—	—	—
82	166	98	113	138	—	—	—	—
157	112	132	126	80	—	—	—	—
101	126	95	101	100				

[d] Argentina and Australia at 30 November, Canada at 31 July, United States and France at 30 June.
[e] Millions of dollars and calendar year.
[f] In dollars per ton.

Table 215. Wheat and flour: developed countries' exports to developing countries
(Millions of tons)

	1954/55–1956/57	1964/65–1966/67
	Average	Average
Total exports . . .	8.2	23.5
On commercial terms .	5.7	11.4
On special terms . .	2.5	12.4

SOURCE: FAO, *Commodity Review*, 1968, p. 34.

earnings is returned to Chile in the form of profits, depreciation, etc.[6]

(f) *Crude petroleum*

The world market for petroleum is characterized by the great concentration of reserves, production, refining and transport in a few hands; more than half of the resources, industries and services are controlled by eight companies, which have subsidiaries in nearly every country in the world.[7] As the market is so much in the hands of this oligopoly, the companies can distribute areas of influence among themselves and thus avoid price warfare.

During the 1960s there was a marked decline in the share of the Latin American countries—particularly Venezuela—in world production of petroleum, from 18 per cent in 1960 to 13.2 per cent in 1968; in the 1950s Latin America had maintained its world position (see table 219). The share of Venezuelan petroleum in world exports declined even more sharply, from 27 per cent in 1960 to 15.6 per cent in 1967 (see table 220). This decline was caused essentially by competition from other petroleum-exporting areas, both traditional (Middle East) and new (Algeria, Nigeria and Libya in Africa, and the Soviet Union).

Venezuela's ability to compete on the United States petroleum market was weakened still further by the lowering of transport costs in the 1950s, to the advantage of giant tankers with a greater range. The Middle East countries increased their lead in respect of average production of oil per well (compared with a daily production per well of 313 barrels in Venezuela, Iraq produces 10,800 barrels and Saudi Arabia 6,800).

The structure of exports of Venezuelan crude petroleum according to country of destination between 1950 and 1960 shows a slight decrease in the proportion exported to the United States and Canada, while there was a considerable increase in exports to Europe and Central America (see table 221).

[6] The slight increase in the proportion of total export earnings not returned to Chile by the large-scale copper mining companies appears to be due to an increase in total earnings.

[7] For further details of the international petroleum markets, see the documents presented at the ECLA seminar on the petroleum industry in Latin America, held in Santiago, Chile, from 15 to 24 February 1967 (ST/ECLA/Conf.26, 1967).

METHODOLOGICAL APPENDIX

Studies of the external sector have necessitated the preparation of quantum and unit value indexes for imports and exports, and indexes for the terms of trade and the purchasing power of exports. Indexes have been calculated both by countries and by international agencies, including ECLA.

In view of the multiplicity of indexes resulting from all this work aimed at the same end but with differences in methodology, it would seem useful to describe the way in which the ECLA indexes are calculated and to compare them with others in regular use.

The first problem encountered is the delay in receiving basic data, which in some cases has meant that certain series have been taken as indicators of Latin America's foreign trade because they are based on easily obtainable data and obviate the need for lengthy calculations. For example, it is common to use unit value indexes for the exports of the industrialized countries as a substitute for unit value indexes of Latin America's imports, despite the fact that half Latin America's imports consist of primary commodities, semi-manufactures and fuels and differ appreciably in composition from the exports of the more advanced countries.

Similarly, it is usual to use series of wholesale price indexes for commodities based on world market quotations as a substitute for unit value indexes of total exports. While the fluctuations of such series may be considered representative of the unit value indexes of exports in cases where the relative share of commodities is high, they may not reflect what is happening in each particular country. Hence, ECLA is preparing—in addition to the price index for the twenty main Latin American exports—unit value indexes of total exports from selected countries and from Latin America as a whole. It has also calculated—for purposes of the present section—unit value indexes for the twenty main exports.

In the following paragraphs, the way in which the ECLA price index is calculated is described and compared with the indexes developed by other international and national bodies.

1. PRICE INDEX FOR LATIN AMERICA'S MAIN EXPORTS, AS CALCULATED BY ECLA

(a) *Coverage of the index*

The total index is made up of twenty-five market quotations for twenty products which in 1963 accounted for more

Table 216. Copper: Latin America's share of world production

	Thousands of tons						Indexes			Percentages of the total	
	1950	1960	1965	1966	1967	1968	1960/1950	1967/1960	1968/1960	1960	1967
Production (mines)											
World total	2,488[a]	4,240	5,065	5,302	5,010	...	170	118	...	100	100
Latin America	476	798	859	952	929	958[b]	168	116	120	19	19
Chile	363	532	585	662	663	659	147	125	124	13	13
Mexico	62	60	69	74	63	61	97	105	102	1	1
Peru	30	184	177	184	186	214	613	101	116	4	4
United States	825	980	1,226	1,296	865	1,088	119	88	111	23	17
Canada	240	399	461	461	557	552	166	140	138	9	11
Africa	502	983	1,122	1,142	1,178	...	196	120	...	23	24
Congo	176	302	289	317	320	326	172	106	108	7	6
South Africa	33	48	61	120	123	133	145	256	277	1	2
Zambia	281	576	696	623	664	730	205	115	127	14	13
Countries with centrally planned economies[a]	272	624	905	943	1,030	...	229	165	...	15	21
Soviet Union	218	500	750	775	800	...	229	160	...	12	16

SOURCES: *Metal Statistics, 1957–1966*, Frankfurt-am-Main, 1967; United Nations, *Statistical Yearbook*, 1959 and 1968.

[a] Estimates for Soviet Union based on *Yearbook of the American Bureau of Metal Statistics*, 1967.
[b] ECLA estimate.

Table 217. Chile and Peru: copper exports, 1960–1968
(*Tons*)

	Chile						Peru		
	Blister	Cements	Electrolytic copper	Refined copper	Copper bars	Total	Blister	Electrolytic copper	Total
1960	273,000	3,819	141,000	74,800	2,167	494,786	123,020	21,802	144,822
1961	303,900	4,247	145,700	71,000	2,281	527,128	153,313	26,876	180,189
1962	298,400	3,120	169,100	74,200	3,252	548,072	119,176	20,346	149,522
1963	293,400	9,479	168,800	79,400	1,948	553,027	114,645	24,676	139,321
1964	325,300	8,818	138,400	71,200	25,545	569,263	117,027	30,776	147,803
1965	274,200	12,239	150,700	68,300	36,488	541,927	118,165	37,970	156,135
1966	239,300	9,851	221,300	102,000	25,719	598,170	121,724	31,482	153,206
1967	247,000	16,170	243,900	91,800	35,765	634,635	131,551	36,007	167,558
1968	224,900	18,743	267,300	82,300	32,704	625,947	144,937	33,905	178,842
Index $\frac{1968}{1960}$	82	491	190	110	1,509	127	118	156	123

SOURCES: Chile: *Panorama Económico*, Santiago, No. 246 (July 1969); Peru: Foreign trade yearbooks, Banco Industrial del Perú.

Table 218. Chile: proportion of earnings of large-scale copper mining companies returned to Chile, and proportion not returned

(*Millions of dollars and percentages of value of exports*)

	Proportion of earnings returned[a]		Proportion of earnings not returned[b]		Total value exports (millions of dollars)
	Millions of dollars	Percentages	Millions of dollars	Percentages	
1960	233.0	75	76.8	25	309.8
1961	209.1	77	61.8	23	270.9
1962	233.9	78	66.5	22	300.4
1963	224.3	77	67.6	23	291.9
1964	253.9	75	86.4	25	340.3
1965	293.0	79	79.4	21	372.4
1966	394.1	74	138.1	26	532.2
1967	421.8	73	155.3	27	577.1
1968[c]	432.5	74	155.5	26	588.0
Index $\frac{1968}{1960}$	186.0	—	202.0	—	190.0

SOURCE: Banco Central de Chile, *Panorama Económico*, Santiago, No. 246 (July 1969).

[a] Including government commission, legal cost of production, imports at own exchange rates, taxes and miscellaneous.

[b] Profits, depreciation and miscellaneous.

[c] Provisional data.

Table 219. Crude petroleum: Latin America's share of world production

(*Millions of cubic metres*)

	1960	1965	1967	1968	Indexes	
					1960/1950	1968/1960
World production	*1,217.4*	*1,746.4*	*2,041.9*	*2,232.1*	*201*	*183*
Venezuela	165.6	201.5	205.6	209.7	191	127
Other Latin American countries	53.0	68.2	80.9	85.0	195	160
United States	409.4	452.6	511.1	529.3	130	129
Rest of the world	589.4	1,024.1	1,244.3	1,408.1	333	239
Percentage share						
Latin America	18.0	15.4	14.0	13.2	—	—

SOURCE: For Latin America, ECLA, based on data from official sources; for other countries, *World Oil*.

Table 220. Crude petroleum: Latin America's share of world trade

(*Millions of tons*)

	1955	1960	1965	1966	1967	Indexes		
						1960/1955	1966/1960	1967/1960
				Exports				
World total	*254.1*	*382.1*	*666.4*	*747.1*	*812.7*	*150*	*196*	*213*
Latin America	89.6	110.6	130.0	126.4	135.9	123	114	123
Middle East	137.6	216.2	358.4	405.6	434.0	157	188	201
Rest of the world	26.9	55.3	177.6	214.8	242.0	206	388	438
Venezuela[a] as percentages of world total	30.0	27.0	18.3	15.8	15.6	—	—	—
				Imports				
World total	*254.1*	*382.1*	*666.4*	*747.1*	*812.7*	*150*	*196*	*213*
Aruba and Curaçao	42.2	38.1	40.8	39.8	41.4	90	104	109
Rest of Latin America	11.7	19.9	37.9	41.5	41.1	170	209	207
Middle East	15.3	17.2	23.6	24.2	25.2	112	141	147
Rest of the world	184.9	306.9	564.1	641.6	705.0	166	209	230

SOURCE: ECLA, on the base of official national statistics.

[a] Including Aruba and Curaçao.

Table 221. Venezuela: exports of crude petroleum by country of destination, for selected years, 1950–1967
(*Thousands of cubic metres*)

	1950	1960	1965	1966	1967	Indexes 1960/1950	Indexes 1967/1960	Percentages 1950	Percentages 1960	Percentages 1967
Total exports	*71,931*	*116,214*	*135,313*	*131,335*	*140,964*	*162*	*121*	*100.0*	*100.0*	*100.0*
Aruba and Curaçao	43,557	40,883	44,092	43,106	44,245	94	108	60.6	35.2	31.4
United States and Canada	21,460	39,910	39,914	36,758	39,411	186	99	29.8	34.3	28.0
Europe	3,538	15,784	24,624	22,464	26,998	446	171	4.9	13.6	19.2
Central America	1,558	10,558	18,467	21,388	23,410	678	222	2.2	9.1	16.6
South America	1,688	8,615	7,704	6,976	6,445	510	75	2.3	7.4	4.6
Argentina	1,071	3,220	908	737	855	301	27	1.5	2.8	0.6
Brazil	63	3,234	4,568	3,561	2,458	5,133	76	0.1	2.8	1.7
Chile	—	583	—762	1,431	1,955	—	335	—	0.5	1.4

SOURCE: ECLA.

than 80 per cent of Latin America's total exports. Included among these products is petroleum and its derivatives, amounting to 33.74 per cent of the total; because this share is so large, a separate sub-index was calculated excluding petroleum and its derivatives. The products covered and their respective weights in the total index are as follows:

Product	*Weight (percentage shares)*
1. Sugar	10.47
2. Bananas	2.88
3. Cocoa	1.53
4. Coffee	19.63
5. Tobacco	0.85
6. Meat	2.77
7. Maize	1.70
8. Wheat	1.78
9. Linseed oil	0.84
10. Cotton	5.65
11. Cattle hides	1.02
12. Quebracho extract	0.22
13. Fish meal	1.10
14. Wool	3.31
15. Copper	6.59
16. Tin	0.61
17. Iron ore	3.84
18. Lead	0.88
19. Zinc	0.59
20. Petroleum and its derivatives	33.74
TOTAL	100.00

Other indexes were calculated for subgroups covering tropical-zone and temperate-zone food-stuffs, beverages and tobacco; agricultural commodities, metals, and crude petroleum and its derivatives.

The index is designed to measure price movements of the principal export commodities of Latin America; since these products are important in world trade, up-to-date quotations for prices on world markets are available for them.

(b) *Base period and weights*

The base period adopted was 1963.[a] The system of weighting was based on the export values of the products selected, determined as the percentage share of each commodity in the total export value of the twenty products included in the index. With products for which several price quotations were considered, weights were determined proportionally, the total weight of a commodity being equal to the sum of the weights of the different quotations. This is the case for coffee, cotton and wool.

In view of the wide year-to-year fluctuations in price quotations for the products covered by the index, the base period should not be a single year but should cover an average of three or more years. Similarly, weights should reflect the composition of exports at current prices, and this involves the calculation of an average for more than one year. Nevertheless, the ECLA index has been calculated using 1963 as the base year.

[a] In view of the size of the year-to-year fluctuations in price quotations and export figures for several products, it is planned in the future to calculate price indexes as the average for a number of years, instead of for single years.

(c) *Markets*

The prices used in calculating the index correspond to quotations in international markets, which are generally more sensitive and reliable than local prices and, moreover, more readily accessible. After 15 November 1967 prices expressed in pounds sterling were adjusted to take account of the devaluation of the pound.

(d) *Valuation*

As f.o.b. valuations are more closely related to export values, f.o.b. quotations were used for the products included in the index. However, quotations at the c.i.f. valuation, which include insurance and freight, were used for thirteen products, since these charges are not always collected by Latin American exporters. These products were:

Linseed oil	Import price, c.i.f. European ports.
Cotton	United Kingdom domestic import price, c.i.f. Liverpool (Mexican Matamoros). United Kingdom domestic import price, c.i.f. Liverpool (Brazilian São Paulo 5).
Wool	United States import price.
Sugar	United States price; before 1961, import price c.i.f. New York; after 1961, domestic price including import duties.
Cocoa	United States domestic import price, free in warehouse, New York.
Coffee	United States domestic import price, free on quay New York (Santos 4). United States domestic import price, free on quay New York (Manizales).
Beef	United Kingdom domestic import price delivered to London (refrigerated hind-quarters, Argentina).
Maize	United Kingdom import price, c.i.f. London.
Wheat	Domestic import price, c.i.f. Argentina, up-river.
Copper	1960–1963: United Kingdom domestic import price, standard electrolytic copper bars for making wire, prevailing price, free in warehouse. 1964–1965: average price London (20 per cent) and United States products (80 per cent). 1966: prices established by Government of Chile. May 1968: quoted cash prices.
Tin	United Kingdom domestic import price.
Lead	United Kingdom domestic import price, free in warehouse.
Zinc	United Kingdom domestic import price, free in warehouse.

(e) *Formula*

The index is calculated using the Laspeyres formula:

$$\frac{\sum \frac{P_n}{P_o}(Q_o)}{\sum Q_o}$$

where P_n = current price
P_o = base period price
Q_o = base period weight in export values

2. OTHER WHOLESALE COMMODITY PRICE INDEXES

In addition to the index calculated by ECLA there are a number of wholesale price indexes which are prepared and published at regular intervals by such international agencies as the International Bank for Reconstruction and Development, the Statistical Office of the United Nations, the Food and Agriculture Organization of the United Nations and the International Monetary Fund. There are also other indexes, compiled by public and private bodies in the industrialized countries—for example, the United States, the United Kingdom, the Federal Republic of Germany etc.—and widely disseminated and used.

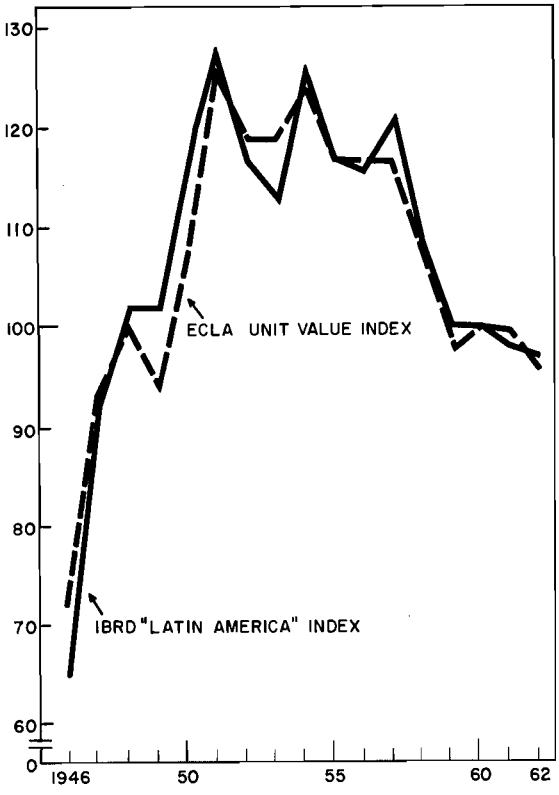
The following sections describe some of the price indexes that are most widely known internationally.[b]

(a) *The International Bank for Reconstruction and Development Index (IBRD Index)*

The total index consists of thirty market quotations of twenty-three commodities. In addition group indexes are prepared for the following: (*a*) tropical-zone beverages; (*b*) grains; (*c*) meat; (*d*) fibres; (*e*) vegetable oils and oilseeds; (*f*) non-ferrous metals; (*g*) petroleum; and (*h*) food-stuffs and non-food agricultural products.

[b] This information was obtained from International Bank for Reconstruction and Development, *Commodity Price Trends* (1963 edition), table D-1 of which gives comparative data for twenty-six price indexes.

Figure XXXI. Price indexes calculated by the International Bank for Reconstruction and Development and by ECLA
(Index: 1963 = 100)
Natural scale



SOURCE: IBRD/IDA *Commodity Price Trends*, August 1967.

Separate indexes are also calculated for Latin America, Asia and Africa, but the series for Latin America only goes up to 1962. The base period and weights were calculated using the average of the period 1955–1957. The index is published weekly and is available one week after the week to which it refers. It covers the period 1934 to date (see table 222).

Figure XXXI compares the indexes calculated by ECLA (unit value of exports of Latin America as a whole and price index of twenty commodities) with the price index for Latin America calculated by IBRD.

(b) *Sauerbeck Index*

The Sauerbeck Index, which is calculated in the United Kingdom (see figure XXXII), is probably the index with the longest series of data, from 1867 to date; the base period is 1867–1877. Each commodity carries equal weight in the total index, except in those cases where more than one quotation is used; in these cases, the commodity receives a weight proportional to the number of its quotations. This weighting scheme, however, limits the usefulness of this index considerably. The total index is based on thirty-five commodities and two semi-finished products, using fifty-seven price quotations. In addition, group indexes are calculated for food-stuffs and raw materials, and also for five other subgroups. There is a time lag of two to three months in publication.

(c) *NIESR Index (National Institute for Economic and Social Research Primary Producers Index)*

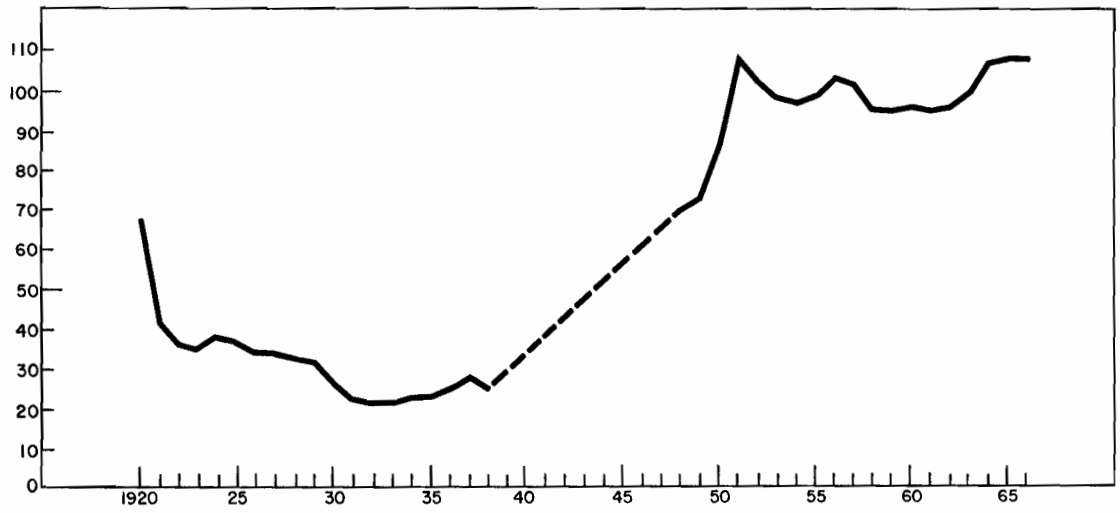
This index uses thirty-eight commodities and sixty-seven market price quotations; the base period for prices and weights is 1957. Commodities are weighted according to

Table 222. Commodity price index of the International Bank for Reconstruction and Development (IBRD)
(1955–57 = 100, annual averages)

Year	*Total*	*Latin America*
1934/38	34.1	29.3
1946	59.2	55.6
1947	78.5	79.4
1948	92.1	88.1
1949	88.9	87.9
1950	100.6	100.2
1951	117.7	109.9
1952	102.7	100.5
1953	96.2	96.9
1954	105.2	108.1
1955	102.9	100.5
1956	99.8	100.3
1957	100.7	103.7
1958	95.0	94.2
1959	91.4	86.2
1960	90.5	85.8
1961	86.8	84.0
1962	86.0	83.3
1963	95.8	...
1964	98.0	...
1965	94.8	...
1966	90.1	...
1967[a]	92.3	...

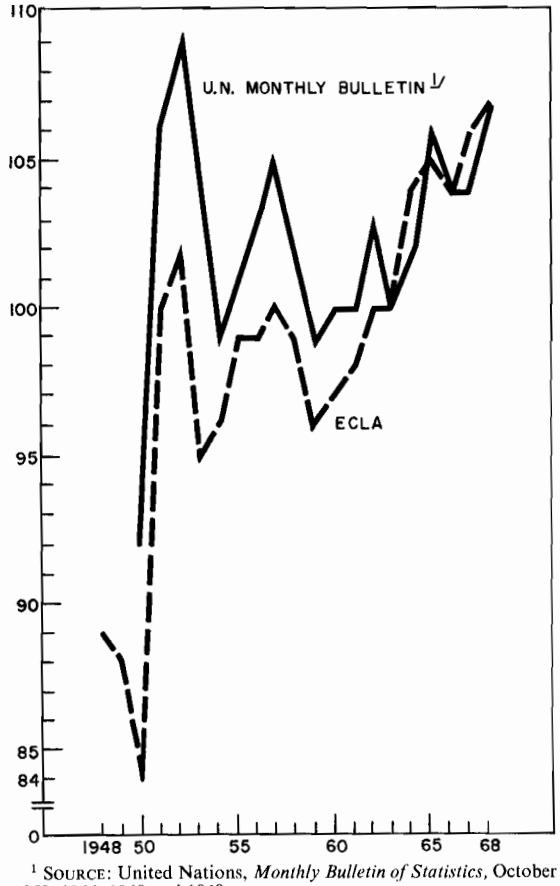
[a] Prices in pounds sterling over the last six weeks were adjusted to reflect the devaluation of the pound.

Figure XXXII. The United Kingdom's Sauerbeck price index
(*Annual average: 1963 = 100*)
Natural scale



SOURCE: IBRD/IDA, *Commodity Price Trends*, August 1967.

Figure XXXIII. Latin America: unit value of imports from United Nations Monthly Bulletin of Statistics and ECLA
(*Index: 1963 = 100*)
Natural scale



[1] SOURCE: United Nations, *Monthly Bulletin of Statistics*, October 1959, 1964, 1968 and 1969.

their relative share in world exports of all primary commodities. The published data cover monthly and quarterly periods for the total and for the two class indexes (food and non-food).

(d) *Schulze World Commodity Index (sometimes referred to as the Volkswirt Index)*

This index covers seventy-eight products and two hundred price quotations. The base period for prices and weights is 1936. The period was chosen because the creator of the index, Mr. Richard Schulze of Bonn, considered that year to have been equidistant between boom and slump. Inasmuch as the index includes many semi-processed and processed products, it is not really applicable to the developing countries.

(e) *Moody's Commodity Price Index*

This index measures the movement of United States commodity prices. It is based on quotations for fifteen commodities, in all of which there is a speculation, and which have prices that fluctuate a great deal. The base period for prices is 31 December 1931.

(f) *Reuter's Index of United Kingdom Staple Commodity Prices*

This index covers twenty-one commodities. The base date is 18 September 1931, or one day before the country went off the gold standard. It is heavily weighted by foodstuffs (42 per cent) and cotton (14 per cent), both of which tend to be more sensitive to supply than to demand conditions.

(g) *The Financial Times Index*

This index is based on twelve international price quotations, each of which has an equal weight in the index. The base period for prices is 1 July 1952. It is heavily weighted by non-ferrous metals, sisal and rubber (42 per cent).

(h) *The Economist Commodity Price Indicator*

This index is calculated in the United Kingdom, and is composed of nineteen primary commodities covered by twenty-two world price quotations. The base period for prices is 1958. The commodities are weighted according to their relative share of total world trade in 1958. In contrast to the Sauerbeck Index, it is one of the most recent (from 1958 to date).

3. Indexes of unit value of imports

With imports, unlike exports, it is not possible to develop an index that is based solely on selected products and is representative of the changes occurring in the unit value of Latin America's imports. Given the composition of imports in each country, it has been necessary to calculate indexes not only for total imports but also for particular groups, classified by economic use or destination. This has been done by ECLA for all Latin American countries on the basis of data from 1948 onwards.

It should be noted, however, that the Statistical Office of the United Nations calculates quantum indexes and unit value indexes by regions, using data for Latin America from 1950 onwards.

The differences between the ECLA indexes and those calculated by the Statistical Office of the United Nations are shown in figure XXXIII.

Chapter II

RECENT TRENDS IN LATIN AMERICAN MARITIME TRANSPORT

INTRODUCTION

It is difficult to conceive of a study of Latin America's economic development potential and problems which would not devote considerable attention to the balance of payments. Considering the concern which the United States' deficit on its balance of payments has occasioned in that country, it is not surprising that in Latin America, heavily dependent on imported capital goods, intermediate goods, and raw materials, and at the same time determined to prevent unrestricted foreign private capital from exercising undue influence in the national economies, the struggle to find foreign exchange to finance essential imports has permeated economic decisions at all levels for the past two decades. Furthermore, this has tended to be a losing battle: during the period 1950–1966 the quantum of Latin America's exports increased at only 4.2 per cent annually, while the effective purchasing power of the exports grew at only 2.7 per cent a year—barely the rate of population increase—owing to the effect of the terms of trade.

It is thus clear that for the great majority of Latin American countries, success in earning more foreign exchange or in reducing unessential expenditures of foreign exchange will be a key element in achieving acceptable rates of growth. It is also understandable that in the search for foreign exchange earnings and savings, increasing attention is being given to the invisibles in the balance of payments, especially maritime freights. After all, world ocean freight payments amounted to perhaps 15 thousand million dollars in 1967,[8] and since the total value of petroleum exports in that year was around 19 thousand million dollars,[9] ocean freights were undoubtedly the single most important item in the world's commerce after petroleum. To ignore the possibility of finding opportunities for earning foreign exchange in maritime transport would be as absurd as not drilling for oil after petroleum has been found.

There are three principal areas in which measures might be taken regarding maritime transport to improve Latin America's balance of payments. First, the Latin American merchant fleet could be expanded and more of the region's foreign commerce could be transported in its own ships rather than foreign-flag vessels.

[8] While no reliable information regarding total world payments for ocean transport is known to ECLA, estimates can be made from two different points of view. Seaborne shipments of dry cargo, in 1967 are estimated at 810 million tons, which can be broken down by principal commodities and associated with typical ocean freight rates; iron ore, 164 million metric tons at 5 dollars per ton; grain, 68 million metric tons at 9 dollars per ton; coal, 67 million metric tons at 3 dollars per ton; manganese ore, 7 million metric tons at 9 dollars per ton; bauxite and alumina, 25 million tons at 5 dollars per ton; and phosphates, 30 million metric tons at 8 dollars per ton (OECD, 1968, p. 92 and UNCTAD, TD/B/C.4/50/Rev. 1, 1969, p. 49), giving a total of 2.1 thousand million dollars for ocean freight. Reasonable freight rates for the remaining 449 million tons of dry cargo might be around 20 dollars per ton, or a total of 9.0 thousand million dollars. In the same year, the 1,050 million tons of petroleum shipments might have had an average freight rate of 4 dollars per ton, or a total of 4.2 thousand million dollars. Thus from this point of view, total ocean freight payments in 1967 would be around 15.3 thousand million dollars, which is probably a conservative estimate since it would not take fully into account the port costs of loading and discharging the bulk commodities.

Alternatively, an estimate can be made starting from the total value of world trade in 1967, 214 thousand million dollars, and subtracting from this the value of trade which probably made little use of ocean transport: trade within Western Europe, 58 thousand million dollars; trade between the United States of America and Canada, 14 thousand million dollars; trade among the Eastern European countries and the USSR, 14 thousand million dollars; and trade between Eastern and Western Europe, 9 thousand million dollars (see table 243), thus reducing the total to 119 thousand million dollars. If it is assumed that ocean freight payments average around 12 per cent of total f.o.b. world exports, total freight payments in 1967 would amount to perhaps 14.3 thousand million dollars.

[9] World trade in mineral fuels and related materials in 1967 was 20,610 million dollars. From this figure was subtracted the value of the exports of coal, coke and briquettes of the principal exporting countries, expanded by 12 per cent to take into account other coal exporters, giving a total for these items of 1,365 thousand million dollars. Thus the estimated commerce in petroleum and petroleum products in 1967 was 19,245 million dollars. (*United Nations, Monthly Bulletin of Statistics,* March 1969, p. xxiv and *Yearbook of International Trade Statistics,* 1967.)

To the extent that Latin America built its own ships rather than acquire them from outside the region, additional benefits would accrue to the region's balance of payments. In section A below, the development of the Latin American merchant marine is traced within the context of the region's foreign trade, while in section B the extent of the influence of maritime freights on the region's balance of payments is studied in more detail.

Secondly, both the level and the structure of freight rates affect the balance of payments. The relation between the level of freight rates and expenditures of foreign exchange is obvious, and to the extent that port improvements or other measures lead to reductions in total freight payments, there will be savings in the balance of payments. The importance of the structure of freight rates, on the other hand, is more subtle: relatively lower rates on Latin America's exports aid the region to compete with producers in other parts of the world, while relatively higher rates on imports to Latin America act as an additional tariff barrier and contribute to import substitution within the region. Section C summarizes the latest studies made by ECLA on this important topic.

Thirdly, the establishment of regular and frequent maritime services on new trade routes can assist Latin America in developing new markets for its exports. Reference to the activities of regional shipping lines in this regard is made in various parts of this study.

The final parts of the study are devoted to the efforts of the Latin American republics—individually and collectively—to influence the effects of maritime transport on their economic development. Particular attention is given to Brazil, which for the past several years has been pursuing an aggressive—and successful—maritime policy.

To a certain extent this study represents an updating of the chapter on maritime transport included in *El transporte en América Latina,* published by ECLA in 1965.[10]

A. LATIN AMERICA'S FOREIGN TRADE AND THE REGIONAL MERCHANT FLEET

1. Latin America in the world's foreign trade

The world's commerce is highly concentrated among the nations which belong to the Organization for Economic Co-operation and Development (OECD).[11] In 1967 these twenty-two countries plus Yugoslavia accounted for some 85 per cent of total world trade, and trade among these same countries reached 48 per cent of the total (see table 223).

In the same year Latin America's foreign trade of 21,090 million dollars (exports plus imports) represented only 5 per cent of total world trade. The OECD countries in turn supplied 86 per cent of Latin America's imports from outside the region and received 82 per cent of its exports, while the United States and Canada alone accounted for 43 per cent of this trade. Trade within Latin America itself amounted to only 1,210 million dollars, less than 6 per cent of the region's total foreign trade.

While Latin America increased its foreign trade significantly during the 1960s, its share of total world trade declined steadily. As can be seen in table 224, Latin America's share of world exports declined from 7.2 per cent in 1959 to 5.1 per cent in 1968, while its imports declined from 6.6 per cent to 5.0 per cent of the world total over the same period. Between 1959 and 1968 total world trade increased by 107 per cent, but Latin American exports increased by only 46 per cent and its imports by 59 per cent.

The implications of this structure and tendencies of Latin American and world trade in relation to maritime transport are quite obvious. In the first place, Latin American shipowners will be attracted strongly to the routes to Europe and the United States (and even to Japan, whose trade with the region approached the value of total trade among the Latin American countries in 1967). Furthermore, Latin America will attach great importance to its shipping companies being admitted to the freight conferences which control the transport of liner cargoes to and from the OECD countries.

In the second place, the low level of trade between Latin America and regions other than the OECD countries would make it worth while to consider whether one of the obstacles to increasing trade might not be inadequate maritime transport. Latin American trade with the countries of Eastern Europe and the Soviet Union in 1967 amounted to less than 10 per cent of the trade with the OECD countries in the same year, so that an analysis

[10] United Nations publication, Sales No.: 65.II.G.7.

[11] Austria, Belgium, Canada, Denmark, Finland, France, Germany (Federal Republic), Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America.

Table 223. World exports by origin and destination
(*Millions of dollars f.o.b.*)

From \ To	Western Europe	North America	Japan	Subtotal	Latin America	Eastern Europe and USSR	Asia	Rest of the world	World total[a]
Western Europe[b]	58,070	9,240	1,060	68,370	3,220	4,370[c]	5,940	8,510	90,830
North America[d]	12,030	13,870	3,200	29,100	4,395	365	4,779	3,175	41,800
Japan	1,440	3,325	—	4,765	500	230	3,555	1,390	10,440
Sub-total	*71,540*	*26,435*	*4,260*	*102,235*	*8,115*	*4,965*	*14,274*	*13,075*	*143,070*
Latin America[e]	3,940	4,090	590	8,620	1,210	700	230	955	11,700
Eastern Europe and USSR	4,540[c]	252	415	5,207	810	13,740	1,755	709	22,820
Asia	6,535	2,546	3,170	12,251	271	1,170	4,561	1,518	19,930
Rest of the world	8,660	2,429	1,398	12,487	187	541	1,214	1,813	16,580
WORLD TOTAL[a]	*95,200*	*35,740*	*9,850*	*140,790*	*10,600*	*21,110*	*22,050*	*18,070*	*214,110*

SOURCE: United Nations, *Yearbook of International Trade Statistics*, 1967, table B.

[a] The totals given in the source have been reproduced although they do not correspond exactly to the sum of each column. The differences are partly attributable to exports whose destination cannot be determined, such as, for example, provisions for boats, which figure under total exports but not in the column totals. Moreover, some of the figures are based on data supplied by importing countries.

[b] Including Yugoslavia.

[c] Excluding transactions between the Federal Republic of Germany and the German Democratic Republic.

[d] United States and Canada.

[e] Excluding Barbados, Guyana, Jamaica, and Trinidad and Tobago.

Table 224. Latin America: share of world trade, 1959–1968
(Millions of dollars f.o.b. at current prices)

Year	World trade	Latin America		Percentages		
	Exports (1)	Exports (2)	Imports (3)	World total	(2)/(1)	(3)/(1)
1959	114,900	8,330	7,540	100	7.2	6.6
1960	127,510	8,610	7,820	100	6.8	6.1
1961	133,270	8,670	8,130	100	6.5	6.1
1962	140,860	9,150	8,100	100	6.5	5.8
1963	153,600	9,740	8,010	100	6.3	5.2
1964	172,200	10,600	9,170	100	6.2	5.3
1965	186,420	11,060	9,320	100	5.9	5.0
1966	203,370	11,620	10,410	100	5.7	5.1
1967	214,290	11,720	10,590	100	5.5	4.9
1968	238,150	12,150	12,010	100	5.1	5.0

SOURCE: United Nations, *Monthly Bulletin of Statistics*, June issues for each year.

of the cost, frequency and regularity of ocean transport services could well begin on routes to that region.

Of far more interest than the structure of the value of foreign trade for a study of maritime transport is the structure of the physical quantities transported. Here, unfortunately, the statistical information available is very far from good, but a recent pilot study carried out by OECD[12] is of great assistance in analysing the transport of dry cargo.

World waterborne dry cargo shipments are estimated at 845 million tons for 1967 (see table 225). Of this, dry cargo shipments on the Great Lakes between Canada and the United States were 35 million tons, so that total seaborne shipments were 810 million tons.

This total, in turn, has been analysed by the OECD secretariat, and the exports and imports of the OECD countries plus Yugoslavia have been broken down according to origin and destination. OECD estimates that shipments among the Western European countries amounted to 125 million tons in 1967, while those between the United States and Canada, apart from trade on the Great Lakes, accounted for another 40 million tons. Finally, inter-regional trade between the OECD countries and their trade with the rest of the world are estimated to have amounted to 562.3 million tons, so that trade among the non-OECD countries was only 82.7 million tons. (This last figure is a residual and hence subject to considerable error.) A summary of the OECD pilot study, showing dry cargo shipments in 1967, is presented in table 225.

As was found with the value of world trade in 1967, there is a heavy concentration of world dry cargo shipments to and from the OECD countries, reaching 90 per cent of total world shipments in 1967. Dry cargo movements among the OECD countries plus Yugoslavia alone accounted for 40 per cent of the world total, somewhat less than the 48 per cent of the value of their share of world trade in the same year.

Transport in tankers of petroleum and petroleum products in 1967 is estimated at 1,050 million tons, of which 56 million tons correspond to crude petroleum imports into the Netherlands Antilles and Trinidad for refining and re-export.[13] A breakdown by origin and destination of most of the remaining tanker transport is presented in table 226, where it can be seen that the OECD countries accounted for 83 per cent of total inter-regional oil movements in 1967. In the case of oil transport, however, movement among the OECD countries is of slight importance and it represented only 4 per cent of total inter-regional shipments in that year. The imports of these same countries from Latin America and other non-OECD countries, on the other hand, accounted for 78 per cent of total inter-regional oil movements.

Comparable information showing the origin and destination of Latin America's dry cargo and tanker exports and imports is unfortunately not available. Nevertheless, referring to tables 225 and 226, it can be seen that the OECD countries shipped 22.1 million tons of dry cargo to Latin America in 1967, while receiving 102.2 million tons in return; similarly, they

[12] OECD, *Maritime Transport*, 1968, pp. 59–79.

[13] United Nations, *Monthly Bulletin of Statistics*, January 1969, p. xxi.

Table 225. International waterborne dry cargo shipments, 1967
(*Millions of tons*)

From \ To	*Western Europe*	*North America*	*Japan*	*Sub-total OECD*	*Caribbean*	*West Coast South America*	*East Coast South America*	*Rest of the world*	*Sub-total Latin America*	*Total*
Western Europe[a]	125.0	16.3	2.5	143.8	4.1	0.9	2.7	38.5[b]	7.7	190.0
North America[c]	69.9	75.0[d]	45.0	189.9	6.4[e]	1.9	5.1	35.5	13.4	238.8
Japan	1.1	6.9	—	8.0	0.6	0.2	0.2	14.5	1.0	23.5
Subtotal OECD	*196.0*	*98.2*	*47.5*	*341.7*	*11.1*	*3.0*	*8.0*	*88.5*	*22.1*	*452.3*
Caribbean[f]	12.3	35.7[e]	3.4	51.4	[g]	[g]	[g]	[g]	—	51.4
West Coast South America[h]	3.7	4.4	15.8	23.9	[g]	[g]	[g]	[g]	—	23.9
East Coast South America[i]	19.8	3.9	3.2	26.9	[g]	[g]	[g]	[g]	—	26.9
Subtotal Latin America	*35.8*	*44.0*	*22.4*	*102.2*	—	—	—	—	—	*102.2*
Rest of the world	100.4[b]	14.4	93.0	207.8	[g]	[g]	[g]	82.7	—	290.5
TOTAL	*332.2*	*156.6*	*162.9*	*651.7*	*11.1*	*3.0*	*8.0*	*171.2*	*22.1*	*845.0*

SOURCE: OECD, *Maritime Transport*, 1968, pp. 70–71.

[a] Including Yugoslavia.

[b] Excluding movements between Western Europe and Eastern Europe.

[c] United States and Canada.

[d] Including international cargoes loaded at ports of the Great Lakes and St. Lawrence system for unloading at ports of the same system (35 million tons).

[e] Excluding movements between the United States and Mexico.

[f] Mexico, Cuba, Haiti, Jamaica, Trinidad and Tobago, Guyana, Dominican Republic, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, other islands of the Caribbean and other Caribbean dependencies not included in Latin America in other parts of this study.

[g] Included in the 82.7 million tons of movements for "Rest of the world".

[h] Ecuador, Peru, Bolivia and Chile.

[i] Argentina, Brazil, Paraguay and Uruguay.

Table 226. Interregional oil movements, 1967[a]
(Millions of tons)

	Western Europe	North America	Japan	Subtotal	Other countries of the Western Hemisphere	Rest of world and unknown	Total
Western Europe	—	3.56	—	3.56	—	9.14	12.70
North America	5.59	26.67	2.03	34.29	0.25	—	34.54
Japan	—	—	—	—	—	—	—
Subtotal	*5.59*	*30.29*	*2.03*	*37.85*	*0.25*	*9.14*	*47.24*
Caribbean	42.16	107.70	2.54	152.40	10.16	5.59	168.15
Other countries of the Western Hemisphere	2.29	4.83	—	7.12	—	0.25	7.37
Subtotal	*44.45*	*112.53*	*2.54*	*159.52*	*10.16*	*5.84*	*175.52*
Rest of the world	407.92	22.86	117.86	548.64	17.78	118.11	684.53
TOTAL	*457.96*	*165.62*	*122.43*	*746.01*	*28.19*	*133.09*	*907.29*

SOURCE: OECD, *Maritime Transport*, 1968, table XVII-b; *original Source:* BP Statistical Review of the World Oil Industry, 1967.

[a] Excluding intraregional movements and including certain overland movements, especially between Canada and the United States. Original data converted from long tons to metric tons.

shipped 250,000 tons of tanker cargo to Latin America, while receiving 159.52 million tons.

The 124.3 million tons of dry cargo shipments between Latin America and the OECD countries in 1967 are broken down in table 227 into three categories. The first comprises ten major commodities[14] which, if transported in quantities exceeding 300,000 tons per year on a single shipping route, are likely to be transported in bulk in full shiploads rather than in liners. The second category comprises commodities which frequently move in bulk when sufficient cargo is available,[15] while the third contains the residual commodities, which most probably would continue to move by liner. In explaining the methodology used in preparing this breakdown, the OECD secretariat stresses that it is hypothetical, as little direct information is available to show what part of the goods in the first and second categories actually moved in bulk. In the case of Latin America it is highly unlikely that bulk transport of commodities in the second category was important in 1967, and probably most of this cargo was transported by liner.

Even though table 227 covers only Latin America's dry cargo trade with the OECD countries and Yugoslavia, this represents an extremely high proportion of Latin America's total dry cargo trade; hence it is worth while to highlight the more significant relationships shown in the table. In the first place, assuming that only the commodities included in the first category are transported in bulk in full shiploads while those in the second and third categories are transported in liners, the 84 million tons of shipments of bulk commodities between Latin America and the OECD countries represent 68 per cent of total shipments between the two regions. In addition, the 160 million tons of petroleum transported from Latin America to the OECD countries are also transported in bulk, so that it can be seen that only a small part of Latin America's total trade is transported in liner ships.

In the second place, there is a notable disequilibrium in both bulk movements and liner movements between Latin America and the OECD countries: 92 per cent of total bulk shipments are from Latin America to the OECD countries, as are 62 per cent of the liner shipments. For both dry cargo and tanker cargo Latin America is principally an exporter in terms of tonnages moved. While there is a substantial disequilibrium in the bulk cargo shipments of dry cargo to Western Europe, Japan, and North America, this is even more so in the liner shipments moving in the trade with Western Europe. These marked imbalances make it difficult to utilize shipping space efficiently, and they affect transport costs unfavourably (although it is probable that this effect is attenuated somewhat by the relatively greater volume in relation to weight of Latin America's dry cargo imports.)

A breakdown by country of tanker and dry cargo loaded and unloaded in 1967 is unfortunately not yet available, but in table 228 this information is presented for the Latin

[14] Cereals; raw sugar and molasses; soya beans; wood, lumber and cork; crude fertilizers; iron ore and concentrates; iron and steel scrap; bauxite and alumina; ores and concentrates of manganese; coal and coke.

[15] Rice; wheat flour; refined sugar; food-stuffs, excluding cereals; oil-seeds excluding soya beans; non-ferrous metal ores; asbestos; salt; sulphur; unroasted iron pyrites; pulp and waste paper; petroleum asphalt; manufactured fertilizers; paper and paper board; cement; iron and steel; passenger cars.

Table 227. Dry cargo shipments between Latin America and OECD countries, 1967[a]

(Millions of tons)

	Western Europe		North America		Japan		Total OECD exports	Regions imports	Total shipments
	Exports	Imports	Exports	Imports	Exports	Imports			
Ten major bulk commodities[b]									
Caribbean	0.2	6.7	2.0	30.5	—	1.2	2.2	38.4	40.6
West Coast South America	—	1.2	0.7	2.5	—	15.0	0.7	18.7	19.4
East Coast South America	0.2	15.3	3.6	2.1	—	2.8	3.8	20.2	24.0
Subtotal	*0.4*	*23.2*	*6.3*	*35.1*	—	*19.0*	*6.7*	*77.3*	*84.0*
Rest of the world	6.7	120.0	111.1	7.1	0.3	115.6	118.1	242.7	268.7[c]
Total	*7.1*	*143.2*	*117.4*	*42.2*	*0.3*	*134.6*	*124.8*	*320.0*	*352.7*[c]
Commodities which move partly in bulk[d]									
Caribbean	2.2	1.8	2.1	2.9	0.4	1.8	4.7	6.5	11.2
West Coast South America	0.4	1.1	0.7	1.0	0.1	0.7	1.2	2.8	4.0
East Coast South America	1.6	2.1	0.9	0.8	0.1	0.3	2.6	3.2	5.8
Subtotal	*4.2*	*5.0*	*3.7*	*4.7*	*0.6*	*2.8*	*8.5*	*12.5*	*21.0*
Rest of the world	28.6	25.5	24.3	16.8	13.6	17.6	66.5	59.9	96.4[c]
Total	*32.8*	*30.5*	*28.0*	*21.5*	*14.2*	*20.4*	*75.0*	*72.4*	*117.4*[c]
Liner commodity movements									
Caribbean	1.7	3.8	2.3	2.3	0.2	0.4	4.2	6.5	10.7
West Coast South America	0.5	1.4	0.5	0.9	0.1	0.1	1.1	2.4	3.5
East Coast South America	0.9	2.4	0.6	1.0	0.1	0.1	1.6	3.5	5.1
Subtotal	*3.1*	*7.6*	*3.4*	*4.2*	*0.4*	*0.6*	*6.9*	*12.4*	*19.3*
Rest of the world	22.0	25.9	15.0	13.7	8.6	7.3	45.6	46.9	72.9[c]
Total	*25.1*	*33.5*	*18.4*	*17.9*	*9.0*	*7.9*	*52.5*	*59.3*	*92.2*[c]
GRAND TOTAL	*65.0*	*207.2*	*163.8*	*81.6*	*23.5*	*162.9*	*252.3*	*451.7*	*562.3*[c]

SOURCE: OECD, *Maritime Transport*, 1968, pp. 71, 73, 75 and 77.

[a] See table 225 for countries included in each region.

[b] Cereals; raw sugar and molasses; soya beans; wood, lumber and cork; crude fertilizers; iron ore and concentrates; iron and steel scrap; bauxite and alumina; ores and concentrates of manganese; coal and coke.

[c] Double counting avoided by including OECD interregional movements only once.

[d] Rice; wheat flour; refined sugar; foodstuffs excluding cereals; oilseeds excluding soya beans; non-ferrous metal ores; asbestos; salt; sulphur; unroasted iron pyrites; pulp and waste paper; petroleum asphalt; manufactured fertilizers; paper and paper-board; cement; iron and steel; passenger cars.

American countries in 1966. In addition to the nearly universal preponderance of cargo loaded over cargo unloaded, it is interesting to note the great concentration of cargo among a few Latin American countries. In the case of petroleum and petroleum products, Venezuela alone accounted for 79 per cent of total Latin American petroleum movements in 1966. If to this is added the petroleum loaded in Colombian ports and that discharged in the ports of Argentina, Brazil and Cuba, these five countries moved 92 per cent of the total.

In the case of dry cargo, the cargo loaded and unloaded in the ports of Argentina, Brazil, Chile, Peru and Venezuela represented 75 per cent of total Latin American movements in 1966. When Cuba and Mexico are added, these seven countries accounted for 88 per cent of the Latin American total.

A comparison between tanker and dry cargo loaded and unloaded in Latin America between 1959 and 1966 is presented in table 229. The importance of separating these two types of cargo is immediately evident, as there was a wide difference in the development of the two during the period. While world seaborne transport of petroleum and its derivatives increased 100 per cent between 1959 and 1966, that loaded in Latin American ports increased only 23 per cent, so that Latin American loadings as a percentage of the world total dropped from 30 per cent in 1959 to 18.5 per cent in 1966. Petroleum discharged in Latin American ports during the period increased at almost exactly the same rate as petroleum loadings.

World seaborne dry cargo transport increased 63 per cent between 1959 and 1966, as did the tonnage of dry cargo loaded in Latin American ports, while the tonnage discharged in these same ports increased at a slightly lower rate, 54 per cent. Thus Latin America's share of world dry cargo loaded remained constant during the period at 12 per cent, while cargo unloaded was practically constant at 4 per cent. Since it has already been seen that the value of Latin America's foreign trade has grown far more slowly than the world total (39 per cent between 1959 and 1966, as compared with 77 per cent for the world), the

Table 228. Latin America: cargo loaded and unloaded, 1966
(*Thousands of tons*)

Country	*Cargo loaded*			*Cargo unlaaded*			*Total*	
	Petroleum	*Dry cargo*	*Total*	*Petroleum*	*Dry cargo*	*Total*	*Petroleum*	*Dry cargo*
Argentina	1,143	14,174	15,317	4,257	6,004	10,261	5,400	20,178
Brazil	—	20,103	20,103	11,739	7,653	19,392	11,739	27,756
Colombia	5,855	1,720	7,575	42	1,725	1,767	5,897	3,445
Chile	161	13,193	13,354	2,136	2,730	4,866	2,297	15,923
Ecuador	57	1,638	1,695	482	383	865	539	2,021
Peru	372	10,995	11,367	1,051	1,857	2,908	1,423	12,852
Uruguay	—	400	400	1,615	515	2,130	1,615	915
Venezuela	165,983	18,758	184,741	6	2,883	2,889	165,989	21,641
Subtotal	*173,571*	*80,981*	*254,552*	*21,328*	*23,750*	*45,078*	*194,899*	*104,731*
Costa Rica	—	519	519	285	332	617	285	851
El Salvador	58	438	496	502	548	1,050	560	986
Guatemala	—	404	404	657	364	1,021	657	768
Honduras	—	1,083	1,083	264	239	503	264	1,322
Nicaragua	—	420	420	305	295	600	305	715
Subtotal	*58*	*2,864*	*2,922*	*2,013*	*1,778*	*3,791*	*2,071*	*4,642*
Cuba	—	5,210	5,210	5,145	3,775	8,920	5,145	8,985
Dominican Republic	—	1,995	1,995	491	647	1,138	491	2,642
Haiti	—	435	435	97	143	240	97	578
Mexico	2.727	6,392	9,119	257	1,239	1,496	2,984	7,631
Panama	929	827	1,756	2,845	348	3,193	3,774	1,175
TOTAL	*177,285*	*98,704*	*275,989*	*32,176*	*31,680*	*63,856*	*209,461*	*130,384*

SOURCE: United Nations, *Statistical Yearbook*, 1968.

Table 229. Latin America and the world: cargo loaded and unloaded 1959 and 1966
(Thousands of tons)

	1959			1966		
	Cargo loaded	*Cargo unloaded*	*Total*	*Cargo loaded*	*Cargo unloaded*	*Total*
Latin America[a]						
Petroleum	144,636	26,061	170,697	177,285	32,176	209,461
Dry cargo	60,401	20,571	80,972	98,704	31,680	130,384
TOTAL	*205,037*	*46,632*	*251,669*	*275,989*	*63,856*	*339,845*
World[b]						
Petroleum			480,000			960,000
Dry cargo			490,000			800,000
TOTAL			*970,000*			*1,760,000*

SOURCE: United Nations, *Statistical Yearbook*, 1968, and *Monthly Bulletin of Statistics*, January 1970.

[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru, Uruguay, Venezuela.

[b] Excluding international cargo loaded and unloaded in Great Lakes—St. Lawrence Seaway ports, and including imports of petroleum from the Netherlands Antilles and Trinidad for refining and re-export.

causes of this sluggishness must be found in the decrease in the relative importance of Latin America's petroleum in world trade, and in price variations of other commodities. As far as the transport of dry cargo is concerned, Latin America is generating the same share of the world's tonnage moved as previously and has kept pace with world increases.

Just as world trade is concentrated among a minority of the world's nations, so is maritime transport of dry cargo concentrated among a few commodities, increasingly transported in bulk carriers, which are defined for present purposes as "single-deck dry cargo vessels of 14,000 dwt (deadweight tons) or more".[16] Table 230 presents world seaborne trade of six bulk commodities[17] in 1960 and 1967, and also total bulk carrier shipments of these same commodities. The share of these products in total dry cargo shipments increased only slightly between the two years, from 43 per cent to 45 per cent. The development of bulk carrier shipments, however, was dramatic: in 1960 they accounted for only 28 per cent of total transport of the six commodities, while in 1967 they accounted for 69 per cent. These trends are likely to continue in the future, as it is also probable that increasingly large bulk carriers will be used.

The growing importance of bulk carrier shipments has great relevance for Latin America. In 1966, when Latin America embarked 98.7 million tons of dry cargo, iron ore loadings in Brazil, Chile, Peru and Venezuela reached 47.3 million tons, 48 per cent of the total. If the 9 million tons of grain loaded by Argentina are added to this, these two products alone accounted for 57 per cent of dry cargo

[16] OECD, op. cit., p. 30.

[17] Iron ore; grain; coal; manganese ore; bauxite and alumina; phosphates.

Table 230. World: seaborne trade of main bulk commodities, 1960 and 1967
(Millions of tons)

	1960		1967			
	Total shipments	*Bulk carrier shipments*[a]	*Total shipments*	*Bulk carrier shipments*[a]	*Latin American exports*[b]	*Latin American imports*[b]
Iron ore	101	49	164	139	49.2	[c]
Grain	46	4	68	36	6.5	4.7
Coal	46	7	67	43	[c]	2.6
Manganese ore	5	1	7	3	0.5	[c]
Bauxite and alumina	17	4	25	17	[c]	[c]
Phosphates	18	—	30	10	[c]	[c]
TOTAL	*233*	*65*	*361*	*248*		
Sugar	18	[c]	22	[c]	9.9	0.2

SOURCE: OECD, *Maritime Transport*, 1962, p. 55, and 1968, pp. 92–99, *Original source:* Fearnley and Eger's Chartering Co. Ltd.

[a] Bulk carriers are defined as single-deck dry cargo vessels of 14,000 dwt or more.

[b] Countries included do not necessarily correspond exactly to Latin America alone, nor is coverage of Latin America complete.

[c] Data not given in source.

loaded by Latin America in 1966.[18] Developments which affect more than half of total loadings in the region must obviously be given serious consideration.

2. Latin America's merchant fleet

Tracing the development of Latin America's merchant fleet as a part of the world's fleet is a frustrating task because of the wide variations in data from different sources regarding such matters as the following:

(*a*) Some of the statistical series are expressed in gross registered tons (grt) while others use deadweight tons (dwt). "A gross ton is 100 cubic feet of permanently enclosed space in the ship, leaving out 'exempted spaces' like double-bottom and peak tanks. Net tonnage [used in the application of many port dues] is obtained from gross tonnage by the exclusion of 'deducted spaces' reckoned not to earn revenue, such as engine-room, crew, navigation and store spaces. But some of these deductions are made, not at their measured value, but after formulas have been applied. Neither gross nor net tonnage, therefore, has any necessary connexion with either the volume or the weight of cargo that a ship is capable of carrying—still less with the cargo actually being carried on the relevant voyage. To make matters worse, a type of ship known as an 'open shelter-decker' has a large part of its cargo-carrying space exempt from all tonnage measurement. There are also variations between national tonnage measurement rules."[19] "Deadweight tonnage is the carrying capacity of a ship in tons of 2,240 pounds, that is, the difference between the displacement light and the displacement loaded. Cargo deadweight tonnage is the number of tons (2,240 pounds per ton) which remain after deducting fuel, water, stores, dunnage, and other items necessary for use on a voyage from the deadweight tonnage of the vessel."[20]

(*b*) The coverage of different series varies, depending on whether ships of 100 tons, 600 tons or 1,000 tons and over are included.

(*c*) Some series present fleets as of January while others use July or August of each year.

(*d*) Some series include all ships registered in a given country while others present only those used in international trade, excluding ships devoted to cabotage and river transport. Furthermore, in the cases where the entire merchant fleet is given, there are wide variations in the use of the vessels.

(*e*) When fleets are classified according to the type of ship, there are important differences in the criteria used. In the definition of bulk carriers, for example, some sources include single-deck dry cargo vessels of more than 1,000 grt, others draw the dividing line at 6,000 grt, while still others use 10,000 dwt or 14,000 dwt. In addition, multiple-purpose ships, such as those used for both petroleum and ores, are sometimes placed in one category and at other times in another.

Keeping in mind these limitations, it is possible to trace some of the development of the Latin American merchant fleet over the last few years. Table 231 presents the world merchant fleet of vessels of 100 grt and over at mid-year in 1955, 1964 and 1968, distributed by groups of countries. While the world fleet increased 122 per cent between 1955 and 1968, the Latin American fleet increased only 44 per cent, so that Latin America's share dropped during this period from 4.1 per cent to 2.7 per cent of the world total. In general there was little significant change in either the share of the developing countries taken together or in that of the market economy countries plus Liberia and Panama. The socialist countries of Eastern Europe and Asia, on the other hand, increased their share from 4.2 per cent of total world tonnage in 1955 to 8.7 per cent in 1968, and there is every indication that their share will continue to increase in the future. Within the group of the developing countries, the relative loss of the Latin American countries was more than compensated for by the increased participation of those in Asia.

In table 232 the active seagoing world merchant fleet, as of July 1, 1968, is broken down into tankers, bulk carriers and other ships, and the fleets of the six leading countries plus Panama and the Latin American republics are shown separately. In 1968 tankers represented 38 per cent of the world fleet and 36.5 per cent of the Latin American fleet (excluding Panama), while bulk carriers, defined here as single-deck ore and bulk carriers of 6,000 grt and over, accounted for 17.5 per cent of the world fleet, but only 4 per cent of the Latin American fleet. Despite the importance of bulk carrier transport in Latin America's foreign trade, only Argentina, Brazil and Chile had ships in this category in 1968, and even in the case of these three countries, bulk carriers represented only 4, 7 and 13 per cent of their respective tonnages. This situation can be compared with that of Norway and Japan,

[18] OECD, *Maritime Transport*, 1967, pp. 85 and 87.

[19] R. C. Goss, *Studies in Maritime Economics* (Cambridge University Press, 1968, p. 158).

[20] Carl E. McDowell and Helen W. Gibbs, *Ocean Transportation* (New York, McGraw-Hill, 1954), p. 165.

Table 231. Distribution of world tonnage by flag of registration,[a] 1955, 1964 and 1968
(Vessels of 100 grt and over, as of July 1)

	Tonnage (million grt)			Shares of world tonnage (percentages)		
	1955	1964	1968	1955	1964	1968
World total	*82.7*	*137.8*	*184.0*	*100.0*	*100.0*	*100.0*
Developed market economy countries[b]	65.5	98.5	123.5	79.1	71.5	67.1
Liberia, Panama[c]	8.3	18.8	30.8	10.1	13.6	16.8
Socialist countries of Eastern Europe and Asia	3.5	9.4	16.0	4.2	6.8	8.7
Developing countries, total	5.4	11.1	13.6	6.6	8.1	7.4
Of which in Africa	0.2	0.6	0.8	0.3	0.4	0.4
in Asia	1.8	6.0	7.9	2.2	4.4	4.3
in Latin America and the Caribbean[d]	3.4	4.5	4.9	4.1	3.3	2.7

SOURCE: UNCTAD: *Review of Maritime Transport*, 1968 (United Nations publication, Sales No.: E.69.II.D.16). *Original Source: Lloyd's Register of Shipping.*

[a] Excluding United States reserve fleet of about 14.4 million grt at 1 July 1955, 11.7 million grt at 1 July 1964, and 6.9 million grt at 1 July 1968. Also excluding United States and Canadian Great Lakes tonnage.

[b] Including Yugoslavia and Turkey.

[c] Shown separately because most of the tonnage is controlled by interests foreign to those countries. The 0.4 million grt of Honduras in 1955 is also included in that year but not in 1964 or 1968, as tonnage is now much smaller.

[d] Including, in addition to the twenty-four Latin American republics, a number of islands in the Caribbean, and other dependencies which are not part of Latin America.

Table 232. Distribution of world tonnage by flag of registration and type of ship, 1 July 1968
(Thousands of gross registered tons)

Country	Total tonnage[a]	Tankers[a]	Bulk carriers[b]	Other ships[a]
Liberia	25,720	14,663	7,119	3,938
United Kingdom	21,921	8,372	2,919	10,630
Norway	19,668	9,992	5,956	3,720
Japan	19,587	6,755	4,586	8,246
USSR	12,062	2,936	116	9,010
United States: estimated active seagoing fleet	10,919	4,211	651	6,057
Panama	5,097	2,667	375	2,055
Latin America:[c]				
Argentina	1,197	479	53	665
Brazil	1,294	415	90	789
Chile	269	64	35	170
Colombia-Ecuador	252	48	—	204
Costa Rica	8	—	—	8
Cuba	237	6	—	231
Dominican Republic	11	1	—	10
Guatemala	4	—	—	4
Guyana	10	1	—	9
Haiti	3	—	—	3
Honduras	69	4	—	65
Jamaica	13	—	—	13
Mexico	404	293	—	111
Nicaragua	15	—	—	15
Paraguay	22	3	—	19
Peru	288	90	—	198
Trinidad and Tobago	20	5	—	15
Uruguay	131	42	—	89
Venezuela	351	229	—	122
Subtotal Latin America[d]	*4,598*	*1,680*	*178*	*2,740*
Rest of the world	64,385	17,662	10,322	36,401
TOTAL	*183,957*	*68,938*	*32,222*	*82,797*

SOURCE: UNCTAD, *Review of Maritime Transport*, 1968, 1969, pp. 41–43.

[a] Vessels of 100 grt and over.

[b] Single-deck ore and bulk carriers of 6,000 grt and over.

[c] Bolivia and El Salvador are not listed in the source. Barbados appears with 484 grt.

[d] Total for Latin America differs from that given in table 231 because the latter includes the Bahamas and other non-self-governing territories.

where bulk carriers represented 30 and 23 per cent of the respective tonnages.

The small size in absolute terms of the Latin American fleet is also evident in table 232. The 4.6 million grt registered in twenty of the Latin American republics was less than the tonnage registered in Panama alone, and nearly exactly equal to Japan's bulk carrier tonnage. Furthermore, within Latin America, a large share of total tonnage is concentrated among a few of the republics. Argentina, Brazil, Mexico and Venezuela account for 71 per cent of Latin America's total tonnage (excluding Panama) and 84 per cent of the tanker tonnage. For ships other than tankers or bulk carriers, Argentina and Brazil alone account for 53 per cent of the total for the region.

The significance for Latin America of the growing importance of bulk carriers in world trade must be stressed. In table 233 the development of the world bulk carrier fleet from 1961 to 1968 is presented, together with the average size of bulk carriers on order each year. The tonnage of ore carriers and other bulk carriers increased from 9 per cent of the total dry cargo fleet in 1961 to 31 per cent in 1968. While the dry cargo fleet increased 51 per cent, during that period, the tonnage of ore carriers increased 148 per cent and that of other bulk carriers 816 per cent, giving a combined increase for all bulk carriers of 433 per cent.

Table 234 shows the world bulk carrier fleet in 1969, with an additional breakdown into combined ore/oil, bulk/oil or ore/bulk/oil carriers, which are becoming increasingly popular. By 1969 the bulk carrier tonnage represented 35 per cent of the total world dry cargo fleet. Furthermore, the trend towards the use of larger vessels is clear from both table 233 and table 234, especially in the case of ore carriers and combined carriers. Increasingly, the world's trade is being transported in specialized vessels of ever-greater capacity, and if Latin America is to be successful in competing with traditional seafaring nations, it must keep abreast of these technological changes.

In analysing in more detail the development of the Latin American merchant fleet between 1 January 1964 and 1 January 1969,[21] work is greatly facilitated by the yearbooks published by the Instituto de Estudios de la Marina Mercante Iberoamericana (Ibero-American merchant fleet research institute—IEMMI) in Buenos Aires. As the information from this source refers primarily to self-propelled vessels of 1,000 grt and over, the tables based on Institute data are not directly comparable to tables which appear elsewhere in this chapter. A further reason for discrepancy is that the information published by the Institute is in general more complete and exact than that published elsewhere.

The merchant fleets of fourteen of the Latin American republics as of 1 January 1964 and 1 January 1969 are shown in table 235. For each country the fleet is broken down into oil tankers and gas tankers on the one hand, and other ships, on the other. In addition, the fleets are further differentiated according to the services for which the ships are generally used: overseas services, cabotage, and services on internal rivers. An examination of this table permits several observations:

(*a*) The growth of the total fleets of these

[21] For developments prior to 1964 see ECLA, *El transporte en América Latina*, op. cit., pp. 140–147.

Table 233. World tonnage of bulk carriers,[a] 1961–1968

	Dry cargo ships[a]	*Bulk carriers*[b]			*Bulk carriers as percentage of all dry cargo ships*	*Average size of vessels on order*		
		Ore carriers (millions of dwt)	*Other bulk carriers*	*Total*		*Ore carriers (dwt)*	*Other bulk carriers (dwt)*	*All bulk carriers (dwt)*
1961	98.7	4.99	3.71	8.70	8.8			21,400
1962	102.9	5.81	5.76	11.57	11.2			25,700
1963	109.3	6.50	8.51	15.01	13.7			29,400
1964	113.7	7.48	12.04	19.52	17.2			32,400
1965	118.4	7.98	14.10	22.08	18.6	51,500	31,200	33,200
1966	126.7	9.02	18.53	27.55	21.7	59,500	37,800	39,900
1967	138.4	10.43	24.36	34.79	25.1	60,600	37,900	39,700
1968	149.5	12.39	33.97	46.36	31.0	76,500	35,600	38,700

SOURCE: For deadweight tonnage of dry cargo ships and average size of vessels on order 1961–1964, United Nations, *Review of Maritime Transport, 1968*, pp. 7 and 16. *Original source:* Institute of Shipping Economics, Bremen. Bulk carrier tonnage: OECD, *Maritime Transport*, 1962, p. 22; 1964, p. 22; and 1967, pp. 46 and 47. *Original source:* Fearnley and Eger's Chartering Co. Ltd.

[a] Tonnages of dry cargo ships are for the middle of each year. Tonnages of bulk carriers are for January 1 of each year.

[b] Single-deck dry cargo vessels of 10,000 dwt and over.

[c] Vessels of 300 grt and over, excluding the United States reserve fleet and the Great Lakes fleets of the United States and Canada.

Table 234. World bulk carrier fleet, 1969

Total tonnage dry cargo ships (million dwt)[a]		162.8
Bulk carriers:[b]		
Combined carriers		10.2
Ore carriers		7.7
Other bulk carriers		39.7
TOTAL *bulk carriers*		*57.6*
Average size of bulk carriers (dwt):[c]	*Existing fleet*	*Vessels on order*
Combined carriers	58,300	107,900
Ore carriers	28,500	70,400
Other bulk carriers	26,600	32,700
All bulk carriers	29,700	44,700

SOURCE: For total tonnage of dry cargo ships: Institute of Shipping Economics, Bremen, *Shipping Statistics*, No. 9 (September 1969), pp. 12 and 22; for bulk carriers, OECD, *Maritime Transport*, 1968, pp. 49 and 54. *Original source:* Fearnley and Eger's Chartering Co. Ltd.

[a] August 1 1969; vessels of 300 grt and over, excluding United States reserve fleet and the Great Lakes fleets of the United States and Canada.

[b] Single-deck dry cargo vessels of 10,000 dwt and over at beginning of 1969.

[c] 1 January 1969.

countries was disappointing, only 10 per cent over the five-year period, while the number of ships (of 1,000 grt and over) actually decreased from 703 in 1964 to 674 in 1969. Although the tonnage of tankers and gas tankers increased at a slightly slower rate than that of other vessels, 7.5 per cent as against 11 per cent, the tonnage of the former continued to represent around 40 per cent of the total Latin American merchant tonnage.

(*b*) When the total fleets are broken down by types of service offered, variations in tonnage between 1964 and 1969 were far more dramatic, as can be seen from the following (figures in percentages):

	Overseas fleet	*Cabotage fleet*	*River fleet*
Oil tankers and gas tankers	−10.6	17.7	−29.7
Other vessels	32.8	−17.6	18.6
TOTAL	22.0	1.6	−5.8

Tonnage devoted to overseas services in-

Table 235. Latin America:

Country		*Ocean-going fleet*				*Coastal fleet*			
		Tankers (including gas tankers)		*Other vessels*		*Tankers (including gas tankers)*		*Other vessels*	
		Units	*GRT*	*Units*	*GRT*	*Units*	*GRT*	*Units*	*GRT*
Argentina	1964	10	140,102	49	393,890	35	320,500	56	174,524
	1969	3	35,393[a]	46	357,983	31	326,014	45	171,287
Brazil	1964	9	195,996	35	170,812	40	222,551[b]	146	515,384
	1969	9	211,414	50	366,414	40	230,226[c]	111	405,749
Chile	1964		—	17	127,138	7	76,846[d]	28	76,859
	1969		—	15	120,444	6	77,017[e]	21	61,730
Colombia—Ecuador	1964		—	24	103,767	4	16,671	7	12,643
	1969		—	29	180,562	7	48,853	5	9,700
Cuba	1964		—	26	115,386	2	4,579	4	6,700
	1969		—	35	218,849	2	4,579	12	20,664[f]
Dominican Republic	1964	1	2,395	4	10,658		—		—
	1969		—	4	9,580		—		—
Guatemala	1964		—	2	3,629		—		—
	1969		—	2	3,629		—		—
Mexico	1964		—	11	45,426	18	149,295		—
	1969		—	12	44,155	21	230,754[g]	3	7,851
Nicaragua	1964		—	4	9,793		—		—
	1969		—	6	15,221		—		—
Paraguay	1964		—		—		—		—
	1969		—		—[h]		—		—
Peru	1964		—	13	76,500	6	31,479	11	35,665
	1969		—	17	107,695	8	66,320	3	12,876
Uruguay	1964	3	39,176	9	49,190	1	1,032	2	4,789
	1969	4	68,315	11	53,094	1	1,032		—
Venezuela	1964		—	10	38,534	14	201,767	10	39,369
	1969	1	22,561	11	42,352	12	221,470	11	24,046
TOTAL	1964	*23*	*377,669*	*204*	*1,144,723*	*127*	*1,024,720*	*264*	*866,023*
	1969	*17*	*337,683*	*238*	*1,519,978*	*128*	*1,206,265*	*211*	*713,903*

SOURCE: IEMMI, *La Marina Mercante Iberoamericana*, 1969.

Note: Includes only self-propelled vessels of 1,000 grt and over on 1 January of each year.

[a] Including a gas tanker of 5,102 grt.

[b] Including six gas tankers totalling 17,588 grt.

[c] Including five gas tankers totalling 15,313 grt.

creased at more than twice the rate of total tonnage, while that devoted to cabotage and river transport was to all effects and purposes constant over the period. The transport of dry cargo in cabotage has long been under constant pressure from improved internal transport within the Latin American countries, and because of port costs for general cargo, it will undoubtedly become more and more specialized, as can be appreciated from the growth of the coastwise tanker fleet. River transport continues to be widely neglected within Latin America, and although the growth of the non-tanker river fleet appears to be satisfactory, appearances are a little misleading, for much of the fleet is composed of ferries and passenger ships.

(*c*) There is a wide range of variation among the fourteen countries with respect to the relative importance of the overseas, cabotage and river fleets. Ten countries have no river fleet at all, while Paraguay's entire fleet is composed of river vessels (although on 1 January 1969 Paraguay had two cargo ships, plus a third used also as a training ship, each of less than 1,000 grt, which provided overseas services). Amazingly enough, Brazil had only six ships, totalling 8,174 grt, devoted to river transport in 1969, but there were undoubtedly a large number of vessels of less than 1,000 grt engaged in this service.

The average tonnage devoted to overseas services in 1969 for the fourteen countries shown in table 235 was 47 per cent of total tonnage, which closely coincides with the case of Brazil and Chile. Among the countries with relatively larger fleets, 96 per cent of Uruguay's fleet was engaged in overseas trade, as was 90 per cent of Cuba's and 75.5 per cent of the combined Colombian–Ecuadorian fleets (which are presented together because of the importance of the jointly-owned

merchant fleet, 1964 and 1969[a]

Inland waterway-going fleet										
Tankers		*Other vessels*		*Total fleet*		*Total tankers (including gas tankers)*		*Total other vessels*		*Proportion of tankers (percentage)*
Units	*GRT*	*Units*	*GRT*	*Units*	*GRT*	*Units*	*GRT*	*Units*	*GRT*	
26	91,346	40	77,026	216	1,197,388	71	551,948	145	645,440	46.1
21	62,518	37	90,705	183	1,043,900	55	423,925	128	619,975	40.6
1	1,250	5	6,924	236	1,112,917	50	419,797	186	693,120	37.7
1	1,250	5	6,924	216	1,221,977	50	442,890	166	779,087	36.2
	—		—	52	280,843	7	76,846	45	203,997	27.4
	—		—	42	259,191	6	77,017	36	182,174	29.7
	—		—	35	133,081	4	16,671	31	116,410	12.5
	—		—	41	239,115	7	48,853	34	190,262	20.4
	—		—	32	126,755	2	4,579	30	122,176	3.6
	—		—	49	244,092	2	4,579	47	239,513	1.8
	—		—	5	13,053	1	2,395	4	10,658	18.3
	—		—	4	9,580		—	4	9,580	—
	—		—	2	3,629		—	2	3,629	—
	—		—	2	3,629		—	2	3,629	—
	—		—	29	194,721	18	149,295	11	45,426	76.7
	—		—	36	282,760	21	230,754	15	52,006	81.6
	—		—	4	9,793		—	4	9,793	—
	—		—	6	15,221		—	6	15,221	—
2	2,296	10	11,069	12	13,365	2	2,296	10	11,069	17.2
2	2,296	12	13,417	14	15,713	2	2,296	12	13,417	14.6
	—		—	30	143,644	6	31,479	24	112,165	21.9
	—		—	28	186,891	8	66,320	20	120,571	35.5
1	2,127		—	16	96,314	5	42,335	11	53,979	44.0
1	2,127	1	1,622	18	126,190	6	71,474	12	54,716	56.6
	—		—	34	279,670	14	201,767	20	77,903	72.1
	—		—	35	310,429	13	244,031	22	66,398	78.6
30	*97,019*	*55*	*95,019*	*703*	*3,605,173*	*180*	*1,499,408*	*523*	*2,105,765*	*41.6*
25	*68,191*	*55*	*112,668*	*674*	*3,958,688*	*170*	*1,612,139*	*504*	*2,346,549*	*40.7*

[d] Including two gas tankers totalling 4,366 grt.
[e] Including one gas tanker of 2,664 grt.
[f] Including seven fishing factory ships totalling 9,094 grt.
[g] Including one gas tanker of 7,992 grt.
[h] On 1 January 1969, Paraguay had two cargo ships and one cargo-ship/training-ship, all of less than 1,000 grt, devoted to overseas trade.

Flota Mercante Grancolombiana). At the other extreme, only 16 per cent of Mexico's tonnage corresponds to overseas trade, and only 21 per cent of Venezuela's, although the Venezuelan figures do not take into account Shell and Creole ships which carry petroleum to Aruba and Curaçao. Argentina is a special case, as 15 per cent of its tonnage is devoted to river transport. If only the overseas and cabotage tonnage is considered, Argentina's distribution of tonnage closely coincides with that of Brazil and Chile.

(*d*) Similarly, there are wide variations from country to country with respect to the importance of tankers and gas tankers within the national fleets. Thus while three of the Central American republics had no tankers in 1969, 82 per cent and 79 per cent of the Mexican and Venezuelan fleets respectively were composed of tanker tonnage in that year.

(*e*) As has been noted, the total fleet of the fourteen countries increased by 10 per cent from 1964 to 1969. Among the countries, however, there were wide differences. Thus, among the larger countries, Argentina's total tonnage actually decreased by 13 per cent during the five years and its tonnage devoted to overseas services by 26 per cent, affecting both the tanker and dry cargo overseas fleet. Chile's total tonnage also decreased, by 8 per cent, and its tonnage devoted to international trade by 5 per cent. Nevertheless, the incorporation of faster and more specialized vessels partly offsets the decrease in tonnage.

Both Venezuela and Brazil increased their total tonnages by percentages close to the regional average, 11 per cent and 10 per cent respectively. In the case of Brazil, however, there were significant changes in the composition of the national fleet, where dry cargo vessels devoted to overseas services increased by an amazing 114.5 per cent. Other extremely high rates of growth occurred in the total tonnage of Cuba and of Colombia–Ecuador. Cuba's total tonnage increased by 93 per cent during the five years, raising the Cuban fleet from eighth place to sixth within Latin America, and its overseas fleet to third place, although it has no tankers engaged in international trade. The combined Colombian–Ecuadorian fleets increased by 80 per cent, and much of the increase was due to the growth of the Flota Mercante Grancolombiana.

As the development of both cabotage and river fleets is influenced greatly by the geographical distribution of resources and population centres within each country, and also by the efficiency of alternative transport media, it is useful to examine the composition and growth of the overseas fleets separately and in more detail. Table 236 breaks down the total tonnage of each country's ships of 1,000 grt and over by type of vessel for 1 January 1964 and 1 January 1969. A number of significant changes occurred during this period which can be appreciated in the table.

Argentina, following world tendencies, has drastically reduced its passenger vessel tonnage, and since Mexico no longer operates the vessel it had in 1964 in international services, the Latin American overseas passenger fleet consisted in 1969 solely of five vessels registered in Argentina. A similar tendency to abandon uneconomic and obsolete ships can be seen in the reduction from eight tramp cargo ships in 1964 to only one in 1969.

The tonnage of traditional cargo ships with a speed of less than eighteen knots increased at nearly the same rate as the total overseas fleet, so that these vessels continued to represent about 60 per cent of the total. More specialized ships, however, showed much more rapid growth; while in 1964 there were two cargo ships of more than eighteen knots, additions to the Chilean and Colombian–Ecuadorian fleets raised the total to thirteen in 1969. In the same period the number of refrigerator ships increased from two to nine, while that of bulk carriers increased from six to fourteen. Even with these increases, however, these three types of specialized vessels represented only 321,104 grt in 1969, 21 per cent of total dry cargo tonnage, which is far below the requirements of the region's foreign trade. Furthermore, the bulk carriers averaged less than 11,000 grt, which is much less than the world average.

The wide variations that have been noted among the Latin American countries with respect to the relative importance of tankers, the composition of the overseas and cabotage fleets, and the rate of growth of tonnage between 1964 and 1969 do not reflect solely differences in the geography and foreign trade of each nation. Equally or more important are the differences in attitude towards the contribution which the national merchant marine could make to the country's economic development, attitudes which are reflected in widely differing policies of support—or lack of support—for one or another sector of maritime transport. Thus both Brazil and Cuba look on the development of their merchant fleets as an essential part of their total development effort, while Argentina, at least until very recently, has been far less enthusiastic regarding the

contribution which this sector could make to the nation's economic growth.

The significance of government attitudes and policies in Latin America is especially great because of the importance of State-owned shipping lines in the region. On 1 January 1969, the thirty-three State-owned lines owned 380 ships of 1,000 grt and over with a total of 2.3 million grt, 58.5 per cent of the total tonnage of the fourteen countries shown in table 235. The 124 privately owned lines (including Flota Mercante Grancolombiana, part of whose stock is owned by the Ecuadorian Government), on the other hand, owned 294 ships totalling 1.6 million grt, 41.5 per cent of the total.[22] On the same date the six largest shipping lines in Latin America were government-owned and the Flota Mercante Grancolombiana was in seventh place.[23]

1. Flota Nacional de Petroleiros (FLONAPE), Brazil: 40 ships with 420,142 grt.
2. Lloyd Brasileiro: 69 ships with 373,524 grt.
3. Empresa Líneas Marítimas Argentina (ELMA): 45 ships with 325,013 grt.
4. Petróleos Mexicanos (PEMEX): 20 ships with 230,754 grt.
5. Empresa Consolidada de Navegación Mambisa, Cuba: 39 ships with 229,380 grt.
6. Yacimientos Petrolíferos Fiscales (YPF), Argentina: 25 ships with 210,177 grt.
7. Flota Mercante Grancolombiana S.A., Colombia–Ecuador: 24 ships with 158,915 grt.

In table 237 the State-owned and privately-owned tonnage of fourteen Latin American countries is given as of 1 January 1964 and 1 January 1969. Between these two dates the tonnage owned by private lines increased far more rapidly than that of government lines, 19.5 per cent and 4 per cent respectively. State-owned tonnage still predominates, however, and often by wide margins, in nine of the countries. Only in Chile, Ecuador–Colombia, Uruguay and Venezuela are the private fleets larger than the government fleets, and in Chile and in Ecuador–Colombia the State-owned tonnage increased at a much faster rate between 1964 and 1969 than did the private tonnage. Clearly enough, the future of the Latin American merchant marine is largely in the hands of the respective governments and dependent on government decisions.

The perhaps discouraging impression of the over-all development of the Latin American merchant marine between 1964 and 1969 is attenuated somewhat when the incorporation of tonnage into the different national fleets is considered. Table 238 presents the newly constructed tonnage incorporated each year, together with its origin, and the second-hand tonnage incorporated. Of the total of 1.4 million grt incorporated, 0.8 million tons was newly constructed tonnage, which rose from 37 per cent of total tonnage incorporated in 1964 to 66 per cent in 1968. Nevertheless, only nine of the fourteen Latin American countries incorporated newly constructed ships during the period, and Brazil, Colombia–Ecuador and Mexico alone accounted for 68 per cent of the total.

A fact that is more heartening to note is that, of the total of 840 thousand grt of newly constructed vessels incorporated during the five years, 325,000 tons (39 per cent) were built in Latin American shipyards. Brazil, which constructed 285,000 tons during the period, not only supplied ships for its own fleet but also exported vessels to Mexico. In 1968 the tonnage delivered by shipyards of the region represented half of the total new tonnage incorporated. As a result of the activity of Latin American shipyards, there was a significant change in the origin of the national fleets. On 1 January 1964, only thirty ships in the Latin American merchant fleet, with 92,550 grt, had been built in the region, and they represented only 2.5 per cent of the total regional tonnage. On 1 January 1969, the number of ships built in Latin America had increased to seventy-eight with 431,754 grt, and they represented 11 per cent of total tonnage.[24]

Most impressive of all, however, is the change in ships ordered or under construction on 1 January 1964, and 1 January 1969, which is shown in table 239. On this latter date, nine Latin American republics were awaiting delivery of 1.4 million grt, representing 36 per cent of the combined tonnage of fourteen countries of the region. In 1964, ships ordered or under construction totalled only 0.3 million tons, 9 per cent of the existing fleet at that time. By way of comparison of these percentages, world tonnage launched in 1968 was also about 9 per cent of total world tonnage in that year.[25] Five of the countries—Brazil, Chile,

[22] IEMMI, *La marina mercante iberoamericana*, 1969, p. 37.

[23] IEMMI, op. cit., pp. 111, 112, 360, 361, 616, 720 and 768.

[24] IEMMI, op. cit., pp. 21 and 29.

[25] IEMMI, op. cit., p. 25.

Table 236. Latin America: seaborne

Country		Passenger vessels		Cargo ships of more than 18 knots		Cargo ships of less than 18 knots		Tramp
		Units	GRT	Units	GRT	Units	GRT	Units
Argentina	1964	9	107,567			33	243,509	4
	1969	5	60,604			35	253,814	1
Brazil	1964			2	13,788	33	157,024	
	1969			2	13,788	41	256,988	
Chile	1964					14	91,991	1
	1969			4	42,756	9	50,868	
Colombia—Ecuador	1964					24	103,767	
	1969			7	81,562	20	85,750	
Cuba	1964					22	103,255	
	1969					27	196,219	
Dominican Republic	1964					4	10,658	
	1969					4	9,580	
Guatemala	1964					2	3,629	
	1969					2	3,629	
Mexico	1964	1	15,182			9	27,291	1
	1969					12	44,155	
Nicaragua	1964					4	9,793	
	1969					6	15,221	
Paraguay	1964							
	1969							
Peru	1964					13	76,500	
	1969					17	107,695	
Uruguay	1964					7	34,698	2
	1969					11	53,094	
Venezuela	1964					10	38,534	
	1969					11	42,352	
TOTAL	1964	*10*	*122,749*	*2*	*13,788*	*175*	*900,649*	*8*
	1969	*5*	*60,604*	*13*	*138,106*	*195*	*1,119,365*	*1*

SOURCE: IEMMI, *La Marina Mercante Iberoamericana*, 1969.
[a] Includes only self-propelled vessels of 1,000 grt and over on 1 January of each year.
[b] Including a gas tanker of 5,102 grt.

Mexico, Peru and Venezuela—were each awaiting delivery of ships which represented more than 25 per cent of their existing fleets in 1969, while Brazil's orders reached an amazing 72 per cent of its existing tonnage.

Of the 116 ships on order or under construction on 1 January 1969, eighty were to be assigned to overseas services and the rest to cabotage (see table 240). The breakdown by type of ship is especially significant since it shows a decided shift towards more specialized vessels.[26]

Considering only the tonnage to be devoted to overseas services and excluding tankers, 40 per cent of this new tonnage is composed of specialized and ordinary bulk carriers and combination carriers, while another 40 per cent corresponds to general cargo ships of more than eighteen knots and container and refrigerator ships. Only 20 per cent consists of traditional general cargo ships of less than eighteen knots. It would seem, then, that—at least in some countries of Latin America—a serious effort is being made to develop national merchant marines and to arrest the past trends which left the region's trade to be transported by ships from outside the region.

Another indication of this change emerges from a rough comparison between the rate of growth of dry cargo embarked and discharged and the rate of growth of dry cargo tonnage, both for the world and for the fourteen Latin American countries shown in table 236. If dry cargo received and dispatched by Costa Rica, El Salvador, Haiti, Honduras and Panama is deducted from the Latin American totals given in table 229, the simple rate of growth of total dry cargo handled by the remaining countries between 1959 and 1966 is 8.5 per cent per year. For these same countries plus Paraguay, the combined overseas dry cargo fleet increased at a simple rate of 6.5 per cent per year between 1 January 1964 and 1 January 1969 (see table 236). The ratio between these two percentages is 1.3.

[26] IEMMI, op. cit., p. 27.

merchant fleet, 1964 and 1969[a]

ships	*Refrigerator ships*		*Livestock carriers*		*Bulk carriers*		*Tankers (including gas tankers)*		*Total units*	*Total GRT*
GRT	*Units*	*GRT*	*Units*	*GRT*	*Units*	*GRT*	*Units*	*GRT*		
28,778	2	6,429	1	7,607			10	140,102	59	533,992
7,365	3	9,122	1	11,540	1	15,538	3	35,393[b]	49	393,376
							9	195,996	44	366,808
					7	95,638	9	211,414	59	577,828
8,327					2	26,820			17	127,138
					2	26,820			15	120,444
									24	103,767
	2	13,250							29	180,562
					4	12,131[c]			26	115,386
	4	10,499			4	12,131[c]			35	218,849
							1	2,395	5	13,053
									4	9,580
									2	3,629
									2	3,629
2,953									11	45,426
									12	44,155
									4	9,793
									6	15,221
									—	—
									—[c]	—[d]
									13	76,500
									17	107,695
14,492							3	39,176	12	88,366
							4	68,315	15	121,409
									10	38,534
							1	22,561	12	64,913
54,550	*2*	*6,429*	*1*	*7,607*	*6*	*38,951*	*23*	*377,669*	*227*	*1,522,392*
7,365	*9*	*32,871*	*1*	*11,540*	*14*	*150,127*	*17*	*337,683*	*255*	*1,857,661*

[c] Sugar carriers.
[d] On 1 January 1969, Paraguay had two cargo ships and one cargo-ship/training-ship, all of less than 1,000 grt, employed in ocean trade.

Similarly, world dry cargo increased between 1959 and 1966 at a simple rate of 9.4 per cent per year, while world dry cargo tonnage increased between mid-1963 and mid-1968 at a simple rate of 7.5 per cent per year.[27] In this case the ratio between the two percentages is 1.25, slightly better than that of Latin America. Despite the crudeness of this calculation, which has been worked out using series with different bases, it would appear that Latin America is beginning to hold its own with respect to dry cargo tonnage, although it is not regaining its former position. Perhaps, though, should the great surge in new orders continue into the future, it will be possible to look back on 1968 as the year of the take-off of the Latin American merchant marine.

B. NATIONAL MERCHANT MARINES AND THE BALANCE OF PAYMENTS

Having examined in the previous section the structure and tendencies of Latin America's foreign trade and its merchant marine, it would be highly desirable at this point to be able to relate these developments to the balance of payments of each country. One of the principal reasons for Latin America's desire to increase its merchant fleet is that it would like to transport more of its foreign trade in its own vessels and hence to reduce its foreign exchange payments to foreign shipowners. Unfortunately, however, only a very few countries of the region collect systematic information regarding total freight payments on imports and exports, or on that part of total tonnage and freights which accrues to national-flag vessels. Despite the fact that maritime transport is a major and recurrent topic on the agenda of most of the international meetings that are organized periodically by ECLA, the OAS, CECLA, IA-ECOSOC, etc., any serious analysis of many aspects of it has been quite impossible so far owing to the fragmentary and unsatisfactory nature of the data available.

This problem is further complicated by the

[27] UNCTAD, *Review of Maritime Transport*, 1968 pp. 4 and 7.

Table 237. Latin America: state-owned and privately owned merchant fleet, 1964 and 1969[a]

Country	1 January 1964				1 January 1969				GRT	
	State owned		Privately owned		State owned		Privately owned		Gain or loss State owned (percentages)	Gain or loss privately owned (percentages)
	Units	GRT	Units	GRT	Units	GRT	Units	GRT		
Argentina	138	781,951	78	418,110	102	630,399	81	413,501	−19.4	−1.1
Brazil	145	861,477	91	250,451	124	841,425	92	380,552	−2.3	51.9
Chile	13	41,887	39	238,941	14	53,206	28	205,985	27.0	−13.8
Colombia-Ecuador	3	15,435	32	118,547	11	66,783	30	172,332	332.7	45.4
Cuba	32	126,755	—	—	49	244,092	—	—	92.6	—
Dominican Republic	4	11,886	1	1,167	2	6,463	2	3,117	−45.6	167.1
Guatemala	2	3,629	—	—	2	3,629	—	—	—	—
Mexico	18	149,295	11	45,426	22	233,285	14	49,475	56.3	8.9
Nicaragua	4	9,793	—	—	5	11,116	1	4,105	13.5	—
Paraguay	12	13,365	—	—	14	15,713	—	—	17.6	—
Peru	21	111,641	9	32,003	16	108,393	12	78,498	−2.9	145.3
Uruguay	8	62,824	8	33,490	7	57,181	11	69,009	−9.0	106.1
Venezuela	11	42,075	23	234,824	12	45,726	23	264,703	8.7	12.7
TOTAL	*411*	*2,232,013*	*292*	*1,372,959*	*380*	*2,317,411*	*294*	*1,641,277*	*3.8*	*19.5*

SOURCE: IEMMI, *La Marina Mercante Iberoamericana*, 1969.

[a] Including only self-propelled vessels of 1,000 grt and over.

Table 238. Latin America: tonnage incorporated into merchant fleets, 1964–1968[a]
(*Gross registered tons*)

Country	*1964*	*1965*	*1966*	*1967*	*1968*	*Total*
Newly constructed tonnage incorporated						
Argentina	17,112	15,590	12,041	51,627	—	96,370
Brazil	18,897	7,632	56,570	49,695	133,918	266,712
Chile	—	21,378	21,738	11,647	—	54,763
Colombia–Ecuador	23,312	23,271	38,500	1.978	46,370	133,431
Cuba	—	21,042	61,778	—	1,650	84,470
Mexico	17,795	1,308	1,308	79,032	71,191	170,634
Paraguay	—	—	—	2,348	—	2,348
Peru	—	—	4,297	—	26,624	30,921
Subtotal	*77,116*	*90,221*	*196,232*	*196,327*	*279,753*	*839,649*
Second-hand tonnage incorporated	133,313	75,649	138,931	106,861	142,579	597,333
TOTAL	*210,429*	*165,870*	*335,163*	*303,188*	*422,332*	*1,436,982*
New tonnage delivered by Latin American shipyards						
Argentina	6,000	8,680	—	13,938	—	28,618
Brazil	34,161	8,940	57,878	49,695	133,918	284,592
Peru	—	—	4,297	—	7,376	11,673
Subtotal	*40,161*	*17,620*	*62,175*	*63,633*	*141,294*	*324,883*
Delivered by other areas	36,955	72,601	134,057	132,694	138,459	514,766
TOTAL	*77,116*	*90,221*	*196,232*	*196,327*	*279,753*	*839,649*

SOURCE: IEMMI, *La Marina Mercante Iberoamericana*, 1969, pp. 22 and 23.

[a] Self-propelled ships of 1,000 grt and over.

international accounting procedures used in the preparation of the balance of payments. In order to be able to present the balance of payments of each country in such a way that the results are compatible with those of other countries, imports are frequently valued so as to include the cost of both insurance and international freight (c.i.f.), while exports are valued at their cost at the point of embarkation (free on board—f.o.b.). Because of these accounting conventions, consistent balance of payments statements for each country show only the freights received by national shipping lines; they do not necessarily include payments to foreign shipping lines, and hence the balance of payments cannot be used as a source of complete information for studies of maritime transport.

Even should imports be valued f.o.b., which is an alternative used under the accounting practices of the International Monetary Fund, information regarding ocean freights would include only payments to foreign lines for the transport of the country's imports, payments to national-flag vessels for transport of the country's exports, and a memorandum item indicating the payments to national-flag ships for transport of the country's imports. No information would be included regarding payments to foreign shipping lines for transport of the country's exports, so that even in this case a complete analysis of ocean transport would be impossible.[28] Furthermore, many countries do not even provide all the information recommended by IMF, which complicates the problem still further.

The arbitrary conventions of IMF, while essential for preparing consistent balance-of-payments statements, are also responsible for introducing into the economic analysis of transport concepts which tend to confuse the real issues. For instance, something that is frequently encountered is a distinction between foreign exchange "earned" and foreign exchange "saved" by national-flag vessels, depending on whether they are transporting the country's exports or imports. There is, clearly, no such distinction from an economic point of view, as earnings of the national merchant marine have exactly the same economic effect whether they are derived from the transport of exports or of imports, or, for that matter, from transport effected between two foreign countries. Concepts such as foreign exchange "savings" as different from "earnings" are due solely to the practice of valuing imports c.i.f. and exports f.o.b. While it is essential to obtain information regarding the activities of the national merchant marines broken down according to the services performed, this separation is significant primarily for understanding

[28] International Monetary Fund, *Balance of Payments Manual*, 3rd edition, July 1961, p. 70.

Table 239. Latin America: ships on order or under construction, 1964 and 1969[a]

Country	1 January 1964					1 January 1969				
	Existing fleet		On order or under construction			Existing fleet		On order or under construction		
	Total grt	Average age (years)	Number of ships	Total grt	Percentage of existing fleet	Total grt	Average age (years)	Number of ships	Total grt	Percentage of existing fleet
Argentina	1,200,061	18.5	13	90,155	7.5	1,043,900	19.5	10	51,300	4.9
Brazil	1,111,928	14.6	24	133,486	12.0	1,221,977	12.7	69	882,044	72.2
Chile	280,828	12.9	—	—	—	259,191	12.5	6	66,000	25.5
Colombia-Ecuador	133,982	11.7	6	69,936	52.2	239,115	8.4	2	21,000	8.8
Cuba	126,755	11.5	—	—	—	244,092	9.7	3	36,000	14.8
Dominican Republic	13,053	21.9	—	—	—	9,580	23.4	—	—	—
Guatemala	3,629	5.5	—	—	—	3,629	10.5	—	—	—
Mexico	194,721	23.3	5	21,787	11.2	282,760	7.4	7	75,450	26.7
Nicaragua	9,793	10.0	—	—	—	15,221	21.4	—	—	—
Paraguay	13,365	3.5	—	—	—	15,713	7.5	—	—	—
Peru	143,644	16.6	1	4,000	2.8	186,891	14.7	12	112,616	60.3
Uruguay	96,314	18.0	—	—	—	126,190	18.9	1	20,000	15.8
Venezuela	276,899	3.5	—	—	—	310,429	12.1	6	164,280	52.9
TOTAL	*3,604,972*	*15.7*	*49*	*319.364*	*8.9*	*3,958,688*	*13.9*	*116*	*1,428,690*	*36.0*
Number ordered from Latin American shipyards			34	178,942				62	457,720	

SOURCE: IEMMI, *La Marina Mercante Iberoamericana*, 1969, pp. 21, 25 and 61.

[a] Self-propelled ships of 1,000 grt and over.

Table 240. Latin America: ships on order or under construction on 1 January 1969, by type of ship

Overseas services	*Number*	*Grt*
General cargo ships of more than 18 knots	36	361,000
Bulk carriers	5	101,600
Sugar bulk carriers	3	36,000
Cement bulk carriers	1	6,700
Container ships	2	20,000
Refrigerated ships	4	16,424
Combined oil/bulk carriers	4	246,000
Tankers	5	275,000
General cargo ships of less than 18 knots	20	195,240
Cabotage	36	170,726
TOTAL	*116*	*1,428,690*

why a country is more successful in transporting either exports or imports, or in participating in cross-trades.

One of the most widely used sources for studies of transport and the balance of payments is that prepared by the International Monetary Fund in 1966 at the request of the United Nations Conference on Trade and Development.[29] The study, which covers the years 1961–1964 and presents a breakdown by country, is especially useful for analysis of transport because IMF has estimated the total freight bill on imports for those cases where the original data were presented in c.i.f. values, and hence the credit side of the freight account represents the total earnings of domestic carriers. Since probably more than 95 per cent of Latin America's foreign trade is carried by ship and only Mexico uses significant amounts of international land transport[30] the credit entries in the freight account are closely similar to total freights earned by the national-flag vessels of the different countries.

A part of the results of the IMF study are presented for the year 1961 in table 241. (Although the study extends to 1964, information is incomplete for many Latin American countries in the later years; therefore only the first year is used here.) Before analysing this table, however, it is useful to note that IMF, in order to convert import data from c.i.f. to f.o.b. values, used the following methodology to estimate the total freight bill on imports: An estimate of 9 per cent of imports c.i.f. has been used in all except those few cases where trade across a land border (notably Mexico) is known to be important and a lower percentage is thus considered more reasonable. When the Yearbook statement is on an f.o.b. basis, and when in addition no information on the freight earnings of the domestic fleet on imports is available, such earnings have also been estimated by the Fund staff. The method has been to assume that the difference between the total freight on imports, estimated as 10 per cent of imports f.o.b. in all but a few cases, and the recorded debit entry for freight (which on the f.o.b. basis conceptually measures freight on imports paid to foreign carriers), represents freight on imports earned by domestic carriers. It may be noted that these estimates cannot be a new source of net error in the statements, and the gross error will be limited to the amount by which the true freight bill differs from 10 per cent of imports f.o.b. (9 per cent of imports c.i.f.).[31] Thus caution must be used in interpreting the data for particular countries, where significant disparities may occur, although the results will be increasingly reliable as larger and larger groups of countries are considered.

The debit side of the freight account in table 241, totalling 746 million dollars, corresponds to the IMF estimate of total freights paid by nineteen Latin American republics on their imports in 1961, nearly all of which were for ocean transport. Because of the methodology used by IMF, these freights are equal to 10 per cent of the total imports of the same countries. The credit side of the same account, totalling 220 million dollars, represents freights earned by Latin American shipping lines on imports, exports, and cross-trades, although these latter were probably of little importance in 1961.

Table 241 also includes information regarding net debit entries for merchandise insurance for the Latin American countries. This information, however, is subject to considerable error, and the entry for a particular country should not be used independently. Nevertheless, the total for the region reached 24 million dollars in 1961.

The remaining columns of table 241 refer to "Other transport items" and include receipts and payments not only for maritime transport but also for air transport. Among the receipts entered here are port dues and expenses of foreign shipping lines paid while in the ports of the different Latin American countries, and similar receipts in airports. The payments in

[29] "Statistics of international transactions in goods and services" (UNCTAD/IF/MISC.1, TD-66.938), 11 April 1966.

[30] The OAS/ALALC Transport Programme estimates that in 1967, 33 per cent of Mexico's imports by weight and 64 per cent of its exports were transported by sea, giving a combined average of 56 per cent for its foreign trade.

[31] "Statistics of international transactions . . .", op. cit., pp. 2 and 3.

Table 241. Latin America: transport in the balance of payments, 1961
(Millions of dollars)

Country	Freight[a]		Merchandise insurance	Other transport items[a]		Total debit
	Credit	Debit	Debit[a]	Credit	Debit	
Argentina	56.6	131.4[b]	...	69.8	83.6	88.6
Bolivia	—	10.2	0.7	0.1	1.6	12.4
Brazil	47.0[b]	135.0[b]	3.0	34.0	23.0	80.0
Chile	21.1	59.3[b]	...	6.5	19.3	51.0
Colombia	50.7	44.7	...	13.2	49.4	30.2
Costa Rica	0.7[b]	9.6[b]	0.8	3.3	2.9	9,3
Dominican Republic	4.6[b]	7.2[b]	1.3	2.7	2.9	4.1
Ecuador	...	14.0	0.5	...	2.3	16.8
El Salvador	...	9.8[b]	...	1.2	2.2	10.8
Guatemala	1.1[b]	12.1[b]	1.1	2.9	4.2	13.4
Haiti	—	3.7[b]	0.4	0.8	1.0	4.3
Honduras	—	6.6[b]	0.3	1.7	0.2	5.4
Mexico	...	30.8[b]	...	0.3	5.4	35.9
Nicaragua	8.1	10.0	0.6	1.5	8.2	9.2
Panama	—	14.3	0.7	6.9	4.0	12.1
Paraguay	0.6	6.3	0.7	0.5	0.4	6.3
Peru	21.4	75.1	0.5	6.2	5.9	53.9
Uruguay	2.5	25.0	1.6	1.5	2.1	24.7
Venezuela	6.0	141.3	11.8	18.8	18.4	146.7
TOTAL	*220.4*	*746.4*	*24.0*	*171.9*	*237.0*	*615.1*

SOURCE: IMF, "Statistics of international transactions in goods and services, 1961–1964" (UNCTAD/IF/MISC. 1), April 1966.

[a] For an explanation of this table, see text.
[b] IMF estimate.

this account include port expenses incurred by Latin American shipping companies while in foreign countries, the cost of fuel purchased abroad, the cost of charters of foreign vessels, etc., and also the payments made abroad by Latin American airlines. As this account has a deficit of 65 million dollars, which, added to the deficit in the freight account of 526 million dollars and to that for insurance, brings the total transport deficit on the balance of payments in 1961 to 615 million dollars. It is unfortunate that payments and receipts corresponding to air transport cannot be separated from those for maritime transport, as the total debits under "Other transport items" for those countries showing credits in the freight account are exactly equal to these credits.

In its study of transport in Latin America published in 1965,[32] ECLA estimated the total freight payments generated by the exports and imports of the ALALC countries (with the exception of Bolivia) in 1962, and also the share of national-flag vessels in these freights. According to these estimates (shown in table 156 of the ECLA study), these ten Latin American countries generated 2,008 million dollars in freights in that year, of which the national-flag ships of the same countries received 220 million, 11 per cent of the total.

These earlier IMF and ECLA estimates for 1961 and 1962 have been repeated in the present study for the year 1967 and the results are presented in table 242. For this purpose the OAS/ALALC Transport Programme made available to ECLA its estimates of freights generated by the exports and imports of the ALALC countries (with the exception of Bolivia) and the freights earned by the national flag vessels of these nations in their respective foreign trades. In general the study made by the OAS/ALALC Transport Programme is based on information provided directly by specialized maritime agencies within the ALALC countries, and the results differ substantially from the balance-of-payments data published by the International Monetary Fund for 1967.

For the other nine Latin American countries similar estimates have been made by ECLA. Here, however, the data on total freights on imports and the earnings of the national-flag ships are taken from the IMF balance-of-payments studies, while total freights on exports have been estimated by ECLA after an analysis of the commodity composition of exports and typical freight rates believed to be applicable. In general, the estimates for these countries are less reliable than those for the ALALC members, although the total figures for

[32] *El transporte en América Latina*, op. cit.

Table 242. Latin America: maritime freights in foreign trade, 1967
(*Millions of dollars and percentages*)

Country	*Total freights on imports*	*Paid to national-flag ships*	*Percentage*	*Total freights on exports*	*Paid to national-flag ships*	*Percentage*	*Total freights*	*Total paid to national-flag ships*	*Total paid to foreign ships*	*Percentage of total freights paid to national-flag ships*
Argentina	99.8	24.9	25	199.8	18.0	9	299.6	42.9	256.7	14
Bolivia	19.3	—	—	20.0	—	—	39.3	—	39.3	—
Brazil	219.7	93.3	42	207.0	33.6	16	426.7	126.9	299.8	30
Chile	68.5	17.0	25	93.0	12.1	13	161.5	29.1	132.4	18
Colombia	42.0	11.4	27	101.0	5.2	5	143.0	16.6	126.4	12
Costa Rica	17.2	1.4	8	35.0	0.8	2	52.2	2.2	50.0	4
Dominican Republic	16.5	—	—	22.0	3.8	17	38.5	3.8	34.7	10
Ecuador	17.3	4.2	24	52.7	3.0	6	70.0	7.2	62.8	10
El Salvador	19.0	—	—	18.0	—	—	37.0	—	37.0	—
Guatemala	19.7	—	—	18.0	0.1	1	37.7	0.1	37.6	—
Haiti	3.8	—	—	3.5	—	—	7.3	—	7.3	—
Honduras	14.3	0.6	4	56.0	0.2	—	70.3	0.8	69.5	1
Mexico	53.0	12.0	23	150.0	8.0	5	203.0	20.0	183.0	10
Nicaragua	27.4	4.8	18	15.5	2.1	14	42.9	6.9	36.0	16
Panama	21.2	—	—	50.5	—	—	71.7	—	71.7	—
Paraguay	9.7	3.0	31	9.9	1.8	18	19.6	4.8	14.8	24
Peru	69.0	13.0	19	157.0	5.0	3	226.0	18.0	208.0	8
Uruguay	26.0	9.7	37	11.0	1.7	15	37.0	11.4	25.6	31
Venezuela	82.0	19.2	23	700.0	41.8	6	782.0	61.0	721.0	8
TOTAL	*845.4*	*214.5*	*25*	*1,919.9*	*137.2*	*7*	*2,765.3*	*351.7*	*2,413.6*	*13*
TOTAL *for ALALC countries (excluding Bolivia)*	*687.0*	*207.7*	*30*	*1,681.4*	*130.2*	*8*	*2,368.4*	*337.9*	*2,030.5*	*14*

SOURCE: For ALALC countries (excluding Bolivia), OAS/ALALC Transport estimates; for other countries, IMF, and ECLA estimates.

Latin America probably present a reasonably accurate picture of the situation in 1967.

A comparison between table 241 and table 242 is dangerous because of the different methodologies used, but some of the changes are sufficiently great to make it useful. According to table 241, total earnings of Latin American ships in 1961 amounted to 220 million dollars, while in table 242 it is estimated that these earnings increased to 352 million in 1967, without including earnings from cross-trades (an additional 41 million dollars according to IMF balance-of-payments estimates). Increases in the freights earned by national vessels were especially important for Brazil, Chile, Uruguay and Venezuela.

In the second place, total freight payments for Latin America's imports increased from 746 million dollars in 1961 to 845 million in 1967. Since both studies show freights on imports to be 10 per cent of the f.o.b. value of imports, the increase of 100 million dollars is probably reasonably accurate.

The estimates made by ECLA of total freights generated in the foreign trade of the ALALC countries (with the exception of Bolivia) in 1962, cited above, can also be compared with the data for 1967 presented in table 242. These freights increased during the period from 2,008 million dollars to 2,368 million, indicating that freights generated by Latin America's exports have increased far more rapidly than those corresponding to the region's imports. Similarly, the share in total freights corresponding to national-flag ships of the ALALC countries increased from 11 per cent in 1962 to 14 per cent in 1967. Thus, it would appear that, collectively, these countries are maintaining their share in the total freight payments, but as a group they have made little real progress during the five years towards increasing their share.

Table 242 also permits a separation for 1967 between the participation of national-flag ships in freights paid on imports and those paid on exports. For all the Latin American countries, domestic vessels received 25 per cent of total freight payments on imports and only 7 per cent of those on exports. For the ten selected countries these percentages are 30 per cent and 8 per cent respectively. According to the estimates in table 242, freights received by Latin American ships on imports were more than double those on exports. Clearly enough, Latin America must look to its exports if it is to increase its carryings of the region's foreign trade.

Using the estimates presented in table 242 for freights received by foreign shipping lines for the transport of Latin America's imports and those received by the national shipping lines for the transport of exports, plus freight earnings in cross-trades and other data published in the balance-of-payments of the different countries for net insurance payments, charter payments, and port payments and receipts, it is possible to estimate the net impact of maritime transport on the balance of payments.

The results of these estimates are presented in table 243 for the year 1967. Although errors in the data make interpretations of the results for particular countries extremely doubtful, the regional total is less likely to err widely. Thus the nineteen Latin American republics shown in the table had a deficit in 1967 of 418 million dollars, while the ALALC countries (with the exception of Bolivia) had a deficit of 266 million.

A comparison of the impact of maritime transport on the balance of payments in 1967 and in 1961, shown in table 241, must be made cautiously because of the different methodologies applied in the two cases. Since the deficit in 1961 was estimated at 615 million dollars, there would appear to have been a significant decrease between that year and 1967. Nevertheless, of the nearly 200 million dollars by which the transport account improved during the period, 112 million is accounted for by decreases in debits to "Other transport items". Since this category included air passenger fares in 1961, which are largely excluded in 1967, it would appear that much of the apparent improvement is illusory. Nevertheless, the deficit on "freights" alone was reduced by 74 million dollars, and it is probable that much of this decrease represents a real improvement.

In its 1965 transport study, ECLA also estimated the share of national-flag vessels in the transport of the exports and imports of the ALALC countries (with the exception of Bolivia) in 1962, where this share refers to the physical quantities transported rather than to freight payments. The results of these estimates are presented in table 244. Since it was not possible to estimate the participation of the Venezuelan-flag vessels in that country's exports, the totals which appear in table 244 are not useful. If the figures for Venezuela are excluded from the table, the other nine countries transported 32 per cent of their respective imports and only 8 per cent of their exports, with a combined average for total foreign trade of 17 per cent. The share of the same nine countries in the freight payments

Table 243. Latin America: maritime cargo transport in the balance of payments, 1967
(Millions of dollars)

Country	Freight		Insurance debits	Other transport items[a]		Total deficit
	Credits[b]	Debits[c]		Credits	Debits	
Argentina	30.3[d]	74.9	3.0	67.3[e]	25.6	5.9
Bolivia	—	19.3	2.9	—	2.3	24.5
Brazil	33.6	126.4	1.0	41.0	4.0	56.8
Chile	12.1	51.5	—	5.0	25.0	59.4
Colombia	31.2[f]	30.6	—	16.0	38.0	21.4
Costa Rica	0.8	15.8	1.2	4.4	3.7	15.5
Dominican Republic	3.8	16.5	3.5	2.7	0.6	14.1
Ecuador	3.0	13.1	1.0	—	—	11.1
El Salvador	—	19.0	—	2.2	—	16.8
Guatemala	0.1	19.7	1.4	6.9	10.4	24.5
Haiti	—	3.8	0.3	0.9	—	3.2
Honduras	0.2	13.7	0.6	3.1	—	11.0
Mexico	8.0	41.0	—	—	—	33.0
Nicaragua	5.2[g]	22.6	1.6	1.3	3.1	20.8
Panama	—	21.2	0.9	1.4	—	20.7
Paraguay	1.8	6.7	0.9	—	—	5.8
Peru	5.0	56.0	19.0[h]	31.0	8.0	47.0
Uruguay	1.7	16.3	1.0	1.7	4.1	18.0
Venezuela	41.8	62.8	—	13.0	—	8.0
TOTAL	*178.6*	*630.9*	*38.3*	*197.9*	*124.8*	*417.5*
TOTAL *for ALALC countries (excluding Bolivia)*	*168.5*	*479.3*	*25.9*	*175.0*	*104.7*	*266.4*

SOURCE: IMF, *Balance of Payments Yearbook*, vol. 20; and table 242.

[a] Mainly port and harbour charges, since income and expenditure for air freight have been deducted in nearly every case.

[b] Freights paid to national-flag ships for transport of exports and for transport between third countries.

[c] Freights paid to foreign ships for transport of imports.

[d] Including 12.3 million for services between third countries.

[e] IEMMI, *La Marina Mercante Iberoamericana*, 1968, p. 67.

[f] Including 26 million for services between third countries.

[g] Including 3.1 million for services between third countries.

[h] This is probably an over-estimate.

Table 244. ALALC: share of their own foreign trade carried by national-flag ships of selected countries, 1962
(Millions of tons and percentages)

Country	Imports			Exports			Total foreign trade		
	Total volume	Volume carried by national-flag ships	Percentage	Total volume	Volume carried by national-flag ships	Percentage	Total volume	Total carried by national-flag ships	Percentage
Argentina	7.3	2.1	29	11.7	1.3	11	19.0	3.4	18
Brazil	16.7	6.8	41	12.1	0.8	7	28.8	7.6	27
Chile	2.8	0.6	23	9.3	1.2	13	12.1	1.8	15
Colombia	1.2	0.6	44	4.8	0.3	5	6.0	0.9	13
Ecuador	0.5	0.0	8	1.1	0.1	6	1.6	0.1	6
Mexico	0.9	0.1	9	6.6	0.2	3	7.5	0.3	4
Paraguay	0.2	0.0	19	0.3	0.1	35	0.5	0.1	29
Peru	2.1	0.2	8	8.7	0.2	3	10.8	0.4	4
Uruguay	2.3	0.5	23	0.3	0.0	3	2.6	0.5	21
Venezuela	2.3	0.4	17	171.2	...[a]	...	173.5	0.4	...
TOTAL	*36.3*	*11.3*	*31*	*226.1*	*4.2*	*2*	*262.4*	*15.5*	*6*

SOURCE: ECLA, *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7), tables 148 and 155.

[a] It was not possible to estimate what proportion of exports was carried by Venezuelan ships.

generated by their foreign trade in the same year was nearly the same, 18 per cent.[33]

Comparable estimates of the participation of flag vessels of the ALALC countries (with the exception of Bolivia) in the carriage of the physical quantities of the foreign trade of the different nations have been made by the OAS/ALALC Transport Programme for 1967 and are presented in table 245. In this case estimates were also available of the participation of Venezuelan ships in the transport of that country's exports. For the entire region,

[33] *Ibid.*, table 156.

Table 245. ALALC: share of their own foreign trade carried by national-flag ships, 1967
(Thousands of tons and percentages)

Country	Imports			Exports			Total foreign trade		
	Total volume	Carried by national-flag ships	Percentage	Total volume	Carried by national-flag ships	Percentage	Total volume	Total carried by national-flag ships	Percentage
Argentina	8,557	2,579	30	12,306	1,299	11	20,863	3,878	19
Brazil	18,708	7,857	42	20,722	3,356	16	39,430	11,213	28
Chile	3,957	711	18	13,088	943	7	17,045	1,654	10
Colombia	1,225	309	25	7,001	171	2	8,226	480	6
Ecuador	1,073	120	11	1,451	116	8	2,524	236	9
Mexico	1,972	404[a]	20	10,137	220[a]	2	12,109	624[a]	5
Paraguay	407	136	33	350	63	18	757	199	26
Peru	3,140	350	11	12,705	250	2	15,845	600	4
Uruguay	2,097	632	30	281	45	16	2,378	677	28
Venezuela	3,111	358	12	194,199	20,033	10	197,310	20,391	10
TOTAL	*44,247*	*13,456*	*30*	*272,240*	*26,496*	*10*	*316,487*	*39,952*	*13*

SOURCE: OAS/ALALC Transport Programme.

[a] 1966 figures.

ALALC ships transported 30 per cent of the volume of the respective countries' imports and 10 per cent of the exports, giving an average of 13 per cent for total foreign trade. If Venezuela is excluded in order to permit comparison with the 1962 estimates, these percentages are 32, 8 and 16 per cent respectively. Thus these nine countries have maintained their share in the carriage of their imports and exports, but have not been able to increase it, owing principally to the inability of the Latin American countries to transport more of their bulk exports.

It is difficult to say whether it would be possible for the Latin American countries to show an improvement in their balance of payments should they increase the carryings of their national-flag vessels. As estimated in table 242, total freight on Latin America's exports and imports amounted to 2,765 million dollars in 1967, of which Latin American ships received only 352 million in their own trades. Had Latin America been capable of capturing only 30 per cent of total freights, this would have meant gross earnings of 830 million dollars, an increase of nearly 500 million over actual earnings. Furthermore, the transport of 30 per cent of Latin America's foreign trade in ships from the region does not appear an unreasonable target when compared with the percentages of some of the industrially developed countries, which in relatively recent years have been approximately the following: Federal Republic of Germany, 37 per cent; France, 60 per cent; Italy, 33 per cent; Japan, 46 per cent; Norway, 43 per cent; Finland, 40 per cent; Spain, 39 per cent.[34]

Not all of gross freight earnings represent a net contribution to the balance of payments, however, and account must be taken of expenditures in foreign exchange for the purchase and repair of ships, fuel, expenditures in foreign ports, etc. In addition, when national ships are used instead of foreign ships, there is a loss of the foreign exchange which the foreign ships previously spent for cargo handling and port charges in the country's ports. The effect of these various deductions from gross freights will depend on the specific situation of each country, as, obviously, a country which produces and repairs its own ships is likely to be able to retain more foreign exchange than a country that does not. A calculation of the gains and losses to the balance of payments of a specific country from ownerships of a shipping fleet would have to include the following items:

Positive (gain) factors:

(*a*) Freights on imports carried in national ships (gross);
(*b*) Freights on exports carried in national ships (gross);
(*c*) Cross-trade freight earnings (gross);
(*d*) Passenger fares (gross).

Negative (loss) factors:

(*e*) Foreign exchange receipts foregone (principally cargo handling receipts);
(*f*) Disbursements overseas (which cannot be incurred in domestic currency);
(*g*) Imported content of current inputs;
(*h*) Imported content of capital inputs.[35]

A calculation of these items for Latin America goes beyond the limits of the present study, but it is useful to consider the con-

[34] Jorge Medina C., ed., *Marina Mercante Uruguaya* (Centro de Estadisticas Nacionales y Comercio Internacional del Uruguay (CENCI), 1969), pp. 16–17.

[35] UNCTAD, *Establishment or expansion of merchant marines in developing countries* (TD/26/Rev.1), p. 33.

clusions of a thorough analysis carried out by UNCTAD and published in 1968 in its *Establishment or expansion of merchant marines in developing countries:*

> "A country which has to import its ships cannot expect the annual contribution to its balance of payments to exceed two-fifths on average of the annual gross earnings of the fleet, and, in practice, capital charges may absorb all the current gains to the balance of payments. For a country which builds its own ships and if these do not have a high import content, the gain may reach three fifths of the gross earnings. But this gain can only be achieved by ignoring the possibility that ships built in national yards might have been exported and thus earned foreign exchange."[36]

Thus if by expanding their national merchant marines the Latin American countries were to be able to capture an additional 500 million dollars' worth of gross freights, net balance-of-payments benefits for the region might vary between 100 and 300 million dollars, depending on the distribution of the new ships among the different countries. It would only be possible to capture 30 per cent of total freights, however, through very substantial increases in the transport of the region's petroleum imports and exports and other bulk products, such as iron ore and wheat. The new ships on order by a number of the Latin American republics, noted in part A of this chapter are designed specifically for this purpose.

C. MARITIME FREIGHT RATES IN LATIN AMERICA'S FOREIGN TRADE

While increasing the size of the Latin American merchant marine and its share of the region's foreign trade is of critical importance for reducing the significant deficit on the freight account in the balance of payments, it is also essential that attention be given to the level and structure of the maritime freight rates which affect the exports and imports of the different Latin American countries. Latin American ships, after all, probably transported less than 10 per cent of the volume of the region's foreign trade in 1967 and received only about 12 per cent of the total freights. Since so much of the region's trade is transported in ships from outside the region, even relatively small changes in the general level of freight rates can represent many millions of dollars.

Changes in the structure of freight rates can be of even more decisive importance because of their impact on the location of different economic activities, on the possibility of competing with alternative suppliers of Latin America's traditional exports in other parts of the world, and on the great problems associated with developing markets for new Latin American exports, especially of industrial products. It is therefore understandable that the Latin American countries should have expressed concern in international meetings at both the process by which freight rates are set and the results of this process.

1. TERMS OF SHIPMENT AND THE ULTIMATE PAYER OF FREIGHT[37]

One of the reasons why maritime transport appears complex is the use of a number of alternative systems for determining who chooses the ship to be used in the export or import and pays the corresponding freight and insurance charges. An understanding of these systems, which have been rigorously defined by the International Chamber of Commerce in *Incoterms 1953*, is essential for an analysis of the transport policies of the Latin American countries.

When the terms of shipment are c.i.f. (cost/insurance/freight), the seller quotes a price for his goods in a named port of destination which includes both the maritime transport cost and the insurance premium on a value equal to the c.i.f. price plus 10 per cent. Under these terms, it is the responsibility of the seller to select the ship and to contract for the carriage of the goods. It is also he who must pay for the loading of the goods at the port of shipment, including costs associated with the preparation of the documentation and any taxes which may be levied, and for the costs of unloading at the port of discharge levied by the shipping line. The seller also sees that the goods are insured and furnishes the buyer with a negotiable bill of lading, an invoice for the goods shipped and the insurance policy. The goods are then shipped c. and f. (cost and freight); the conditions are the same except that it is the buyer who takes out the insurance.

When the terms of shipment are f.o.b. (free on board), it is the buyer of the goods who selects the ship and contracts for the carriage, either by chartering a vessel or reserving the necessary space on board a liner ship, and who notifies the seller of the name of the vessel, the loading berth, and the delivery dates to the

[36] *Ibid.*, p. 41.

[37] Much of the material in this section is summarized from UNCTAD, *Terms of Shipment* (United Nations publication, Sales No.: E.69.II.D.14).

ship. Hence, in this case it is the port of export which is named in the contract rather than the port of destination. The seller, under f.o.b. terms, must deliver the goods on board, paying any charges which this operation implies, and furnish the buyer with a document in proof of this delivery. The buyer bears all costs and risks of the goods from the time they have passed the ship's rail in the port of export, including the cost of obtaining a bill of lading. The only difference between f.o.b. terms and f.a.s. terms (free alongside ship) is that the responsibility of the seller under the latter ceases when he delivers the goods alongside the vessel selected by the buyer, who then incurs the cost of transferring the goods to the ship.

Thus under c.i.f. and c. and f. terms, the seller selects both the port of export and the ship. These terms are most commonly used in trade in manufactured goods, which are generally shipped by liner vessels (vessels which maintain regular shipping services according to a set itinerary), so that the ships for the greater part of Latin America's imports are selected by exporters in the developed countries.

Under f.o.b. and f.a.s. terms, the buyer can name the port of export and select the ship to be used. These terms are commonly used in trade in raw materials and hence affect a large part of Latin America's exports (although c.i.f. terms are also used), so that again it is frequently the case that imports in developed countries determine the ships to be used in Latin America's trade. Therefore, while the accounting conventions used in the preparation of the balance of payments, whereby imports are valued c.i.f. and exports f.o.b., do not necessarily coincide with the actual terms of shipment, it would seem to be the case that a major part of Latin America's foreign trade is in fact carried in this fashion.

Since a country which consistently imports c.i.f. and exports f.o.b. would in effect have no control over the selection of the ships used in its trade, there has been concern in several countries regarding the terms of shipment. Argentina, for example, by Resolution No. 536 of the Secretaría de Estado de Transporte (Transport Ministry), dated 25 September 1969, has made it obligatory for all imports destined for government organizations and those financed by any credit institution belonging to the State banking system or guaranteed by it to be purchased f.o.b. The same resolution makes it an obligation for official organizations which carry on export activities to do their best to obtain c.i.f. terms. Nevertheless, as will be noted in more detail in the following section, government policies which attempt to regulate the terms of shipment must be consistent with other policies designed to channel cargo to national vessels, such as cargo reserve requirements, or to conserve foreign exchange, such as foreign exchange controls on freight payments. Furthermore, unless the traditional practices of particular trades are well understood, government regulations affecting the terms of shipment can have severely disruptive effects on a country's foreign trade.

The particular terms of shipment adopted in an international commercial transaction should not affect the price actually received by the seller or that paid by the buyer, unless the person who selects the ship deliberately chooses one which has a higher cost than the going market rate. Furthermore, in most cases where liner ships are used, the freight rate is the same whatever ship is actually selected. In other words, the net receipts to an exporter in a Latin American country should normally be the same whether he sells f.o.b. or c.i.f., so that the distribution of the cost of transport between the seller and the buyer is independent of the terms of shipment. The analysis of who bears the transport cost is very similar to that of the incidence of customs duties and export taxes, in that the determining factor is the relative price elasticities of supply and demand of the particular product in question. In those cases where demand is relatively elastic but supply relatively inelastic, a greater share of the transport cost will be borne by the seller (regardless of who pays the freight charges under the terms of shipment). In the opposite case, where supply is relatively elastic and demand relatively inelastic, it is the buyer who bears the greater part of the transport cost.

The subject of the incidence of the cost of transport is analysed by the secretariat of UNCTAD in chapter 7 of its document on freight markets and the level and structure of freight rates,[38] and also in chapter 3 of its *Terms of shipment* (op.cit.). While the lack of adequate studies of the supply and demand elasticities of the exports and imports of developing countries does not permit quantification of the incidence of transport costs, the UNCTAD secretariat arrived at the following conclusions:

> "The situation in which supply is less elastic than demand is characteristic . . . of the short, and often the medium, run position of most primary products, the producers of

[38] UNCTAD, "Freight markets and the level and structure of freight rates" (TD/B/C.4/38), 16 December 1968.

which therefore tend to bear the major part of the transport costs. . . . The situation in which demand is less elastic than supply is characteristic . . . of the imports of many manufactured goods into developing countries. The fact that developing countries probably bear the major part of the transport costs of both their exports and their imports indicates the importance of finding ways to reduce these costs."[39]

In recognition of their particular vulnerability to increases in freight rates as producers of a product with a relatively inelastic supply, serving markets in which they face competition from producers in a number of other countries, the coffee growers of Colombia, associated in the Federación Nacional de Cafeteros (Colombian Coffee-Growers' Federation) formed their own shipping line, the Flota Mercante Grancolombiana, in 1946. During the following eighteen years, freight rates on Colombian coffee increased 53 per cent, following increases in the operating costs of the shipping company, while freight rates on Brazilian coffee increased 115 per cent during the same period. The difference between these two rates of increase represented a total saving on freight for Colombian coffee growers.[40]

2. The maritime freight markets

An understanding of maritime freight markets is also essential for an analysis of the prospects and problems which Latin America confronts in its objectives of transporting more of its trade in its own ships and of lowering the total cost of transporting its exports and imports. These markets are complex and are changing over time, especially because of the tendency towards ever-larger and more specialized vessels requiring increasingly heavy investment for their construction. While the different markets tend to overlap to some extent, it is useful to identify five of them.[41]

The first is the direct ownership of ships by the companies which have goods to transport, so that in effect the transport is integrated in the production or marketing process. This arrangement is most common in the case of the petroleum producers, who own perhaps 35 to 40 per cent of the world's tanker tonnage,[42] but is also found elsewhere, i.e., among producers of iron ore, sugar, etc. This type of relationship has advantages for the owner of the products to be shipped, since he is assured of having transport capacity available when he needs it, but it requires the producer to devote a considerable amount of capital to a function which he can in fact leave to other, more specialized, organizations. Furthermore, the producer who owns and operates his own ships may find that their utilization is low, thus increasing his total transport cost. In general, and especially because of the potential cost savings related to the use of larger ships, there is a tendency for producers to delegate transport functions to other companies rather than to carry out these functions themselves. Nevertheless, as was seen in section A, direct ownership of tanker fleets is important in several Latin American countries and it is probable that these fleets will grow in the future.

A second possibility is the medium-to-long-term time charter, whereby the exclusive use of a ship is secured for a period from three years up to the life of the ship. Under this arrangement, a company with goods to transport is assured of the transport capacity which it requires at a known cost but does not itself undertake the capital investment required to purchase the ship. Long-term charters originated with the petroleum companies, which still use this system extensively and control perhaps 40 to 45 per cent of the world tanker tonnage,[43] but such charters are also common in other trades, as with iron ore.

The third possibility is a new variant of the previous case. Under this arrangement, a shipowner signs a long-term contract to transport a given quantity of cargo each year at predetermined rates, but without specifying the precise ship to be used. In relation to both this case and the previous one, the UNCTAD secretariat has stated: "The capital requirements of a fleet of the biggest bulk-carriers are such that it is attractive for several small companies to pool resources and each own, say, one such ship time-chartered to cover the employment of the ships. This arrangement, which shipowners in developed countries are adopting, may suggest possibilities of fruitful regional or other co-operation among developing countries."[44] Such an arrangement would seem especially interesting in the case of Latin America's iron ore exports and petroleum exports and imports, but it would require changes in traditional trading practices, under which the transport is usually controlled by the petroleum and iron ore producers.

[39] *Ibid.*, p. 6.
[40] Nicolas Mora Dávila, *"Beneficios de la Grancolombiana", Revista ALAMAR.* No. 54 (30 April 1965), p. 38.
[41] UNCTAD, "Freight markets and the level and structure of freight rates", op. cit., pp. 27–28.
[42] *Ibid.*, p. 4.
[43] *Ibid.*, p. 4.
[44] *Ibid.*, p. 43.

The fourth maritime freight market is the open or tramp market. In this case a vessel is chartered for a voyage between two specific ports, for a series of voyages, or for a specific period of time of from two months to about a year. In general the tramp market has declined in importance as the long-term time charter market for bulk carriers has grown, and as a result the sharp variations in tramp charter rates have not affected transport costs so much as might be imagined. Nevertheless, this market is important in a number of Latin American trades, such as the grain and sugar trades. In the world tramp market, over half of the tramp charters each year are taken by the large grain operators.[45] Another important use of tramps is to charter them to liner companies to supplement their own tonnage for a specific voyage or for periods of up to a year. Several Latin American shipping lines have made extensive use of chartered tramps, and the position of these vessels has had to be carefully defined, both in international maritime agreements and in laws which reserve cargo for national vessels. In addition, there are tramp operators in a number of Latin American countries, especially in Argentina and Brazil, where these ships are used extensively in the bilateral trade between the two countries.

The fifth freight market is that organized by the freight conferences, and it covers liner services. In this market, a particular shipper uses the shipping space provided for him by the shipowner who operates a scheduled service over a regular route, and he shares the use of the ship with many other shippers. In general, it is in this market and in the first described above that most Latin American shipping companies operate; because of the importance of the conference market it will be discussed in more detail in the following section.

Finally, it is useful to note that there is no necessary relation between these five freight markets and the terms of shipment, discussed in the previous section. While it is common for c.i.f. terms to be used in the liner trades, this is not always the case. Even in the first case, where the vessel is owned by the producer or buyer of the cargo, the terms could be c.i.f. or f.o.b., depending on the position of the shipowner. In the other markets, f.o.b. or c.i.f. terms determine whether the buyer or the seller charters the vessel, but either is possible.

3. Maritime freight conferences in Latin American trade

Except for petroleum imports, the greater part of Latin America's imports are transported by liner ships, as are a significant part of its exports, i.e., copper and other refined minerals, fruit, coffee, etc. Furthermore, if Latin America is successful in expanding its exports of industrial products, the transport of these goods will inevitably be carried by liners. Since liner rates, the conditions of carriage, and the quality of liner services are determined by the different freight conferences, the nature of these organizations and the criteria they apply in their decisions have come under increasing scrutiny, both within the Latin American republics and in international meetings in which these countries participate.

"Shipping conferences are among the earliest cartels in international trade. Shipping conferences, or rings as they are sometimes called, are agreements organized by shipping lines to restrict or eliminate competition, to regulate and rationalize sailing schedules and ports of call, and occasionally to arrange for the pooling of cargo, freight monies, or net earnings. They generally control prices, i.e., freight rates and passenger fares. The nature of their organization varies considerably, depending on the market structure of the trade route. Some have been conferences quite literally—informal oral conferences—but many have employed written agreements establishing a permanent body with a chairman or secretary, and containing carefully described rights and obligations of the conference membership. Penalties for violations of the agreement are sometimes stipulated and in such cases the posting of cash or a fulfilment bond is usually required."[46]

"The elimination of price competition within a trade is one of the main objects of a conference. The other principal object is to prevent the entry of other ships in competition. The first object is secured by setting a scale of freight charges and outlawing reductions by member lines on any of those rates, the second by the device of loyalty contracts under which shippers are granted preferential rates if they refrain from using non-conference competition."[47]

While maritime freight conferences have been the target of severe criticism—even in developed countries—over many decades, periodic investigations in one country or an-

[45] *Ibid.*, p. 40.

[46] Daniel Marx, Jr., *International Shipping Cartels: A Study of Industrial Self-Regulation by Shipping Conferences* (Princeton University Press, 1953), p. 3.

[47] S. G. Sturmey, "Economics and liner services", *Journal of Transport Economics and Policy*, vol. I, No. 2 (May 1967). Reprint, p. 1.

other have almost invariably concluded that they are necessary in order to maintain stability in liner trades, although they are subject to government regulation in some countries, as in the United States. Traditionally it has been maintained that without conferences there would be ruinous competition in liner rates owing to the high fixed and common costs of cargo ship operations.[48] More recent analysis, however, tends to support the argument that conferences exist because the structure of liner rates, characterized by sharply differing rates per ton for different commodities, makes liner ships particularly vulnerable to outside competition from non-conference ships, which could enter a particular trade and undercut rates on high-value goods, leaving the traditional operators who maintain regular services with low-rated cargo.

A second factor which tends to make liner operators anxious to participate in freight conferences is the existence of excess capacity in liner trades. Since price competition is eliminated by the conference itself, the field of competition shifts from price to service, and excess capacity is likely to result. Nevertheless, it is difficult for shipowners to shift vessels to other trades because these in turn are controlled by other conferences. In the important trade, for example, from the North Atlantic ports of the United States East Coast to the United Kingdom, vessels belonging to the North Atlantic United Kingdom Freight Conference made 383 sailings during 1966, but over a six-year period sailed with an average unused capacity of 60 per cent. Similarly, in the westbound trade from the United Kingdom to North and South Atlantic ports on the United States East Coast, vessels of the North Atlantic Westbound Freight Association made 411 sailings in 1966, but sailed with an average of 66 per cent unused capacity over a six-year period.[49]

"A case for the conference system can be made out on the basis of arguments about the arbitrariness of the rate structure and the effects of over-capacity. But the case falls to the ground because both the rate structure and the over-capacity are *consequences* of the conference system. Thus it appears that the main reason why conferences as we know them are needed is that they have created a situation in which they are needed. But it is not logical to make a further extension of the argument to the conclusion that all forms of protective organization of liner trades are unnecessary."[50]

While the Latin American countries have been sharply critical of many of the practices of shipping conferences, there has been no move to try to eliminate them as such. In fact, policy measures adopted in several countries (which will be examined in the following section) tend to reinforce the position of the conferences in Latin American trades. The position of the Latin American countries regarding conferences is perhaps best expressed in the Charter of Tequendama,[51] which the countries of the region prepared before the second session of UNCTAD:

"3. Shipping conference practices

(*a*) Specific action should be taken at UNCTAD II with a view to abolishing those shipping conference practices which are detrimental to the developing countries, such as:

(i) The 'closed' nature of many conferences;
(ii) The fact that the conferences are not effectively represented in a number of major ports of the developing countries;
(iii) The fact that shipping rates and other conditions of carriage are not published at all or are given insufficient publicity.

(*b*) In this connexion, UNCTAD II should be recommended to adopt the following principles:

(i) Recognition of the fact that the developing countries are fully entitled to take part in any freight conference which affects their maritime traffic;
(ii) Recognition of the right of shipowners in developing countries to take part in freight conferences on an equal footing with shipowners of the developed countries;
(iii) A freight conference concerned with the export traffic of a developing country should be represented in that country;
(iv) The right of the developing countries to be fully informed of the structure and fixing of freight rates and other shipping conditions of carriage applied to the products involved in their trade and also to be advised sufficiently in advance of any change in such rates and conditions.[52]

The important question of the criteria applied by freight conferences in determining

[48] Daniel Marx, Jr., op. cit., pp. 3 and 22.

[49] Federal Maritime Commission, "Investigation of ocean rate structures in the trade between United States North Atlantic ports and ports in the United Kingdom and Eire". Docket No. 65–45. Initial decision of the Hearing Examiner, served January 31, 1968. Mimeographed, p. 29.

[50] S. G. Sturmey, op. cit., pp. 6–7.

[51] See ECLA, *Economic Bulletin for Latin America*, vol. XIII, No. 1 (New York 1968), pp. 106–114.

[52] *Ibid.*, p. 112.

freight rates in Latin America's foreign trade will be examined in section 4 of this chapter. At this point, however, it is useful to note briefly some of the more important characteristics of the shipping lines and conferences which operate in the region.

It is difficult to give a precise definition of liner services and to determine the number of shipping companies which provide this service. Applying the definition used by the joint ECLA/OAS Transport Programme in its study of maritime freight rates in the foreign trade of Latin America,[53] liner services are those provided by a shipping company which is prepared to carry any kind of general cargo and maintains a frequency of at least one sailing per month on a predetermined route. With this criterion, 118 shipping lines were identified as serving Latin America in 1966 and reference was found to an additional twelve lines whose frequency and schedules could not be obtained. Of the 118 lines, only seventeen were Latin American shipping companies, an extremely low figure, due in part to the exclusion of many companies (especially those in Argentina and Brazil which operate more as tramp vessels in the bilateral trade between those two countries) which do not comply with the rather strict definition adopted of liner services.[54]

The freight rates which affect Latin America's foreign trade are not determined solely by freight conferences. In addition there are agreements among shipping companies to establish specific tariffs on certain routes, but without the administrative arrangements which are found in the case of the conferences. Finally, on a number of routes on which there is little competition, rates are determined by individual companies. Thus in the case of Latin America's trade, it is useful to treat these three types of tariff-setting arrangements separately.

The research carried out under the joint ECLA/OAS Transport Programme identified forty-eight conferences, fifteen agreements among companies, and eighteen individual tariffs involved in Latin America's international trade in 1966. The distribution of these among the different types of trade is shown in table 246, where it can be seen that 69 per cent of the conferences cover trade with Europe and the United States and Canada, whereas more than half of the agreements and practically all the individual tariff arrangments are for intraregional trade within Latin America.

Information regarding the participation of Latin American shipping lines in these conferences, agreements and tariffs was obtained in sixty-two cases, and the results are presented in table 247. There it can be seen that regional lines represent a majority in only one of the thirty-two arrangements which cover services between Latin America and other regions of the world. At the same time regional lines constitute 100 per cent of fifteen of the thirty arrangements which affect intraregional trade. It would decidedly seem that Latin America has a distinctly minority vote—if not voice—in the decisions which are made regarding the freight rates applied to the region's trade with the rest of the world and the quality of the service which is provided.

Table 246. Latin America: number of freight conferences, agreements and tariffs applicable to seaborne foreign trade, 1966[a]

Trade covered	*Conferences*	*Agreements*	*Tariffs*
Intraregional	12	8	16
With Europe	16	4	1
With the United States and Canada	19	1	
With Japan	3	1	
With other regions	1	1	1
TOTAL	*51*	*15*	*18*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America", (E/CN.12/812), table 8.

[a] Three conferences appear twice in the table.

Since a single conference frequently issues different freight tariffs for different routes, there are many more tariffs affecting Latin American trade than there are freight rate arrangements. A total of 121 tariffs were identified by the joint ECLA/OAS Transport Programme, of which forty-seven concern intraregional trade, thirty-one trade with Europe, thirty-two trade with the United States and Canada, four trade with Japan and seven trade with other regions.[55] Detailed information was obtained regarding ninety-eight of these 121 tariffs.

One aspect which it is of particular interest to analyse is the place of issue of the freight tariffs,[56] as this would represent indirect

[53] ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812). Mimeographed version. The printed version (United Nations publication, Sales No.: E.69.II.G.7) is in the Press.

[54] *Ibid.*, pp. 38–39.

[55] *Ibid.*, p. 47.

[56] By "freight tariff" is meant the document containing the whole list of freight rates for specific commodities or classes of commodities and the transport conditions applicable to any given route which is issued by a freight conference or under a similar agreement.

Table 247. Latin America: participation of regional lines in conferences, agreements and tariffs applicable to seaborne foreign trade, 1966

Trade covered	*Type of arrangements*	*Percentages*									*Total*
		0	*1 to 10*	*11 to 20*	*21 to 30*	*31 to 40*	*41 to 50*	*51 to 60*	*61 to 99*	*100*	
Intraregional	Conferences	1		3		2	1			4	11
	Agreements	1		1			1			4	7
	Tariffs	5								7	12
With Europe	Conferences	1		6	1	2					10
With the United States and Canada	Conferences	2	1	4	5	3	2	1			18
With Japan	Conferences	1			2						3
	Agreements	1									1
	TOTAL	*12*	*1*	*14*	*8*	*7*	*4*	*1*	—	*15*	*62*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 10.

evidence of the extent to which freight rates affecting Latin America are determined outside the region. Table 248 divides the ninety-eight tariffs among those issued in the region, those issued in the region on extraregional authority, and those issued outside the region. While only ten of the tariffs concerning trade within Latin America are issued outside the region, forty-five of the fifty-seven tariffs regulating rates between Latin America and the rest of the world are issued outside the region. Again the difficulties faced by Latin America in making known its point of view regarding freight rates and services is evident.

A final aspect which it is useful to note regarding the freight tariffs is the extent to which they rely on rebates or discounts to loyal shippers in order to reduce the threat of competition from outside the conferences. Table 249 classifies the ninety-eight tariffs for which information was available for 1966 according to the use and type of rebates. While sixty-two of the ninety-eight tariffs did not contemplate rebates of any kind, forty-one of these concerned solely intraregional trade, where, in fact, no rebates were found in any of the applicable tariffs. In the trade routes with Europe more than half the corresponding tariffs contem-

Table 248. Latin America: freight tariffs applicable to seaborne foreign trade, by place of issue, 1966

Trade covered	*Issued in the region*	*Issued in the region on extra-regional authority*	*Issued outside the region*	*No information*	*Total*
Intraregional	23	8	10		41
With Europe	2	2	20	1	25
With the United States and Canada	6		22		28
With Japan		1	3		4
TOTAL	*31*	*11*	*55*	*1*	*98*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 9.

Table 249. Latin America: rebates provided for in tariffs applicable to seaborne foreign trade, 1966

Trade covered	*Types of rebate*				*Total*
	No rebate contemplated	*10 per cent deferred rebate for some commodities*	*Contract and non-contract rates*	*Contract and non-contract rates for some commodities*	
Intraregional	41				41
With Europe	7	13	4	1	25
With the United States and Canada	13		14	1	28
With Japan	1	1	2		4
TOTAL	*62*	*14*	*20*	*2*	*98*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 9.

plated deferred rebates, a system whereby a part of the freight payments are returned to a shipper after a certain period of time during which he has demonstrated his loyalty to the conference by utilizing solely conference vessels; this is illegal in trade to and from the United States. The use of contract rates, whereby shippers are granted a discount provided that they promise to be loyal to the conference concerned, on the other hand, is legal on the United States trades, and slightly more than half the tariffs for these trades contemplate their use. Thus for many of the trades which affect Latin America's foreign trade, it is essential for a Latin American shipping line to be a member of the relevant conference if it is to be able to compete equally with conference vessels.

4. The structure and level of liner rates in Latin America's export trades

Despite the existence of an abundant literature on the nature of freight conferences, which frequently includes lengthy lists of the factors that conferences presumably consider when establishing particular freight rates, there are practically no systematic empirical studies that attempt to relate observed freight rates to variables such as value of the product, distance, competition within conferences, port handling charges, etc. Recently the UNCTAD secretariat has examined the freight rates applied to thirteen commodities in various trades and has related these rates to both the f.o.b. value of the products and to the distances the goods are transported.[57] Earlier, a report on rates between the United States and Latin America was prepared by a special committee for the Economic Conference of the Organization of American States, held in Buenos Aires in 1957. This report, however, examined only the stability of liner rates over time and did not analyse either their level or their structure.[58]

The reluctance of scholars and international organizations to attempt to analyse line rates quantitatively is understandable. "An analysis of ocean freight rates, like that of customs duties, is treacherous. Global comparisons are often meaningless because of weighting problems: with extremely high freight rates, as with prohibitive duties, no goods are traded, and hence the high rates and duties are not included within the averages. Product-by-product comparisons of freight rates between different points are difficult because of the problem of defining the product and because different units are used on which to base the rates—weight, volume, value. In addition, these comparisons are often meaningless because a product is traded in only one direction and would be even though transport were costless, so that in effect a real freight rate is compared with an arbitrary paper rate. Data on ocean freight rates are also difficult to obtain, except in the United States trades, and the rates found may not represent what shippers pay, as rebates and surcharges are common and are subject to frequent changes."[59]

It is for these reasons that great importance must be given to the pathbreaking study carried out by the joint ECLA/OAS Transport Programme on the level and structure of freight rates affecting the intraregional trade of Latin America and the exports of this region to other parts of the world, unquestionably the most ambitious study of its kind ever undertaken.[60] The report is based on liner freight rates applied to 133 export commodities over 193 shipping routes (defined in terms of traffic between two countries) which have their origin in ten countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela) and their destination in all the Latin American countries, the United States and Canada, Europe and Japan. The principal source of information for the study was the freight tariffs of the different groups of shipping companies which operate over the selected routes: of a total of 121 freight tariffs which were being applied in the region's foreign trade at the end of 1966, ninety-nine were obtained, including those of greatest significance.

Because no similar study had been made in the past, it was necessary to design a wholly new methodology. Basically, this consisted in separating the analysis of the structure of liner rates from the analysis of the level of these rates. For the study of the structure of rates, the unit of observation is a particular shipping route which connects two countries. The objective is to explain why some of the products transported over this route have rates which are either higher or lower than the average freight rate on the route. This was done by determining which combination of possible

[57] UNCTAD, "Level and structure of freight rates" (TD/B/C.4/47), 1968.

[58] Economic Conference of the Organization of American States, "Report of the Ad Hoc Committee to Study the System of Establishing Freight and Insurance Rates in Inter-American Trade", Document No. 9 (July 1957).

[59] Robert T. Brown, *Transport and the Economic Integration of South America* (Washington, D.C., Brookings Institution, 1966), pp. 134–135.

[60] ECLA, "Maritime freight rates in the foreign trade of Latin America", op cit.

explanatory factors offered the best explanation, in statistical terms, of the rate structure observed. Additionally, it was also desired to determine whether the same factors explained the rate structure observed on different routes, i.e., whether different conferences applied similar criteria in determining their rates.

For the analysis of the level of liner rates, the unit of observation is a particular product transported over several routes and the question to be answered is why the rate applied to this product varies from route to route. An additional question is whether the factors which best explain the variation in rates applied to one product are also the best, in statistical terms, to explain the variation observed in the case of other products.

In order to select the factors which might be useful in explaining the structure and level of liner rates, an extensive review was made of the literature on this topic and a list was compiled of factors suggested by others as being relevant. This list then formed the basis for the formulation of a set of working hypotheses related to possible explanatory factors which could be quantified and tested statistically in an econometric model. In this way it would be possible to identify those explanatory factors which appear most significant and to discard or support the different working hypotheses used initially.

For the analysis of both the structure and level of rates a multiple regression model was used. While both linear and logarithmic models were tested, it was found that the use of the logarithmic form did not materially improve the results. The multiple regression model is ideal for the purposes of the study because it permits simultaneous analysis of a series of possible explanatory factors.

The model used for the analysis of the structure of liner rates is the following (equation 1):

$$X_1 = b_1X_2 + b_2X_3 - b_3X_4 + b_4X_5 + b_5X_6 + b_6X_7$$

in which X_1, the dependent variable to be explained, is the freight rate per ton weight of each commodity on a particular route, expressed in dollars,

X_2 is the f.o.b. value per ton of each commodity on a route, expressed in dollars

X_3 is the handling cost per ton of each commodity on a route, expressed in dollars

X_4 is the insurance premium for each commodity on a route, expressed in percentages

X_5 is the proportion of the total cargo carried over a route represented by each commodity, expressed in percentages

X_6 is the stowage factor for each commodity, expressed as cubic feet per 1,000 kilogrammes, and

X_7 reflects the constant in the equation, so that X_7 is equal to 1.

If the results of a multiple regression model are to be susceptible of statistical interpretation, it is necessary for the information used in it to comply with certain prerequisites, the most important of which refers to the minimum number of observations. In the case of the present model, a minimum of twelve commodities are required on each route in order to interpret the results.

In addition to the full model described above, three reduced models were also applied in order to determine whether the variation of freight rates could be explained satisfactorily by using a smaller number of explanatory factors. The first of these models (equation 9) eliminated from the full model X_3 and X_6, i.e., handling cost per ton and the stowage factor. The elimination of the stowage factor is especially important because this variable appears on both sides of the equation in several instances. Since some freight rates are expressed in terms of cubic feet or cubic metres, it was necessary to convert them to a rate per metric ton using the stowage factor, and as the stowage factor also appears as an explanatory variable in the full model, this duplication could have led to spuriously high correlation coefficients.

The second reduced model (equation 10) includes as explanatory variables only X_2 and X_6, i.e., the value per ton of the commodity and its stowage factor. The third reduced model (equation 11) includes only the value per ton of the commodity as an explanatory variable.

Because of the statistical requirement of a minimum number of commodities on each route studied, only thirty-three of the 193 routes in Latin America's foreign trade could be analysed. The routes selected and the results of the application of the full model and the three reduced models are shown in table 250.

The results, as can be appreciated from an examination of the correlation coefficients in the table, are heartening impressive. On twenty-four of the thirty-three routes the multiple correlation coefficient is statistically significant in the case of the full model, and where it is not significant this is due in several cases to the limited number of observations. Furthermore, the correlation coefficients themselves are high: on fifteen of the routes they are over 0.900 and on nine others between

Table 250. General results of the principal regression models used in the study of the structure of maritime freight rates in foreign trade, 1966

Route number	Countries linked	Number of observations	Freight rates based on measurement in proportion to total observations	Multiple correlation coefficients			
				Equation 1 (1)	Equation 9 (2)	Equation 10 (3)	Equation 11 (4)
1	Argentina–Brazil	26	30.8	0.828	0.819	0.809	0.800
2	Argentina–Colombia	11	9.1	0.957	0.931	0.937	0.928
3	Argentina–Chile	27	25.9	0.933	0.755	0.926	0.745
8	Argentina–Venezuela	16	25.0	0.969	0.846	0.967	0.842
18	Argentina–United Kingdom/Continent	35	25.7	0.706	0.594	0.692	0.575
19	Argentina–Mediterranean	24	12.5	0.626*	0.506*	0.622	0.488
21	Argentina–United States/Canada	24	20.8	0.700	0.642	0.638	0.568
22	Brazil–Argentina	44	34.1	0.777	0.632	0.752	0.623
24	Brazil–Chile	22	31.8	0.856	0.816	0.748	0.728
26	Brazil–Mexico	13	69.2	0.918	0.913	0.909	0.908
40	Brazil–Mediterranean	30	40.0	0.712	0.359*	0.693	0.229*
41	Brazil–Japan	17	5.9	0.606*	0.552*	0.447*	0.416*
42	Brazil–United States/Canada	39	56.4	0.697	0.393*	0.672	0.321
46	Colombia–Ecuador	15	53.3	0.947	0.198*	0.926	0.024*
64	Chile–Argentina	23	17.4	0.889	0.718	0.821	0.619
65	Chile–Brazil	15	—	0.797*	0.670*	0.385*	0.265*
66	Chile–Colombia	10	10.0	0.817*	0.586*	0.539*	0.407*
69	Chile–Peru	22	22.7	0.943	0.873	0.920	0.805
84	Chile–United States/Canada	19	21.0	0.963	0.961	0.955	0.954
106	Mexico–Argentina	12	33.3	0.937	0.629*	0.838	0.468*
107	Mexico–Brazil	12	25.0	0.856*	0.703*	0.773	0.463*
108	Mexico–Colombia	17	52.9	0.949	0.900	0.934	0.887
111	Mexico–Peru	13	46.1	0.930	0.750	0.920	0.682
113	Mexico–Venezuela	19	63.1	0.990	0.903	0.986	0.896
114	Mexico–Costa Rica	20	60.0	0.925	0.671	0.922	0.585
119	Mexico–Nicaragua	16	75.0	0.897	0.378*	0.881	0.116*
123	Mexico–United Kingdom/Continent	28	67.9	0.893	0.722	0.880	0.701
124	Mexico–Mediterranean	12	50.0	0.867*	0.653*	0.847	0.489*
130	Peru–Chile	11	9.1	0.815*	0.405*	0.744	0.200*
131	Peru–Ecuador	13	76.9	0.930	0.522*	0.854	0.126*
147	Peru–United States/Canada	19	31.6	0.903	0.828	0.900	0.785
165	Uruguay–United Kingdom/Continent	15	20.0	0.569*	0.491*	0.530*	0.464*
189	Venezuela–United States/Canada	10	40.0	0.925*	0.567*	0.650*	0.029*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 21.

*Non-significant correlation coefficients.

(1) $x_1 = b_1x_7+b_2x_2+b_3x_3+b_4x_4+b_5x_5+b_6x_6$
(2) $x_1 = b_1x_7+b_2x_2+b_3x_4+b_4x_5$
(3) $x_1 = b_1x_7+b_2x_2+b_3x_6$
(4) $x_1 = b_1x_7+b_2x_2$

x_1 = Freight rate per ton of each commodity on a route, in dollars.
x_2 = Value per ton of each commodity on a route, in dollars.
x_3 = Handling cost per ton of each commodity on a route, in dollars.
x_4 = Insurance premium for each commodity on a route (percentage).
x_5 = Proportion of total cargo carried over a route represented by each commodity (percentage).
x_6 = Stowage factor, in cubic feet.
x_7 = Reflects the constant in the equation, so that $x_7 = 1$.

0.800 and 0.900. Thus in many cases the explanatory variables used in the model account for nearly all the variation observed in the structure of freight rates.

The results of the reduced models are equally important. "The analysis of these results leads to what is undoubtedly one of the most interesting conclusions of the whole study. In the first place, the reduction in the value of the correlation coefficient is usually very slight in relation to the general model, especially with equations 10 and 11. This means that the principal explanatory variables of the structure of freight rates are actually the value of the commodity and the stowage factors. This result is astonishingly uniform for the routes to which these models were applied and which represent a great variety of transport conditions. It was found that the reduced form of the general model, with the value of the commodity and the stowage factors as the only independent variables, gives the best explanation of the structure of freight rates on twenty-three of the thirty-three routes, and also, being a simpler type of model, yields results that have better properties in terms of statistical signi-

ficance and are more operational. On six other routes, an even simpler model can be applied, since the value of the commodity will suffice as an explanatory variable, in conjunction with a constant.[61]

After a detailed analysis of the individual regression coefficients of each explanatory variable in the different models used, the ECLA/OAS study returns to the original working hypotheses to see to what extent they have been supported or invalidated by the results of the statistical analysis:

"(*a*) Hypothesis 1 sustains that the freight rates per ton are equal to the average cost of transport. In this respect, the results indicate that on most of the routes the freight rate per ton for each commodity bears no relation to an average freight rate as such, but is basically related to the stowage factor, which means giving particular consideration to individual costs. This is concluded from the fact that the constant is not significant.

"(*b*) Hypothesis 2 postulates that on a specific route the freight rates for commodities of more intrinsic value will be higher than those for less valuable commodities.

"This hypothesis may be said to have been supported through the application of the model. In fact there is a positive relationship between the value per ton of a commodity and the freight rate involved. This relationship appeared as significant in all the models tested, both general and reduced. The relationship between the two variables is positive on all routes where use was made of the model in which the value is the only independent variable. In the reduced model where the stowage factors also appear as a variable, the regression coefficient for the value is negative on four routes (46, 119, 130 and 131), which means that in those cases the freight rates are lower for the more valuable commodities. In the general model, this situation occurs on routes 107, 119, 130 and 131.

"The cause must be sought basically in the composition of the sample used, and also in the number of observations, since these are the routes for which the fewest observations are recorded. Nor are the regression coefficients statistically significant, so these cases cannot be seriously considered as exceptions to the general conclusion.

"(*c*) Hypothesis 5 sustains that the higher the handling costs on a given route that are directly attributable to each commodity, the higher will be the freight rates for the commodities in question.

"The results of the models used appear to disprove this hypothesis in the form in which it was set forth. The general model indicates that the regression coefficient for this variable was not significant on any of the routes; moreover, these coefficients were completely heterogeneous, many of them being negative. This would indicate that the freight rates per ton are lower if handling costs are high.

"A possible explanation may lie in measurement problems; thus, the handling costs included in the model may not represent the true situation. This does not seem to be the case, however, since a very broad index was used for the purpose. Another possibility is that this variable is directly related to the stowage factors, which have been used to represent the transport costs of specific types of commodities. In this case their inclusion as an independent variable adds nothing to the model which would account for the results obtained.

"Moreover, the results of the reduced model which includes the value and stowage factors are so satisfactory on most routes that the possible importance of other variables in explaining the freight rate structure is negligible.

"(*d*) Hypothesis 7 maintains that the freight rate for a commodity will be higher if there are special risks of theft or damage. "The results of the study seem to disprove this hypothesis for the majority of cases. It will be recalled that this element was introduced in the model through the use of insurance premiums on the merchandise. The corresponding regression coefficient in the general model was significant only for routes 24, 64 and 65. These incidentally are some of the few routes to which the reduced model with two independent variables could not be applied, thus showing that they are special cases in which this factor may, in fact, have some influence.

"Measurement problems may also have arisen here, since it is possible that the insurance premiums on merchandise do not properly reflect the difficulties and risks it is desired to measure, or that other factors are also taken into account in determining them. The analyses indicate, however, that such insurance premiums were established on purely technical bases and therefore, they

[61] *Ibid.*, p. 104.

should accurately represent the possibilities of risk and theft in respect to the merchandise. Distortions may also occur in the case of new commodities which are beginning to move on some routes, where no experience has been accumulated for establishing the optimum premium. In any case, the shipping companies do not seem to attach much importance to this factor and, except in extreme cases, it does not affect the establishment of freight rates.

"A last possible explanation may relate to the problems of multicollinearity, but it may be inferred from the outset that this variable will not be related to any other one in the general model; definitely not to the stowage factors, the only possibility being that it may be related to the value of the commodity. This possibility was analysed, however, and no statistically significant relationship was found.

"(*e*) Hypothesis 10 postulates that the bigger the share of a commodity in the total quantity moving on a route, the lower will be the freight rate per ton of that commodity.

"This hypothesis is also disproved by the results of the model, which indicate that the quantity of the commodity transported is unimportant as an explanatory variable. The corresponding regression coefficients in the general model were not significant in all but one case, which means that the variable is of no particular importance. As in the case of the variables discussed above, these results were corroborated by simple regressions in which the only independent variable was the one it was wished to analyse.

"Nor can there be important measurement problems in relation to this variable, since the data were taken from the foreign trade yearbooks of the respective countries, which are presumably accurate, nor multicollinearity problems, since there is no clear relationship between this variable and any other. Therefore, the conclusion seems to be well founded that the quantity transported is of little significance in accounting for the differences in freight rates per ton.[62]

"Nevertheless, it is interesting to note that the general model showed that in most cases the freight rate increases in indirect proportion to the quantity, that is, the freight rate will be lower if a larger quantity is shipped, which is in any case a logical result. Most of the regression coefficients for this variable are negative.

"(*f*) The last hypotheses that were tested directly with the model related to the stowage factors.

"These hypotheses were definitely confirmed. The conclusions indicate that the stowage factors, as representative elements of the operational costs of a vessel and of an implicit system of distributing these costs among the various commodities by the shipping companies, provide one of the best explanations for the structure of freight rates, together with the value of the commodities. The stowage factors are highly significant in absolute terms, since they play an important part in determining the freight rates.

"The relationship between the freight rate and the stowage factor is generally positive, except on route 41 in the general model. This case does not affect the general conclusions, however, since none of the models applied to route 41, covering trade from Brazil to Japan, gave satisfactory results."[63]

The model used for the analysis of the level of liner freight rates, where the unit of observation is a particular product transported over several routes, is the following:

$$X_8 = b_1X_2 + b_2X_3 + b_3X_4 + b_4X_5 + b_5X_6 + b_6X_7 + b_7X_9$$

in which X_8, the dependent variable to be explained, is the freight rate per ton for a commodity on a route, in dollars,

X_2 is the number of regular shipping lines on each route,

X_3 is the proportion of vessels over ten years old operating on each route,

X_4 is the direction of the greatest volume of traffic on the principal section of the route to which a specific flow of trade has been assigned (dummy variable),

X_5 is the distance over which the cargo is carried, expressed in nautical miles,

X_6 are the port costs on each route (port of loading plus port of discharging), in dollars,

X_7 is the quantity of a single commodity

[62] Several tariffs provide for reductions in freight rates if a minimum quantity, generally a few hundred tons, of a specific commodity is loaded by one shipper for a single consignee. Such reductions were not taken into account in this study. It is only logical, however, that if complete shifts can be worked in loading and discharging one commodity, whether in bags, bales, boxes or barrels of the same size, the operations will be performed much more rapidly, with a resulting saving in costs. This can serve as a basis for formulating a new hypothesis which may help to explain the structure of freight rates in some cases, and which would relate the size of the individual consignments with the freight rates charged per ton.

[63] *Ibid.*, pp. 121–124.

carried on a certain route, in tons, and X_9 reflects the constant in the equation, so that X_9 is equal to 1.

As in the case of the model used to analyse the structure of rates, it is necessary to have a minimum number of observations in order to be able to interpret the results statistically. Of the 133 commodities used in the ECLA/OAS study, fifty were transported in sufficient quantity over a sufficient number of routes to permit the application of the model described above.

In general, the results of the analysis of the level of freight rates are less satisfactory than those of the structure. Of the fifty commodities to which the model was applied, the correlation coefficient is statistically significant for only twenty-five, so that the model "provides no more than a reasonable explanation of the differences in the freight rate per ton for the same commodity on different routes".[64] Furthermore, in the majority of cases, the correlation coefficients are low considering the large number of explanatory variables included in the general model. Only in a limited number of cases is the correlation coefficient sufficiently high to suggest that a satisfactory explanation for the level of the liner rates had been found.

The joint ECLA/OAS study indicates that problems of measurement of the explanatory variables and of the formulation of the model may have affected the results. Nevertheless, it seems clear from the results that the factors underlying the level of freight rates are less uniform than the factors that determine the rate structure. Those significant for some commodities were apparently not for others. This conclusion must be related to the operational structure of maritime transport. When the structure of freight rates was analysed, what was actually examined was the behaviour of a single decision-making centre, a freight conference or other accord, and the way in which this centre established the freight rates for different commodities on a given route. When the level of rates is being studied, on the other hand, a search is made for uniformities in the criteria applied by numerous decision-making centres, often a different centre for each route. Thus, as conditions affecting different routes vary, it is not surprising that the results obtained regarding the level of rates are not so uniform as those regarding the rate structure. Actually, it should have been possible to predict this result from the analysis of the model of the structure of freight rates, where the regression coefficients of the different explanatory variables varied widely among the different routes. Had these coefficients been more uniform, the results of the model of the level of freight rates would also have been more homogeneous.[65]

While no model could be found to produce satisfactory results for thirteen of the fifty commodities,[66] and only the general model is suitable for three other products,[67] the results for the remaining commodities were improved considerably, especially from a statistical point of view, by using reduced models. In this case, however, it was necessary to utilize six different reduced models, whereas in the analysis of the structure of rates only two reduced models were needed.

The results of the application of the reduced models, together with the form of these models and the explanatory variables used in each, are shown in table 251. While the use of reduced models permitted results which are statistically significant for the thirty-four commodities, the correlation coefficients are frequently low, although the individual regression coefficients of the different explanatory variables are usually significant.

Analysis of table 251 indicates that, "despite the differences in the key factors that may explain the level of freight rates for each commodity, there are three which are influential and combine in different ways among themselves or fortuitously with other factors in the models referring to each commodity. These are the number of regular lines serving a route (variable number 2), the distance over which the cargo is carried (variable number 5), and port dues and charges (variable number 6). It is clearly apparent from a brief glance at the regression coefficients, which are significant in all the models whose results are given in table 251, that the coefficients corresponding to those variables are persistently significant. One of them—distance—was particularly important, since the reduced model in which it constituted the only independent variable was

[64] *Ibid.*, p. 137.

[65] *Ibid.*, p. 40.

[66] Fish, chilled or frozen; beef, chilled or frozen; casings, salted or dried; copper wire; iron or steel wire; refined sugar; mechanical or chemical wood pulp; Portland cement; canned meat; wool tops; leather goods; motor vehicle parts, spare parts and accessories; and wooden furniture.

[67] Dried vegetables, where there were twenty-one observations and the multiple correlation coefficient was 0.901; beef extract and juices, where there were twenty-two observations and the multiple correlation coefficient was 0.831; and cotton, wool and flax yarn, where there were twenty-seven observations and the multiple correlation coefficient was 0.660. (*Ibid.*, table 29.)

Table 251. Reduced models which appear as more significant in the analysis of the level of freight rates in the maritime transport of foreign trade

Regression equations

Commodity number	Commodity	Number of observations	Multiple correlation coefficients	Regression coefficients				
				x_2	x_4	x_5	x_6	x_9
A. *Model:* $x_8 = b_1x_5 + b_2x_9$ (equation 3)								
16	Citrus fruit	16	0.632			0.674		30.80
33	Cocoa beans	24	0.417			0.180		33.04
74	Nails and screws	17	0.819			0.765		20.93
78	Canned fish and shellfish	36	0.545			0.712		24.93
103	Cotton, wool and linen textile goods	34	0.581			2.161		59.89
106	Sheet glass	15	0.788			0.373		24.05
107	Bottled wine	28	0.544			0.579		43.19
116	Leather footwear	12	0.613			2.671		156.36
119	Clothing	25	0.485			1.577		129.55
121	Synthetic textile fibres	18	0.639			0.451		47.59
122	Books and periodicals	48	0.542			1.159		54.38
124	Calculating, adding and accounting machines	21	0.774			2.543		29.82[a]
B. *Model:* $x_8 = b_1x_5 + b_2x_6 + b_3x_9$ (equation 4)								
63	Alcoholic beverages (spirits)	14	0.724			0.154[a]	5.386	34.51[a]
123	Agricultural machinery	22	0.649			1.686	−3.672	76.33
125	Sewing machines and typewriters	18	0.883			2.060	−4.269	103.87
C. *Model:* $x_8 = b_1x_2 + b_2x_5 + b_3x_6 + b_4x_9$ (equation 5)								
43	Beef fat and tallow	18	0.712	−83.32		−0.429	−2.196[a]	90.09
112	Ceramic sanitary ware	15	0.705	−278.02[a]		1.676	−1.962[a]	129.58
D. *Model:* $x_8 = b_1x_2 + b_2x_4 + b_3x_5 + b_4x_6 + b_5x_9$ (equation 6)								
17	Apples	12	0.850	−19.93[a]	−24.77[a]	0.765[a]	3.461[a]	11.10[a]
40	Quebracho extract	28	0.881	−44.58	−7.951	0.0531[a]	−0.544	46.14
42	Dried fruit	26	0.617	−43.41[a]	−33.64	−0.0906[a]	−2.466[a]	121.26
56	Lubricating oils and grease	18	0.855	−43.40[a]	−20.98	0.350	1.485	22.97
104	Copper tubes	20	0.848	−208.63	40.16	−0.387[a]	−3.191	137.14
E. *Model:* $x_8 = b_1x_2 + b_2x_5 + b_3x_9$ (equation 7)								
2	Raw cotton	32	0.685	−43.69		0.155		38.57
34	Coffee beans	32	0.757	−34.54		0.202		35.56
77	Canned fruit and vegetables	35	0.467	−72.02		0.163[a]		45.58
91	Plywood	15	0.711	−150.86		0.189[a]		82.22
97	Polyethylene	27	0.623	−141.72		−0.351[a]		81.10
126	Domestic washing machines and refrigerators	26	0.853	−303.53		1.862		172.88
F. *Model:* $x_8 = b_1x_2 + b_2x_6 + b_3x_9$ (equation 8)								
13	Sisal and jute fibres	21	0.705	−109.88[a]			−9.202	238.34
19	Greasy wool	22	0.786	−79.33			1.217	43.90
48	Sawn timber	16	0.784	−68.51			−1.625	71.21
49	Metal bars	18	0.584	−16.55[a]			−1.041	42.56
105	Iron or steel tubes	28	0.531	−26.18			−0.230[a]	32.97
118	Processed rubber	12	0.781	−314.54			2.357[a]	122.02

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 30.

[a] Non-significant coefficients.

x_2 = Number of regular shipping lines on each route, in units of 100 lines.

x_4 = Trade imbalance ($x_4 = 1$ if in heaviest trade direction, otherwise $x_4 = 0$).

x_5 = Distance in units of 100 nautical miles.

x_6 = Port costs in dollars.

x_8 = Freight rate per ton, in dollars.

x_9 = Reflects the constant in the equation, so that $x_9 = 1$.

the most suitable for twelve of the fifty commodities".[68]

After analysis of the results of the different models used to study the level of liner rates, the joint ECLA/OAS study returns to the original working hypotheses and reaches the following conclusions:

"As regards hypothesis 13, which postulates that the general level of freight rates on a route will decline as the number of lines serving it increases, the conclusions support this hypothesis. In fact, the conclusions were

[68] *Ibid.*, p. 146.

significant for more than half of the commodities, in both the general model and the reduced ones, and in all of them the inverse relationship sustained in the hypothesis was confirmed. The importance of this factor for the level of freight rates varies, however, from one commodity to another.

"Hypothesis 14, which postulates that the greater the proportion of vessels of more than ten years of age serving a route the higher will be the level of freight rates, seems to be rejected in the conclusions. Except in some specific cases, this variable did not appear as significant. The results of this hypothesis are important, since they indicate that in the freight rate agreements themselves account is not usually taken of the pressure that might be exerted by companies owning older vessels, with higher operational costs, to maintain higher rates that would enable them to cover their costs. This conclusion agrees with that reached in relation to the previous hypothesis regarding the high degree of competition in the provision of shipping services.

"Hypothesis 15, which relates to the imbalance in trade flows, is also rejected in most cases, except that of commodities to which the reduced model represented by equation 6 was applied. The fact that the general conclusions with respect to the level of freight rates were not as satisfactory as those relating to their structure leaves the door open for shipping companies to consider the problem of imbalance in trade flows, but in other terms than those set forth in this hypothesis. For example, the companies may take into account, not the over-all view of all flows in a particular geographical sector, as is assumed in the hypothesis, but the imbalances of smaller geographical sections. Another possibility is that services without fixed itinerary might absorb a substantial part of the traffic on a route, in the direction with the heaviest movement, so that the actual imbalance in the traffic would be less accentuated than may appear from the statistics. Lastly, this could well be an indication that there is excess carrying capacity on nearly all routes. In that case the problem of imbalance in trade flows obviously loses its importance, since the additional cost of transporting more cargo in both directions is very low. This should be the subject of further study.

"Hypothesis 16 relates the freight rates per ton directly to the distance between ports, a relationship which was confirmed for most of the commodities considered. Moreover, it was the only variable that provided a reasonable explanation with regard to twelve commodities, without the need specifically to consider other variables.

"The conclusions relating to hypothesis 17 were the most unusual. This hypothesis postulates that the freight rates per ton for a specific commodity on different routes would be highest on those routes incurring the highest port costs. In the models tested, it was found that a significant relationship did exist between port costs and freight rates per ton for many commodities, but opposite to that indicated in the hypothesis. The freight rates per ton appeared to be at their lowest level where port costs were highest. One possible explanation that seems most reasonable is that the most expensive ports are also those which operate most rapidly. Thus, if the total expenditure incurred by a vessel during its stay in port is not duly considered, the results will logically show this inverse relationship. This implies that the daily cost of the vessel itself in port is the most important component of total port costs.

"Hypothesis 18 postulates an inverse relationship between the flow of a given commodity on a route and the freight rate per ton. No relationship was found between these two factors, and there are sufficient bases for rejecting the hypothesis. In this case, statistical measurement or other problems can have little effect because accurate data were used in each case."[69]

5. Port costs and conference pricing practices

Despite the fact that the joint ECLA/OAS maritime freight rate study did not encounter a statistically significant relationship between cargo handling charges in different ports and the freight rates applied over different routes, it is undeniable that costs incurred by shipping companies while in port constitute a substantial part of their total costs. On trades between the United States and the United Kingdom, for example, the cost of loading and discharging cargo amount to approximately 40 per cent, on the average, of the total carrier costs.[70] While stevedoring charges are especially high in these trades, it is evident that when the cost of the ship itself while in port is taken into account, total port costs can easily reach 50,

[69] *Ibid.*, pp. 167–169.
[70] Federal Maritime Commission, op. cit., p. 33.

60 or even a higher per cent of total costs, especially over short-distance routes.[71]

Nevertheless, even though port costs are critically important in the general level of shipping costs—and thus in freight rates—the freight conferences commonly apply uniform tariffs to extensive geographical areas. On this point, the OAS says that, for example, the conference freight rates for the routes from Boston, Massachusetts, to Galveston, Texas, on the one hand, and to the Pacific ports of Colombia, Ecuador, Peru and Chile, on the other, are the same for a given commodity as from the Atlantic or Gulf ports of the United States to any of the major ports on the west coast of South America; the conference that is concerned with shipping between the Pacific coast of the United States and the west coast of South America applies the same rates for the trip from Vancouver, Canada, to Talcahuano, Chile, a distance of 6,200 miles, as for that from Los Angeles, California, to Buenaventura, Colombia, which is only 3,000 miles.[72]

This aspect of the geographical coverage of individual freight tariffs in Latin American trades is also analysed in the joint ECLA/OAS study. As can be seen in table 252, based on the ninety-eight freight tariffs discussed in section 3 of this chapter, 74 per cent of the tariffs have identical freight rates for areas of origin or destination comprising an entire country or even several Latin American countries.

When freight rates are set in this fashion, there is little incentive for a particular port to undertake improvements, either through new investments or through operating reforms (which are usually opposed by politically-powerful port workers), since the benefits from these activities are not necessarily transformed into freight rate reductions which would benefit the country concerned. In fact, the only immediate incentive exists when conferences impose special penalty surcharges on a particular port, with the justification that conditions there are notoriously bad as compared with other ports. An analysis of surcharges is difficult, because they vary from year to year, but in Argentina, where significant improvements have occurred in that country's ports during the last few years, estimates have been made of the savings resulting from the elimination of surcharges which were previously in effect. According to a statement by the Secretary of Transport, the elimination of surcharges represents an annual saving of 44 million dollars on liner trades alone, while savings on charters add another 30 million.[73]

For these reasons, the Consensus of Viña del Mar adopted by CECLA included the following among its recommendations:

> "25. To press for the lowering of freight rates in inter-American trade when there is a reduction in the operating costs for ships in port, on the basis of real improvements in each port and not on the average productivity of a group of ports."[74]

It should be noted, however, that the practice the conferences follow of setting

[71] Robert T. Brown, op. cit., p. 152.

[72] OAS, *"Algunos antecedentes sobre el tema de transporte y fletes marítimos"* (UP/G.29/1), November 1969, pp. 5-6. Unofficial translation.

[73] IEMMI, *La Marina Mercante Iberoamericana,* 1967, p. 23.

[74] Special Commission on Latin American Co-ordination (CECLA), *The Latin American Consensus of Viña del Mar,* May 1969.

Table 252. Latin America: regional units used in establishing the freight rates applied in maritime transport of foreign trade, 1966

Type of trade	*Tariffs for areas of origin or destination with identical freight rates, comprising:*			*Other tariffs*[a]	*Total*
	More than one Latin American country	*A whole Latin American country*	*A region in a Latin American country*		
Intraregional trade	23	19	7	4	53[b]
Trade with Europe	4	11	6	4	25
Trade with the United States and Canada	11	9	6	2	28
Trade with Japan	4				4
TOTAL	*42*	*39*	*19*	*10*	*110*

SOURCE: ECLA, "Maritime freight rates in the foreign trade of Latin America" (E/CN.12/812), table 35.

[a] Particularly tariffs containing freight rates between specific ports.

[b] Twelve tariffs were classified in two groups.

identical rates for extensive regions acts in effect to reduce competition among the consumers of sea transport and not only among the shipping companies.[75] Thus a change in the conferences' policy, and the adoption of rates more closely related to distance and to port costs, would result in higher freight rates for those countries with relatively higher port costs and for those located at the end of trade routes, as is the case of Chile in trades to the United States and to Europe.

D. LATIN AMERICAN MARITIME SHIPPING POLICIES

1. The evolution of Latin American attitudes on maritime transport as seen through international conferences

Historically, and for a surprisingly long period of time, the Latin American republics' primary concern as regards maritime transport was how to improve the quality of international services. In the First International Conference of American States, held in Washington from 2 October, 1889 to 19 April, 1890, it was recognized that shipping services among the Latin American countries and between them and the United States were inadequate and, in fact, far inferior to those to Europe. Three resolutions were adopted at the Conference proposing that subsidized services be established on the Gulf of Mexico and the Caribbean Sea, along the Atlantic Coast from the United States to Argentina, and along the Pacific Coast from California to Chile. The resolutions specified the type of vessels to be used, the form of subsidy to be paid, and the way the different countries would share in the cost of the subsidies.[76] Despite repetition of these proposals at the Third Conference in 1906, they were never implemented.

Successive inter-American meetings over the following decades produced a large number of resolutions concerning maritime transport, reflecting the concern of Latin America with what it considered inadequate and costly services, and criticism was especially sharp regarding freight conferences. Nevertheless, the region showed little interest in developing its own merchant marine and few differences emerged between the position of Latin America and that of the United States.

In 1945 came the turning point. For many Latin American countries the Second World War had been a bitter experience, as traditional transport services were disrupted and these nations were unable to obtain transport for their essential exports and imports. At the same time, ships of European nations caught in their ports and seized at the outbreak of the war gave incipient Latin American merchant fleets a decided impetus. It is therefore understandable that at the Inter-American Conference on Problems of War and Peace, held in Mexico in 1945, new attitudes were present. For the first time a resolution was adopted stating that "the American Republics consider as essential to their economies the creation and development of their merchant marines and the establishment of an adequate transportation system for each country."[77]

By 1948, when the Ninth International Conference of American States was held in Bogotá, it was no longer possible to devise wording for a resolution on the development of merchant marines which would be acceptable without reservations to both the United States and the Latin American countries. While the United States did not object to its neighbours subsidizing their national fleets—the policy followed in the United States itself—it did object to measures designed to channel cargo to national vessels, as it considered these measures to be discriminatory. Thus in Buenos Aires in 1957, at the Economic Conference of the Organization of American States, the United States cast the sole negative vote in a working group which proposed the following wording for an article on maritime transport:[78]

> "The States shall endeavour to remove discriminatory measures and unnecessary restrictions on international commercial navigation, so as to promote the availability of maritime services to world trade. The assistance and encouragement given by a government, or by a group of countries belonging to the same economic region, to their merchant marine for the development thereof and for security purposes, and the measures favouring the transportation of a substantial part of their foreign trade by vessels flying their own flag, do not constitute discrimination, provided that such assistance and encouragement or measures are not

[75] R. C. Goss, op. cit., p. 11.

[76] Scott, James Brown (ed.), *The International Conferences of American States, 1889–1928* (New York, Oxford University Press, 1931), pp. 16–19.

[77] Pan American Union, *The International Conferences of American States, Second Supplement, 1942–1954* (Washington, Pan American Union, 1958), pp. 109–110.

[78] Economic Conference of the Organization of American States. Draft of a General Inter-American Economic Agreement. Doc. 191, Rev. 1 (English), 31 August 1957, p. 11.

based on unnecessary motives and were not designed to restrict the freedom of the means of transportation of other countries to take part in international trade."

In 1964 the Latin American republics carried to a new forum their concern that their right to expand national merchant fleets through protective measures be recognized and that a system be devised to review conference tariffs and to regulate conference practices. The first session of the United Nations Conference on Trade and Development (UNCTAD), at which Latin America found itself allied in the Group of 77 with other developing nations of the world with similar aspirations in the field of maritime transport, permitted an historically important debate on ocean shipping. While it was not possible to reach any general consensus which would conciliate the widely divergent positions of the developed and the developing nations, the meeting permitted a comparison of the points of view of the different groups of countries and showed the importance of systematic studies of all aspects of ocean transport.[79]

Probably the most important product in the field of shipping of the first UNCTAD meeting for Latin America was the creation of the Committee on Shipping under the Trade and Development Board of UNCTAD and the establishment of the Division for Invisibles of the UNCTAD secretariat, which provides substantive services for the Committee. In the three sessions of the Committee on Shipping which have been held, the debate initiated at the first session of UNCTAD has continued, an important work programme has been undertaken. The Division for Invisibles, in turn, has produced an impressive series of studies which have done much to facilitate informed discussions on what has been traditionally a complex and little known field.

As part of its preparatory work for the second session of UNCTAD in 1968, the Latin American countries drew up the Charter of Tequendama, a part of which has already been cited in part C. In addition to the position taken regarding conference practices, attention was also directed to the problem of ocean freight rates. In addition to urging that the secretariat of UNCTAD should undertake a programme of studies on maritime freight rates, the Charter emphasizes the importance of obtaining satisfactory rates for traditional and non-traditional exports of the developing countries. Finally, the Charter expresses grave concern at the fact that conference freight rates continue not only to increase but to be discriminatory and restrictive vis-à-vis the developing countries.

While there was no startling progress at the second session of UNCTAD, the resolutions adopted regarding maritime transport represent a consolidation of many views maintained by the developing nations in earlier meetings and conferences. Among the resolutions adopted without dissent, one recommends that governments urge freight conferences to recognize shippers' councils, assist in establishing effective consultation machinery, and discuss within this machinery freight rates, conference practices, adequacy of shipping services, etc. A second recommends that governments invite liner conferences to review and adjust freight rates, especially to promote non-traditional exports and in cases where port improvement has led to lower shipping costs, and to admit shipping companies of developing countries as full members of the conferences. A third recommends that requests from developing countries for financial and technical assistance for improving ports be given favourable consideration, while a fourth reaffirms the right of all countries to establish and expand their national merchant marines, and invites governments of developed countries and international financial institutions to consider sympathetically requests from developing countries for assistance for this purpose.

Parallel to their participation in the UNCTAD meetings and the sessions of the Committee on Shipping, the Latin American countries have stressed maritime transport in meetings of inter-American organizations. At the meeting of the Special Committee on Latin American Co-ordination (CECLA) held in Chile in May 1969, to which reference has already been made in relation to freight rates which cover large geographical areas, the Latin American Consensus of Viña del Mar included several other recommendations related to maritime transport. One of these indicates that increases in operating costs of shipping companies which are caused by factors outside the region should not be reflected in freight rates applied to Latin American exports. Another states that the measures adopted in Latin America in favour of national merchant marines which are based on an equitable participation of these fleets in the trade of the region should not be considered discriminatory and should not give rise to measures outside the region which offset them.

[79] For a review of this first meeting, see ECLA, "UNCTAD: Analysis of the results and prospects for Latin America" (E/CN.12/714), 1965, chapter V.

The Consensus of Viña del Mar was considered by a special committee of the Inter-American Economic and Social Council in November 1969. At that time the subcommission which considered maritime transport reached agreement on three articles, one of which ratifies the earlier recommendations of CECLA regarding freight rates, while a second indicates that the United States is willing to study specific cases in which Latin American countries consider freight rates to be unreasonable and to utilize the means it has to try to obtain an adequate solution. The third article on which there was agreement states that the members of the inter-American system will initiate or continue efforts to improve port services and that the United States will give greater emphasis to technical and financial assistance for this purpose. Nevertheless, the United States was unable to agree with the Latin American republics that measures designed to favour national merchant marines should not be considered discriminatory and should not give rise to measures which would offset them.

As has been seen, the attitude of Latin America towards maritime shipping has evolved considerably during the last eighty years. While initially exclusive concern was for improved maritime services with lower costs, interest now centres on measures which would permit Latin America to increase its merchant fleet and to carry a greater part of its foreign commerce. Furthermore, earlier criticisms of conference practices have now been transformed into a search for operative machinery which would assure that conferences do not thwart the desire of Latin America to expand its exports and improve its balance of payments. In addition, with the creation of UNCTAD, Latin America has obtained an important forum in which to debate its aspirations directly with other governments.

2. The ALALC convention on water transport

The experience of the Latin American Free Trade Association in relation to maritime transport is especially significant because it highlights the difficulties involved in reaching international agreement on ocean shipping even among nations with basically common interests and aspirations. The reasons which led the ALALC countries to desire to reserve for their own ships a substantial part of the cargo transported within the region and the history of the negotiations which culminated in the Convention on Water Transport can be found in other sources.[80] For the purposes of the present study, only one aspect will be examined: the problem encountered in deciding whether the cargo reserve would be applied on a bilateral or multilateral basis.

In August of 1960, six months after the Latin American Free Trade Association was established, delegates from the signatory countries met in Montevideo to study transport problems related to the treaty. At the meeting a number of important topics were analysed, such as the simplification of ship's documents, the establishment of a common nomenclature for cargo, the lack of adequate shipping statistics, the creation of a technical assistance programme for port administration and operations, etc.

Nearly two years passed before ALALC again turned to transport problems. In July 1962 a Meeting of Experts on Maritime and River Transport was convened in Montevideo with a meaty agenda centred on the cost and adequacy of maritime transport services within the Free Trade Area. While a number of important resolutions were adopted, including several which recommended additional studies, resolution No 1, was destined to become the *leit-motiv* of future ALALC activities in the field of transport. The pertinent parts of the resolution follow:

> "The Group of Experts on Maritime and River Transport, considering that maritime transport is a fundamental factor in application of the Montevideo Treaty;
>
> "That it is therefore necessary to establish principles on which should be based the participation of the member countries in the maritime and river transport of the goods which enter intrazonal commerce;
>
> "That the development of national merchant marines represents an effective contribution to the promotion of intra-regional trade;
>
> "Resolves:
>
> "*First:* To recommend to the Permanent Executive Committee that it formulate a

[80] Edward G. Cale, *Latin American Free Trade Association: Progress, Problems, Prospects* (United States Department of State, 1969). ECLA, *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7), Tomás Sepúlveda Whittle, *Hacia una política naviera para la Asociación Latinoamericana de Libre Comercio* (Valparaíso, Chile, Universidad Católica, 1965), Robert T. Brown, *Transport and the economic integration of South America* (Washington, D.C., The Brookings Institution, 1966), C. F. Brown, "A study of the shipping policies of the member countries of the Latin American Free Trade Association", *The Baltic and International Maritime Conference Monthly Circular*, June 1968, pp. 13408–13427.

declaration of principles that considers, among other points, the following:

". . . .

"(*b*) The maritime transport of both export and import cargo, proceeding from and destined to the member countries of the Latin American Free Trade Association, is reserved for the vessels belonging to these countries;

"(*c*) In applying this reserve, each country has the right to transport 50 per cent of its own intrazonal cargo; if one of the two trading partners is not prepared to transport its share, the other shall have the first option to participate in the available quota, and if neither of the buying and selling countries is in a position to transport the cargo, preference shall be given to another country of the Area.

"(*d*) The measures which the countries adopt to implement the reserve referred to in the preceding clauses cannot signify discrimination among types of cargo nor delays in embarcation nor the charging of freight rates which are superior to those established by competing regular shipping lines."[81]

This initial declaration of the ALALC members, which for the first time asserts the desirability of reserving ALALC cargo for ALALC ships, is surprising because it recommends bilateral cargo reserves similar to those already in effect between several pairs of ALALC countries, despite the fact that bilateral reserves would appear to be clearly contrary to the intent and spirit of the Montevideo treaty itself.

At the second session of the Conference of the Contracting Parties, the supreme governing body of ALALC, several resolutions related to maritime transport were adopted in October 1962 which incorporated the resolutions of the Meeting of Experts and indicated a basic concern with improving maritime services and lowering port costs. One resolution, however, recommended that the Contracting Parties should sign a convention establishing the principles of a maritime policy for ALALC, which should include the principle that a substantial quota of the intrazonal freight be reserved for ALALC ships.

In June of 1963 the Transport Advisory Commission, established under a resolution of the second session, met in Montevideo to follow up the directives of the Conference of the Contracting Parties. Again attention was centred nearly exclusively on the question of cargo reserves within ALALC. The resolution which was finally adopted was based on a draft presented by Brazil proposing multilateral reserves but opposed by Argentina, which preferred bilateral reserves. While the resolution adopted was fully in line with the principles of ALALC, in that it assured all ships of the member nations equal access to compete for intrazonal cargo, seven of the nine ALALC members formulated reservations to the article concerning cargo reserves, so that it was evident that the matter by no means had been resolved.

The divergence among the countries in 1963 regarding bilateral and multilateral cargo reserves was a result in part of opposing interests, but it also reflected the fact that many countries had not had sufficient time to establish a policy position. Brazil, which proposed the multilateral reserves in the Transport Advisory Commission, was probably primarily interested in 1963 in expanding its industrial exports to other members of ALALC and had a keen interest in good service and low freight rates within the region. Argentina, on the other hand, was already transporting in its own ships a substantial share of the cargo it traded with other ALALC countries, and it advocated bilateral reserves as a means of maintaining its established position. Chile, while it desired an opportunity to participate in new trades such as that between Argentina and Brazil, feared that multilateral reserves would pit its private and unsubsidized merchant marine against State-owned lines like Lloyd Brasileiro and ELMA (Argentina). Other Pacific countries relied heavily on ships from outside Latin America for the transport of their products to other ALALC members and, while fearing that any system of cargo reserves would result in higher freight rates and poorer service, believed that multilateral reserves presented a lesser danger than bilateral reserves.

One month later, in July 1963, the shipowners of the region met at Valparaíso, Chile, to organize the Latin American Shipowners Association (Asociación Latinoamericana de Armadores—ALAMAR). At the first General Assembly of ALAMAR, held in Mexico at the end of November 1963, the delegates were unable to agree on the terms of a general agreement on water transport to be recommended to ALALC. In January of 1964, when ALAMAR met again, at Punta del Este, Uruguay, the agreement adopted regarding

[81] Asociación Latinoamericana de Libre Comercio, *"Informe sobre la Reunión de Expertos en Transporte Marítimo y Fluvial"* (CEP/GTT-2/dt11/Rev. 1), 23 July 1962, pp. 8 and 9.

cargo reserves represented a return to the idea of bilateral reserves, to which Brazil attached a reservation stating that it could not consider any part of the Declaration of Principles that involved bilateral or multilateral reserves, which the Brazilian delegation considered to be the exclusive concern of the Government. The Declaration adopted recommended a 100 per cent bilateral reserve, but under it, a country which did not transport its 50 per cent could cede its right to any other country in the area.

At the second meeting of the Transport Advisory Commission, which met in Montevideo in April 1964, a draft agreement was adopted for submission to the Permanent Executive Committee of ALALC. Article 1 of the agreement reserved 80 per cent of intrazonal cargo on a bilateral basis for the merchant fleets of the countries of origin and destination of cargo. An additional 10 per cent, plus that part of the 40 per cent reserved for each trading partner which it does not transport, is set aside for national lines within the area which serve routes between their own countries and ports of other countries of the area, whether or not these routes extend outside the area. The final 10 per cent is open to any line, whether from the area or outside, which maintains regular services to and from its home country. The draft agreement was thus an uneasy compromise between the countries which desired full multilateral reserves and those desiring strict bilateral reserves. Nevertheless, Chile, Ecuador and Mexico formulated reservations stating that their position on cargo reserves would be made known at a later date.

Although the draft agreement was ready in time for submission to the fourth Conference of the Contracting Parties, which was held in Bogotá at the end of 1964, it was not considered at that time. Instead, the Conference resolved that a new meeting be held at the government level to consider the different aspects of the maritime transport policy of ALALC.

In March 1965, shortly before the meeting at the government level was to convene, ALAMAR met in Montevideo. Again the difficulty of finding common ground among the different private and State shipping companies of the region was evident, and as a result the accord adopted, while reaffirming the necessity for cargo reserves, did not state whether these should be bilateral or multilateral.

Similar difficulties were encountered at the meeting at the government level which was held during April and May. The resulting agreement, however, asserted that a substantial portion of the cargo transported within the region should be reserved on a multilateral basis and that the reserve should be applied gradually. Again there was disagreement, on how the reserve should be implemented, and the agreement concludes with different proposals presented by Argentina, Brazil, Chile and Uruguay.

A year later, in May 1966, agreement was finally reached regarding cargo reserves at the first meeting of the Transport and Communications Council of ALALC, in which many of the member countries were represented by high-ranking government officials in the field of transport. The agreement, which expressly excludes the bulk transport of petroleum and its derivatives, reserves ALALC cargo for ALALC ships on a multilateral basis with equal rights, treatment and other conditions. The reserve, however, will be implemented gradually over time in accord with the capacity of the different merchant marines within the region. Furthermore, in an important concession to Argentinian vessels, a transitory article states that the transport of bulk products can be regulated directly by the exporting and importing countries until June 1972, thus providing a period of adaptation for ships traditionally devoted to the transport of wheat from Argentina to Brazil. Finally, ships from outside the region are permitted to participate in ALALC trades on a supplementary basis, in accordance with the provisions which would be established in the rules for the application of the agreement, provided that these ships offer regular services between their home countries and the ALALC region.

The agreement reached by the Council was confirmed later in 1966 when the nine members of ALALC formally signed the Convention on Water Transport (at that time neither Bolivia nor Venezuela was a member).[82] Since that date the agreement has been ratified by three of the five countries necessary for it to go into effect in the signatory countries: Chile, Ecuador and Mexico.

Even though all the countries signed the agreement—and it is probable that shortly the final two ratifications will be obtained to put it into effect—all the sticky problems concerning bilateral and multilateral reserves had not been put to rest. While the agreement is quite

[82] Seven members signed the Convention in September 1966, Mexico and Ecuador in October and December 1966, and Bolivia and Venezuela have not yet signed it.

explicit in asserting that the reserves are to be multilateral, there is no indication in the agreement as to what is meant by gradual implementation nor what body is to administer the reserves. Hence the field of conflict merely shifted from the wording of the basic agreement to the preparation of the rules for its application.

In April of 1967, at an Extraordinary Assembly held in Lima, ALAMAR adopted a draft set of rules for the application of the basic agreement to be submitted to the Special Committee on Rules for the Application of the Convention on Water Transport which was to meet in Montevideo the following month. The ALAMAR proposal maintained the concept of free access to ALALC cargo by ALALC ships, but did not define what was meant by gradual implementation of the multilateral reserves, which was in effect left to the judgement of the freight conference to be established in accordance with the basic agreement. ALAMAR also proposed an additional concession to Argentina through the inclusion of logs and sawn timber among the bulk cargoes whose transport could be regulated directly by the interested countries.

The agreement reached by ALAMAR could not be maintained in the May–June meeting of the Special Committee in part because representatives of State-owned shipping lines adopted one position in meetings at the entrepreneurial level in ALAMAR, and another while acting as representatives of their respective Governments.[83] At its meeting the Special Committee considered the ALAMAR proposal, a proposal presented by the Chilean delegation which was closely similar to that of ALAMAR, and a third presented by the Argentinian delegation, which in effect denied the principle of free access to ALALC cargo by all ALALC ships. The position of Argentina was supported by Brazil and Uruguay, so that the delegations were divided into two blocks. Since the block formed by Chile, Colombia, Ecuador, Mexico, and Peru formed a majority, its position prevailed, and the Special Committee adopted the concept of multilateral reserves. Nevertheless, as Argentina, Brazil, Paraguay and Uruguay expressed reservations to this position, it was clear that still no agreement had been reached.

In its fifth General Assembly, held in Bogotá in November of 1967, ALAMAR appointed a special committee to try to find common ground between the two blocks of ALALC countries and to propose a draft set of rules acceptable to both. The results of the committee's work was submitted to ALALC in February of 1968. While the proposal reiterates the concept of multilateral reserves, it states that in the implementation of the reserves the physical volume of trade between the different countries will be considered, together with their capacity to ensure the transport. This criterion, however, would perhaps provide little guidance to the body responsible for regulating the reserves.

When the Conference of the Signatories of the ALALC Convention on Water Transport met in Montevideo at the end of September 1968, it had before it the draft set of rules adopted by the Special Committee in June of 1967, together with the recommendations of ALAMAR and comments by the ALALC secretariat, and a separate proposal presented jointly by Argentina and Brazil. This latter proposed that ALALC cargo be reserved for ALALC ships which traditionally have provided regular services and that the reserved cargo be distributed by the freight conferences, subject to review by the Commission set up under the Agreement. Initially the cargo would be distributed on a bilateral basis, with 40 per cent for the exporting country and 40 per cent for the importing country, and the remaining 20 per cent open to any other ALALC carrier. Should one of the trading partners not transport its quota of 40 per cent, the difference would pass first to the other trading partner, and only if this country was unable to effect the transport could ships of the other ALALC countries or of countries from outside the region participate. The Argentinian-Brazilian proposal does not indicate any machinery by which the bilateralism of its proposal would be modified over time so as to move towards the multilateralism contemplated in the basic agreement. Furthermore, shortly before the September meeting, Argentina and Brazil had renewed their bilateral agreement reserving the cargo transported between the two countries for their own ships.[84] In 1967 Argentinian ships had transported 48 per cent of this bilateral trade and Brazilian ships 47 per cent.[85]

When the representatives of the signatories of the agreement opened their debate on the critical question of the nature of the cargo reserves, the Brazilian delegation withdrew from the Conference. The following day, the

[83] *Progreso,* March–April 1969, p. 94.

[84] *Progreso,* March–April 1969, p. 42. The agreement provided that it was to remain in force until such time as the ALALC Convention should become operative.

[85] *La Marina Mercante Iberoamericana,* 1968, p. 118.

Argentinian delegation presented a declaration stating that the principal difficulty lay in the ambiguous wording of the basic agreement signed in September 1966, which permits several interpretations, and that it was clear that there were fundamental differences of opinion among the different countries. It then also withdrew from the Conference.

The remaining countries proceeded to the formal approval of the rules for the application of the basic agreement. The resulting document maintains the concept of multilateral reserves, although the text contains part of the wording desired by Argentina and Brazil. Thus the reserves are to be implemented taking into account the volume of the traffic of the different countries and the capacity of each to transport its cargo. Although the rules were approved by Chile, Colombia, Ecuador, Mexico, Paraguay and Peru, it is clearly necessary that these countries should find common ground with Argentina, Brazil and Uruguay for the agreement to be workable, once the basic agreement has been ratified by two more countries.[86]

The importance of unanimity is recognized by ALAMAR in its annual report for 1968/69, where it lists as one of its tasks for the future continuing its search for a formula acceptable to all the ALALC countries. Since the approval of the set of rules there has been no further official activity related to the regulation of ALALC maritime transport.

The review made in the preceding pages of a single aspect of the search for a common ALALC policy for the maritime transport of cargo traded within the area is a clear indication of the difficulty inherent in arriving at agreements concerning ocean transport which are acceptable to the various trading partners and which satisfy the aspirations of the different nations to develop their merchant fleets. Even though the ALALC countries began in essential agreement as to the desirability of ALALC cargo being carried in ALALC ships, periodic meetings at the entrepreneurial, technical and government level over more than six years have not led to any agreement on whether the desired cargo reserves should be implemented in a multilateral or bilateral manner. Furthermore, countries which initiated the six-year debate as firm proponents of multilateral reserves finished the period opposing them, while others that feared multilateral reserves to begin with ended up as their stalwart defenders. Considering this experience, the enormous problems involved in reaching maritime agreements among a wider group of countries, in which no essential common interest exists as a starting point, are evident.

[86] In any event, the Convention would apply only to the countries that had ratified it.

3. Recent maritime policies adopted by Brazil

At the same time that Latin American countries were defending in international meetings their right to adopt measures designed to promote the development of their national merchant fleets, they were adopting measures for this purpose at home. In 1946, the year following the Inter-American Conference on Problems of War and Peace, in which the American republics adopted for the first time a resolution stating that they considered the creation and development of their merchant marines as essential to their economies, Argentina began including in its bilateral commercial agreements clauses which reserved half of the cargo transported for its own vessels.[87] In that same year, Colombia, Ecuador and Venezuela created the jointly-owned Flota Mercante Grancolombiana. Since that time, practically all the South American countries have participated at one time or another in implementing devices—often quite imaginative devices—designed to promote or protect their national fleets.

In general, there are two major paths which countries desiring to assist their national merchant marines can follow: they can give direct subsidies to national vessels or they can channel cargo to these ships through administrative measures. Latin American countries do not accept the position of the economically developed countries that financial subsidies are acceptable and are not discriminatory, whereas government inducements to shippers to use national ships and government-controlled routing of cargoes are prejudicial and discriminatory.[88] Since countries such as the United States, Italy, France, Spain and Japan give financial assistance to their fleets,[89] the prospect of trying to compete with the national treasuries of these countries through direct or even indirect subsidies appears to Latin America to leave it in a position where it is decidedly being discriminated against.

Nevertheless, Latin America has used direct

[87] Tomás Sepúlveda Whittle, op. cit., p. 32.

[88] " . . . the effects of financial aid and fiscal relief on the international level, if any, are entirely different from those which may be caused by 'flag discrimination', i.e., through discriminatory practices of governments which limit the freedom of using ships flying other flags." OECD, *Maritime Transport*, 1966, p. 51.

[89] OECD, *Maritime Transport*, 1966, p. 55.

subsidies, albeit unwillingly, as a part of its maritime policy. These in general have taken the form of budgetary assistance to cover the losses of State-owned shipping lines, which, as was seen in part A, are of considerable importance in the region. In the case of companies such as Lloyd Brasileiro and ELMA (Argentina), these losses have at times been large in the past.

The most important policies, however, have been those intended to increase the cargo available for national-flag ships, among which at one time or another can be found the following:

(*a*) Government directives that cargo sold by or purchased for the government and its agencies is to be transported in national vessels. In general, few of the developed countries would dispute the right of governments to choose the means of transport of their own cargo, but in some instances Latin American countries have included within the controlled cargo that destined for companies which have received assistance in one form or another from a government agency. This type of cargo routing is similar to that exercised by the United States in relation to foreign aid cargo and exports of food surpluses, and traditional maritime nations object to the practice.

(*b*) Bilateral trading agreements which reserve the corresponding cargo for ships of the trading partners.

(*c*) Legislation which reserves a minimum percentage of exports or imports of commercial cargo for transport in national-flag ships. This measure, first adopted in Latin America by Chile in 1956, has been used by most of the other countries of the region and is probably the single policy which the developed countries find most objectionable.

(*d*) Government insistence on pooling agreements within the conferences serving the country's trade which assure a minimum participation in total freight carried for that nation's vessels.

(*e*) Foreign exchange controls which require freight to be paid in national currency and then limit convertibility, or which grant exporters or importers more favourable rates or other concessions provided they ship in national vessels.

(*f*) Reductions in consular fees or in import duties for cargo transported in national-flag ships.

(*g*) Reductions in port charges for national-flag vessels, docking preferences or other privileges.

While nearly all the South American countries have applied one or more of the foregoing measures, often with strong opposition from outside the region and even threats of retaliation, the use of these devices has seldom been a key part of consistent policies applied over time. For this reason it is especially interesting to study the maritime policies adopted by Brazil during the last few years, as Brazil is probably the first Latin American country to set clear objectives, and to design an integrated policy covering nearly all aspects of maritime transport in order to achieve them. The wide scope of the Brazilian policy can be appreciated by noting that it encompasses the establishment of a strong Central Government agency with ample authority over maritime matters, ship construction within Brazil, improvement of port operations, development of new shipping routes, regulation of the conferences which serve Brazilian trades, reorganization and modernization of Lloyd Brasileiro, incorporation of private Brazilian shipping lines into the foreign trades traditionally monopolized by Lloyd, purchase of large bulk carriers from foreign shipyards, and increased participation of Brazilian vessels in the nation's foreign trade. Some of the highlights of the Brazilian policy follow:

(*a*) After the creation of the Ministry of Transport, the Brazilian Merchant Marine Commission was reorganized in 1966 to permit it to operate more efficiently and it was given direct authority over the State-owned shipping companies, including Lloyd Brasileiro. With wide powers emanating from a series of government laws and decrees, the Commission acts as a policy-making body for maritime matters, it decides on the use of the resources provided by the Merchant Marine Fund, and it exercises regulatory powers over shipping in general. Early in 1969 its name was changed to National Agency for the Merchant Marine (SUNAMAM), to reflect its deliberative and executive character.

(*b*) Ports are not under the authority of SUNAMAM, but considerable progress has been made in improving their operations in recent years. In 1968 it was planned to transform many Brazilian ports into independent companies with mixed government-private capital, but much still needs to be done in terms of equipment and improvement of the infrastructure.[90]

(*c*) Efforts have also been made to pioneer

[90] J. Martínez, "Radiografía del transporte marítimo. Brasil", *Revista ALAMAR*, No. 76 (enero–febrero, 1968), pp. 23–24.

new trade routes as a means of opening new markets for Brazilian products. During 1968 Lloyd Brasileiro initiated service on two routes which go in opposite directions round the South American continent and which will help to link Brazil with other members of ALALC. At the end of 1969 a Brazilian line began a regular monthly service to ports in South Africa, Singapore, Hong Kong, and Japan.[91]

(*d*) The rapid inflation and uncertain political situation in Brazil during the years prior to 1964 had reduced Lloyd Brasileiro to a sorry state. While it had a monopoly of considerable cargo on important trading routes, it had accumulated debts both in Brazil and abroad. Twelve of its twenty vessels destined for overseas trade were laid up, and Lloyd's service was generally considered to be poor.[92]

After the reorganization of the Commission in 1966, which put Lloyd under the latter's direct authority, Lloyd itself was transformed from a traditional government enterprise into a shipping line organized as a commercial company capable of competing with foreign lines. The Board of Directors was replaced by new men drawn from the private sector, nearly all the domestic and foreign Lloyd agencies were abolished and replaced by privately-owned agencies working on a commission basis, the number of employees was reduced considerably and, most important, orders were placed to acquire twelve new ships to permit Lloyd to improve the quality of its services and to absorb the additional cargo which was being channelled to it. As a result of these measures, Lloyd, for the first time in its history, did not receive a government subsidy in 1968.[93]

(*e*) As a principal objective of the Brazilian maritime policy was to increase its participation in the carriage of its foreign trade, it was faced with two specific alternatives: greatly to increase the capacity of Lloyd Brasileiro or to incorporate privately-owned Brazilian shipping lines into the foreign trading routes traditionally reserved as a monopoly for Lloyd. The Government chose the second alternative, and, while it did increase Lloyd's capacity significantly, it selected seven private companies in 1967 which were authorized to operate overseas. After studies made jointly by these companies and the Merchant Marine Commission, twelve new vessels were ordered for them from Brazilian shipyards, and until these ships are delivered the private companies have been authorized to charter equivalent tonnage. In order to avoid competition between Lloyd and the private Brazilian companies, contracts were signed which associate Lloyd and the private companies that operate on the same routes.[94]

(*f*) Ship construction in Brazil[95] took on importance with the passage in 1958 of Law No. 3381, which established the Merchant Marine Fund (Fondo de Marinha Mercante) financed primarily by a tax on cabotage and import freights, to be used for the renovation of the merchant fleet. During 1958 and 1959 the Government authorized the establishment or expansion of six shipyards, in two of the largest of which foreign capital from Japan and Holland was important. Although the original studies indicate that the Fund would be able to finance the construction annually of some 160,000 dwt, the lack of continuity in government policy and the rapid inflation reduced actual orders to less than half this figure, and from 1961 to 1966 the shipyards were fighting for survival. In 1967, however, the Government's decision to expand the operations of Lloyd and the incorporation of private lines in overseas routes led to large orders which placed the shipyards on a solid financial footing. As the Government also plans to transport part of Brazil's bulk exports with nationally-built ships, a bulk carrier of 53,000 dwt has already been ordered, and one shipyard is expanding its capacity so as to construct ships of up to 300,000 dwt. With the Government's announced objective of reaching a fleet of four million tons, the future of ship construction in Brazil seems assured.

(*g*) On 1 January 1969, Brazil had on order or under construction in Brazilian shipyards fifty vessels distributed among general cargo ships, refrigerated ships, bulk carriers and tankers, totalling 483,577 dwt. In addition, it had on order abroad ten general cargo ships in Poland totalling 118,100 dwt, three tankers in Yugoslavia totalling 42,000 dwt and two large tankers in Denmark of 115,000 dwt each. Most interesting however, are the four combination

[91] *Revista ALAMAR*, No. 93 (December 1969), p. 12.

[92] Fernando Saldanho da Goma Frota, Chairman of the Merchant Marine Commission in 1964, cited by Alcides Lins, in *Esboço do relatório final, Item VII—transporte marítimo*. Instituto Ferroviário de Pesquisas Técnico-Económicas (órgão conexo a Contadoria Geral de Transportes), Commissão de Economia Geral, EG, 65, 5 February 1968, p. 41.

[93] J. C. de Macedo Soares Guimarães, *Marinha Mercante no Brasil, uma Opinião* (Rio de Janeiro, Livraria Francisco Alves, 1969), pp. 15, 16 and 44.

[94] J. C. de Macedo Soares Guimarães, op. cit., pp. 42–44.

[95] The material in this paragraph is taken from Aniceto Cruz Santos, "Diez años de industrial naval en Brasil" *Navitecnia* (Argentina) Vol. XXIII, No. 3 (May–June 1969), pp. 260–268.

ore-petroleum vessels on order in Japan for Docenave totalling 469,503 dwt,[96] which will permit Brazil to combine the transport of iron ore exports and petroleum imports with its own ships.[97]

(*h*) At the same time that the Brazilian Merchant Marine Commission was taking steps to increase the carrying capacity of the national merchant fleet, it was also adopting measures to ensure that the decisions taken by the freight conferences serving Brazilian trades were consonant with the interests of the country. Among the principles applied in the regulation of the conferences are the following: that conferences should register their agreements and their tariffs with the Brazilian authorities for approval; that the conferences should be adequately represented by offices within Brazil; and that Brazilian carriers should be admitted to the conferences.

On each of these points Brazil has been successful. By resolution No. 3205 of March 1968, the Merchant Marine Commission ordered the conferences to submit their statutes, tariffs, pooling agreements, etc., to the Commission, and the conferences have complied. The new Inter-American Freight Conference, covering trades between United States Atlantic and Gulf ports and ports in Brazil, Uruguay, Argentina and Paraguay, is divided into three sections, of which that corresponding to the route from Brazilian ports to the United States has its headquarters in Rio de Janeiro. Finally, Brazilian carriers were admitted to the Japan-South Africa Freight Conference after twice being denied admission, and Brazilian ships can now operate in Scandinavian ports within the Brazil-European Conference, after being denied this right for nearly half a century.[98]

By far the most dramatic development in Brazil's maritime policy, however, has been its success in obtaining a larger quota of cargo for Brazilian ships on trade routes which these vessels serve. The basic principles underlying the policy have been clearly expressed by Murillo Gurgel Valente, of the Brazilian Ministry of Foreign Affairs, in an address to the Second Pan-American Congress of Naval Engineering and Maritime Transport in June of 1969:

> "Being produced by the movement of cargoes in the commercial exchange between two countries, having deep repercussions on the end price of the exports and imports of those countries, freight must necessarily be deserving of government scrutiny, and should benefit in the first place the countries that brought it into being. Only subsidiarily, as may be required for the convenience of that trade itself, should a share in it be granted to third-flag carriers. Thus, though the sea is free, though ports are open to world shipping, as ports of call for technical reasons, embarking and disembarking passengers, and refuelling, the foreign trade of a country is not, except to the extent of its own convenience. . . . Thus, Brazil's intention of developing her merchant marine is based on the need to ship, in her own vessels, a substantial part of the cargo generated by her foreign trade. Brazil, therefore, reserves for herself what belongs to her by right. In doing so, she does not discriminate, for there is no discrimination in reserving one's own property for one's own use."[99]

These principles were incorporated in the Merchant Marine Commission resolution No. 2995 of May 1967, the keystone of Brazilian maritime policy. In the preamble to the resolution, reference is made to the importance of maintaining stable freight rates in Brazilian trades, to Brazil's position that shipowners of the exporting and importing countries should have equal rights in the carriage of international cargo, to the need to increase the share of cargo carried by Brazilian ships, and to excessive third-flag tonnage in these trades. The first three articles of the resolution state that in Brazil's trades, the ships of the trading partners should predominate with the long-range objective of equality between the cargo transported by the exporting and importing country. Third-flag carriers operating in these trades will be given a proportion of the cargo to be determined by special agreement. Article 4 of the resolution states that to determine the participation of the third-flag carriers, the authorized Brazilian carrier will invite the other carriers of the respective freight conference to negotiate an accord to this effect, which will then be approved by the Merchant Marine Commission. The final article states that cargo

[96] IEMMI, *La marina mercante Iberoamericana,* 1969, pp. 316–317.

[97] By 31 October the number of vessels of different types on order had reached 61, with a total of 1,203,000 dwt ("World Ships on Order", Supplement to *Fairplay: International Shipping Journal,* 27 November 1969).

[98] J. C. de Macedo Soares Guimarães, op. cit., pp. 38–41. Murillo Gurgel Valente (Ministry of Foreign Affairs), *"A Política de Transportes Marítimos do Brasil".* 2° Congreso Pan Americano de Engenharia Naval e Transportes Marítimos, 1 a 7 de Junio de 1969, Río de Janeiro, Brasil. Documento IPEN/014, pp. 12–13, 16.

[99] Murillo Gurgel Valente, op. cit., p. 14.

distribution agreements already approved by the Commission retain their validity, while those that have not been submitted to the Commission are subject to re-examination.

Resolution No. 2995 was complemented by Decree No. 60739, also of May 1967, which permitted the waiving of cargo reserved for Brazilian vessels in favour of vessels of the trading partner, on a basis of reciprocity, and to third-flag carriers only if ships were not available either from Brazil or from the trading partner. Cargo reserved for Brazilian ships includes that imported by government agencies and also cargo of companies which have benefited from tax advantages, exchange preferences, etc.

For some ten years the Brazilian Government had been concerned about the small participation of Lloyd Brasileiro in traffic from Brazil to the United States, and this route was selected for implementation of the policy adopted in resolution No. 2995.[100] In June of 1967, Lloyd, acting on behalf of the Merchant Marine Commission, called a meeting of the members of the Brazil/United States-Canada Freight Conference to discuss a pooling agreement which would incorporate the principles of resolution No. 2995. Negotiations broke down, however, over the participation which the European third-flag carriers would have in this trade and Lloyd and Netumar, a Brazilian carrier, resigned from the conference, followed by the other carriers, except for six European companies. Lloyd then extended invitations to all the conference lines to continue negotiations, but this invitation was accepted only by Netumar, ELMA (Argentina), Montemar (Uruguay), Moore-McCormack (United States) and Delta Steamship Lines (United States). On 5 July 1967, these lines agreed to form a new conference, to be known as the Inter-American Freight Conference, and on 28 July they signed a formal agreement and a pooling guidelines agreement.

During this period the Brazilian Government took several measures to support the position of its national-flag lines. Decree No. 60994, of 12 July 1967, stated that Brazilian decrees and regulations designed to protect and regulate maritime transport would only affect those conferences and pooling agreements of which a Brazilian line was a member, so that in effect no other agreements would be recognized by the Government. Resolution No. 3022 of 1 August 1967 of the Merchant Marine Commission approved the statutes of the Inter-American Freight Conference, while resolution No. 3023, also of 1 August, restricted the transport of Brazil's exports to the United States and Canada, except for bulk cargo, to members of the new conference, and, for cargo subject to pooling agreements within this conference, to signatories of these agreements. Article 5 of this resolution stated that it would go into effect on 10 August 1967 and that, should the national interest so dictate, it could be extended to routes to other countries as well.

On August 16 the members of the Inter-American Freight Conference signed pooling agreements for the transport of coffee and cocoa to the United States, and these were approved by the Merchant Marine Commission in resolution No. 3076 of 24 August 1967. The European carriers, cut off from carrying cargo from Brazil to the United States since 10 August, when resolution No. 3023 became effective, sought legal recourse in the United States, filing a complaint against the members of the Inter-American Freight Conference with the United States Federal Maritime Commission and another with the federal courts for violation of the United States anti-trust laws. In October, however, the European lines requested the Brazilian Merchant Marine Commission to study the possibility of a new agreement, and negotiations were begun on 23 October which led to a series of agreements signed on 28 October. These agreements included the incorporation of the European carriers into the Inter-American Freight Conference and their participation in cargo pools, the lifting of the restrictions by the Brazilian Government on transport by these carriers of cargo to the United States, and the withdrawal of the complaints filed by the European carriers in the United States federal courts and with the Federal Maritime Commission. These agreements were formalized on November 21–22, when the European lines signed the Inter-American Freight Conference Agreement.

On 14 November 1967 the Brazilian Merchant Marine Commission adopted resolution No. 3131, which establishes the basic principles to be applied in determining the participation of national-flag vessels in the country's foreign trade. The minimum participation of the ships

[100] The material on the Inter-American Freight Conference is based on J. C. de Macedo Soares Guimarães, op. cit., pp. 39–40; Federal Maritime Commission, Inter-American Freight Conference Agreements Nos. 9648 and 9649 and Other Related Agreements, Dockets No. 67–48, 11 F.M.C. 332–356; Federal Maritime Commission, Inter-American Freight Conference Cargo Pooling Agreements Nos. 9682, 9683, 9684, Docket 68–10, Initial Decision of Hearing Examiner, 24 June 1969; IEMMI, *La marina mercante Iberoamericana*, 1968 y 1969.

of the importing and exporting countries taken together is set at 65 per cent, to be increased to 80 per cent over a period of ten years, and is to be divided equally between the trading partners. In turn, the distribution of the remaining cargo among third-flag carriers can be determined by agreements patronized by Brazilian carriers operating on the trade route. Existing pooling agreements recognized by the Merchant Marine Commission but not yet in effect are to be brought into line with the guidelines established by the resolution. Agreements already in effect continue to their terminal date, but are then to be modified in accordance with the new guidelines. Should carriers not agree on a distribution of cargo which incorporates these principles, the Commission itself will distribute cargo so as to achieve the same result.

Resolution No. 3131 applied to the Inter-American Freight Conference, whose original pooling agreements had been withdrawn so as to incorporate the European carriers in accordance with the agreements of 28 October. Thus, these carriers were under strong pressure to agree to cocoa and coffee pools consonant with the minimum participation for national-flag carriers established in the resolution. Although the proposed pools would signify a considerable reduction in the traditional carryings of the European lines, they signed the pooling agreements on 29 November.

The modified statutes of the Inter-American Freight Conference were then approved by the Brazilian Merchant Marine Commission in resolutions No. 3152 of 13 December 1967 and No. 3165 of 15 January 1968, and by the United States Federal Maritime Commission on 15 February 1968, under Docket No. 67-48, but only for a period of eighteen months. The coffee and cocoa pools to Atlantic ports of the United States, however, were not approved by a hearing examiner of the Federal Maritime Commission on 24 June 1969, and should this initial decision be sustained by the Commission itself, there will in effect be a conflict between the regulatory bodies of the two countries.

Having achieved a satisfactory result in the Brazil-United States and Canada trades, the Brazilian Merchant Marine Commission turned its attention to routes to Europe in order to obtain a greater participation for national-flag carriers. Here considerable resistance from European carriers was encountered, however, and in October 1968 the Commission took stronger measures, issuing resolution No. 3331, which stated that the Brazilian Government did not recognize either the Brazil/Europe Freight Conference or the Outward Continental/Brazil Freight Conference. In the preamble to the resolution, the Commission stated that these conferences had refused to comply with Brazilian legislation and had refused to discuss with Brazilian authorities a modification of existing practices on these routes. The resolution also prohibited Brazilian carriers from participating in these conferences and declared null and void any cargo distribution agreements or pools within the conferences to which Brazilian carriers were parties. The resolution goes on to say that no reserved Brazilian cargo could be transported by members of the conferences unless specific authorization was given by the Commission. Finally, the resolution orders the Brazilian carriers operating on these routes to form a new conference, open to any carrier which desires to join, and to include in the conference agreement a pool which would distribute cargo in line with resolution No. 3131. Specifically excluded from the provisions of resolution No. 3331 were ELMA (Argentina) and the Northern Lines, which had already signed an agreement with Brazilian carriers covering trade between Brazil and Sweden, Denmark, Norway and Finland, approved by resolution No. 3124 of 18 October 1967.

Negotiations with the European carriers then began, culminating with the acceptance by these lines on 29 November 1968 of the proposal made by the Merchant Marine Commission. The four previous conference agreements were consolidated and a new conference, the Brazil/Europe/Brazil Freight Conference was formed, approved by resolutions Nos. 3370, 3371, 3372 and 3373 of the Commission. By resolution No. 3379 of 17 December 1968, the restrictions placed on carriage of Brazilian cargo by the European carriers were lifted. Under the new agreements, 32.5 per cent of Brazil's exports to Europe are reserved for Brazilian ships, with this percentage increasing to 40 per cent in ten years. Similarly, 50 per cent of imports are reserved for these vessels, increasing to 65 per cent in the same period.[101] In commenting on this agreement J. C. de Macedo Soares Guimarães, Chairman of the Merchant Marine Commission, has stated: "Unless the Brazilians themselves acquire the conviction that the merchant marine is of supreme importance for the country's emancipation, and unless we take steps to make our maritime transport 'aeronautical', it will be absolutely impossible to beat our competitors."[102]

[101] *Revista ALAMAR*, No. 88/89 (June–July 1969), p. 5.
[102] J. C. de Macedo Soares Guimarães, op. cit., p. 41.

Another new conference, the Brazil/Far East/Brazil Freight Conference, was formed in April of 1969 to cover trades to Japan and other ports in the Far East. Finally, Brazil has signed bilateral transport agreements to cover trade with Argentina, Portugal and Poland. Thus in mid-1969 the Brazilian Government could look back with satisfaction over two years of intense activity which had completely restructured the traditional freight conferences controlling Brazil's principal foreign trades. In order to consolidate the main decrees and resolutions issued during the period, the Government promulgated legislative decrees 666 and 687 of July 1969, which reaffirm the responsibility of the National Agency for the Merchant Marine for assuring the predominance of the national-flag carriers of the trading partners in the carriage of Brazil's exports and imports and an eventual equality of cargo carried by the exporting and importing countries.

While Brazil has been successful in providing its own merchant fleet with the opportunity to increase significantly its participation in the country's foreign trade, it is important to note that this cannot be the sole objective of a regional maritime policy. Brazil's coffee and cocoa exports must compete in foreign markets with products from other producing countries, and both the cost and quality of ocean transport services can have a decisive impact on Brazil's competitive position. During the hearings held by the United States Federal Maritime Commission on the coffee and cocoa pools within the Inter-American Freight Conference, the principal importers in the United States (National Coffee Association, Green Coffee Association of New York, and General Foods Corporation) were outspoken in their criticism of the effect the pools would have, especially in restricting competition among the carriers and reducing the freedom of importers to select the lines which provided the best service. The witnesses for the importers added that Lloyd's service in the past had been poor.[103]

The Brazilian maritime authorities are aware of the importance of the cost and quality of transport. They believe, however, that with the incorporation of the new cargo vessels constructed in Brazil and Poland, with the reorganization of Lloyd Brasileiro and the association of this company with other private Brazilian carriers, and with the regulation of the conferences to avoid excessive third-flag tonnage, Brazil will be able to maintain good service at a reasonable cost while at the same time being able to increase the participation of Brazilian vessels in the country's trade. Because of the short time which has passed since Brazil initiated its policy, no over-all evaluation is as yet possible, but undoubtedly future developments there will be watched closely in other parts of the world.

As can be appreciated from the preceding description of Brazil's maritime policy, it is essentially bilateral in nature, in that it asserts that trading partners have the right to determine how the goods trades between them shall be transported. Where possible, Brazil has signed bilateral agreements directly with its trading partners to implement this policy and, where this could not be done, it has utilized its control of the freight conferences to bring about the same effect through pooling agreements. Despite its success, several Brazilian shipping experts believe that Brazil's policy requires support at the international level, and to this end it has proposed that maritime transport should be based on the same principles as air transport, i.e., with bilateral agreements between pairs of countries, an international agency similar to the International Civil Aviation Organization, but with stronger regulatory powers, and a commercial organization of shipping companies, similar to the International Air Transport Association, which would regulate freight rates and pooling agreements under the control of the different government regulatory agencies. As the head of the National Agency for the Merchant Marine has stated: "This triumph was considered by international observers of maritime affairs to be the most spectacular that has been achieved in the field of maritime transport in recent years, and it consolidated Brazil's position on the international freight market."[104]

4. The regulation of international maritime transport

It is ironical that measures adopted by Brazil to implement its maritime transport policy should bring it into conflict with the United States Federal Maritime Commission, as the United States, after all, is the only country in the world which in the past has attempted the statutory regulation of liner conferences.[105] Concern by the United States

[103] Federal Maritime Commission, Inter-American Freight Conference Cargo Pooling Agreements Nos. 9682, 9683, 9684, Docket No. 68–10, Initial Decision of the Hearing Examiner, 24 June 1969, pp. 22–25.

[104] J. C. de Macedo Soares Guimarães, op. cit., pp. 52–57. See also Murillo Gurgel Valente, op. cit., pp. 17–18.

[105] R. O. Goss, op. cit., p. 22.

over conference practices dates back to Congressional investigations conducted in 1912, when it was concluded that, while self-regulation by shipping companies through conferences was necessary to prevent excessive competition, the abuses uncovered were inherent in the conference system itself and could only be eliminated by effective government control. Congress then enacted the Shipping Act of 1916, which provides that all agreements between carriers must be filed with United States authorities and that these agreements will only become effective after approval. Agreements will not be approved if they are found to be unjustly discriminatory or unfair, or detrimental to the commerce of the United States.[106]

Under United States anti-trust law, all cartels which restrict competition and which affect the commerce of that country are illegal, even those formed by foreigners without the participation of United States companies. Since the objective of freight conferences is specifically to limit competition through agreement among the carriers on freight rates and even tonnage to be carried, they can exist in United States trades solely because approved conference agreements are exempted from the anti-trust laws. The price the conferences pay for this exemption is regulation by the Federal Maritime Commission. Nevertheless, the regulatory powers exercised by the FMC are directed to assuring that conference decisions and practices do not adversely affect United States commerce, and these powers are not used to promote the development of the United States merchant marine. It is for this reason that even though the coffee and cocoa pools established at the instigation of the Brazilian Merchant Marine Commission in 1967 might well be beneficial to United States-flag carriers, they were disapproved by the FMC Hearing Examiner because he decided that they "would be unjustly discriminatory and unfair as between carriers, would operate to the detriment of the commerce of the United States, and would be contrary to the public interest".[107]

Until 1961, the United States agencies responsible for administering the Shipping Act of 1916 showed little initiative in uncovering illegal conference practices and never had they found a freight rate to be so high as to be detrimental to United States trade. Congressional hearings held between 1959 and 1961 were sharply critical of what was termed a "record of regulatory neglect" by the Federal Maritime Board, the predecessor of the present Federal Maritime Commission, and in 1961 Congress amended the Shipping Act of 1916. Under the new legislation, conference agreements must include reasonable terms for admission to the conference, adequate provisions for policing the agreement, and reasonable procedures for handling shippers' complaints. In addition, conferences are required to file their tariffs with the Federal Maritime Commission, and increases in rates only become effective thirty days after filing.[108]

When the Federal Maritime Commission, under sharp prodding from Congress, began investigating freight rates applied to United States, exports and imports, there were strong protests from the traditional maritime countries, criticizing what they termed unilateral regulation of trade by one of the trading partners. In response to FMC orders that conferences produce the documents and data needed to investigate the reasonableness of existing freight rates, thirteen governments lodged protests and several countries enacted legislation making it illegal for their national-flag carriers to comply with the FMC orders.[109]

Even within the United States, national-flag carriers have criticized the newly aggressive activities of the FMC. In a statement before the Congressional Committee on Merchant Marine and Fisheries on 24 July 1964, Solon B. Turman, Chairman of the Board of Lykes Bros. Steamship Co., spelled out what he considered to be the logical consequences of the United States policy:

> "Continuance by the United States of its present regulatory course may enforce the introduction of new and more restrictive concepts in international trade. Regulation by the United States probably will become dependent upon reciprocal treaties with other sovereign powers, thereby changing our traditional treaties of friendship, navigation and commerce. Under such conditions, it is not difficult to foresee curtailment of the traditional freedom in which the merchant fleets of the world have operated and the substitution of controlled and limited com-

[106] Timothy J. May, "The status of Federal Maritime Commission shipping regulation under principles of international law", *The Georgetown Law Journal*, vol. 54 (1966), pp. 796–798.

[107] Federal Maritime Commission, Inter-American Freight Conference Cargo Pooling Agreements Nos. 9682, 9683, 9684, Docket No. 68–10, Initial decision of the Hearing Examiner, 24 June 1969, p. 27.

[108] Timothy J. May, op. cit., pp. 799–803.

[109] Timothy J. May, op. cit., pp. 806–808. For a particularly strong criticism of the United States 1961 shipping legislation, see R. O. Goss, op. cit., chapter 2.

petition—based upon port entry rights. This might be similar to bilateral regulation of international air transport, which is predicted on treaties involving landing rights. It is neither feasible nor compatible with international law for one government to undertake the regulation of ocean freight rates. One nation's imports are another's exports, and no nation can be expected to sign over to another rate control of its own trade."

Mr. Turman, who testified before the Congressional Committee on behalf of the United States flag lines operating in international line trades, believes that the United States is now embarked on a course which in effect will lead to the bilateral control of maritime transport advocated by Brazil. There are, nevertheless, other alternatives which have been spelled out clearly by a member of the British Parliament, Mr. Fletcher-Cooke, during a debate on the conflict between the Federal Maritime Commission and the European freight conferences:

"First, I suppose it possible that the Americans may win, in the sense that we and the other European and, indeed, Asiatic nations . . . may give in and may have to submit our documents and contracts to the Federal Maritime Commission if we wish to continue to use American ports. The second possibility is that we should win and the Americans would lose, and that the Federal Maritime Commission would, either in dereliction of its duty to Congress or because of an amendment by Congress to the 1916 and 1961 Acts, simply back down. I do not think that either of those outcomes is likely.

"The third possibility—and this is a nasty one—is that both countries will relapse into a form of eighteenth century mercantilism by which we should close our ports to their ships and they would close their ports to ours, that we should insist on our trade being carried in our bottoms and the same with the other countries of the world. That would be even worse.

"Almost as bad would be the fourth possible outcome, which would be a sort of international price ring on the lines of what has happened in the air. It seems to me that the International Air Transport Association (IATA) agreements in the air are a warning of what might be a possible outcome, because I am sure that price fixing on an international scale for freight rates, with all the governmental sanctions behind it, would in the end be a disaster to shipping and to world trade because I am sure that those rates would go up rather than down.

"The fifth and, I think, only tolerable solution and the one which I am sure in the end we shall adopt is this. We think that our conference system is a perfectly justifiable method of trading; the Americans, under their extreme anti-trust philosophy, do not. We in this country have a domestic method of justifying things like loyalty rebates and double pricing and exclusive trading arrangements by which we go before a tribunal and have to prove the point. What seems to be happening at the moment is that we are going before an American tribunal. We are going before the Federal Maritime Commission, acting under a very narrow terms of reference, whose freedom of manœuvre is very small. But that is not tolerable. I think that the conference arrangement should be justified to an independent body. I believe that they are justifiable and that eventually the Americans will come to realize that the body to which they have to be justified is not an American court, a British commission or British court, or a European or Asiatic one, but some sort of international restrictive practices court."[110]

Even Timothy May, in his article defending the legitimacy of the regulatory activities of the Federal Maritime Commission, from which the above quotation is taken, recognized that if other countries attempt to follow the same path, conflict would be inescapable and the United States would be forced to modify the type of regulation it applies. As he states: "World shipping can survive, even prosper, with one Federal Maritime Commission. It would be strangled if there were fifty."[111]

Nevertheless, there is little indication that the traditional maritime nations will be willing to accept even the fifth alternative offered by Mr. Fletcher-Cooke. At the third session of the UNCTAD Committee on Shipping, held in April of 1969, a proposal by the Group of 77 along these lines was turned down; it recommended that a study be made of an international agreement covering maritime transport and development which would be examined by an international conference under the auspices of the United Nations.[112] For this reason, maritime experts are becoming increasingly convinced that unless the traditional maritime nations adopt a more amenable attitude to-

[110] Timothy J. May, op cit., pp. 853–854.

[111] *Ibid.*, p. 850.

[112] Tomás Sepúlveda Whittle, *"Tercer Período de Sesiones de la Comisión del Transporte Marítimo de la Conferencia de las Naciones Unidas sobre Comercio y Desarrollo", Revista ALAMAR*, 88/89 (June–July 1969), p. 65.

wards some type of multinational regulation of ocean transport, unilateral or bilateral regulation will come about.[113]

5. Bases for a Latin American maritime transport policy

After the review which has been made of Latin America's international trade, its merchant marine and the participation of its ships in its trade, and also of the multiple problems associated with adopting the traditional structure and practices of maritime transport to the needs of the developing countries, it is now possible to turn to the future and to a discussion of the bases for a Latin American maritime transport policy. There has been sufficient discussion in international conferences of some aspects of Latin American ocean transport to justify the presentation here of recommendations which in effect summarize a consensus that has already emerged. In other cases, however, there is still disagreement among the different republics of the region regarding the appropriate policy, while in still others the information regarding basic facts which would permit policy formulation is non-existent.

For these reasons the following paragraphs, which concentrate on some of the more important aspects of Latin American maritime policies, are intended primarily to clarify basic issues and to suggest policy alternatives rather than to make specific policy recommendations. Only through additional international debate, aided by more detailed analytical and quantitative studies on these problems and some others, such as investment policy and criteria for the development of merchant fleets, can Latin America attain a general consensus in this complex field.

(a) *A greater share of Latin American bulk exports for Latin American ships*

As was seen in chapters II and III, Latin America has concentrated on the liner trades in the development of its merchant marine. "This means that the region has elected to invest in a segment of the shipping industry, which notoriously has been a low-yield industry in the post-war years, and an industry for which the future market prospects are exceedingly dim.[114] As a result, the region's share in the transport of its bulk exports, which account for a large part of total trade, has been exceedingly small. An increase in the carryings of these exports should have a high priority in the formulation of Latin American shipping policies.

At the same time, it is not sufficient merely to channel this cargo to any Latin American ship, as the cost of transport is critically important if Latin America is to compete in foreign markets with alternative sources of supply. Today, increasingly larger and more specialized ships must be used for a competitive transport cost to be obtained. According to one study, the cost of transporting one ton of oil in a tanker of 100,000 dwt is only 31 per cent of that of transporting it in a 10,000 dwt vessel on a round voyage of 10,000 miles. For dry cargo carried in bulk carriers, another study shows the following changes in the index of main cost items per dwt, where 10,000 dwt is equal to 100.[115]

Size (dwt)	*Construction costs*	*Fuel costs*	*Operating costs*
10,000	100	100	100
25,000	61	69	52
40,000	54	59	40
50,000	49	54	33
100,000	39	41	21

The decrease in cost which can be obtained from using large ships is so great that Latin America cannot afford the luxury of using smaller ones, even though they be Latin American ships. Large ships, however, represent a large investment, and keeping them fully utilized may be difficult or impossible for a small country. While Brazil can expect to make good use of the four combination carriers it has ordered, other Latin American countries are obviously in a less favourable position.

One alternative would be for several Latin American countries to join together in the acquisition of several large ships to be operated jointly either by a multinational company or on a co-operative basis using long-term charters. The region already has as an example the highly successful Flota Mercante Grancolombiana, owned jointly by Colombia and Ecuador. Proposals for multinational companies have been made frequently in the past, including in the Charter of Punta del Este, which created the Alliance for Progress. An area where the possibility of such joint action might be feasible is the Andean Group, where large

[113] Daniel Marx, Jr., "Regulation of international liner shipping and 'Freedom of the Seas'", *The Journal of Industrial Economics*, vol. XVI, No. 1 (November 1967), p. 61.

[114] Dag Tresselt, "Shipping and shipping policy in Latin America", *Norwegian Shipping News*, No. 22 (25 November 1967), p. 1100.

[115] UNCTAD, *Establishment or expansion of merchant marines in developing countries* (United Nations publication, Sales No.: E.69.II.D.1), p. 14.

specialized vessels or combined ore/oil carriers could be acquired to transport iron ore exports of Chile and Peru, petroleum exports of Bolivia, Colombia and Peru, and petroleum imports of Chile. Similarly, should containerization become as important in Latin America as is expected, a multinational approach to acquiring and operating costly container ships may well be essential.

For Latin America to obtain for its own ships the transport of a larger share of its bulk exports, it is also essential that a common policy be adopted within the region regarding the terms of shipment, discussed in part C. It is usually the case that the importers of raw materials such as iron ore in developed countries wish to maintain control of the transport of these commodities, and often they threaten not to continue their purchases unless the exporting country accepts f.o.b. terms. So long as one exporting country can be played off against another, it is exceedingly difficult for any single country to gain a share of the transport. An agreement among the producers of these raw materials is necessary, therefore, in which they would insist on a mutually determined minimum share of total exports being transported in regional ships. In turn, the resistance of the importing countries is likely to be diminished when the ships used are constructed by them.

Another area which should be explored in order to determine the possibility of Latin America transporting more of its exports is the concentration of exports in sufficiently large quantities to permit shipment in entire shiploads. Products such as copper, lumber, and fruit are exported by a number of countries and are usually carried by liners at conference rates. If the shipment of goods such as these could be co-ordinated, it would be possible to transport them at a considerable saving using regional ships. Again the new Andean Group might well find this a fruitful possibility to explore.

(b) *Improvement of transport services to new trading areas*

As was seen in part A, Latin America's foreign trade is at present highly concentrated with the OECD countries, i.e., Western Europe, the United States and Canada, and Japan. Despite an increasing number of trading agreements with countries of Eastern Europe and with the USSR, trading volumes with these countries, and also with African and Asian countries except for Japan, are exceedingly small. Undoubtedly many and diverse factors have brought about these trading patterns, but considering the potential benefits which would accrue from increased trade between Latin America and these areas, it is desirable to study whether one of the obstacles is inadequate ocean shipping services on these trading routes.

A study of this type could be carried out by UNCTAD or by ECLA, and should consider the experience encountered by those Latin American countries which have initiated ocean services to non-traditional trading areas. Chile, for example, opened a route to Australia in 1968, Mexico operates services to the Far East, while Brazil, as has been noted earlier, has begun services to Africa and the Far East. The results of the bilateral trading agreement between Brazil and Poland should also be examined, and the experience of the Flota Mercante Grancolombiana in its route to the Far East.

A special problem which should be examined carefully is the probable effect of containerization on the possibility of increasing trade between Latin America and Eastern Europe, the USSR, Asia and Africa. Until the recent past, basically the same ocean transport system was used throughout the entire world, based on conference liner transport of individual lots of commodities, tramps for bulk commodities, and tankers for oil. Under this traditional system, there was no difference between the carriage of goods from Latin America to the United States and that from Latin America to Eastern Europe. Now, however, an increasingly larger proportion than in the past of the goods traded among the OECD countries which were transported on conference liners are being shipped in containers, and the OECD countries are using completely new transport systems based on specialized container ships and container ports. Latin America is coming under increasing pressure to integrate its transport systems with these new systems in order not to lose its competitive position in the OECD markets, and, in view of the preponderance of its trade with these nations in its total trade, it will inevitably adapt its ports and fleet to the requirements of containerization.

The USSR and the Eastern European countries, however, are not adopting the new integrated transport systems based on containers so rapidly as the OECD countries. Thus world transport of industrial products and other relatively valuable commodities is beginning to polarize into two separate, and to a large extent incompatible, transport systems. To the extent that Latin America is forced to

accept the system based on containerization, and to the extent that the USSR and the Eastern European countries do not accelerate the modification of their traditional systems, this bifurcation in transport systems will constitute an additional obstacle to Latin America's attempts to modify historical trading patterns.

(c) *Unilateralism, bilateralism and multilateralism*

In different parts of this study the terms unilateralism, bilateralism and multilateralism have occurred repeatedly. As these terms have been used in different contexts, it is useful at this point to clarify their significance in relation to the policy alternatives which could be adopted by Latin America.

As was seen earlier in this chapter, the ALALC countries have not been able to agree on whether bilateral or multilateral cargo reserves should be applied to cargo transported among the ALALC members. When studying this question more than ten years ago, ECLA came to the following conclusions:

> "Obviously, a system of cargo distribution set up on a bilateral basis may lead to inefficient or inadequate utilization of the hold or cargo capacity of boats and services, especially since it implies the fragmentation of a volume of cargo which is often already intrinsically insufficient, or at best barely suffices, to permit of the economic operation of regular, frequent and reliable services. This situation is aggravated in the case of traffic flows where to-and-fro disequilibria exist between specific countries, and clearly helps to force up the costs and freight tariffs concerned."[116]

The dangers inherent in bilateral reserves have been especially obvious to those countries whose own merchant marines are still small and which have traditionally relied on shipping services provided by liners from outside the area. These countries have maintained that not only should the reserves be multilateral, but that any reserves should be implemented gradually so as not to disrupt transport services.[117]

It was also stated earlier in this chapter that Brazil is applying what is basically a policy of bilateral cargo reserves on its major trading routes, in the sense that it has obliged the freight conferences to allocate a preponderant share of total cargo to vessels belonging to the countries which generate the trade. Furthermore, high-ranking Brazilian maritime officials have proposed that other countries adopt a similar policy and that maritime cargo be regulated by bilateral agreements between governments, as is air transport.

Carried to the extreme of reserving all maritime cargo for transport solely in ships of the exporting and importing countries, a policy of bilateral reserves would be impossible to defend. The transport of ocean freight, even that part carried by liners, differs greatly from air transport. In the first place, air transport is still essentially passenger transport, and despite the efforts of the airlines to distinguish between classes of passengers, a passenger is basically a homogeneous "commodity". Sea transport, on the other hand, is concerned with the carriage of commodities with sharply differing characteristics and requirements. While international air transport could function efficiently with a single type of jet aircraft, sea transport requires a variety of specialized ships and facilities to cope with the many products that enter international trade, and each pair of trading partners could not provide this variety if the market were restricted solely to the commerce of one nation and those with which it trades.

In the second place, air passenger traffic flows are essentially balanced in each direction, while ocean cargo flows, as was seen in part A, are not. Efficient utilization of ships requires the possibility of combining cargo carried between countries at the end of each route with cargo picked up and discharged at intermediate ports along the route. In the case of large bulk carriers, efficient utilization may only be possible when a triangular trading route is followed involving more than two countries. The problem of obtaining good ship utilization is complicated by the fact that the individual unit of transport in ocean transport, the ship, is extremely large as compared with that used in air transport, the aeroplane. One hundred tons of cargo is a great deal for one airplane to carry, while few liners would even bother to call at a port that had only one hundred tons of cargo awaiting shipment. In short, the differences between air and sea transport appear to be more important than the similarities, and there is no reason to

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[116] See "Transport problems in Latin America: possible studies bearing on the common market" (E/CN.12/C.1/14), pp. 12–13.

[117] See, for example, Enrique Angulo and Javier Alejo, "La integración regional del transporte marítimo y el caso de México", Supplement to *Comercio Exterior*, vol. XIV, No. 11 (November 1964), pp. 35–37; and Tomás Sepúlveda Whittle, *Hacia una Política Naviera para la Asociación Latinoamericana de Libre Comercio* (Valparaíso, Chile, Universidad Católica, 1965), pp. 78–80.

believe that an institutional arrangement suitable for one would automatically be appropriate for the other. In any event, considerable additional research would be required to show that ocean transport should be based on bilateral agreements between governments restricting transport to the ships of the exporting and importing countries.

Furthermore, a number of the Latin American shipping lines are already receiving considerable revenue as third-flag carriers, as was shown in part B. The coffee and cocoa pools formed within the Inter-American Freight Conference affect ELMA (Argentina) adversely, just as they do the European third-flag carriers. A world-wide policy of bilateral cargo reserves would probably render uneconomical a number of routes now operated by companies such as ELMA, Flota Mercante Grancolombiana and even Lloyd Brasileiro.

Brazil, however, has not advocated the reservation of all maritime cargo for ships of the trading partners. In the agreement reached between the Brazilian and United States maritime authorities in July 1968, point one of the joint declaration states that the policy of each Government is that a substantial part of its foreign trade be carried in its own ships. Furthermore, point eight adds that both countries recognize that the presence of third-flag carriers on routes between the two countries is desirable and that it contributes to the maintenance of good service and reasonable freight rates.[118]

If on the one hand a world-wide policy of strict bilateral cargo reserves would have severely adverse repercussions on world trade, while, on the other, the equally extreme policy followed traditionally of permitting ships from all countries of the world to compete on equal terms for the transport of the exports and imports of the Latin American countries is incompatible with the objective of those nations to develop their own merchant marines and to participate in the transport of their foreign trade, it is necessary to find a satisfactory intermediate policy between these two extremes. Specifically, the problem is to define a policy of cargo reserves which will permit a rational growth of the Latin American merchant marines while minimizing the detrimental economic consequences of cargo reserves on the region's and the world's international trade. This in turn requires a decision as to the percentage of cargo which is to be reserved, the way in which it is to be reserved and the way in which the reserve is to be applied.

In implementing its policy of ensuring that a preponderant share of its foreign trade is transported in ships of the exporting and importing countries, Brazil has decided that initially up to 65 per cent of cargo transported on some of its key trading routes should be divided between its ships and those of its trading partners. The 32.5 per cent that Brazil has set for its own participation does not differ greatly from the 30 per cent that was mentioned in part B as a possible target for all of Latin America.

The reasonableness from an economic point of view of reserving a specific percentage of cargo depends primarily on the volume and equilibrium of traffic on a specific route. The greater the volume of trade and the more nearly the traffic flows are in equilibrium, the higher the percentage of traffic which can be reserved on a bilateral basis without severe economic distortion, provided that the ships of the trading partners operate efficiently. Thus, while bilateral reserves of 65 per cent of cargo on some of Brazil's trading routes may not be unreasonable, a similar policy could not be applied individually by other Latin American countries because the volume of cargo is too small. The detrimental impact on the cost and quality of service would far outweigh any possible benefits which might be obtained from the expansion of the merchant fleets of these countries.

If the solution of bilateral reserves of a substantial share of total cargo embarked and received by these countries individually is not workable, it might well be useful to consider the alternative of collective reserves encompassing the cargo of several countries. Under this alternative, a number of countries, such as those in the Andean group, would reserve a portion of their exports and imports to be transported by shipping lines belonging to any of the countries parties to the agreement. In order to make this alternative more palatable to the trading partners, an additional portion could be reserved for their ships, perhaps also on a multilateral basis.

Under this type of arrangement, countries would be grouped together into blocs, and cargo would be reserved on a bilateral basis for each bloc. Within each bloc, however, the cargo would be shared on a multilateral basis, perhaps with completely free access or perhaps with pooling agreements. The size of each bloc would be determined so as to obtain a minimum volume of cargo originated and

[118] "Brasil-EUA: acordo de comercialização marítima", *Revista dos Transportes*, vol. XV, No. 9 (September 1968), p. 32.

received which would permit efficient ship operation despite the bilateral reserves. It might well be that different blocs would be established for different trading routes, with a greater number of countries included for routes where relatively less cargo is available. The percentage of cargo to be reserved might also vary from route to route so as to take into account the volume of trade and the disequilibrium of the traffic flows. If such a scheme is considered, it should probably include bulk transport as well as liner cargo.

The idea of bilateral reserves for cargo transported between blocs of countries and a multilateral participation in each reserve by countries which are members of the bloc seems to be considered in a recent Colombian measure; Decree 1208 of July 1969, which defines the way in which Colombia's cargo reserves (authorized by Legislative Decree 994 of 1966) are to be applied, permits the Government to reserve up to 50 per cent of exports and imports for Colombian-flag vessels. The decree stipulates, however, that a shipping line which is a member of ALAMAR can participate in the cargo reserves on equal terms with Colombian lines, provided that the home country of the shipping line grants equivalent rights to Colombian ships.[119]

(d) *A common policy for regulating conference practices*

While the United States began its unilateral regulation of the freight conferences more than half a century ago, and in recent years Brazil, Argentina, Colombia, and other countries in Latin America have individually established obligations which conferences operating in their respective trades are required to fulfil, it would be highly desirable for the different Latin American countries to agree upon minimum obligations to be applied collectively to all freight conferences involved in the region's foreign trade. Such a common policy would permit the smaller nations in the region to benefit from the political and economic power of the larger countries in their relations with the conferences and, from the point of view of administrative efficiency, it would be easier for freight conferences to comply with a single set of regulations rather than with twenty. Should it be difficult for all the Latin American countries to agree upon a common policy regarding conferences, then an alternative would be for groups of countries, such as those in Central America or those of the Andean group, to co-ordinate their policies and to adopt similar legislation.

The elements of a common policy fall into three major groups (leaving aside for the moment the regulation of freight rates, which will be considered separately). The first group encompasses the information which conferences would be required to make available to the different governments or to the public in general. This would probably include the conference agreements themselves, subsidiary agreements such as cargo or revenue pools, and the conference tariffs, which include both freight rates and the conditions of carriage.

Should the countries decide not only that this information should be made available, but also that the agreements and tariffs should be approved by the different governments before entering into effect, it would be desirable for the governments to agree on the criteria to be applied in granting this approval. For example, it might be useful to agree upon a standard form of presentation which could include, in the case of tariffs, the currencies to be used and the weights and measures to be utilized, and which eventually might even specify the cargo classifications. The countries should also decide collectively the length of the advance notice which should be given by conferences before a rate modification enters into effect. While obtaining information might appear quite simple and obvious, the difficulties encountered by the United States in enforcing its orders for submission of data by the conferences, described earlier in this chapter, should be kept in mind.

The second group includes conference practices which the countries collectively would prohibit the conferences from carrying on or would require them to employ. Conferences might be required, for example, to maintain offices in certain ports with authority to take decisions, rather than to have to refer all matters to a head office located outside the region. Similarly, conferences might be required to negotiate in good faith with shippers' councils in the different countries. Even more obvious would be a requirement that conferences accept as members the shipping lines of the Latin American countries whose trade they serve. It would also be possible to apply collectively measures similar to those adopted by Brazil, under which conferences would be required to establish pools with a quota for Latin American flag vessels.

One of the most difficult problems a group of countries desiring to apply a common policy on conference practices would have to resolve

[119] *Revista ALAMAR*, No. 91 (September 1969), p. 4.

is whether these countries are basically interested in strengthening or in weakening the conferences which operate in their trades. If the countries desire to stimulate competition from ships outside the conferences with the objective of obtaining better service or lower freight rates, they will adopt policies such as the prohibition of deferred rebates or the use of "fighting ships". In general, this has been the path followed by the United States, as that country is primarily concerned with the abuse of the monopoly power of the freight conferences.

On the other hand, if the countries desire to strengthen the conferences, in the belief that through the conferences they can more easily attain objectives such as a greater participation for national-flag vessels, they will adopt other policies which reduce the threat of competition from non-conference vessels and which channel exports and imports to conference members. This in general has been the path followed by Brazil.

The third group of elements of a common policy on conferences concerns the possibility of rationalizing the transport provided by the conference members. This type of policy, which would be easier (and perhaps more necessary) to apply if the countries have decided to strengthen the conferences operating in their trades, would be designed to regulate sailings so as to ensure an adequate frequency of service while at the same time maintaining a high utilization of shipping capacity so as to lower costs. A policy of this type could only be applied by a group of countries acting collectively, but potentially it could bring important benefits, as transport costs could be lowered significantly if average utilization were increased. The implementation of a policy of direct control of sailings, however, would require the co-operation of the conferences and the analysis of a vast amount of information covering cargo carryings on each portion of the trading routes, including those portions which lie outside Latin America.

(e) *A common policy for regulating conference freight rates*

For the implementation of many of the policy measures described in section (*d*) which could be included in a common maritime policy applied collectively by a group of Latin American countries, the approval or even the acquiescence of trading partners outside the region is not required. As the traditional maritime powers accept the concept of the "law of the port", under which each country can determine the rules to be applied to ships operating in its ports, Latin America is free to require that freight conferences register their agreements and tariffs and in general comply with other similar obligations.

The regulation of conference freight rates, however, is quite another matter, and it was precisely on this point that European carriers and countries refused to accept the efforts of the United States Federal Maritime Commission to control unilaterally the rates on United States exports and imports, as this was tantamount to controlling the prices paid by foreign importers and exporters. There is no reason to believe that these countries would be more amenable to rate regulation applied, even on a collective basis, by a group of Latin American republics. It would seem, therefore, that a more general international agreement, of the type mentioned earlier in this chapter, would be essential for rate regulation to be feasible on a wide scale on routes extending outside the region. Nevertheless, it might be possible for a group of Latin American countries to negotiate agreements directly with freight conferences in regard to freight rates. Precedents for this type of negotiated rates exist in the trade between Australia and the United Kingdom.[120]

Regardless of the success which Latin America might have in obtaining acceptance by its trading partners outside the region of its regulation of freight rates, the countries of the region are likely to find that the mechanics of regulation present formidable obstacles. In order to point out some of the problems involved, it is useful to separate the regulation of the level of rates from that of the structure.

If the structure of rates on a given route is left aside and attention is directed solely at the general level of rates, the question of regulation is essentially whether a group of countries should approve a general rate increase when it is requested by a shipping conference. Since shipping companies cannot be expected to continue operating indefinitely at a loss, a decision not to approve a requested increase would require an analysis of the revenues and costs of the shipping lines that are members of the conference. Precedent for this type of examination exists in the New Zealand and Australian trades, where independent accoun-

[120] Daniel Marx, Jr., "Regulation of international liner shipping and 'Freedom of the Seas' ", op. cit., p. 47. Economic Commission for Asia and the Far East, *Shipping and Ocean Freight Rates*, Regional Economic Co-operation Series No. 3 (United Nations publication, Sales No. 66.II.F.7), pp. 62–67.

tants have access to the books of the shipowners.[121]

Even when information concerning costs and revenues is available, difficult problems persist. It is probable, for example, that within any given conference, some shipping lines pay more in costs or earn more than others, and some may be operating at a loss when the rate increase request is made. What criteria should be applied in this case? Should the total costs and revenues of the conference members taken collectively be considered, or should the situation of each company be taken into account? What criteria should be applied regarding the rate of depreciation of vessels and an "adequate" rate of profit? If the utilization of the ships is low, should the frequency of sailings be reduced before a rate increase is granted? If conference members operate at a loss in some of the ports of the group of countries, should they be allowed to abandon service there or should the countries collectively subsidize service to these ports? As can be seen, even the simplest case of rate regulation raises complex questions.

A separate problem of rate regulation concerns the conference practice of establishing identical rates covering large geographical areas and diverse ports with greatly varying costs. This practice, which has been criticized by the Latin American countries, as was noted in part C, has two separate aspects. The first refers to whether conferences should give distance more importance in setting rates, while the second raises the question of whether freight rates should take into account varying port costs. A group of Latin American countries which desire to regulate freight rates collectively would have to agree on mutually satisfactory criteria to be applied to both of these questions. Since these criteria would inevitably imply increases in the rates applied to the trade of some countries and decreases in those of others, agreement might well be difficult to reach.

The most complex problem which would be encountered in freight rate regulation refers to agreement on the criteria to be applied in fixing the structure of freight rates. As was noted in part C, conference freight rates strongly reflect the value of the product transported, so that commodities with a lower intrinsic value have lower rates than those with a relatively higher value. It is probable that this practice results in lower freight rates being applied to the exports of Latin America than to its imports, although the necessary studies to establish this point have yet to be carried out.[122] Presumably the countries of Latin America would prefer a rate structure of this type, rather than a structure based exclusively on average cost, which would involve complex problems because of the nature of maritime transport costs and the differing characteristics of the goods transported.

The econometric analysis made by ECLA of freight rates on Latin American exports, reviewed in part C, showed that even though different conferences give great weight to the value of individual commodities and to their stowage factor in establishing the corresponding freight rates, there is a great variation among the conferences regarding the relative weight given to these two variables and to others. For this reason the analysis of the level of freight rates, in which decisions of separate conferences are compared, led to statistically unsatisfactory results. This then raises the question of whether the regulation of the structure of freight rates would include the determination of a uniform relative weight to be given to each of the relevant variables and the dictation of formulas to be applied to all products, and to all and every one of the routes and services.

It is doubtful whether the Latin American countries would desire to open a Pandora's box of this nature. More fruitful would be a concentration on more specific problems of more immediate importance. One area where rate regulation might be useful, for example, is in ensuring that non-traditional exports of potential importance are given favourable rates at once and not only after substantial trade volumes have been achieved. Another area susceptible to collective rate regulation would be an examination of individual rates which are clearly out of line within even the existing rate structure. For both of these areas, however, the countries would have to agree on the basic criteria to be applied.

The ALALC countries will have an opportunity to consider the complex problems related to the regulation of ocean freight rates once the ALALC Convention on Water Transport goes into effect for the ratifying countries after being ratified by two more countries. According to the rules for the application of the agreement approved in October 1968, freight rates will be

[121] R. O. Goss, op. cit., pp. 21–22, and UNCTAD, Consultation in shipping. Establishment of national and regional shippers' bodies, consultation and negotiation between shippers and shipowners (TD/B/C.4/Rev.1), November 1966, pp. 73 *et seq.* ("The Australian case").

[122] The study made by ECLA, *Maritime Freight Rates in the Foreign Trade of Latin America* (E/CN.12/812), covers only the exports of the region to the rest of the world.

established by the freight conference and will be submitted to the regulatory agencies of each of the member countries. Should these authorities raise objections, the conferences will revise the tariffs and submit them again. If the regulatory agency of a country or countries maintains its objections, the problem will be resolved by the Commission of the Agreement, which is composed of one representative of each of the countries which have ratified the basic agreement. If the ALALC countries are able to demonstrate that a multinational control of freight rates is feasible within Latin America, they will have established a valuable precedent for similar regulation of rates on routes to other regions of the world.

(f) *Greater reliance on shippers' councils*

Latin America has not made adequate use of one of the potentially most promising instruments it has available for negotiating favourable freight rates and conditions of shipment with the freight conferences: shippers' councils. The European governments are not ignorant of the abuses which freight conference monopoly power permits, but they rely on the shippers themselves, adequately organized in shippers' councils, to maintain constant surveillance of conference practices and to bring pressure to bear to force adoption of corrective measures. The European shipowners themselves, threatened by direct government regulation, have encouraged the formation of these councils in Europe and have reached agreement with them on satisfactory negotiation procedures. At the second session of UNCTAD, in 1968, a resolution urging conferences to recognize shippers' councils and to co-operate with them was approved without dissent.

In these circumstances, government support of shippers' councils in Latin America should form a key part of the region's maritime policy, as is recognized in the ALALC Convention on Water Transport. While nearly all countries at present have organizations of this type, in general the councils do not have adequate resources, especially technical personnel, to permit effective work. Without decisive government encouragement, there is no reason to expect the present situation to change.

The councils already established have received technical assistance from ECLA, although not on the scale which is merited and needed. In addition, UNCTAD has prepared several documents on this subject of great utility to shippers' organizations.[123] Now that many Latin American countries have established councils, it would be useful for them to exchange information and experience. Another possibility that should be considered is the establishment of regional and subregional shippers' councils. The Federación de Usuarios Latinoamericanos de Transporte Marítimo, recently established in Colombia by the Centro Latinoamericano de Promoción de Exportaciones (CIPE), would seem to be especially appropriate for this work. A conference or seminar held under the auspices of ECLA, in which studies such as that published by ECLA on maritime freight rates could be analysed, would also be desirable.

(g) *Improvement of Latin American ports*

Despite the concern of the Latin American republics with the cost of the transport of their exports and imports, not nearly enough is being done to improve operations in the region's ports—and port costs, after all, account for a preponderant share of total maritime transport costs. Faster ship turn-around, more efficient stevedoring techniques, more adequate port facilities, and reduced losses from breakage and theft are likely to be far more important in the long run in preventing continued increases in freight rates than efforts to control these rates directly. The benefits which can be obtained from improving port operations can be seen clearly in Ecuador, Colombia, Argentina and Brazil.

Little attempt has been made, however, to measure port costs in such a way that the efficiency of one port could be compared to that of another. While studies designed to quantify port efficiency are complex, the task is intrinsically no more difficult than studies of freight rates, although the full collaboration of the port authorities and the shipping companies would be required. Studies of this nature could be made by ECLA and UNCTAD and would seem to have a high priority within Latin America. Such a project might, for example, be of interest to the Latin American Regional Association of Pacific Ports (Asociación Regional Latinoamericana de Puertos del Pacífico—ARELAP). In addition to quantitative studies of this type, whose objective would be to determine the real situation in the region's ports, work by organizations such as the Permanent Technical Committee on Ports of the Organization of American States should be supported and, most important, their recommendations should be implemented.

[123] In particular, UNCTAD's "Consultation on shipping", op. cit.

Chapter III

INCOME DISTRIBUTION IN LATIN AMERICA

1. Purpose of this chapter

This chapter summarizes some of the information and analysis contained in the ECLA study of income distribution. An attempt will be made here to present what is known about this subject, on the basis of numerical data, with a view to identifying the principal characteristics of the income structure and some of the most significant consequences deriving therefrom.

It is a rather general analysis which does not go into too much detail, as this is the only way of conveying a general idea of the income distribution structure. Consequently, the numerous conceptual and statistical problems inherent in income distribution estimates have mostly been disregarded. The second part of the chapter, devoted to a breakdown of income distribution in several countries, the sources used and some of the statistical aspects of the estimates are indicated in the footnotes. One or two of the difficulties encountered must be mentioned briefly.

In the first place, the analysis is of the distribution of personal income, which means that certain elements that are frequently looked upon as income, or some part of the value of production, are excluded. For example, income transferred abroad is not taken into account, and for many purposes this is of considerable importance in a country like Venezuela, for instance, where a major part of the value of petroleum production is transferred abroad and hence does not accrue as personal income in Venezuela.

Secondly, the estimates themselves have been made in varying ways and they are not equally reliable in all cases. The estimates for Argentina are the result of a special and detailed statistical study and are therefore more reliable and informative than most of the other estimates, both inside and outside the region. Many of the other estimates are based on sample survey data but in a few cases have been built up from various partial sources. Again, most of the estimates take the individual income recipient as the basis of the distribution, but several have the family as the basic unit, thus making accurate comparisons less easy; in Argentina, estimates were made on both bases, and they indicate that there is slightly less inequality in distribution by family. Finally, with some variation from country to country, the estimates are for the early years in the 1960s and the situation may of course have changed somewhat since then.

These difficulties should not really affect any of the conclusions, given the general terms in which the subject has been tackled; however, because of the problems involved, some reservations will have to be made at various points of the analysis.

This study will be found to contain occasional comments on policy matters; their sole purpose is to point out implications for *any* policy—i.e., to pose problems or clarify some of the aspects involved—and they should on no account be taken as specific proposals as to policy decisions, since the purpose of this study is restricted to an analysis of the present structure of income distribution. A later study will deal with the various aspects of income distribution or redistribution policy.

There are three main sections to this study. The first (section 2 below) describes the principal features of income distribution in the region as a whole and compares this distribution with that of the Western industrialized countries; the second discusses intraregional contrasts and analyses the structure of income distribution in several Latin American countries. These two sections deal with the subject in general terms on the basis of five main income groups. The third examines certain specific aspects of the distribution, such as the importance of functional, urban-rural, regional and sectoral differences.

2. General aspects of the income distribution structure: a comparison of Latin America with the Western industrialized countries

The analysis of a given income distribution,

and of its inherent inequalities, can be really meaningful only if it is compared with other distribution patterns. Since there is no general agreement as to what constitutes an optimal distribution, the patterns noted in the industrialized countries have been taken as a yardstick; in this way, it is possible not only to describe the distribution meaningfully in general terms but to emphasize the special characteristics of distribution in the region. Thus, Latin America is compared with a number of Western industrialized countries ranging from Norway, where there is least inequality, to France, where there is the most. These countries have been selected because data are most readily available for them, because they have similar economic systems to those found in most of Latin America, and because, being at a more advanced state of development, they may throw some light on possible links between economic growth and income distribution. This analysis is based on data for eight Latin American countries for which reasonably reliable estimates are available, and for five industrialized countries.

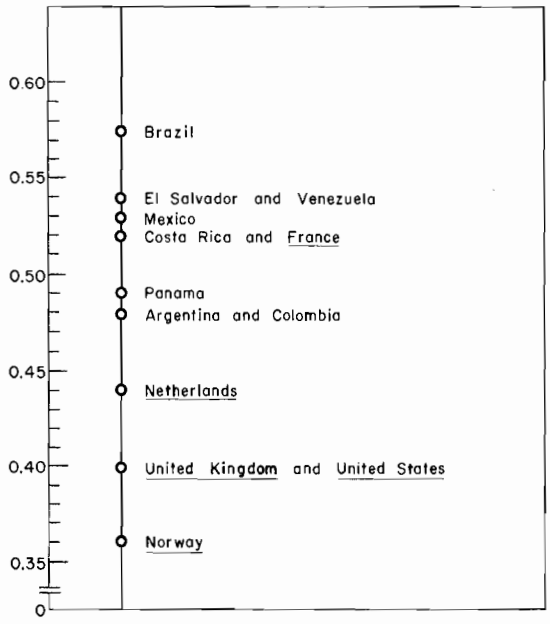
(a) *The over-all inequality*

Figure XXXIV shows the coefficient of concentration of each of the countries compared, which has the advantage of showing at a glance the over-all inequality of income distribution in each country. It can be seen that this inequality is considerably greater in Latin America than in most of the industrialized countries. It should be pointed out, however, that there is a considerable variation in the coefficients of concentration calculated for the industrialized countries from country to country. It has sometimes been implied that economic growth more or less automatically reduces income inequalities; however that may be, major differences in the degree of inequality are still to be found among the developed countries. Moreover, the rapid growth achieved by the European countries during the 1950s and the early 1960s was not accompanied by any consistent trend towards greater equality.[124]

However, since the use of a single figure to describe the distribution of income can only provide an over-all, and possibly ambiguous, picture of the extent of inequality, other ways have been found to approach the problem.

[124] United Nations Economic Commission for Europe, *Economic Survey of Europe 1965*, Part II, *Incomes in Postwar Europe: A Study of Policies, Growth and Distribution* (United Nations publication, Sales No.: 66.II.E.14), chapter 6.

Figure XXXIV. Coefficients of concentration[a]



Note: In this and the following figures, the Western industrialized countries have been underlined so as to make them stand out from the Latin American countries.

[a] These coefficients are based on the formula

$$r = 1 - \frac{\sum_{i=1}^{n} f_i(g_i - 1 + g_i)}{10{,}000}$$

where n = the total number of income groups
i = the ordinal number of each group
f = the percentage of the total population in each income group
g = the cumulative percentage of income received

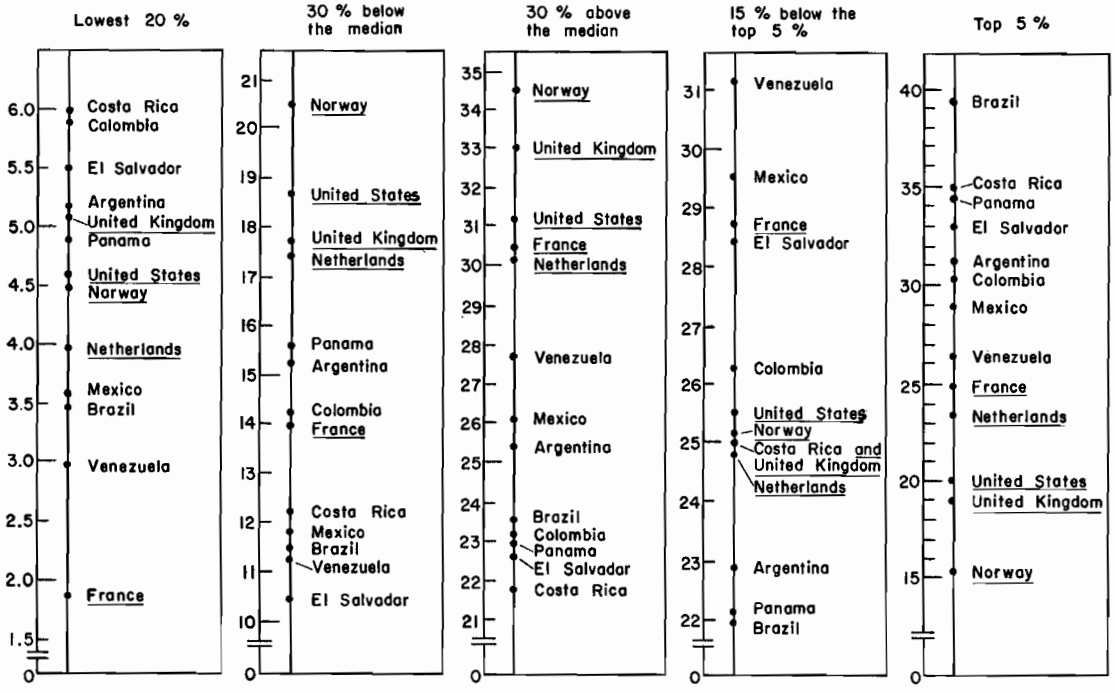
(b) *Relative shares of the different income groups*

The most common way of describing income distribution somewhat more fully is in terms of the share of total income received by the different income groups (see figure XXXV). To appreciate the difference between Latin America and the industrialized countries, it is useful to distinguish four parts of the distribution.

The first is the lowest income group, i.e., the share of total income received by the poorest 20 per cent of all income units in each country. This share is low everywhere, but differences in absolute income levels and in the composition of this lowest income group give it a different meaning in Latin America from what it has in the industrialized countries.

The second group comprises the bulk of the population in the middle range of the distribution. This group represents 60 per cent of the

Figure XXXV. Percentage of total income received by the different income groups



population and receives a substantially smaller share of total income in Latin America than in the industrialized countries. In Latin America, this group receives 37 to 38 per cent of the total, whereas in countries like the United States and the United Kingdom the figure for this group is 50 per cent, and in Norway, 55 per cent. This substantially smaller share of total income in the hands of the middle 60 per cent of the population in Latin America has major economic and social implications.

Thirdly, there is the 15 per cent immediately below the top bracket, i.e., the upper middle income group that is shown in the fourth section of figure XXXV. Here as in the case of the poorest 20 per cent, there is no marked contrast between Latin America and the industrialized countries.

Finally, there is the 5 per cent at the top of the income scale shown in the last section of the figure, which receives a much larger share of the total in Latin America than in the industrialized countries. In most Latin American countries this high-income group receives more than 30 per cent of the total. It is this marked concentration of income in the hands of the small group at the top of the income scale which is the essential factor in the great inequality in income distribution in the region.

Briefly, then, in terms of relative shares, the distinctive features of income distribution in Latin America, are a much larger share of total income in the hands of the high-income group and a correspondingly smaller share in the hands of the bulk of the population situated in the middle ranges of the distribution. The poorest groups and those just below the top have shares that are similar to those received by the same groups in the industrialized countries.

(c) *Incomes in relation to the national average*

A clearer notion of the pattern of income distribution in Latin America can be obtained by comparing average income in each country with the income received by each income group. Figures XXXVI and XXXVII show two ways of relating national average income to its distribution.

Figure XXXVI shows that in Latin America the bulk of the population (70 to 80 per cent) have incomes that are below the national average; in the industrialized countries, the proportion with incomes below the average is much smaller. The counterpart of this situation is shown in the second section of the same figure, from which it can be seen that a substantial proportion of the population in the industrialized countries (from a quarter to over a third) has an income above the national

Figure XXXVI. Percentage of the population in income groups expressed in terms of the national average

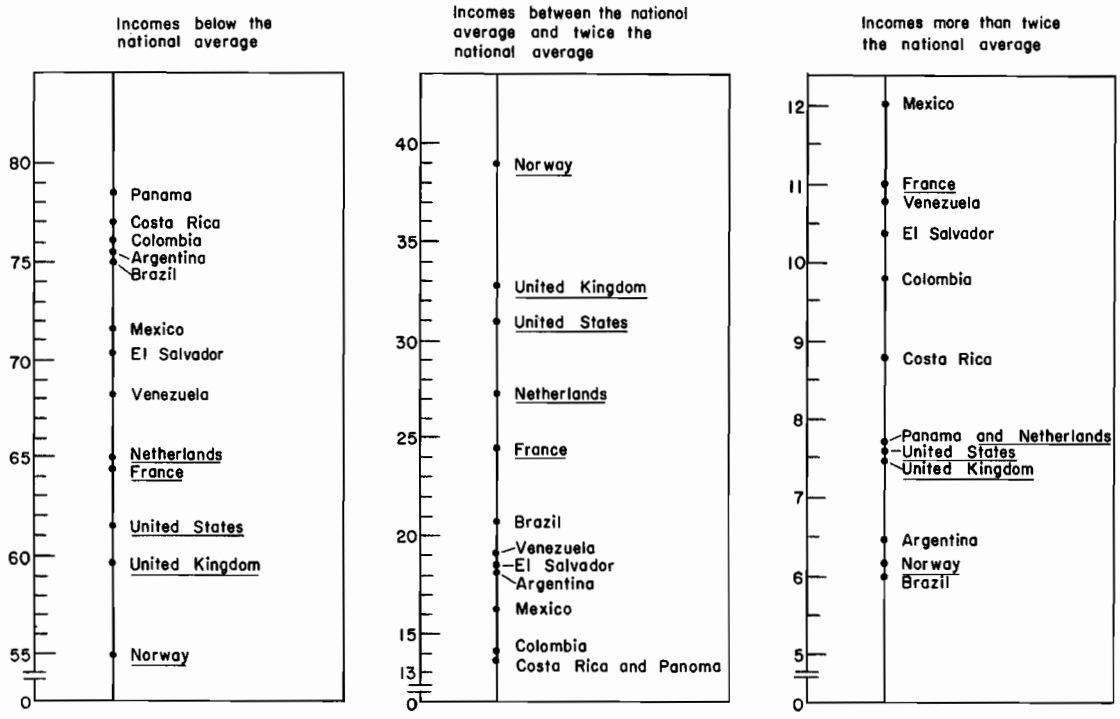
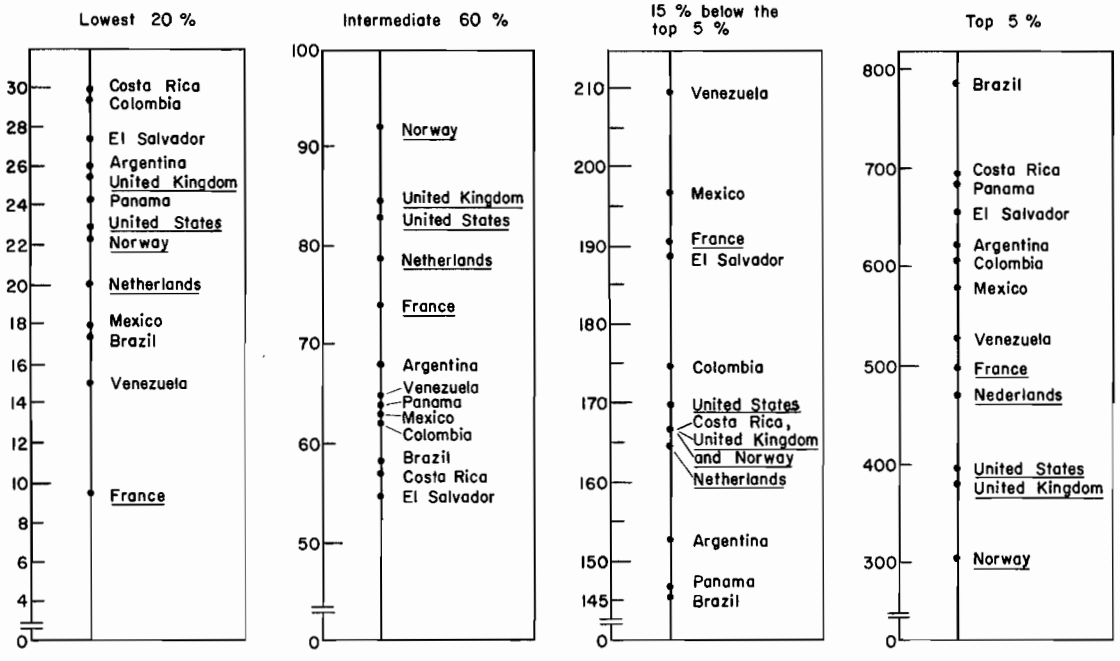


Figure XXXVII. Incomes of various groups compared with the national average
(Arithmetical average income in each country = 100)



average, but less than double that figure. The last section of the figure gives the percentage of the population receiving more than twice the national average income; this percentage tends to be somewhat larger in Latin America, but it is of smaller significance than the differences revealed in the first two sections; the contrast is less clear-cut and the numbers involved are much smaller.

Figure XXXVII presents an alternative way of relating income distribution to average income; it shows the income level of different groups as a percentage of the national average. For the poorest 20 per cent of the population incomes are everywhere only a fraction of the national average, so that the contrast between Latin America and the industrialized countries does not stand out clearly.

The second section of the figure shows the relative position of the middle 60 per cent of the distribution which has an income fairly close to the national average in the industrialized countries, but in Latin America this group has a much lower income.

The 15 per cent just below the top have incomes that are approximately 75 per cent above the national average and there is less variation from country to country than at most other income levels (see the third section of figure XXXVII).

The last section of the figure, covering the top 5 per cent, shows that the incomes of this group are high everywhere, but much higher in Latin America—compared with the national average—than in the industrialized countries. In most Latin American countries the income of this group is six or seven times higher than the national average, whereas in Norway it is only three times as high, and in the United States and the United Kingdom, four times.

Relating average income to the distribution of that income shows the limitations of the average income concept itself from the analytical point of view. Average income is only the result of dividing total income by the number of recipients, but it tends to convey the idea that large numbers of people receive this income, or something close to it, and that there are roughly similar groups either side of the average. This is never really so, but while average income may be taken as a reasonable approximation in the industrialized countries, the situation is quite different in Latin America.

In the industrialized countries, the middle 60 per cent of the population has an income that is fairly close to the national average, and both at the top and at the bottom there are large groups with incomes that are very far from the average. This is not true of Latin America, where the income of the middle 60 per cent is far below the national average and most people have incomes well below it, so that there is no similarity in the numbers above and below the average; and at the extremes, there is also much more dispersion at the high income levels. This means that in Latin America the average income is only a numerical result and cannot be regarded as a typical income. The bulk of the population have incomes far below the average, and only a few have incomes close to it; when the average is calculated, this is offset by the incomes of the small group at the top, which are very much above the average.

(d) *Incomes in relation to the median, and between specific groups*

Figure XXXVIII shows the incomes in the different parts of the distribution scale in relation to the median income, i.e., the income at the mid-point of the distribution, and this shows clearly where the greater inequality in Latin America is concentrated. The first two sections of the figure give the incomes of the lowest 40 per cent of the scale as a percentage of the median income; for both groups, incomes are considerably closer to the median in Latin America than in the industrialized countries. This means that for the entire lower half of the distribution there is considerably less variation in income—in other words, there is less inequality—in Latin America than in the industrialized countries. The third section shows the relative position of a group which stands above the median but below the upper groups on the scale. This is the transition area, where relative incomes begin to rise and hence where inequality begins to be greater in Latin America.

The last two sections refer to the upper income groups, where the contrast is marked. For the 15 per cent just below the top, incomes fluctuate around three times the median income in Latin America, and for the top 5 per cent, they are from ten to fifteen times the median. For both groups, relative incomes are sharply higher in Latin America than in the industrialized countries; in the latter, the incomes of the top 5 per cent average only five times the median. From this it can be seen that the greater inequality in income distribution in Latin America is exclusively due to the extreme inequality in the upper deciles.

Figure XXXIX shows the distance, in terms of income levels, between groups in different parts of the distribution. The rankings in the

Figure XXXVIII. Incomes of various groups in terms of the median
(Median in each country = 100)

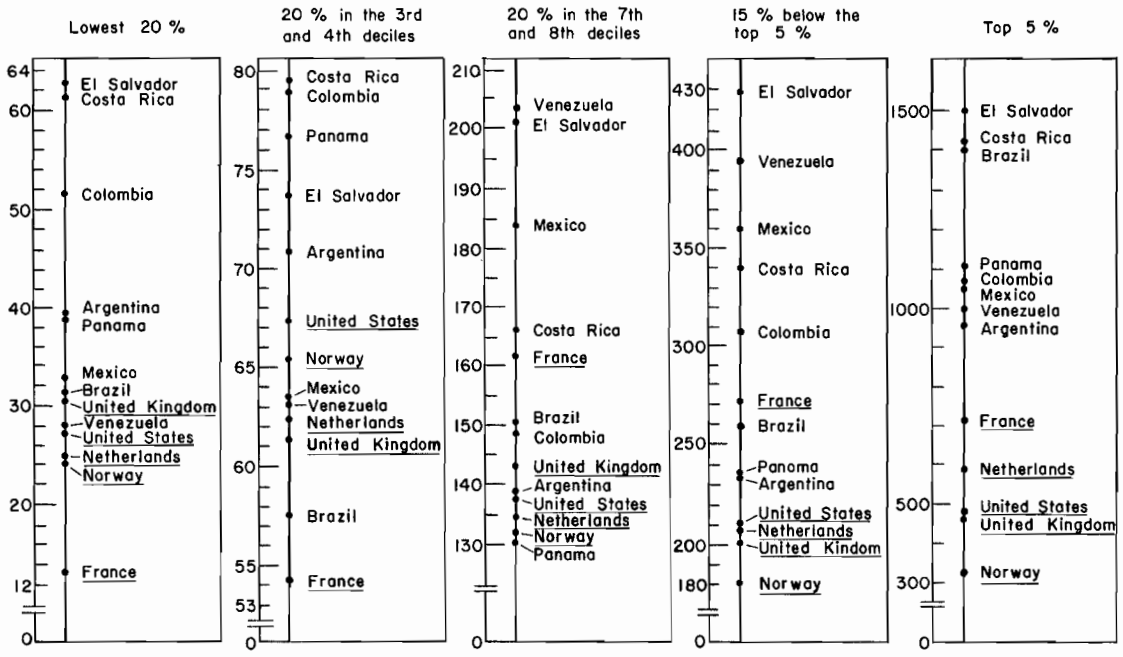
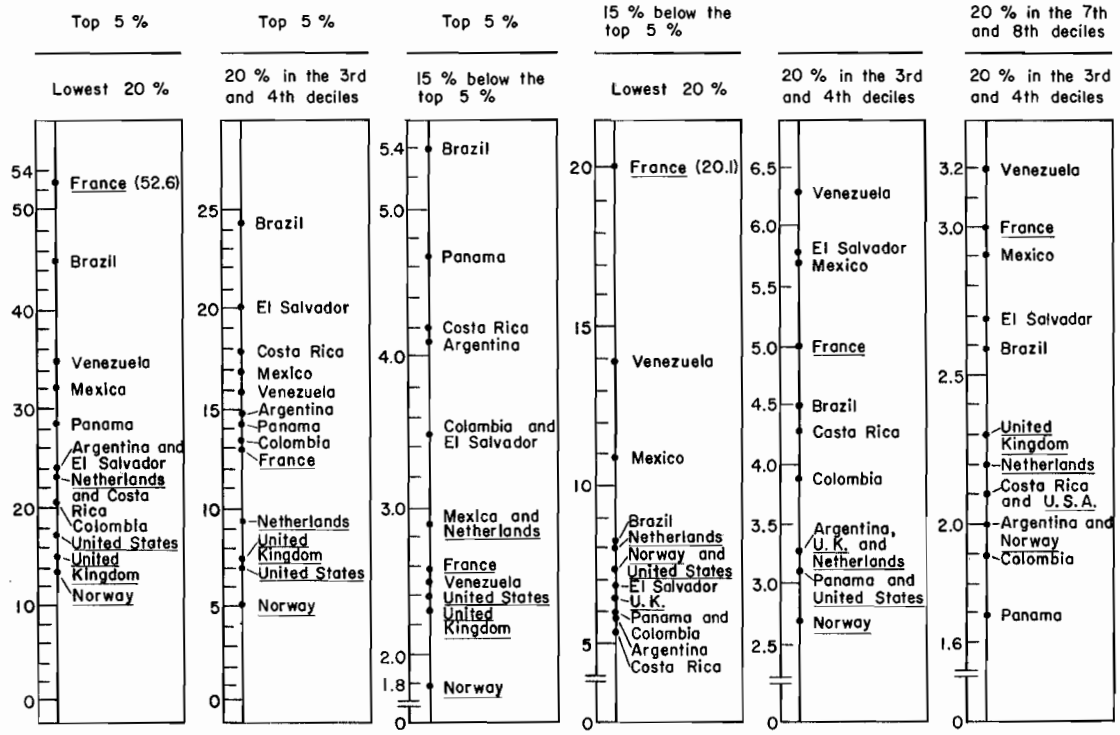


Figure XXXIX. Direct comparison between the average incomes of selected income groups
(Coefficients)



fourth and the last sections of the figure show no consistent contrast between Latin America and the industrialized countries. In the other four sections of the figure, on the other hand, the ratios are higher in Latin America than in the industrialized countries and illustrate the marked contrasts in income levels often found.

(e) *Summary of the income distribution structure and major implications*

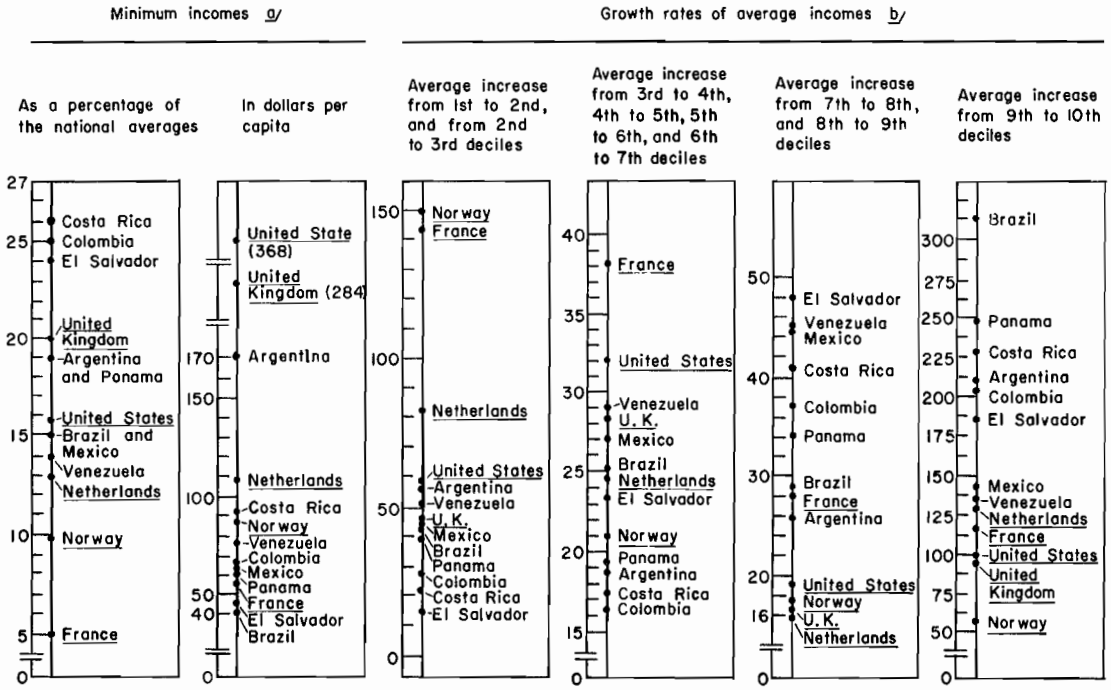
The main differences between Latin America and the industrialized countries are shown in figure XL, which gives the minimum income levels in each country—taken to be the average income of the poorest 10 per cent of the population—and the relative increase in income from one decile to the next through the rest of the distribution.

From this it can be seen that there are two focal points of the inequality in the distribution in the Western industrialized countries. First, those at the bottom are very poor, not only with respect to the national average but also in comparison with the income received by those just above them in the scale. Secondly, those at the top have high incomes, both in relation to the national average and in comparison with the incomes earned by those just below them in the scale. In the wide range between these extremes, however, inequality is much less.

The distribution is quite different in Latin America, where there is only a simple focus of inequality—towards the top of the scale. Throughout the lower and middle part of the distribution incomes rise relatively slowly; but from the seventh decile upwards, the rise is progressively more rapid and the inequality reaches a peak with the very high relative income of the 5 per cent at the top.

These differences have numerous social, political and economic implications, a few of which can be conveniently noted here. In the industrialized countries, for example, the very low income group is largely made up of what might be called "special cases". Most of these are elderly persons, but there are also the temporarily unemployed, the sick, the very young worker, etc. In Western Europe, about half of those in the first and second deciles are not active members of the labour force. On the basis of family incomes, the two major groups at the bottom are the old and families

Figure XL. Minimum incomes and growth rates in different parts of the distribution



[a] Minimum incomes are the average for the first decile (the poorest 10 per cent of the population) in each country. The figures in dollars are only very approximate and were obtained from parity exchange rates and estimated family budgets in low-income brackets in Latin America. For the industrialized countries, only official exchange rates were used.

[b] The growth rates shown are the percentage increase from the average income of one decile to the average income of the decile immediately above it.

with a female head. The very rapid rise from the minimum income in the industrialized countries is for the most part a reflection of moving from these special cases to those who are normal members of the labour force. Even the lowest incomes received by active full-time members of the labour force tend to be well above the minimum.

In Latin America, in contrast, the minimum income level represents low incomes received by active members of the labour force, mostly those in rural areas but also in some large urban groups. These groups represent a substantial portion of the population in most of Latin America, and so there is no break in continuity, no movement to another economic grouping, in the lower part of the distribution.

Two implications of this situation should be stressed. In the first place, in the industrialized countries the receipt of a very low income is not usually a permanent situation. In many instances, these individuals will have received much higher incomes in earlier years, and may have savings or accumulated durable and semi-durable consumer goods which make their real standard of living higher than their present income would indicate. This is not the case in Latin America, where low incomes usually reflect a situation that cannot easily be changed, for the individual, or probably for his children either. Consequently, the real privation involved is much greater than that indicated by the minimum income levels in the industrialized countries.

Secondly, since most very low incomes in the industrialized countries are special cases, the incomes can be improved through social security and social welfare programmes, by means of pensions, unemployment and sickness or accident benefits, allowances for women with dependants, and so on. However, since most of the very poor in Latin America are not special cases, the adoption of programmes of this sort will do little or nothing to raise minimum income levels. Most of those at the bottom are active members of the labour force and therefore are not eligible for benefits of this kind.

The bulk of the population in the middle ranks of the distribution has two distinguishing features in Latin America: their incomes rise relatively slowly and the group as a whole receives a much smaller share of the total income than the same group in the industrialized countries. Both features have significant economic implications.

The more important of these is that the smaller share of total income accruing to these groups reduces the potential for the mass markets associated with a higher level of development. The principal limitation to the size of the markets in the region is the relatively small size of even the largest national economy; but within this limitation, the small portion of income received by the bulk of the population restricts potential mass markets still further.

Mass markets can only exist for products consumed by very large numbers of individuals, or for intermediate goods required for products of this sort. They cannot be based on a small number of individuals with high incomes, since as incomes rise, expenditures tend to be more diversified rather than to involve larger purchases of the same items. Mass markets therefore can hardly ever be based on the high-income group; they depend on the purchasing power of the bulk of the population.

It is worth noting that this difficulty would persist even if Latin America was taken as a whole. Even supposing a Latin American market equal in aggregate size to that of the United Kingdom, for example, the potential mass market would still be substantially smaller. In the United Kingdom, a little more than 50 per cent of total income is in the hands of the middle 60 per cent of the population while the corresponding group in Latin America would only have at its disposal about 35 per cent of the total.

In Latin America, incomes rise more slowly in relative terms (and much more so in absolute terms, of course) in the lower and middle part of the distribution than they do in the industrialized countries. In addition, the variation in incomes which exists often depends more on personal or random factors than on differences in skill or levels of training. There is therefore less incentive for self-improvement and thus achieving a higher level of productivity, and so the existing economic and social structure of these groups has a greater tendency to remain unchanged.

In Latin America, income rises sharply at the top of the scale, where the inequality is concentrated. The top 5 per cent receive a much larger share of total income than in the industrialized countries, and have incomes much further above those below them in the scale; the major implications here relate to possible savings levels and to the social structure such a situation promotes.

It has generally been accepted that inequality of income encourages saving, to the extent that saving depends on individual decisions, and this is one of the major justifications advanced for inequality in private enterprise

economies. Yet the level of saving in Latin America tends to be low, despite the prevailing inequality. This apparent contradiction cannot be explored here, for the volume of savings depends on too wide a range of social and economic factors. It may be observed, however, that although some degree of inequality may be an incentive to saving, the extreme inequality at the top of the scale in Latin America may well have had precisely the opposite effect.

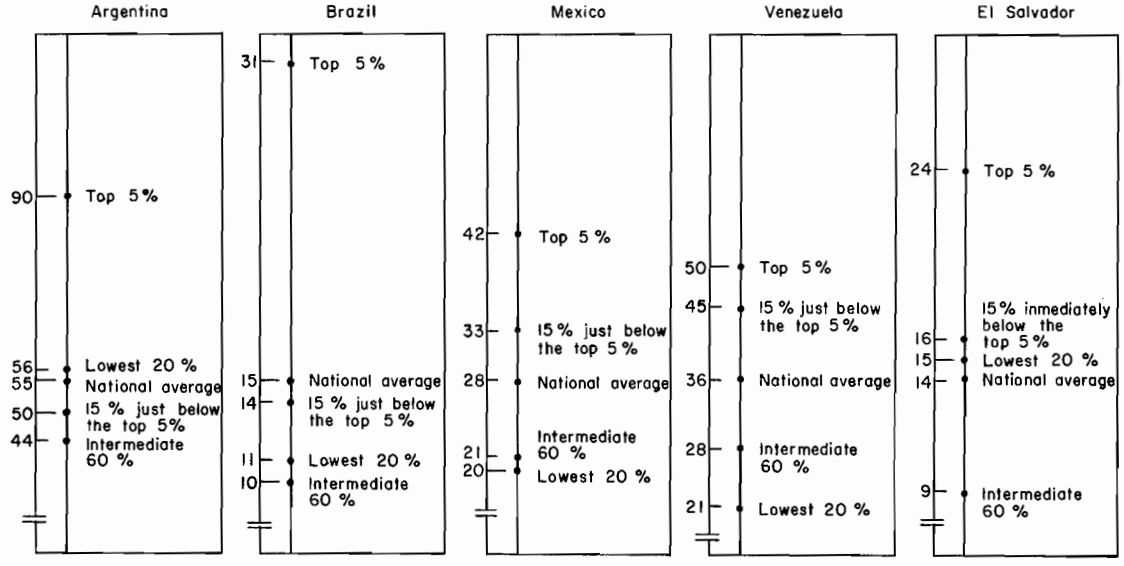
Inequality is expected to foster saving because those with higher incomes will be able to satisfy their consumption requirements without spending their entire income and therefore have a relatively high savings coefficient. But for this to be true, the consumption pattern of those at the top of the scale should bear some relationship to that of middle groups; but in practice it generally follows the same pattern as in industrialized countries, with the result that the savings coefficient of this group is lower than it might be.

Figure XLI, which shows income levels in various countries in terms of the income received by the corresponding group in the United Kingdom, shows this point very clearly. In most cases, the average income of the top 5 per cent of the population is half or less than half of the income of the same group in the United Kingdom, and the ratios would be much lower if the comparison were made with the United States. In absolute terms, those in the top 5 per cent in Mexico, for example, have an annual average per capita income of around 2,250 dollars,[125] though very high compared with incomes of other groups in Mexico, is not high in comparison with incomes in the industrialized countries; and when consumption patterns reflect those of the industrialized countries, the margin available for saving is severely reduced. Only in Argentina are incomes of the top groups comparable with those of Western Europe (though not with those of the United States); thus the reasoning presented above should be a major factor in determining savings ratios.

The social implications of the concentration of income are very important. The very large differences in income between those at the top and the mass of the population contribute a great deal to the establishment of sharp class distinctions. Those at the top can live a completely different life from the mass of the population; their consumption patterns are a far cry from the national standards, and they

[125] The figures used, which are only approximate, refer to the situation in the mid-1960s, expressed in 1960 dollars. In Mexico's case, distribution is by family and the figure can be directly interpreted as the average income per family member.

Figure XLI. Selected Latin American countries: average incomes of the different income groups as a percentage of the average income of the corresponding group in the United Kingdom[a]



[a] National averages refer to personal per capita income in each country. The figures were converted into a common currency at parity exchange rates for the Latin American countries and at the official exchange rate in the United Kingdom, and they should be taken as only approximate. The figure given for the different income groups in the Latin American countries is the average income of that group expressed as a percentage of the average income of the same group in the United Kingdom. For example, the average income of the lowest 20 per cent of the population of Argentina corresponds to 56 per cent of the average income of the lowest 20 per cent in the United Kingdom.

make far greater use of direct personal services. In Latin American countries, the income of the top 5 per cent averages fifteen times that of the lower middle part of the distribution, and twenty-five times that of the poorest 20 per cent of the population, which means that personal servants can be maintained on a much wider scale than in industrialized countries.

(f) *Possible causes of the greater inequality in Latin America*

The distribution of income in any particular country depends on a wide range of economic, political and cultural conditions, but only a few of the factors which distinguish the regional from the industrialized countries, and which appear to have had considerable importance in producing the differences in the existing inequality will be examined here.

The most important of the causal factors seems to be the heterogeneous nature of Latin America's economic structure. Modern technology has been introduced for some activities, but in others productivity is extremely low. The essential point for purposes of this study is that, thus far, the growth achieved has been sufficient to absorb only part of the labour force in the modern or semi-modern sectors of the economy. A considerable proportion continues to be occupied in activities with very low levels of productivity yielding low per capita incomes.

Preliminary ECLA estimates indicate that for the region as a whole, 40 per cent of the labour force was still occupied in primitive-type activities in 1960, although the proportion varies greatly from one country to another. The bulk of the remainder was working in the intermediate sector, but a significant minority was engaged in fully modern activities. The gap in productivity between the two ends of the scale is enormous. It is estimated that the one eighth of the total labour force in the modern sector in 1960 produced nearly half the total gross product, while the 40 per cent in the primitive sector produced less than one tenth. Therefore, this large group subsists at very low income levels. Within this group, however, there are great differences between the countries of the region, which partly explain the variations in income distribution between one country and another.

By contrast, in the industrialized countries the primitive sector has been almost completely eliminated and a much higher proportion of the labour force is engaged in the fully modern sector, which brings with it a major change in the income distribution structure.

Likewise, the existence of the primitive sector affects the operation of the other strata. The surplus manpower in that sector and in other activities has the effect of reducing income in many parts of the distribution. This pressure is nevertheless curbed by more or less natural obstacles in the more complex sectors of the economy. In the first place, technical requirements are stiffer, so that the supply of manpower depends on what the training institutions can produce, and this is not necessarily related to the number of persons in the lower strata. Secondly, in the more complex sectors, self-employment demands fairly substantial capital and therefore depends on the supply of capital available, and this again has no relation to the number of persons in the lowest income strata. If the modern sector grows rapidly, demand will probably exceed supply in these groups—in marked contrast with what happens at the lower levels—and incomes will be relatively high.

A third obstacle in the modern sector, of a more artificial kind, obstructs upward progress to higher steps in the income scale. In view of this sector's high productivity, it is possible to pay much better wages, which, through the action of trade unions, are generally extended also to the relatively unskilled workers. In this case, the pressure from below is counteracted by trade union practices, which tend to restrict membership.

The existence of a large primitive sector alongside a growing and highly important modern sector thus tends to lead to a discontinuity in the distribution at some point. For much of the distribution, incomes are depressed by the mass of low-productivity labour at the bottom; but the modern sector is able to a large extent to insulate itself from the pressure and to maintain incomes at sharply higher levels. In Latin America, this discontinuity tends to occur at about the seventh decile of the distribution where incomes begin to rise with increasing rapidity, and in the upper third of the distribution, they rise much more rapidly than in the industrialized countries.

Economic growth, in the normal case where it is concentrated in the modern sector, must be fairly rapid to bring about a substantial reduction in the labour force employed in the primitive sector. Since productivity in the modern sector is high, expansion requires only a relatively small amount of labour. Further, some of the expansion in the modern sector will displace less efficient production in the semi-modern sector, and release large amounts of labour in the process. Post-war growth in

Latin America has been largely centred on the modern sector, and the over-all growth rate achieved has been only moderate compared with the rapid population increase. Although statistical data of this kind are scarce, available information indicates that there has been little, if any, reduction of the pressure exerted by the primitive sector on the lower and middle ranges of the distribution.

Another causal factor of the distinctive income distribution in Latin America is the different composition of the high-income group and the different set of circumstances in which this group functions. The main reason for the existence of very high incomes, in both the Western industrialized countries and in Latin America, is that property ownership is in the hands of a minority of private individuals. In many Latin American countries, however, a considerable proportion of the economy, even of the fully modern sector, may well be in the hands of the public sector; public enterprises, in particular, have gained considerable importance in several countries. Nevertheless, the bulk of production continues to be in the hands of the private sector, which accounts for much of the income concentration, although this varies from country to country.

There is probably a greater concentration of property ownership in Latin America. Studies have focused mainly on land ownership in the region. Although there has been some dispersion of ownership in recent years, the large estate, often producing for export, is still a common feature of the region. In the industrialized countries, on the other hand, land ownership has become more widespread, and few of those at the top of the scale derive their incomes from large rural estates.

Although there are fewer studies on this point, there are indications that there is also more concentration of ownership in commercial, financial and industrial activities in Latin America. There are bound to be fewer facilities of this kind, at least of a modern type, than in the industrialized countries, and capital is scarce, which tends to mean that they are controlled by relatively few people and therefore command higher prices. Both these facts increase the concentration of income at the top.

There is also an important difference between Latin America and the industrialized countries in the form of organization in the non-agricultural sector, and this too affects the concentration of income. In the industrialized countries, as mass production techniques have spread, the public corporation has become the typical form of organization; in this form of organization, control tends to pass from individual owners into the hands of salaried professional managers, who are likely to receive a lower income than an independent owner-manager and to have somewhat different objectives in their managerial activities. Impersonal management will mean more complete records, and this, combined with the relatively large size of the corporations, greatly increases the degree of compliance with public regulations and, in particular, facilitates the collection of direct taxes. Moreover, professional managers are likely to view profits in a different context from the owner of the enterprise. They are likely to be less concerned about the taxation of profits, as it affects them only marginally; and since their prestige is linked to the size of the corporation they manage, they may be more interested in financing growth by paying less in dividends and retaining a greater share of the profits for reinvestment in the enterprise. All these factors will tend to reduce personal incomes and income concentration also, in the groups at the top of the scale.

In Latin America the process is closely linked to a different ratio between the self-employed and the public corporations, and with specific political and economic conditions. The data on this point are rather sketchy, but it appears that, taking income for the region as a whole, self-employment accounts for one third of total national income, while wages and salaries do not exceed half of the total. There are large numbers of self-employed persons in the high-income groups and they predominate in the top income group. This is part of the explanation for the concentration of income at the top of the scale.

Underlying this particular difference between Latin America and the industrialized countries is a wholly different pattern of economic organization, which is closely related both to the level of development and to the distribution of income itself. In Latin America, production is mostly on a relatively small scale and in the hands of large numbers of individual-type firms. It is not geared primarily to the mass market, rather to the differentiated market of the one third or so of the population at the top of the scale. This type of production tends to be characterized by high unit prices, i.e., a relatively large profit on each unit produced or sold. The fact that many individual businesses operate profitably on a relatively small scale accounts for the large numbers of self-employed persons at the top of the income scale and for the relatively small share of wage and salary income in the total.

The level of development, the type of economic organization and the distribution income are, in this respect at least, closely linked.

This cycle has been broken, in varying degrees, in the industrialized countries and their production is to a large extent aimed at mass markets; thus they are able to use modern techniques involving considerable economies as the scale of production increases. Profits thus depend basically on a large volume of production, and the profit per unit declines. A few large corporate firms displace many small individual businesses, and this tends to raise the share of wage and salary payments in the total, and reduces both the predominance of the self-employed in the higher income groups and the concentration of income at the top of the scale.

One final aspect of the composition of the high-income group also tends to lead to a greater concentration of income at that level in Latin America. Professional trained persons, who represent a significant proportion of the high-income group in both Latin America and the industrialized countries, tend to be fairly mobile, even at the international level, so that standards of employment tend to become international, and this includes fees and salary levels. Professional incomes in Latin America are therefore comparatively high, and there is a greater concentration of income at the top. This is another illustration of the ways in which the high-income group—and the modern sector—are linked to the world economy as much as, or perhaps even more than, to internal realities.

(g) *An aggregate distribution for Latin America*

For some purposes it is useful to have a single set of figures for the distribution of income which, in a very approximate way, could be regarded as typical or representative of Latin America as a whole. One way of obtaining such a distribution would be to average the figures for the different countries for which estimates are available, thus obtaining the distribution in the "average" country of the region. In terms of the percentage shares of the different income groups (see figure XXXV) the following distributions are obtained, depending on whether a simple average or one weighted on the basis of population is calculated:

Income group	*Percentage share of total income*	
	Simple average	*Weighted average*
Lowest 20 per cent . .	4.7	4.0
30 per cent below the median	12.8	12.4
30 per cent above the median	24.1	24.5
15 per cent below the top 5 per cent . . .	25.9	24.9
Top 5 per cent . . .	32.4	34.2

An alternative is to view the region as a whole and estimate a distribution of income by adding all the countries together to form a single aggregate. This is rather more interesting from various points of view and such an estimate is presented below; but it should be kept in mind that the figures refer to the region as an aggregate and are not representative of the distribution in an "average" country. The estimation has been made in the following way. First, there are completed income distribution estimates available for a fairly wide range of countries—covering about three quarters of the total population of the region—and there are partial indicators available for some other countries. Distributions for the countries not shown in the tables have been estimated using such partial data as are available, but with considerable reliance on the concept of a shifting distribution as the primitive sector declines in importance; that is, it has been assumed that, in approximate terms, the distribution can be estimated on the basis of estimates of the relative size of the modern and primitive sectors. The distributions were then converted to a common currency through the use of purchasing power parity exchange rates, summed, and a distribution for the region as a whole calculated. While the resulting distribution should of course be regarded as only very approximate, it is sufficiently accurate for the purposes of the small number of broad income groups shown, and it makes clear several important characteristics of the regional distribution of income in Latin America. The figures, which describe the situation prevailing in the early 1960s, are shown in table 253.

The most important aspect to note is that when Latin America is considered as a whole there is greater inequality in the distribution of income than is found in the individual countries of the region. The lower half of the distribution receives a very small proportion of total income and exists at very low income levels. Incomes then rise very rapidly through the upper half of the distribution and a large share of the total is concentrated in the hands of the top 5 per cent of the population. Such a distribution combines the two forms of inequality found in individual countries. There is first the very small share received by the poorer half of the population and the considerable inequality in the middle and upper middle parts of the

Table 253. The distribution of income in Latin America

Income groups	*Percentage of total income received*	*Average income (regional average = 100)*	*Average per capita income[a] (United States dollars)*
Lowest 20 per cent	3.1	15.5	60
30 per cent below the median	10.3	34.0	130
30 per cent above the median	24.1	80.0	310
15 per cent below the top 5 per cent	29.2	194.0	750
Top 5 per cent	33.4	680.0	2,600

SOURCES: For Latin America the figures are in general ECLA estimates based on national data. Figures for the Western European countries are from United Nations, Economic Commission for Europe, *Incomes in Postwar Europe: A Study of Policies, Growth and Distribution* (*Economic Survey of Europe in 1965*: Part II) (United Nations publication, Sales No. 66.II.E.14). Figures for the United States are from the United States Department of Commerce *Survey of Current Business*, Part II.

[a] These values are for 1965 but expressed in terms of 1960 dollars.

distribution—the type of inequality found in countries such as Mexico and Venezuela, although here in an even more extreme form. There is in addition the concentration at the very top, which is the predominant element of inequality; this concentration is somewhat less for the region as a whole than in some of these countries, but considerably greater than in countries such as Venezuela or Mexico.

It is the combination of these two aspects which results in such great over-all inequality. The calculation of the coefficient of concentration for the region yields a value of 0.57, considerably above the figure for most individual countries[126] (see figure XXXIV). For the United States, an already industrialized region with a fairly similar total population, the coefficient of concentration is 0.40, which, as can be seen from the figure, is far lower on the scale. The relative shares of the different income groups in the two regions make clear the contrast involved. The percentage shares are as follows:

	Latin America	*United States*
Lowest 20 per cent	3.1	4.6
30 per cent below the median	10.3	18.8
30 per cent above the median	24.1	31.1
15 per cent below the top	29.2	25.5
Top 5 per cent	33.4	20.0

As can be seen, the groups in the upper part of the distribution receive a much larger share of the total in Latin America, and those in the lower and middle parts of the distribution a correspondingly smaller share.

The low income levels which prevail throughout the lower half of the distribution essentially reflect incomes attainable in the primitive sector. For the region as a whole, around 40 per cent of the labour force is engaged in primitive-type activity, so the entire poorer half of the population is either within the primitive sector or still very closely linked to it. There are significant differences in income levels even within the sphere of primitive-type production and incomes rise about 30 per cent from one decile to the next through the lower half of the distribution. This suggests that there is considerable scope for variation from one area to another. In some localities the resources available are poor or there is substantial population pressure, so that incomes attainable through primitive-type activity are minimal. In other places resources are more favourable and incomes are somewhat higher.

But living standards for the entire poorer half of the population are extremely low. Most of this group (over a quarter of the entire population of Latin America) have an annual personal income of less than 100 dollars per capita, and the figure at the top of this range is only 180 dollars.[127] These magnitudes are important to bear in mind when interpreting aggregate income data. The average per capita personal income for the region as a whole is about 385 dollars per annum, but this figure, or even an examination of figures for individual countries, does not readily convey the fact that fully half the population of Latin America has a per capita income of less than 180 dollars, or that the average personal income of this poorer half of the population as a whole is only 110 dollars per capita.

It is estimated that the 40 per cent of the labour force which remains in the primitive sector accounts for only about 7 per cent of the

[126] Only in Brazil is the figure comparable. As discussed in the analysis of Brazil, the unusually great over-all inequality is to a considerable extent the result of combining in a single distribution areas at very different levels of development. In this respect the Brazilian distribution is similar to that for the region as a whole.

[127] These figures, and the others which follow, refer to income levels in 1965 expressed in terms of 1960 dollars.

total gross product. Personal incomes are consequently very low in relative terms as well, so that the lower half of the distribution receives only 13.4 per cent of all personal income.

Incomes rise with increasing rapidity throughout the upper half of the distribution. Already in the sixth and seventh deciles incomes, rise somewhat more rapidly, as the groups included become somewhat further removed from the primitive sector and the depressive influence it exerts on incomes. Here, for example, are those in the second decile of the distribution in Argentina, where the primitive sector has been practically eliminated, and those in the fifth decile in Venezuela and in the sixth decile in Mexico, where primitive sectors are progressively larger and their influence extends to higher parts of the national distributions.

But the first major income group in the upper half of the distribution—the 30 per cent above the median—does not receive a very large share of total income, and income levels are still relatively low. For the region as a whole, while the economic distance from the primitive sector is steadily increasing, it is only towards the top of this income group that links to the modern sector become really close and the incomes as a consequence begin to rise much more rapidly. The share of total income received is thus less than the share received by the corresponding group in the individual countries which have advanced furthest in reducing the size of the primitive sector, and of course much less than the share of this group in the advanced industrial countries. It is only at the very top of this income group that per capita incomes begin to exceed the regional average, and for the group as a whole incomes are only 80 per cent of that average. This large income group in Latin America is essentially the intermediate sector.

The top two income groups shown—the 15 per cent below the top, and the top 5 per cent—comprise the modern sector and those closely linked to it, and here incomes are relatively very high and a large part of total personal income is concentrated in the hands of these groups. It is at this level that the striking disparity between the modern and primitive sectors in the region can be most clearly seen.

Since the regional distribution has been estimated by summing the national distributions, it is possible to show the proportional importance of the different countries in any income group. Income levels and distributions differ among countries and so these proportions vary from one part of the distribution to another and are of some interest. This percentage composition, by country, of the major income groups is shown in table 254.

In the poorest 20 per cent of the population it is the group of "other countries" which shows the greatest relative concentration. In terms of population, the countries which comprise this group are all small, and mostly continue to have very large primitive sectors and consequently large groups with very low income levels. While combined they account for only 14 per cent of the total population of the region, fully one third of the lowest income group is located in these countries.

But this is not the largest population group, in national terms, at the bottom of the scale. It is the two largest countries of the region—Brazil and Mexico—which predominate here, as they account for nearly 60 per cent of the total of the lower half of the distribution.

Table 254. Latin America: percentage composition of the major income groups, by country
(*Percentages*)

Country	*Lowest 20 per cent*	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Argentina and Uruguay	—	3.9	12.9	36.6	23.6
Brazil	49.6	40.8	35.5	11.8	20.0
Colombia	3.9	13.0	7.8	2.6	7.8
Chile	—	2.6	5.2	7.9	7.8
Mexico	9.1	18.1	20.1	26.1	18.0
Peru	2.5	5.8	5.2	4.6	5.0
Venezuela	1.8	2.5	4.9	4.9	7.6
Other countries[a]	33.2	13.3	8.4	5.5	10.2
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

SOURCES: As for table 253.
[a] Central American and Caribbean countries (excluding Cuba), and Bolivia, Ecuador and Paraguay.

Particularly in the poorest 20 per cent, but also to an important extent in the following income group, the 30 per cent below the median, there are relatively few persons from those countries that have gone furthest in eliminating the primitive sector.

The next income group—the 30 per cent above the median—is made up of groups from the different countries very nearly in proportion to total populations. This is the "intermediate" sector between the dominant influence of the primitive sector, on the one hand, and the modern sector, on the other; and all countries have a substantial group of this sort, although of course it is found at varying levels of the individual national distributions.

In the following income group—the 15 per cent below the top—there is again great distortion. It is primarily here that those countries with the most extensive modern and semi-modern sectors are of the greatest importance.

Finally, at the very top of the scale the composition is again more in proportion to total population. This is because all countries in the region have a modern sector of some importance, and incomes at the top of every national distribution are fairly high in absolute terms and are far above those immediately below them on the scale. Thus the top 5 per cent for the region comes close to being the top 5 per cent from each of the national distributions.

Attempts to raise the income level of the poorest strata could, to a certain extent, be restricted to specific areas or sectors where the level is very different from that of the rest of the region. This method could not however be applied to efforts to reduce the highest income levels, which, because they are spread more evenly throughout the region, would require measures embracing all the countries involved.

3. Variations within the region: analysis of the situation in selected countries

It will have been observed from the figures presented that there are significant differences between individual countries, although, as stated at the outset, these are much less marked than the differences between the region as a whole and the industrialized countries. Above all, it is useful to show the extent to which the major differences in income distribution between one country and another can be related to the development of a country. If development is defined as the growth of the modern sector and the progressive elimination of the primitive sector, this can explain important shifts in the distribution from one country to another or over time within a single economy.

In the initial stages of development, the great bulk of the labour force will be in the primitive sector, and a high proportion of total income will probably be concentrated in the hands of the few who work in the modern sector. As the modern sector expands and the primitive sector contracts, the increased income will largely accrue to the new members of the modern sector and to those who have established close links with this sector. The negative effect of the primitive sector on income levels will affect a progressively smaller proportion of the labour force towards the bottom of the distribution and a progressively larger proportion towards the top will enjoy relatively high incomes. The extent to which this seems to occur may be seen from the data on several countries in table 255. The modern sector is important in all Latin American countries, but there are wide variations.

This general feature is discussed in some detail in the following analyses of individual countries, and the analyses are to a considerable extent organized on this basis. The analyses start with Argentina, where the modern sector

Table 255. Latin America: percentage share of the different income groups in total income in selected countries

(*Percentages*)

Country	*Lowest 20 per cent*	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
El Salvador	5.5	10.5	22.6	28.4	32.9
Costa Rica	5.5	12.5	22.0	25.0	35.0
Mexico	3.6	11.8	26.1	29.5	29.0
Venezuela	3.0	11.3	27.7	31.5	26.5
Argentina	5.2	15.3	25.4	22.9	31.2

SOURCES: As for table 253.

occupies a larger proportion of the labour force, and the primitive sector a smaller proportion, than in any other country of the region. The countries which follow are dealt with in descending order of the relative importance of their modern sector, so that the impact of this factor on the distribution of income may be more clearly analysed.

The size of the modern and primitive sectors is by no means the only important factor in determining income distribution, and some of the other features of the individual countries are discussed in the following pages. It must be borne in mind, however, that the brief analysis of individual countries presented here should be taken as fully representative of the structure of income distribution in these countries, since emphasis is placed here only in those factors which seem most important in differentiating between the countries—in other words, those which point up variations within the region. Other factors which may be of great importance in any analysis of a single country are here ignored if they seem to be common to the other countries as well.

(a) *Argentina*[128]

Income distribution in Argentina departs somewhat from the Latin American pattern. Minimum incomes are fairly high and from the minimum level, incomes rise very rapidly. The low- and medium-income groups receive a comparatively large share of total income, and there is less inequality than elsewhere in the region throughout most of the income distribution structure (that two thirds of the population ranging from the third to the ninth deciles) incomes rise steeply at the top of the scale.

It is in the lower half of the distribution that conditions in Argentina differ most from those elsewhere in the region, because the primitive sector is very small and does not exert substantial pressure on incomes, even in the lower part of the distribution. Two thirds of Argentina's population is urban; less than 20 per cent of the labour force is engaged in agriculture, and there are virtually no primitive agricultural activities. For the country as a whole, production per member of the labour force is nearly as high in agriculture as in non-agricultural activities, and in the high-income Pampa region, it is probably higher. Unemployment has not been a serious problem in the urban areas, and there are consequently few of the low-productivity commercial and service-type activities undertaken because of lack of remunerative employment opportunities.

The almost complete lack of a primitive sector is not the result of a recent period of rapid growth but rather of the historic pattern of Argentina's development.

The beginning of the rapid growth of Argentina is generally placed in the 1860s, with the arrival of the first big wave of European immigrants.

The very rapid development of the economy fed by large-scale immigration and considerable inflows of European capital, and dominated by the export-oriented livestock and agricultural production of the pampas, continued until the Depression which began at the end of the 1920s. At that time, income levels were similar to those of Western Europe, and such primitive-type activity as existed was carried on in the north; but, since the bulk of the population was concentrated in the Pampas region, this regional difference was less important than in other countries. According to the 1914 census, only 13 per cent of the population lived in the north-west.

Since the collapse of the export market at the end of the 1920s, Argentina's growth rate has been somewhat slow. During the post-war period in particular, it lagged behind that of most of the other Latin American countries. Notwithstanding the low growth rate, there has been a considerable population shift from rural areas to the towns, and employment in urban areas has not become a major problem. There has been no tendency either towards an increase in subsistence agriculture or in marginal-type urban activities, because no significant primitive sector has developed.

Because of the absence of a primitive sector, coupled with the high degree of urbanization, social security programmes have a much greater

[128] The estimates for Argentina were prepared after an extensive statistical study in which the national accounts estimates were re-examined precisely for this purpose. The estimates are therefore more reliable than most and, in particular, the high incomes are not thought to be under-estimates; in so far as there is any error in the estimate, the share of the top 5 per cent is more likely to be an over-estimate. Since it is generally believed that most estimates significantly under-estimate the share of the top 5 per cent, this is important in comparing the figures for Argentina with those for other countries. The distribution of income was estimated taking both the family and the individual income recipient as the basic income unit, and the latter figures are used in this study. Estimates were also prepared for several years, and those given here are for 1961. A detailed description of the sources and methods used and the statistical results of the study were published by the National Development Council (Consejo Nacional de Desarrollo—CONADE) in the study in five volumes entitled *Distribución del ingreso y cuentas nacionales en la Argentina* (Buenos Aires, 1955). An analysis of the structure of income distribution may be found in *Economic Development and Income Distribution in Argentina* (United Nations publication, Sales No.: E.68.II.G.6).

impact at the bottom of the distribution in Argentina than in most of the other Latin American countries.

These factors largely determine the structure at the bottom of the distribution in Argentina. Minimum incomes—the average income for the bottom decile—are lower in relation to the national average than in some other countries (see the first section of figure XL). In absolute terms, however, minimum incomes in Argentina are still well above those of any other country in the region (see the second section figure XL).

Incomes rise rapidly right from the minimum: average income in the second decile is already 75 per cent above the minimum. This is more like the situation in the industrialized countries than that prevailing in the rest of the region, and the reasons for it are of the same sort. A large proportion of the minimum incomes in Argentina are those received by inactive persons or by persons who are not full-time participants in the economy, including many retired persons; this group also includes many people whose incomes do not represent regular full-time employment and often the income of the head of the family is supplemented by that of a second family member. It may be inferred, therefore, that the rapid rise from the minimum partly reflects a move from incomes of this kind to incomes received for active full-time participation in the economy, which are much higher.

After the rapid rise from the minimum comes the broad middle sector of the distribution, where the degree of inequality is less in Argentina than in other countries. From the third through the seventh deciles, average income rises by less than 20 per cent from one decile and the next, and between the eighth and ninth deciles the average increase is about 25 per cent, which are both fairly low percentages compared with the rest of the region (see the fourth and fifth sections of figure XL). As is typical for the region as a whole, incomes start to rise more rapidly at about the seventh decile, but to a lesser degree in Argentina than elsewhere.

The lesser degree of inequality through this broad sector of the distribution, taken as a whole, can be seen by comparing the average income of the 15 per cent of the population just below the top with those of the third and fourth deciles (see the fifth section of figure XXXIX). While the income of the group just below the top is 3.3 times that of the lower middle sector of the distribution in Argentina, the same multiple is from nearly four to nearly six in the other countries of the region.

Several factors contribute to this lesser degree of inequality through the bulk of the distribution, the main cause being the absence of a primitive sector, as mentioned above.

Another factor is that, during most of the post-war period, structural changes took place more slowly in Argentina than in other countries. The fully modern sector has expanded relatively slowly and, what is equally important, it was already quite large at the beginning of the period, so that its expansion has been accompanied by fewer adjustment problems. The first point to be noted is that, as indicated above, a major part of the economy has long been based on fully modern or intermediate-type activities, with the latter predominating. Approximate estimates show that in 1960, more than two thirds of the labour force in Argentina was engaged in the intermediate sector, which is a much higher proportion than in the other Latin American countries. Incomes in this sector fall into the range where there is relatively little inequality. Productivity is sufficiently high to yield higher incomes than in the primitive sector, yet without the possibilities which exist in fully modern activities.

Another aspect of the slower tempo of structural change is the insufficient demand for technical and professional personnel in relation to the supply.[129] Consequently this group has been in a less favourable position in Argentina than in other countries and it has not earned such high incomes. This partly accounts for the fact that incomes rise less steeply in the eighth and ninth deciles in Argentina, these groups are very numerous, and that the 15 per cent just below the top 5 per cent receive a smaller share of total income.

The final causal factor in the lesser inequality through the bulk of the distribution is the very general extent to which the different

[129] The probable importance of this feature is revealed by the growth rate of Argentina's industry, which may be considered as indicative of that of the modern sector, the production of which rose by an average of 4 per cent during the 1950s. Owing to the relatively large size of the modern and semi-modern sectors and the comparatively advanced stage reached by educational and training institutions, it has been a fairly simple matter to supply the technical and professional personnel required to attain that rate of growth. In Mexico, on the other hand, industrial production increased by over 7 per cent annually during the decade, and in Brazil by more than 9 per cent. In both these countries the modern sector was smaller than in Argentina, and a large proportion of the population was still engaged in primitive-type activities. In those circumstances it was much more difficult to find the necessary technical and professional personnel, and trained persons were in a much more favourable position.

economic groupings are formally organized, as formal organization tends to narrow income differentials. Argentina is a highly urbanized society, and the absence of a major unemployment or under-employment problem has made it possible to organize virtually all sectors of the urban economy.

The principal economic consequence of the lesser inequality through this wide range of the distribution is that there has been a greater basis for mass markets in Argentina than elsewhere in the region. The virtual absence of a primitive sector has meant that almost the entire population has been incorporated into the commercial economy as effective consuming units. Incomes at the bottom of this range, while low by the standards of the industrial countries, are high by comparison with the rest of the region: the average annual income in the third decile is slightly more than 700 dollars. Furthermore, it is the family rather than the individual which forms the basic consuming unit, and family incomes at the lower levels are considerably higher. In the distribution by family, the average annual income in the third decile is 1,200 dollars.

Incomes then rise relatively slowly until close to the top of the distribution. This means that living patterns are likely to be more similar for the great bulk of the population. There will be more individual items which will be used by all groups—that is, which will have a mass market. This was an important factor in promoting a considerable amount of industrial development on an economic scale.

Finally, after the lesser degree of inequality exhibited through the bulk of the distribution, incomes rise very rapidly at the top of the scale, and there is the concentration in the hands of the top group which is typical of the region. The top 5 per cent received 31.2 per cent of all personal income in 1961, and had an average income over four times that of the 15 per cent just below the top. In absolute terms, their income is far above that of the top income groups in other countries of the region: in 1961 the average income of the top 5 per cent in Argentina was over 10,000 dollars. Even within this top group the inequality is extreme. The top 1 per cent alone received 16.3 per cent of total income, and had an average income of 27,000 dollars in 1961. Incomes at the top of the scale have been as high as incomes of the same groups in the European industrial countries, so that European consumption levels could be maintained and still leave funds available for saving.

The basic reason for the concentration of income at the top of the scale is similar to that in other countries of the region: the concentration of property ownership; but this should be broadly interpreted to mean not only the ownership of property as such, but also access to credit and market positions, and other factors of this type. In Argentina, income is concentrated in the hands of individual entrepreneurs, not *rentiers:* about four out of every five persons in the top income group are self-employed.

Land ownership, as in the rest of the region, was very unequally distributed from the colonial period. In 1960, 1.2 per cent of all agricultural units included 46.7 per cent of the land, and 5.6 per cent of all farms accounted for nearly three quarters of the land.[130] These holdings were very large in absolute terms—the largest 5.6 per cent include only units of 1,000 hectares or more, and the top 1.2 per cent those of 5,000 hectares or more—and yielded very high incomes. Nevertheless, agriculture is no longer the principal source of high incomes in Argentina: it now accounts for no more than one fifth of the incomes in the top 5 per cent. Hence, the great inequality within the agricultural sector itself is not the determining factor in the over-all concentration of income at the top of the scale.

It is the possession of capital and commercial and financial positions in the urban sector which directly accounts for the major part of the concentration at the top of the scale: the top income group is dominated by the urban self-employed. In part, this is because of the concentration of property ownership among the urban self-employed themselves; but mostly it is due to the relatively high incomes obtained by urban property ownership in general: nearly one out of every five of the urban self-employed have incomes high enough to place them in the top 5 per cent of the distribution.

The extent to which income is concentrated in the hands of the top 5 per cent in Argentina is about average by comparison with other countries of the region (see the final section of figure XXXV).

Probably, however, this comparison is somewhat deceptive owing to the differences in the statistical methodology used in the calculations. For most countries, the figures are obtained using techniques that are thought to underestimate incomes at the top of the scale. For Argentina, however, the figures were obtained by means of a specially designed statistical

[130] These figures, from the agricultural census, refer to operating units. There are no figures for land ownership as such in Argentina.

study, and it is virtually certain that the share of the top 5 per cent has not been underestimated.[131]

A factor which may tend to increase the concentration at the top of the scale in Argentina by comparison with some other countries is the moderate rate of structural change characteristic of the post-war period which, while holding down incomes of the group just below the top did not have the same effect on the top group itself. These are mostly the already established groups, and their incomes depend less on a rapid growth of new activities.

The concentration of income in the hands of the top 5 per cent in Argentina indicates that the elimination of the primitive sector will not necessarily reduce greatly the over-all inequality in the distribution of income. By itself it can be expected to increase minimum incomes considerably, and to improve the relative position of the lower and middle income groups; but the concentration at the top is likely to be reduced only moderately, and this is the principal source of the inequality in Latin America. The institutional shift to an economy dominated by impersonal, corporate-type organizations, which might be more effective in reducing the concentration at the top, has not yet occurred in Argentina. Although there has been a rapid growth of corporations in recent years, particularly in the industrial sector, the large numbers of relatively small, independent producers still form the basis of the economy, and the self-employed dominate the high income group.

(b) *Venezuela*[132]

The income distribution in Venezuela follows a pattern which to a considerable extent is the reverse of that in Argentina. Minimum incomes are relatively low, and although the rise from the minimum level is quite rapid, the poorer half of the population receives a smaller proportion of total income than in any other country of the region. There is considerable inequality throughout the distribution: from the second through the ninth deciles incomes rise much more rapidly than in most of Latin America. But the rise at the very top is relatively smaller, and the top 5 per cent receives a smaller share of the total than elsewhere in the region. Thus, the over-all inequality is caused to a greater extent by inequality throughout the distribution, and less by the concentration of income at the very top of the scale.

In 1960 approximately one quarter of the labour force was occupied in primitive-type activities. This is a large enough proportion, first, to constitute a substantial group at the bottom of the scale with very low incomes; and secondly, to exert pressure on the incomes of some other groups; but the primitive sector in Venezuela is considerably smaller than in most of the region. For the region as a whole some 40 per cent of the labour force is in the primitive sector, and only a few countries have progressed further than Venezuela in this respect.

Two general factors have made it difficult to absorb a larger part of the labour force in more productive activities. First, the growth has been concentrated on an expansion of the modern sector to an especially great extent in Venezuela, requiring highly capital-intensive methods. This has meant that the requirements for additional labour have been rather small in relation to the rate of growth achieved. Secondly, the rate of population growth has been very high—it is currently estimated to be 3.4 per cent a year—so that large numbers of additional jobs are needed. The consequence of these two pressures has been that primitive-type activities continue to be of considerable importance.

This situation has manifested itself in several ways. First, about 35 per cent of the labour force remains in the agricultural sector, where productivity levels are generally low; this large proportion of the labour force produces only about 7 per cent of the gross product. Within the sector there is the characteristic unequal distribution of land. Two thirds of all farms in 1956 were five hectares or less in size—accounting for only 2.3 per cent of the total acreage—and the great bulk of these represented primitive-type agriculture and yielded very low incomes. Secondly, substantial numbers of persons in the urban areas are occupied in marginal activities because they cannot obtain more productive employment. Finally, open unemployment has been high; it is estimated to have ranged from 5 to 7 per cent of the labour force during the 1950s and early 1960s, and was much higher in Caracas itself. Except for

[131] A sample survey carried out in Argentina in 1963, similar to those on which the estimates for other countries are based, produced data showing a lesser degree of concentration of income at the top of the scale.

[132] The estimates for Venezuela are based primarily on the data from a sample survey conducted in the second half of 1962. See Oficina Central de Coordinación y Planificación, *La primera encuesta nacional de ingresos y gastos familiares en Venezuela* (Caracas, 1964). Additional data on the structure of the population were provided by the Office of Sampling and on the national accounts by the Central Bank, in the light of which the initial distribution was adjusted. The family is the basic income unit in the estimates.

open unemployment, these problems were less serious in Venezuela than in a number of other countries of the region, but as will be seen they exerted a major influence on the distribution of income.

In relative terms, incomes at the bottom of the scale are lower in Venezuela than in any other country of the region. Minimum incomes are less than 15 per cent of the national average income (see the first section of figure XL), and the poorest 20 per cent receive only 3 per cent of total personal income (see the first section of figure XXXV). In absolute terms, however, the situation is different: minimum incomes are higher in Venezuela than in most of Latin America (see the second section of figure XL).

The rapid growth of recent years has been largely centred on an expansion of the modern sector, and has largely benefited those incorporated into that sector. As per capita incomes have risen, those at the bottom of the scale have been left progressively further behind in relative terms, until their relative position has become worse than in any other country in the region. This is the first important element of inequality in Venezuela.

Incomes rise fairly rapidly from the minimum level. For the next income group—the 30 per cent below the median—the increase averages about 25 per cent from one decile to the next. The inequality in this part of the distribution is significantly greater than in most of the region (see the second section of figure XXXVIII), although it is still quite moderate. The individuals who compose it have not been incorporated into the expanding modern sector, nor have they been able to insulate themselves from the pressure of the primitive sector. As a consequence, the relative income of the group is low (for the group as a whole it is only 38 per cent of the national average) and its share of total income is less than in the rest of the region (see the second section of figure XXXV). Combining this group with the poorest 20 per cent, the entire lower half of the distribution receives only 14.3 per cent of total personal income, a smaller proportion than in any other country in the region.

There is thus an unusually sharp split between the two halves of the distribution in Venezuela, which can be explained by the fact that, in the existing circumstances, it is very largely those in the top half of the distribution who have benefited most from rapid economic growth. What needs to be emphasized is that growth of this kind, centred on the expansion of the modern sector, results in great inequality—at least so long as the primitive sector remains important.

Within the top half of the distribution itself—that is, among those groups that have benefited most—there is very great inequality. From the sixth through the ninth deciles, incomes rise on the average 40 per cent from one decile to the next, and comparisons between income levels within this range show a greater disparity than in the rest of the region (see the third and fourth sections of figure XXXVIII, the last two sections of figure XXXIX and the fourth and fifth sections of figure XL). The average income of those in the seventh and eighth deciles, for example, is more than double the median income in Venezuela, while in most of the region it is only from 50 to 70 per cent above the median. Several specific characteristics of the Venezuelan economy help in part to explain this inequality.

The fully modern sector has grown very rapidly in Venezuela, and is now relatively large. In 1960 it occupied more than one fifth of the labour force, a proportion exceeded only by Argentina. Even excluding petroleum, the modern sector accounted for close to two thirds of the total gross product a substantially greater proportion than in any other country of the region. And if petroleum is included the share approaches three quarters.

The rather unusual situation of the external sector in Venezuela has contributed to the adoption of highly capital-intensive techniques in the course of this expansion. Exchange rates, since the mid-1930s, have been such that imports (equipment) have appeared to be cheap in relation to internal costs (labour). Moreover, there has been adequate foreign exchange available to finance large import volumes, and capital goods imports have been encouraged by very low tariffs.

This has had two principal consequences from the point of view of income distribution. First, the employment provided in the course of the growth was less than it might otherwise have been. This is most clearly seen in the manufacturing sector, in which the proportion of the labour force occupied in the mid-1960s remained the same as in 1950, despite the fact that the share of the sector in the gross product increased from 10.2 per cent to 17.9 per cent over the period. In contrast, an increasing proportion of the labour force was employed in the services sector at declining productivity rates.

Secondly, the use of capital-intensive techniques meant that productivity per person was very high in the modern sector, especially in

the petroleum industry, where during the past decade and a half an average of 2 per cent of the labour force has consistently produced over 20 per cent of the gross product.[133] While less extreme, productivity in other parts of the modern sector has also been very high by comparison with the rest of the economy. This has offered the possibility of relatively high incomes to the restricted number of persons employed in such activities.

A further factor contributing to the inequality in the upper half of the distribution is the very rapid growth of the modern sector itself, and the consequent increase in the demand for relatively skilled and more highly qualified personnel, who receive high incomes.

A final factor which has tended to increase the inequality in the upper half of the distribution is the existence of the petroleum sector. The production and, to an even greater extent, the refining of petroleum is carried on with methods which utilize large amounts of capital, but require very little labour. As already noted, 2 per cent of the labour force produces 20 per cent of the gross product. It is obviously possible to pay high wages and salaries in such circumstances.

In Venezuela this tendency is strengthened by the position of the petroleum industry. On the one hand, the companies are not owned by Venezuela, and larger wage and salary payments have been one way of retaining funds within Venezuela which otherwise would have been sent abroad as profits. There has thus been political as well as economic pressure for higher wage rates. On the other hand, the wealth of the Venezuelan concessions has made them very profitable to the major companies concerned, and they have therefore been willing to pay high wages and grant additional benefits to avoid either a political or an economic threat to their position. This high level of wages and other benefits for the small fraction of the labour force engaged in the petroleum industry has helped to raise incomes in other sectors—in so far as productivity levels permitted. Even federal labour legislation has been influenced to some extent by the prosperity of the petroleum sector.

The groups which have benefited most from the specific development of the Venezuelan economy are those now in the top half of the distribution, but below the very top of the scale. In terms of the major groupings used here, both the 30 per cent above the median and the following 15 per cent receive a larger share of total personal income than in any other country of the region (see the third and fourth sections of figure XXXV). The extent to which these groups have gained can be appreciated by noting that in combination they receive 59.2 per cent of the total, while in most of the region the corresponding share is less than 50 per cent.

But at the very top of the scale the inequality is less extreme than elsewhere in the region. Incomes rise less rapidly at the very top (see the third section of figure XXXIX and the last section of figure XL), the share of the top 5 per cent in the total is smaller (see the last section of figure XXXV), and the average income of the top 5 per cent is a smaller multiple of both the average and the median income (see the last section of figure XXXVII and XXXVIII). There is still, of course, a greater inequality and concentration of income at the very top of the scale in Venezuela than in the Western industrial countries.

This reduced concentration at the top of the scale compared with most countries of the region can be explained by two major factors, one that is more general and can be expected to be repeated in other countries, and one that is more specific to Venezuela. The first is the growth of the modern sector, which mainly tends to benefit the groups below the top, and to reduce somewhat the share of the top 5 per cent. The second major factor is the specific set of circumstances surrounding the export sector in Venezuela. In much of the region, export production is in the hands of nationals, and export earnings are a major source of high individual incomes.

However, profits from the export sector, essentially from petroleum, have not accrued to any significant extent to private individuals in the country. As already noted, wage and salary incomes in the petroleum industry are relatively very high, but for the most part this is a factor in the great inequality below the very top of the scale. While some salaried employees of the petroleum companies are undoubtedly in the top 5 per cent, even these do not receive the very high incomes which largely account for the concentration at the top of the scale in Latin America. Incomes of this sort are derived from the profits of self-employment and property ownership. Profits from petroleum operations have been sent abroad, or, to the extent they have been retained in the country, they have accrued to the public sector in the form of tax payments.

[133] It should be recalled that a large proportion of the product is transferred abroad and does not form part of personal income in Venezuela.

These have been very large, and the public sector has been much more adequately financed than in most of the region. One consequence of this has been that it has been possible to pay relatively high salaries at the higher levels to attract the required personnel; and the public sector has expanded rapidly, and to a considerable extent has been the dynamic centre of the expansion of the modern sector. This has meant a rather high degree of inequality within the public sector but still less than the inequality in the modern private sector, even among wage and salary earners, which has primarily been a factor in the great inequality below the very top of the scale.

In total, the specific conditions of the export sector in Venezuela have probably been an important factor in reducing the inequality at the very top of the scale and the share of the top 5 per cent in total income (always by comparison with the rest of the region). As with the rapid growth of the rest of the modern sector, this has tended to strengthen the position of the groups in the upper half of the distribution but below the very top; but it has also probably reduced somewhat, even in absolute terms, the magnitude of the very highest incomes themselves.

(c) *Mexico*[134]

The distribution of income in Mexico is basically similar to that in Venezuela. Minimum incomes are low, and the poorer half of the population receives a very small proportion of total income. There is also considerable inequality throughout the distribution, with incomes rising more rapidly than in most of Latin America. The rise at the very top is relatively smaller, and although the top 5 per cent receives a larger share of the total than in Venezuela, this share is still smaller than elsewhere in the region. The over-all inequality in Mexico, as in Venezuela, is very great, but by comparison with the rest of the region inequality is concentrated less at the very top of the scale. The similarity between the income distributions of the two countries can be readily seen by reference to the figures. In the various ways of viewing the distribution, the values calculated for Mexico and for Venezuela consistently fall close to each other on the scale.

This similarity, and the differences which can be noted, can be largely explained in the same terms employed earlier. Mexico, like Venezuela, has been characterized by a rapid rate of economic growth, in a setting where the primitive sector, although it has been reduced somewhat in relative importance, remains large enough to exert a dominant influence over the lower and middle parts of the distribution. The differences between the two distributions can be at least partially explained in terms of the slightly lower growth rate in Mexico, and by the fact that the primitive sector remains considerably larger than in Venezuela.

In 1960, almost 40 per cent of the labour force was occupied in primitive-type activity in Mexico, with the primitive sector continuing to dominate the entire lower half of the distribution. Mexico is a clear illustration of the difficulty of eliminating a large primitive sector, and of effecting the corresponding change in the income distribution structure—even under very favourable economic circumstances.

The same two general factors as were noted earlier for Venezuela, have prevented the absorption of a larger part of the primitive sector into more productive activities in Mexico. First, growth has been concentrated largely on an expansion of the modern sector. This has meant the use of capital-intensive techniques (although to a lesser extent than in Venezuela) and consequently rather smaller requirements for additional labour in relation to the rate of growth achieved. Secondly, the rate of population growth has been very high—it is now estimated at 3.4 per cent per year—so that large numbers of additional jobs are needed. The consequence of these dual pressures has been that a large proportion of the labour force continues to be engaged in primitive-type activities.

There is evidence of this in all the usual areas: there are large numbers engaged in primitive-type agriculture at very low income levels, and there is the problem of employment in the cities, visible in the form of open unemployment and in the substantial numbers engaged in marginal and semi-marginal activities. But the proportions are not quite the same in Mexico as in Venezuela. In Mexico, rural traditions were stronger, and have been reinforced by measures stemming from the Mexican revolution, principally those relating to land reform. Migration to the cities has consequently been somewhat less rapid in Mexico and the problem has to a somewhat greater extent been confined to rural areas. Open unemployment, in particular, has not reached the very high Venezuelan levels.

[134] The estimates for Mexico are based on the data provided by the sample survey of 1963; see Banco de Mexico, *Encuesta sobre ingresos y gastos familiares en México* (Mexico City, 1966). The family is the basic income unit in the estimates.

This of course means, however, that the problem of primitive-type activity exists on a larger scale in the rural areas. In the mid-1960s half the labour force was still employed in the agricultural sector and, although agricultural production has expanded steadily and at a substantial rate since 1940, the increase is largely accounted for by a rapidly growing modern sector involving only a small proportion of the rural population. The estimates for 1960 indicate that some 60 per cent of those employed in the sector were still engaged in primitive-type agriculture. These families existed at very low income levels and exerted a major influence on the income distribution structure.

Incomes at the bottom of the scale are thus low. The minimum income is only 15 per cent of the national average (see the first section of figure XL), and the poorest 20 per cent receive only 3.6 per cent of total personal income (see the first section of figure XXXV). The income groups at the bottom of the scale are in the primitive sector—about three quarters are engaged in primitive agriculture. As in Venezuela, they have been almost untouched by the rapid growth of the modern sector, and their incomes have fallen progressively further behind the rising incomes of more favoured groups; as a consequence their relative position is now worse than in the rest of the region. The situation is unfavourable with respect to absolute incomes as well, however. These depend basically on the natural resource endowment, and this is rather less favourable in Mexico. The minimum annual income is about 60 dollars per capita, and while the minimum is even lower in some countries, this value is towards the lower end of the range (see the second section of figure XL).

As in Venezuela, incomes rise rather rapidly from the minimum level (see the third section of figure XL), and the inequality within the next income group—the 30 per cent below the median—although still moderate, is greater than in most of the region (see the second section of figure XL). The inequality here is to some extent the result of moving to groups at higher productivity levels, but this is a much smaller part of the explanation in Mexico than it was in Venezuela. To a much greater extent, the differentiation of incomes in this group is the result of measures that have been taken to improve conditions within the primitive sector, and these have inevitably helped some individuals more than others. The land reform programme, in particular, was directly concerned with the primitive sector, and the distribution of land itself, and the other activities associated with the programme, have been on a considerably larger scale in Mexico than in most of the rest of the region. Large numbers of persons within the primitive sector have had their situation improved in varying degrees as a result, and this is a major part of the explanation for the more rapidly rising incomes in this range of the distribution.

However, this income group is not among those which have benefited greatly from the rising income levels. The relative income is low—for the group as a whole it is slightly less than 40 per cent of the national average—and the share of total income received is less than in most of the region (see the second section of figure XXXV). The entire lower half of the distribution receives only 15.4 per cent of total personal income, a smaller proportion than in virtually any other country of the region.

There is thus the same sharp split between the two halves of the distribution in Mexico that was shown to exist in Venezuela. While it is slightly less in Mexico, the average income in the top half of the distribution as a whole is still some five and a half times the average income of the poorer half of the population. The explanation too is the same as that given for Venezuela, i.e., it is very largely those in the top half of the distribution who have benefited from rapid economic growth.

Within the top half of the distribution itself there is again inequality, although somewhat less than in Venezuela. The greater disparity can again be seen by comparing any income levels within the upper half of the distribution, but below the very top (see the third and fourth sections of figure XXXVIII, the last two sections of figure XXXIX, and the fourth and fifth sections of figure XL).

There are several differences which explain the somewhat lesser inequality in this part of the distribution in Mexico. First, the primitive sector is larger in Mexico than in Venezuela, and so exerts a downward pressure on incomes through a larger part of the distribution. At the opposite extreme, the fully modern sector occupies a smaller proportion of the labour force in Mexico, and the rapid growth has been concentrated on the expansion of this modern sector to a somewhat lesser extent than in Venezuela. There has not been quite the same availability of cheap imports (equipment) to encourage the use of capital-intensive techniques with very high productivity for the limited number of persons employed. In particular, there has not been the same incentive for existing firms to replace an established

production process with a more capital-intensive process; and less capital-intensive methods have often been used in construction work. As a consequence there have been relatively more employment opportunities in the industrial and construction sectors in Mexico, and somewhat less extreme variations in productivity levels.

It should be emphasized, however, that these factors only yield slight differences between two distributions characterized by a basic similarity. Rapid growth has been concentrated in the expansion of the modern sector, and hence exchange availability has been much more adequate in Mexico than in most of the region, so that import policy has been less restrictive and has contributed to the use of capital-intensive methods and the growth of the modern sector. This has had the double consequence of limiting the total amount of employment offered in the course of the rapid growth, and at the same time requiring a considerable increase in modern skills and training which were in relatively short supply.

The groups which, in relative terms, have gained most from this process in both countries are those in the upper part of the distribution, but below the very top. The 30 per cent above the median received 26.1 per cent of all personal income in Mexico, while the following 15 per cent received 29.5 per cent of the total. For each group this percentage is higher than in any other country of the region except Venezuela (see the third and fourth sections of figure XXXV). Within these groups the inequality is great in both countries.

At the very top of the scale, however, the inequality is less extreme than in most of the region. Incomes rise less rapidly (see the third section of figure XXXIX and the last section of figure XL), the share of personal income received by the top 5 per cent is smaller (see the last section of figure XXXV), and the average income of this group is a smaller multiple of both the national average and the median income (see the last section of figure XXXVII and XXXVIII). Viewed in any of these various ways, the inequality at the very top is considerably greater in Mexico than in Venezuela, although it is still less than in most of the region.

Again the basic causal factor is similar in Mexico to that in Venezuela: growth has primarily benefited those in the upper part of the distribution but below the top; and both those at the very top and those at the bottom have seen their share of total income decline in the process. But, especially in Mexico, it is necessary to keep in mind the proportions and likely composition of the 5 per cent at the top of the scale. In Mexico some 40 per cent of the population is still in the primitive sector, so that the top 5 per cent actually represents rather more than 8 per cent of those in the modern and intermediate sectors. Only about 15 per cent of the labour force is engaged in fully modern activities, so that the top 5 per cent is one third the size of the modern sector itself.

What this makes clear is that the top 5 per cent is not a very exclusive grouping for present purposes, and in particular cannot be taken to represent the economic *élite* of the country. It does of course include this *élite*, but it also includes a considerable number of persons with modern skills and training who have benefited largely from the growth of the modern sector. There are thus two quite different groups within the top 5 per cent in a country like Mexico: the already established economic *élite*, whose share of total income is declining with the rapid expansion of the modern sector; and a group of persons who, like the 15 per cent below the top, are the special beneficiaries of that expansion, and whose share of the total is rising. The tendency for the share of the established *élite* to decline with the growth of the modern sector would no doubt stand out more clearly if the top 5 per cent could be broken down into separate groupings.

Apart from this basic link to the growth of the modern sector, the share of the top income group varies with the social and institutional structure in any particular country, and there are not, in Mexico, the special features which reduced this share somewhat in Venezuela. The public sector has played a major role in Mexico's development, and this may to some extent have reduced the inequality at the top; but the share of the total national income that has been channelled through the sector in the form of government receipts and expenditures is much smaller than in Venezuela; and whereas exports were largely in the hands of foreign firms in the 1930s, this situation has been progressively altered, and export production, with the high personal income which it often yields, is now dominated by Mexican enterprise.

Lastly, the extent that professional and other incomes in the top income group are influenced by international standards tends to lead to a somewhat greater concentration at the top in Mexico. By international standards, incomes towards the top of the distribution are still not very high. The top 5 per cent begins at a per capita level of only about 1,400 dollars a year (in Venezuela the corresponding figure is 50 per

cent higher). Close proximity to the United States probably does influence professional and some other incomes to a significant extent, and this would be reflected in a relatively rapid rise from levels just below the top, and the concentration of a somewhat larger share of total income in the hands of the top group.

(d) *Brazil*[135]

(i) *General features*

The most salient feature of income distribution in Brazil is the extreme concentration of income among the top 5 per cent of the population, which absorbs about 40 per cent of total income, whereas more than 80 per cent of the gainfully employed population receives less than the national average income (see figure XXXVI). The average income of the top 5 per cent is more than eight times the national average, while in the other Latin American countries this figure fluctuates between five and eight times, and in Norway it is barely three times. The second distinctive feature is the relatively small size of the middle class.

Four groups may be distinguished in the distribution of personal income in Brazil (see table 256).

The first group, which comprises about half of the population, receives very low wages, is in practice marginal to the organized consumer markets, and has a very low average productivity, generally working in the primitive sectors of the economy. This group includes 70 per cent of the rural population and the great majority of the population of the north-east, both rural and urban.

The second group comprises the next 30 per cent of the population, and includes the bulk of wage and salary-earners in the urban and rural modern sectors of the most developed regions, and in all probability some of the group known as "own-account workers" in the services sector. Average wage levels are higher than those of the previous group, but are still 15 per cent below the national average, giving this group a low purchasing power restricted to the most common goods.

The third group (the following 15 per cent of the population) corresponds in theory to the middle class, and its level of remuneration is twice that of the second group and one and a half times the national average. The average income of this group is relatively low, representing only half the corresponding figure for the equivalent group in Mexico and one third of the figure for Venezuela; in per capita terms, it is barely equivalent to the over-all average for Latin America. Thus, this economic and social stratum, which should be the backbone of a diversified market, is not at all well off, either in relative or in absolute terms.

Consequently, the fourth group, comprising only 5 per cent of the population, constitutes the real base of consumer diversification, with a real purchasing power in line with the consumption standards of a modern developed society; the average income of this group is eight times the national average.

(ii) *The urban-rural situation*

An analysis of the urban-rural situation shows that income inequalities are more acute in the urban sector. The most obvious contrast between the two sectors is the degree of difference between their average incomes, which

[135] The estimates for Brazil are based primarily on data obtained from the preliminary results of the population census of 1960. Estimates of the distribution of income by decile were made by adjusting these data in accordance with a combined log normal and Pareto distribution. The principal point to note is that in the census data the top income interval is open, and no direct estimate of total income for this group is available. The estimate was made using a Pareto distribution, which probably results in a higher figure for the top 5 per cent than that obtained by the methods used in other countries. This needs to be borne in mind when comparing the figures for Brazil with those of other countries. The individual income recipient is the basic unit for the income distribution estimates. The preliminary census data can be found in: Brasil, Servicio Nacional de Recensamiento, *Recesamento Geral do Brasil, 1960*. The tabulations by decile were undertaken as a joint ECLA-IPEA project, and an analysis of the results will be published shortly.

Table 256. Brazil: distribution of personal income

	Gainfully employed population (percentages)	*Share of total income (percentages)*	*Average remuneration (1960 dollars)*	*Per capita income (1960 dollars)*
First group	50	15	252	80
Second group	30	23	644	200
Third group	15	22	1,230	400
Fourth group	5	40	6,720	2,100
TOTAL	*100*	*100*	*840*	*264*

SOURCES: As for table 253.

is greater than in the other Latin American countries studied; the income of the urban sector is 2.7 times higher than that of the rural sector, and their average productivity is almost three times higher than that of their rural counterparts. On the other hand, the ratio of the average incomes of the first and tenth deciles, under both distribution systems, is 1 to 10 in the rural sector and 1 to 40 in the urban sector, owing mainly to the gulf between the upper 5 per cent and other income groups.

The factors governing income distribution in the rural sector seem to be the productivity levels of the labour force and the concentration of property ownership. Thus, the lowest 40 per cent of the population would appear to be homogeneous groups engaged in traditional forms of farming and with very low levels of productivity. The intermediate groups are those being progressively absorbed into the more modern sector of agriculture and those who work on estates in the south. Lastly, the great concentration of land ownership seems to be a determining factor of higher incomes.

In the urban sector, on the other hand, the inequalities are greater and they follow no set pattern; they are therefore not so easily explained by the above-mentioned factors. In the first place, the lowest 20 per cent is marginal to the productive processes of the urban modern sector and their average income is only slightly higher than that of the corresponding rural group, and half that of the next 20 per cent. It may be said that all urban wage- and salary-earners are gradually being absorbed into the capital-intensive modern sectors of the economy, but the increases in their income are so small that they give no indication of the significant rise in productivity which occurs with the shift from primitive activities to increasingly capital-intensive activities. Lastly, the disparities increase sharply between the ninth and tenth deciles and, within the latter between the lower and the upper 5 per cent.

This marked inequality in urban income seems to point to two facts, *inter alia*. The first is the extreme structural heterogeneity of the urban sector in Brazil, as a result of different modernization patterns, influenced by such factors as the relative importance of the tertiary sector, government regulation of urban employment and incomes, the participation of foreign capital, and, lastly, the importance of the marginal urban sectors. The second fact, which is connected with the first, is that the concentration of ownership in towns is not, by itself, an adequate explanation of the great over-all inequality and, in particular, of the inequality between the high-income groups.

Several basic conclusions can be drawn from the analysis of the contrasts between the urban and rural situations in the over-all perspective of income distribution in Brazil. In the first place, it would appear that the nature of internal rural distribution is not an important factor in the coefficient of concentration for the distribution as a whole. The very low income levels of a large section of the rural population seem to do more to keep the over-all average income down than to increase the concentration of income at the top; the urban sector is responsible for this inequality, and the basic reason for this must be sought in the production methods of the urban modern sectors. Table 257 compares the importance of the urban and rural sectors in the income structure of selected countries. Two distinct aspects of the question—one urban and the other rural—may

Table 257. Latin America: rural and urban income and its relation to the income distribution of selected countries
(*Percentages*)

Sector	*Average income (rural average 100)*	*Share of all income units*	*Income groups*				
			Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Venezuela							
Rural	100	40.8	72.9	48.6	28.7	16.3	12.2
Urban	250	59.2	27.1	51.4	71.3	83.7	87.8
Mexico							
Agricultural	100	43.7	68.2	56.3	26.6	26.4	20.7
Non-agricultural	198	56.3	31.8	43.7	73.4	73.6	79.3
Brazil							
Agricultural	100	45.4	62.2	65.1	34.5	17.3	12.1
Non-agricultural	273	54.6	37.8	34.9	65.5	82.7	87.9
Argentina							
Agricultural	100	14.8	21.9	20.0	6.9	12.2	14.9
Non-agricultural	115	85.2	78.1	80.0	93.1	87.8	85.1

be noted: whereas the agricultural sector presents a classic pattern of income distribution, the non-agricultural sectors have their own individual patterns corresponding to the growing complexity of urban development, which accentuate the inequality of the distribution.

(iii) *Regional aspects*

The first salient feature that emerges from an examination of the spatial distribution of income is the high geographical concentration of income and economic activity. In 1960, 46 per cent of the national income, 60 per cent of industrial employment and 70 per cent of industrial production were concentrated in the states of São Paulo and Guanabara, which have 23 per cent of the total population. In the other states of the South and the state of Río (in the east) the share of population and national income is almost the same—about 21 per cent—which signifies an average income on a par with that of the country as a whole. On the other hand, average income in the north, north-east and east (excluding Guanabara and Río) is half the average for Brazil as a whole, with the result that 30 per cent of national income is generated by about 60 per cent of the population. Thus, there are three clearly marked areas, in which income, employed population and structure of production correspond to different stages and types of development. As a result, the pattern of income distribution in the country as a whole tends to be more uneven than in each particular area. This at least partly explains why Brazil has the most unequal income distribution in the region and why Latin America as a whole has a higher concentration of income than any of its constituent countries (see table 258). Thus, the east, with its population distributed about evenly through all the income groups, has no effect on the distribution of income scale for the country as a whole. On the other hand, the north-east, with its concentration of population in the lowest income groups, and the south, with its high concentration of population in the middle and upper parts of the scale (the average income is more than twice that of the north-east) both affect the over-all income distribution, since they make for a greater concentration at the opposite ends of the scale.

Despite the similarity between regional disparities and urban-rural contrasts, the two problems are distinct. The average income of the north-east is low, not only because a greater proportion of the rural population lives in that region, but also because the average urban income is low there compared with the south. There is no doubt that the under-development of the north-east is an over-all problem shared by both the urban and the rural sector; the inequality of income between the north-east and the south derives from the fact that there are two systems which operate with very different degrees of efficiency in all the productive sectors and which are rooted in the historical formation of those sectors. In most of the regions of Brazil—and particularly in the southern part of the central region and the north-east—it was the relations they maintained with the rest of the world which determined their social and economic development and enabled them to adopt special methods of production, out of which arose the basic forms of rural and urban organization. The formation of a truly national market, in which mutual interregional influence could decisively affect the dynamism of one region or another, is a comparatively recent phenomenon, brought about by the extension of the transport network and the basic infrastructure. On the other hand, no really valid scheme for a national division of labour, in which the centre-periphery relationship and the relative position of the different regions would be defined, has yet been established. Indeed, the north-east never has been and still is not a large-scale supplier of raw materials to the south-central region, nor has it been until quite recently a market for the manufactures of the south-central area, or

Table 258. Brazil: percentage composition of income structure, by region

Sector	*Average income (national average = 100)*	*Share of all income units*	*Income distribution*				
			Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Brazil . . .	100	100.0	100.0	100.0	100.0	100.0	100.0
South . . .	123	36.2	15.1	27.6	49.4	53.3	46.1
East . . .	109	36.2	39.8	37.5	32.9	35.0	39.5
North and West central	87	7.2	4.1	7.6	8.8	6.7	6.5
North-east . . .	47	20.4	41.0	27.3	9.5	5.0	7.9

an attractive field for its capital investment.

(iv) *Functional aspects*

Wage- and salary-earners constitute 48 per cent of the economically active labour force in Brazil, one of the lowest percentages in Latin America; consequently, the number of self-employed workers and of family members who are unpaid workers is considerably higher. Both these features are due to the preponderance of the non-wage-earning agricultural population. On the other hand, according to an estimate contained in the 1960 national accounts, the wage- and salary-earners' share of Brazil's national income is also 48 per cent, which—if these data are reliable and comparable—seems to indicate an average income for all such workers identical with the national average, i.e., much higher in relative terms than that of the other Latin American countries, though in many cases it may be less in absolute terms.

Given the high percentage of self-employed workers (a small proportion of whom are entrepreneurs with incomes drawn partly from their employment and partly from investment, whereas the majority are rural and urban workers in part-time employment earning very low wages) there is, as was to be expected, a wide dispersal of income around the average wage level.

The only data available are those for the manufacturing industry in 1966, which reveal a heavy concentration of income from employment, particularly in the small group of the highly paid (see table 259).

Table 259. Brazil: income distribution among wage and salary earners

(*Manufacturing industry, 1966*)

Percentages of gainfully employed population	*Percentage of income*
Lowest decile	3.5
Second decile	4.0
Third decile	4.3
Fourth decile	4.9
Fifth decile	5.5
Sixth decile	7.1
Seventh decile	8.3
Eighth decile	9.9
Ninth decile	13.5
Tenth decile	39.0
Top 5 per cent	30.4
Top 1 per cent	19.5
Coefficient of concentration	0.44
Average income (new cruzeiros)	155.6
Median	98.0

It can be seen that the lowest 40 per cent on the scale receives less than 17 per cent of the income paid as salaries and wages and that the wages paid are nearly all below the legal minimum for 1966. The next 30 per cent receives a wage ranging from the legal minimum to twice that amount, and its share of the total wages and salaries paid in the sector is 20 per cent. On the other hand, the top 5 per cent receives 30 per cent of total income, with an average income that is twenty-two times that of the bottom 5 per cent. Lastly, the top 1 per cent receives nearly 20 per cent of the total income for the sector, i.e., thirty-six times the minimum wage and about twenty times the average wage in the manufacturing sector. As a result, even allowing for a certain underevaluation of income from property in the 1960 distribution, income from employment tends to be nearly as concentrated at the top of the scale as is the distribution of total income. The highest salaries are those paid to a group of administrators and trained technical personnel; on the other hand, because of the lack of organization of the labour market and the pressure from surplus manpower, levels of remuneration depend increasingly less on increases in productivity and are fast becoming part of a fixed scale. In 1966, as in 1960, the incomes of about 70 per cent of the gainfully employed population were institutionally linked to the minimum wage, but in 1966 more than half of those working in industry still received less than the minimum wage or salary. On the other hand, the 20 per cent—probably between the seventh and ninth deciles—employed in manufacturing had a very narrow range of salary variation with an upper limit that was less than three times the minimum wage. From this point, access to the top 5 per cent is very difficult, and it is primarily managerial salaries which yield incomes of this magnitude. In short, the major contrast between the functional distribution of income in countries like Brazil and in the Western developed countries is not so much in the distribution of income from property, which tends to be concentrated in any capitalist country, as in the widely differing labour markets and their effect on the stratification of workers' incomes. In the advanced industrialized countries, almost all the labour force is absorbed in the productive sectors, which are structurally more diverse and are organized along modern management lines, regardless of their size. However, the situation is completely different in the majority of the Latin American countries and particularly in Brazil, mainly because of the importance of the primitive-type sectors, with their considerable

reserves of manpower in the guise of self-employed workers, who are a permanent source of surplus labour and tend to keep the incomes of the lowest income group at a very low level. The means used to combat this situation and prevent a further decline in basic salaries seems to have been the establishment of legal minimum wage levels.

(e) *El Salvador*[136]

The income distribution in El Salvador is rather different from any of those analysed thus far, and it can be regarded as reasonably representative of a number of the smaller economies in the region. The lowest income groups receive a larger share of total income than in most of the region. Incomes rise very slowly from the minimum level, however, so that there is little differentiation through the great bulk of the population, and the broad middle 60 per cent receives a smaller proportion of total income than in any other country for which estimates are available. Incomes then rise very sharply in the upper income groups, and the opposite extreme is reached: the top 20 per cent as a whole receives a larger proportion of the total than in any other country. The over-all inequality in El Salvador is very great, but it is largely due to the extreme and increasing inequality towards the top of the scale; there is relatively little inequality through the bulk of the distribution.

This type of distribution can be explained in terms of the type of economic structure in countries like El Salvador. The central factor is that a large proportion of the labour force—60 per cent in 1960—is still engaged in primitive-type activities. This in turn is closely linked to the fact that the economy is small, and many of the internally oriented, modern-type developments which have occurred in the larger countries of the region have not been possible.

If production is for the domestic market it must be small-scale, and it offers relatively little scope for modern enterprises. The modern sector is largely organized around the export-import sector, and its growth tends to depend on the growth of external trade. It is for this reason that such economies are commonly referred to as externally oriented. But from the point of view of income distribution, it is important to bear in mind that it is primarily the more modern part of the economy which is externally oriented; a major part of the economy continues in non-modern activities oriented towards the domestic market.

The relative importance of these different types of economic activity will depend upon the stage of development reached, but the primitive sector is generally of greater importance in the smaller countries.

Population pressure is severe (with an annual growth rate of 3.3 per cent towards 1965) and there is little possibility of further major expansion of the acreage under cultivation. Population density has reached a figure of about 150 persons per square kilometre—only in Haiti is the figure higher—as compared, for example, with figures of about 25 in Mexico and 9 in Argentina. The rate of economic growth averaged about 6 per cent per annum during the 1960s, aided by the development of the Central American Common Market, but even so, it has been far from sufficient to absorb the increase in the labour force.

As already noted, the relative position of the lowest income group in El Salvador is favourable: the share of total income received is larger than in most countries (see the first section of figure XXXV) and the average income is high in relation to the national average (see the first section of figure XXXVII). But this is only by comparison with a population the bulk of which, as described above, remains at low income levels. In absolute terms minimum incomes are very low. The poorest 10 per cent of the population has an average annual per capita income of only about 45 dollars, well below the level in nearly all other countries for which estimates are available (see the second section of figure XL).

From this low minimum, incomes rise only very slowly, and this is perhaps the major distinctive feature of the distribution in El Salvador. Nearly two thirds of the population is dominated by the primitive sector, and lives with incomes which vary but little from the subsistence level. Nearly all of the agricultural labour force is included in this group. Although a major part of the total agricultural output is produced by relatively modern holdings—and a major part of the land is fully utilized—the number of persons who directly benefit is small.

This is partly due to the concentration of

[136] For El Salvador only indirect estimates of income distribution could be made, using partial indicators. The estimates are for the year 1961, and the basic income unit is the individual income earner. The most important of the sources used were: the population census of 1961; data provided by the Social Security Service, concerning urban wage and salary incomes; and data on the distribution of agricultural income published by Sergio Maturana in "Los problemas de la tenencia de la tierra en los países centroamericanos", Instituto Universitario Centroamericano de Investigaciones Sociales y Económicas, Costa Rica, 1963. Mimeographed.

land ownership. In 1961, some 42.6 per cent of the total cultivable land was concentrated in 1 per cent of all agricultural units, and these of course yielded very high incomes to their owners. At the other extreme, 78.2 per cent of all agricultural units accounted for only 11 per cent of the land, and these units were operated on a primitive basis and yielded very low incomes. But as a result of the already severe pressure on the land, there is also a large segment of the agricultural labour force which relies on wage income, and incomes in this group are uniformly low.

Nearly all of the agricultural labour force thus falls in the part of the distribution dominated by the primitive sector, and where incomes rise very slowly. Starting from a very low minimum level, this means that towards the top of the range incomes have risen only to about 135 dollars per capita; that is, in 1960 nearly two thirds of the population lived with annual incomes at this level or below.

The extent to which this distinguishes the distribution in El Salvador from that in other countries in the region can be seen, in part, from the figures. The average income of the lowest income group—the poorest 20 per cent—is closer to the median in El Salvador than in any other country (see the first section of figure XXXVIII). The figure for Costa Rica, with a similar type of economy and distribution, is nearly identical, but the values calculated for other countries are very different. This indicates that the inequality in the lower half of the distribution in these two countries is much less than elsewhere. The same point is shown somewhat differently in the third section of figure XL: incomes rise more slowly in the bottom deciles in El Salvador than elsewhere.

The average per capita income in the sixth decile of the distribution was less than 100 dollars a year in 1960 and, as already noted, only about one third of the population received more than 135 dollars per capita.

The principal meaning of this is of course that the bulk of the population lives at very low income levels, constituting a large, relatively undifferentiated group with incomes which are not far from the subsistence level. This means that the bulk of the population cannot enter the market, even on a limited scale, for modern-type products. There is thus the paradox that it is precisely in a small economy like that of El Salvador, where the potential mass market is in any case severely limited, that the distribution of income exerts the greatest additional limitation. In the industrialized countries the share of the middle 60 per cent of the distribution averages about half of total income; in the more diversified economies of Latin America the share is 38-40 per cent; in El Salvador it is 33 per cent.

In the seventh decile of the distribution, incomes begin to rise very rapidly in relative terms. While through the first six deciles the increase averages only 15 per cent from one decile to the next, from the seventh through the ninth decile the average income is in each case 50 per cent above that of the preceding decile. Incomes rise more rapidly through this part of the distribution in El Salvador than in any other country (see the last three sections of figure XXXVIII and the penultimate section of figure XL), indicating great differentiation and inequality.

It is important to note, however, that incomes are not high in absolute terms, even in this upper middle segment of the population. In per capita terms they range only from an annual personal income of about 135 dollars at the middle of the seventh decile to about 400 dollars at the top of the ninth decile. These are not the high incomes which are characteristic of the modern sector. The fully modern sector is still small, and its high incomes are confined to the top decile of the distribution. The group under consideration here is essentially the intermediate sector, and the great differentiation of incomes in this group reflects the shift away from a large and low-income primitive sector more than the pull of high incomes in the modern sector itself.

The three income groups in the upper half of the distribution remain to be discussed.

The first, the 30 per cent above the median, still includes a significant segment of the primitive sector, and it is only towards the middle of this group that the pressures of the primitive sector begin to be less, and incomes begin to rise rapidly. In consequence, the position of the group as a whole is less favourable than in most of the region. The share of total income received is less than in any country except Costa Rica, where the type of economy and distribution are similar (see the third section of figure XXXV).

The following income group—the 15 per cent below the top 5 per cent—is in a relatively favourable position in El Salvador. This group is mostly composed of those who have reached the highest income levels in the intermediate sector, generally as a result of close links with the modern sector; but it also includes a large segment of the modern sector itself. Because of the speed with which incomes rise once the transition from the primitive sector begins, the

average income of this group is further above the median than in any other country (see the fourth section of figure XXXVIII). The group also receives a relatively large share of total income, and has a high income in relation to the national average (see the fourth section of figure XXXV and the third section of figure XXXVII).

In absolute terms the average income of the 15 per cent below the top in El Salvador is not high, however, being less than 400 dollars per capita. Well over half of this group is self-employed. There is a considerable number of medium-sized farm operators, but the majority of the self-employed are in the non-agricultural sectors, even though El Salvador remains a basically agricultural economy. These urban self-employed generally operate individual enterprises closely linked with the modern sector, but which are not part of that sector. By contrast, a larger proportion of the wage- and salary-earners at this income level are employed by modern enterprises. The most important are those employed in manufacturing and in the public sector *(servicios públicos)*, but there are also considerable numbers in basic services, and in commerce and finance.

As incomes continue to rise rapidly, the position of the top 5 per cent is extremely favourable. The average income of this group is fifteen times that of an individual at the median—who in El Salvador is still within the primitive sector—a greater multiple than in any other country (see the last section of figure XXXVIII). In those countries of the region where the modern sector is relatively large, and the primitive sector correspondingly reduced in size, this multiple is about ten, while in the industrialized countries it averages only about five. Practically one third of the total personal income is concentrated in the hands of the top 5 per cent (see the last section of figure XXXV). Only a minority—less than one fifth of these in the top 5 per cent—are agricultural proprietors, but this group accounts for the concentration to a disproportionate extent. The high incomes of these large landowners result from a combination of the concentration of land ownership already noted, and the efficiency of much export agriculture, the per acre yields of both coffee and cotton being among the highest in the world. Even so, the fact that these top agricultural incomes are so much higher than the top urban incomes is not a reflection of uniquely high agricultural incomes in El Salvador. It is rather an indication of the lesser development of the modern urban sector in the country.

There is available for El Salvador an income distribution estimate for an earlier year, and it is of some interest to compare it with the 1961 figures used up to now. The estimates vary somewhat in concept and in the nature of the data on which they are based, and so the comparison can be regarded as approximate; but this is sufficient for present purposes, which is to observe the impact of growth on the distribution in economic conditions such as those found in El Salvador. The change which has occurred is most readily apparent if the income groups are somewhat different from those which have been principally used. The share of total income received by each of these groups in the two years—1945–1946 and 1961—was as follows:[137]

Income Group	*Percentage of total income received* 1945–46	1961
Poorest 60 per cent . .	32.4	20.8
Following 20 per cent . .	14.8	17.8
15 per cent below the top .	17.4	28.4
Top 5 per cent	35.5	33.0
Top 1 per cent	(22.0)	(18.0)

The general direction of change which has occurred, and the major factors underlying the change, are similar to those already discussed in conceptual terms at various points throughout this study. The relative share of those at both extremes of the distribution declines while the upper middle income groups considerably improve their relative position; and this reflects the impact of growth centred on the more modern sectors in an economy where the primitive sector remains large. It is only necessary to note briefly the specific conditions in El Salvador which have determined the limits of this process.

The 1945–1946 distribution is characterized by the same low minimum income, and the same slow rise of incomes from that level as in 1961; and in 1945–1946 this slow increase continued through the eighth decile of the distribution; that is to say, there was little differentiation among fully 80 per cent of the population, indicating that all of this group was either within or subject to the pressures of the primitive sector. It was only towards the top of the distribution that incomes rose rapidly, and income was concentrated even more in the hands of the top income group—especially in the top 1 per cent.

[137] The 1945–46 estimates are from Henry Wallich y John Adler, *Proyecciones económicas de las finanzas públicas. Un estudio experimental en El Salvador.* (México, Fondo de Cultura Económica, 1949.)

During the following fifteen-year period growth was considerable, averaging close to 3 per cent annually on a per capita basis despite the increasingly rapid rate of population growth. The bulk of the growth was urban, and although the agricultural labour force and agricultural production increased substantially in absolute terms, they declined somewhat as a proportion of the total.

The way in which this growth affected the income distribution can be seen from the figures presented above. First, conditions did not improve for fully 60 per cent of the population; the increase in total production which tended to occur, even within the primitive sector, was offset by the growing population, and per capita incomes for this mass of the population remained approximately constant in absolute terms. As a percentage of the total their share therefore declined sharply from 33.2 to 20.8 per cent.

The following 20 per cent of the population corresponds to persons who were either within or fully exposed to the pressures of the primitive sector in 1945–1946, but had increasingly escaped from those pressures by the beginning of the 1960s. This group as a whole increased its share of the total somewhat, but as this is the transitional group, there is great variation within it. Towards the bottom the situation is similar to that of the poorest 60 per cent, while towards the top income approximates to that of the next higher income group.

It is those who, in 1961, comprised the 15 per cent below the top 5 per cent who benefited most from the growth; this group improved its position thanks to its close links with the modern sector rather than through being absorbed in that sector. This again reflects the earlier stage of development in El Salvador and its different orientation.

The top 5 per cent has experienced a decline in its share of the total, but the decline has been a mild one and limited to the top 1 per cent alone; the rest of the top 5 per cent increased its share somewhat.

The principal factor explaining the income distribution structure in El Salvador and the changes which had occurred continued to be the very large size of the primitive sector. The absolute income level of the majority of the population, concentrated in this sector stagnated, and so its share of the total declined sharply. The gains from economic growth were disproportionately concentrated in the hands of the remaining minority. The upper middle income group gained most, and the share of those at the very top of the scale declined, although this decline was only relative and was not proportionate to that of the poorest 60 per cent. Contrary to the situation within the primitive sector, even the top 1 per cent achieved a significant increase in absolute income.

4. Specific aspects of income distribution

Up to this point the discussion has been in aggregate terms. Income distribution has been described on the basis of a few broad income groups, and the explanations have been linked directly to the income levels and share of those groups. The following sections deal with some more specific aspects of the income distribution structure. The central concern will continue to be the extent of over-all inequality, and these more specific aspects will therefore be approached from this point of view.

The first question that is examined is the distribution among the major functional groups. The concentration of income at the very top of the scale, which is the principal factor in the great inequality in the region, is largely explained by functional distribution.

Other aspects analysed are the distribution between urban and rural areas, the regional distribution, and the distribution by economic sector. These are best regarded as ways of indicating the split between the modern and non-modern sectors rather than as direct causal factors, but they help greatly in determining the location of the different income groups.

While each of these specific aspects of the distribution is treated separately, it should be kept in mind that this is largely for purposes of exposition, and not because they are not closely interrelated.

(a) *Functional distribution of income*

It is a commonplace that property ownership or control of capital often yields very high personal income, and it follows that this must be a major factor in the concentration of income at the top of the scale. This is an area where statistical estimates are especially difficult to make, and where the margin of possible error is likely to be relatively large, in spite of which there are sufficient data available to indicate the great importance of functional differences in the distribution of income in the region.

An important factor in the degree of inequality is the extent to which incomes represent wage and salary payments or, alternatively, some types of profit income. There is generally much less inequality in the distribution of wage

and salary income, so that a larger wage and salary share will be reflected in a lesser degree of total inequality. Viewed in somewhat different terms, the larger the share of profits, the more likelihood there will be of an extreme concentration of income at the top of the scale, and this is the principal factor in the over-all inequality.

Many Latin American countries have prepared estimates of the share of wages and salaries and of profits and property income, which are compared in table 260 with similar estimates for several of the industrialized countries.

Nowhere in Latin America is the wage and salary share so large as in the United Kingdom or the United States, and, in so far as estimates are available, it exceeds 60 per cent only in the three of the smaller countries of the region. In each of the four most thickly populated countries in Latin America, wage and salary income is well under half of the total. Except in special cases, this factor alone could be taken as sufficient to explain a major part of the greater inequality which characterizes the region.

Offsetting the small wage and salary share, the total profit share is of course correspondingly larger. The main recipient of profit income in Latin America is not the corporation or the *rentier*, but the self-employed person. It is the concentration of income in this group that results in the concentration at the top of the scale, and an examination of the labour force data in table 261 yields similar conclusions.

There are two aspects of this lesser dominance of wage and salaried labour in Latin America which need to be made clear, as each contributes to the inequality in the distribution of income in an important way. First, this situation partly reflects the existence of a large primitive sector in most of the region, and the inability of the more modern sector to offer sufficient employment opportunities. A significant proportion of the self-employed in most countries are persons engaged in marginal-type activities because they have been unable to obtain more remunerative employment. These constitute a low-income group towards the bottom of the scale, which reflects the problem of the marked differences in productivity levels referred to above.

This is most important in the agricultural sector, where from one quarter to about half of the labour force is self-employed, and the majority own very small plots of land which yield only minimum incomes. There is often a mixture of wage labour and self-employment at this level, however, and too much importance should not be given to the functional classification. With small variations in the institutional arrangements, or even in the definition of categories, many of these agricultural poor could pass from one category to another. But there are also substantial numbers of self-employed in the non-agricultural sector, and in many countries an important part of this group also

Table 260. Latin America: percentage distribution of net national income

Country	*Wage and salary income*	*Income of unincorporate enterprises*		*Property income*	*Corporate saving and direct corporate taxes*	*Other*
Argentina	43.7	44.1		7.7	4.6	—
Brazil	47.5	38.8		7.7	7.0	(−) 1.0
Colombia	44.7		49.3		5.7	0.3
Ecuador	51.1		39.3[a]		3.9[b]	5.7
Peru	43.6	31.1		13.2	11.5	0.6
Uruguay	60.3		38.2		1.8	(−) 0.3
Venezuela	57.0		22.1		12.9	8.0
Mexico	32.7	65.7			1.5[b]	—
Costa Rica	63.5	26.4		5.9	3.0	1.2
Guatemala	33,1		66.1[a]		0.4[b]	0.4
Honduras	50.5	37.2		8.8	3.6	
Panama	69.4	7.1		7.5	13.4	2.6
France	59.7	28.3		6.1	6.9	(−) 1.0
Netherlands	59.0		31.2		10.3	(−) 0.5
United Kingdom	74.6	8.3		10.6	9.4	(−) 2.9
United States	71.9	11.2		13.5	6.9	(−) 1.5

SOURCE: As for table 253.

Note: The figures shown are three-year averages. There is some variation in the years covered, depending on the availability of data, but in general the period is the early 1960s. The only exception is the data for Mexico, which relate to 1950 only.

[a] Also includes saving of corporate enterprises.

[b] Direct corporate taxes only.

Table 261. Latin America: percentage distribution of the active labour force[a]

	The economy as a whole				*Non-agricultural sector*			
	Wage and salary earners	*Employers*	*Own-account workers*	*Other*[b]	*Wage and salary earners*	*Employers*	*Own-account workers*	*Other*
Argentina	69.9	12.4	12.1	5.6	74.5	10.9	10.8	3.8
Brazil	48.0	1.8	35.1	15.1	72.1	1.7	23.8	2.4
Colombia	57.3	8.2	25.0	9.6	70.9	4.1	20.8	4.2
Chile	72.8	1.4	18.8	7.0	75.1	1.2	17.2	6.6
Ecuador	47.7	2.0	41.0	9.3	57.5	1.6	32.8	8.2
Peru	48.1	1.9	38.5	11.4	65.0	1.5	27.4	6.1
Uruguay	69.5	8.2	14.9	7.5	72.9	6.8	13.1	7.3
Venezuela	60.1	2.7	31.0	6.3	73.0	2.6	21.3	3.0
Mexico	63.6	0.8	34.0	1.7	76.4	1.3	21.7	0.6
Costa Rica	66.1	3.4	17.4	13.2	78.9	2.8	12.9	5.3
El Salvador	68.2	1.8	21.4	8.7	74.8	1.8	19.6	3.9
Honduras	39.7	1.4	37.8	21.2	64.2	1.1	18.9	15.9
Panama	42.4	1.8	32.6	23.2	65.6	2.4	11.6	20.5
Dominican Republic	44.1	0.9	43.9	11.2	74.9	1.1	22.8	1.1
France	71.7	18.7		9.6	83.9	12.6		3.5
Netherlands	79.8	15.4		4.8	85.9	11.3		2.8
United Kingdom	88.8	7.4	7.4	3.7	...	...		...
United States	82.7	11.3		6.0	86.2	8.1		5.7

SOURCE: As for table 253.

[a] The figures relate to 1960 or to some year in the early 1960s, and were taken from the population censuses in each country.

[b] Most of this group consists of unpaid family workers.

has marginal-type employment and falls at the bottom of the income scale.

The second aspect of the greater importance of self-employed labour is quite different and helps explain the unusual concentration of income at the other extreme of the distribution. There are more self-employment persons in the region because the productive system is still based largely on individual and relatively small enterprises. Self-employed of this sort—in contrast with the marginal-type discussed above—involves the use of a certain amount of capital or some special ability, and generally yields above average incomes. Further, even within this group the total capital and the most highly remunerated professional skills tend to be disproportionately concentrated in the hands of a few with very high incomes, which is the predominant factor in the concentration of income at the top of the scale.

The concentration of capital within this group can be deduced to some extent from the data on the labour force in table 261, where the self-employed are divided into two categories, own-account workers and employers. While admittedly some of the former—self-employed professional persons, for example—will obtain high incomes, the bulk of the capital and resulting income is likely to be concentrated in the second group. Only in Argentina, and to a lesser extent in Uruguay and Colombia out of the fourteen countries shown in the table do employers constitute a substantial proportion of the self-employed.

In all the other countries employers represent only a small fraction of the self-employed, and only a tiny proportion—averaging less than 2 per cent—of the total labour force. If most of the capital is concentrated in the hands of this group, this is evidence of a considerable concentration of income.

For three countries—Argentina, El Salvador and Mexico—the data on income distribution include information on functional groupings, so that it is possible to show quite clearly the role of functional differences in the income distribution structure (see table 262).

Argentina is the clearest illustration of the second aspect, i.e., the importance of the self-employed in the region. The primitive sector is very small in Argentina, and unemployment is not a major problem. Consequently, there are relatively few self-employed engaged in marginal-type activities for want of other employment. The only exceptions are the significant number of low-income small-scale farmers in the north, which reflects a regional problem. The importance of individual enterprise in the economy can be appreciated from the fact that the great majority of the self-employed are engaged in remunerative productive activities, and 28 per cent of all families are headed by a self-employed person.

Table 262. Latin America: functional composition of the different income groups in selected countries
(Percentages)

Country and functional group	Average income (national average = 100)	Percentage of all income units	Income groups				
			Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Argentina							
Wage and salary earners	74	63.9	67.1	74.8	66.6	48.3	17.1
Self-employed	161	28.6	23.3	17.4	27.3	44.4	78.1
Retired persons	70	7.0	9.6	7.8	6.0	5.9	1.2
Rentiers	385	0.5	—	0.1	0.2	1.3	3.6
El Salvador							
Wage and salary earners	86	42.3	48.7	17.5	63.5	44.9	39.3
Self-employed and *rentiers*	110	57.7	51.3	82.5	36.5	55.1	60.7
Mexico							
Workers	62	50.2	59.6	61.7	51.3	22.8	9.3
Employees	188	15.2	1.2	5.9	20.5	36.7	37.3
Self-employed[a]	115	34.6	39.1	32.3	28.3	40.5	53.4

[a] Including a residual group which probably consists of *rentiers* and retired persons, but which is not broken down in the available survey data. This group accounts for about 1 per cent of all families.

In Argentina the differences in income levels are reflected in the functional composition of the different income groups (see table 262). The lower and middle parts of the distribution are dominated by wage and salary earners, and they also include a significant number of retired persons. At the very bottom of the scale there are a considerable number of small-scale farmers—mainly in the north—but otherwise there are relatively few self-employed in the lower half of the distribution. From about the mid-point of the distribution, however, the self-employed become increasingly important, until they are frankly the dominant group at the top of the scale. Well over three quarters of the top 5 per cent are self-employed persons. Further, their average income is nearly 50 per cent above the average income of the wage- and salary-earners in the top 5 per cent. It is clear that in Argentina the concentration at the top of the scale is the result of the concentration of income in the hands of the most successful of the self-employed.

The data for El Salvador shown in table 262 are somewhat different: well over half of all income recipients are self-employed, but their average income is only about 30 per cent higher than the average income of all wage- and salary-earners. This is because the figures for El Salvador reflect both the aspects of self-employment discussed earlier. As in Argentina, and probably to a greater extent, the economic system is dominated by individual enterprises. In addition, however, the primitive sector is large in El Salvador and there is relatively little employment to be had in the modern sector, so that there are numerous self-employed persons engaged in marginal-type activities with low income levels. Therefore, this group increases the importance of the self-employed as a percentage of all income recipients, and lowers their relative average income.

Both these features are reflected in the composition of the different income groups. The bottom half of the distribution is dominated by the self-employed, almost entirely small farmers engaged in primitive-type agriculture.

There are thus two different types of self-employed in El Salvador, and they tend to be bunched at opposite ends of the distribution scale. There is the large group representing marginal-type employment in the bottom half of the scale, and the group representing the basis on which production in the modern and semi-modern sectors is organized, with incomes toward the top of the scale.

The concentration of income in the hands of the top 5 per cent can be largely explained in El Salvador too by the concentration of income in the hands of the self-employed. An important factor is the very high relative income of a small number of large landowners, but the average income of the urban self-employed in the top 5 per cent is also some 80 per cent above that of the salaried employees in this top income group.

The data for Mexico show a situation in some respects similar to that in El Salvador, but with the important exception that the concentration of income at the top of the scale is not explained to the same extent by very high incomes of the self-employed. In this

country too, self-employment results in part from lack of remunerative employment opportunities and in part from the importance of the individual enterprise in the economy. This is again reflected in the importance of self-employment in the total—over one third of all families in Mexico are headed by a self-employed person—and in the tendency for the self-employed to be relatively more numerous towards the two extremes than in the middle parts of the distribution. In Mexico too, the substantial numbers of marginal self-employed reduces the average income of the group as a whole.

The data for wage and salary earners in Mexico, however, distinguish between employees and workers, and reveal one of the most striking aspects of the distribution. The average income of an employee is triple that of a worker, and it is the workers (along with the marginal self-employed) who dominate the lower half of the distribution, while the employees are concentrated almost entirely in the upper half and are increasingly important toward the top of the scale. To a considerable extent this split corresponds to the difference between those in or closely linked to the modern sector, and those still in the non-modern sector.

In general the data indicate that the concentration of income at the top of the scale in Mexico is due to high self-employment incomes to a much smaller extent than in Argentina and El Salvador.

For these three countries, where the income distribution data are classified by function, the distribution within the major functional groups can be calculated, as shown in table 263. These figures indicate the extent to which the small share of wages and salaries in national income, which tends to be a characteristic of Latin America, can be considered a general factor in the inequality of the distribution of income.

There is great inequality in the distribution of self-employment income in each of the three countries. The poorer half receives a very small proportion of this income, and there is great concentration towards the top of the scale, particularly in the hands of the top 5 per cent. The concentration at the top is somewhat less extreme in Mexico, but the figures probably underestimate high self-employment incomes in that country. *Rentier* income, for which separate figures are available in Argentina, is even more unequally distributed there than self-employment income. Therefore, a large share of profits in total income can be expected, very generally, to result in very considerable inequality in the total distribution.

There is substantially less inequality in the distribution of wage and salary income in each of these three countries, but there is much variation in this distribution from one country to another. There is least inequality in wage income in Argentina, owing partly to policy measures and partly to the very widespread organization of labour in that country.

The principal factor is, however, that the primitive sector is not important, and unemployment is not a major problem. As a result, there is no great pressure on minimum wage levels. The share of the poorer half of all wage earners is much larger than in the other two countries, and the share of the top wage and salary group is correspondingly smaller.

The inequality is considerably greater in El Salvador and Mexico, which still have large primitive sectors where a large group of wage earners work at very low productivity levels and with very low incomes. The share of total wage and salary income received by the poorer half is consequently much smaller than in Argentina,

Table 263. Latin America: percentage distribution of income within the major functional groups in selected countries

Functional group and country	*Income groups*				
	Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Wage and salary earners					
Argentina	6.9	20.0	31.3	24.3	17.5
El Salvador	5.0	12.8	30.7	30.5	21.0
Mexico	3.8	13.2	26.0	29.5	27.5
Self employed					
Argentina	3.7	12.3	22.1	25.5	36.5
El Salvador	3.8	10.2	17.8	29.0	39.2
Mexico	2.5	10.0	24.7	31.8	31.0

and the share of those towards the top is correspondingly larger.

Although it should be kept in mind that the inequality in the distribution of profit income is much greater, the available data indicate that the distribution of wage and salary income alone in Latin America is very unequal by comparison with other regions. In part this is due to the split between the modern and non-modern sectors, with its divergent effects on wage incomes; but this does not appear to be the only factor.

There is no significant primitive sector in Argentina, but the top 5 per cent receives 17.5 per cent of all wage and salary income. If a comparison is made with the total distributions in the Western industrial countries—that is, including profit as well as wage income—the wage distribution in Argentina is similar to the distribution in Norway, a country with relatively little inequality. The top 5 per cent in Norway receives only 15.2 per cent of total income, and in industrialized countries with a medium degree of inequality, such as the United States and the United Kingdom, the share of the top 5 per cent in the total distribution is only 19 to 20 per cent. In the socialist economies, which offer a direct comparison of wage income distribution, the top 5 per cent receives only some 12 to 13 per cent of the total. Data on the distribution of wage and salary income alone show a closely similar situation in most of the Western industrialized countries. Only in the United States is the degree of inequality in wage income close to that in Argentina.

Such comparisons are less favourable for countries where the existence of a primitive sector results in greater inequality in the wage structure.

Apart from the general split between wage and salary incomes in the modern and non-modern sectors, several other factors contribute to this inequality. Traditionally the higher government officials have been relatively well paid in Latin America, and while as a result of inflation and lack of funds the position of this group has deteriorated in many countries, this is still an important factor. Another is the tendency for salaries of professional, technical and senior administrative personnel to be influenced by the levels prevailing in the industrialized countries. To the extent that this is the case, such salaries will of course be disproportionately high in relation to other wage levels within the country. Lastly, it is often possible for strategically located groups—petroleum workers, miners, steel workers, etc.—to obtain unusually high incomes by taking advantage of their power position. This is common in all countries but in those where the general wage level is low it is likely to have a particularly strong impact on the degree of inequality in the wage structure.

It is in the distribution of profit income, however, that much the greatest inequality is noted, and it is this greater inequality, combined with the high proportion of total income that goes to profit recipients, which is of decisive importance among the functional aspects of income distribution. This is the best explanation of the concentration of income at the top of the scale, which is the principal factor in the greater inequality observed in the region.

There are several implications in this situation which may be mentioned briefly. First, it should be stressed that, in so far as data are available, they indicate that this profit income is very largely received by the self-employed. The concentration of income at the top of the scale is mainly in the hands of the owners and operators of individual enterprises. This may be a favourable factor from the point of view of economic growth, as it will often mean a direct link between potential saving and investment. Those who can save, because they have high incomes, are the same persons who control investment, since economic systems are still based essentially on individual enterprises.

There are further implications for policies designed to improve the distribution of income. Adopting a simplified approach and considering only one aspect of the problem, three broad ways of reducing the inequality can be distinguished. First, efforts can be made to increase the income of the low-income groups. Functional considerations have little to do with policies of this kind in most of the region, since, as stated above, the functional classification has only limited meaning at this income level. As will be seen in the following sections, it is primarily urban-rural and regional considerations that are important here.

The second possibility would be to reduce the inequality in the upper middle parts of the distribution. There appears to be almost no interest in this possibility at the present stage of development, but this would involve mostly a reduction of the inequality in the wage and salary structure in the modern and semi-modern sectors of the economy.

Lastly, there is the possibility of reducing or at least permitting no further rise in incomes at the top of the scale. This is a much-considered possibility, and one where functional considerations are of primary importance—for

these top incomes are largely self-employment incomes.

If such a policy is to be undertaken, it will first be necessary to consider carefully whether, and how far, it is likely to affect economic growth. Economic systems depend basically on individual enterprises, and it is their income which will be restrained or reduced. This of course does not necessarily mean that reducing top incomes is an impractical policy. Less inequality may, for example, improve investment incentives enough to offset the disincentive of restrained income. Given the composition of the top income group in Latin America, however, this is a question which must be carefully considered and, where necessary, offsetting incentives should be provided or alternative sources of investment considered.

Lastly, if a serious programme to restrain top incomes is to be undertaken, it will have to be specifically devised to control self-employment incomes. It would be ineffective to apply general measures which are not well suited to this purpose. To date there has been almost exclusive reliance on personal income taxation as a means of controlling top incomes, and this is just such a general measure. There are numerous obstacles which prevent an accurate determination of the income of relatively small individual enterprises, and which are inherent in this type of business rather than constituting an administrative problem. An effective policy would have to include better measures for the control of profit income. There are of course other policy strategies for dealing with this question, but these will be analysed in subsequent studies.

(b) *The urban-rural distribution of income*

Probably the most common way in which the split between the modern and non-modern sectors reflects itself is in a corresponding split between urban and rural areas. It is in the cities that the modern-type activities have mostly been concentrated and it is largely urban incomes which have risen as a consequence. The continuing existence of substantial primitive sectors, on the other hand, is primarily reflected in the large rural population that is still characteristic of most of the countries. The split between urban and rural incomes is therefore a basic factor in the income distribution structure in most of the region.

This situation has been widely recognized in general terms and, although the statistical data are somewhat limited, it is possible to specify reasonably clearly the range of importance of this factor throughout the region. First, the income distribution data presented earlier can be classified on a rural-urban basis for two countries: Mexico and Venezuela. These figures, together with slightly different data for several other countries, are shown in table 264.

The first point to note is the sharp differences in average incomes. The average income of an urban family in Venezuela is two and a half times that of a rural family. There are large differences among urban centres as well, the average income in larger cities (those with a population of more than 25,000) being well over half again that in smaller cities; but even in the smaller cities the figure is far above the rural average.

A rather small proportion of the population resides in the smaller cities: only about one sixth of the total is found in cities ranging from 2,500 to 25,000 inhabitants. The great bulk of the population is split between the larger cities and the rural areas—that is, between the centres of the modern activities and the areas where those of a primitive type are concentrated. Differences between the productivity levels and hence incomes of these two large groups are very great—the average income in the large cities is two and three quarters times that in the rural areas—and this is a major aspect of the great inequality in the distribution of income in the country.

The inequality is even more evident if the larger cities in the areas where the impact of modern-type growth has been concentrated—the Cordillera de la Costa area, which includes Caracas, and the Lake Maracaibo area—are considered separately. In these areas, average incomes are triple those in the rural areas, this is where the bulk of the high-income groups is to be found. In the other areas, in contrast, income levels in the larger cities are very similar to those in the smaller cities.

The poorest 20 per cent of the population in Venezuela, therefore, is heavily concentrated in the rural areas, while the 20 per cent of the population with the highest incomes is almost equally heavily concentrated in the handful of cities where the rapid growth of the modern sector has mostly occurred.

For Mexico the data are less detailed, and only a less complete description is possible; but in general terms the situation is similar to that in Venezuela. The average urban income is 2.3 times the average rural income and the composition of the different income groups is very much the same as in Venezuela. The bulk of the low-income groups are found in the rural areas, and there is then a steady shift in composition from one income group to the

Table 264. Latin America: rural and urban incomes in the income structure in selected countries
(*Percentage shares*)

Country and sector	*Average income (rural average 100)*	*Share of all income units*	*Income groups*				
			Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Venezuela[a]							
Rural	100	40.8	72.9	48.6	28.7	16.3	12.2
Urban	250	59.2	27.1	51.4	71.3	83.7	87.8
Large cities	274	45.2	10.9	34.7	59.3	73.2	76.2
Small cities	176	14.0	16.2	16.7	12.0	10.5	11.6
Mexico[a]							
Rural	100	44.2	68.7	54.7	34.5	21.5	10.7
Urban	231	55.8	31.3	45.3	65.5	78.5	89.3
Mexico							
Agricultural	100	43.7	68.2	56.3	26.6	26.4	20.7
Non-agricultural	198	56.3	31.8	43.7	73.4	73.6	79.3
Brazil							
Agricultural	100	45.4	62.2	65.1	34.5	17.3	12.1
Non-agricultural	273	54.6	37.8	34.9	65.5	82.7	87.9
Costa Rica							
Agricultural	100	50.0	76.4	80.3	23.8	16.5	19.6
Non-agricultural	184	50.0	23.6	19.7	76.2	83.5	80.4
El Salvador							
Agricultural	100	60.2	100.0	87.9	30.4	23.3	18.8
Non-agricultural	229	39.8	—	12.1	69.6	76.7	81.2
Argentina							
Agricultural	100	14.8	21.9	20.0	6.9	12.2	14.9
Non-agricultural	115	85.2	78.1	80.0	93.1	87.8	85.1

[a] The Venezuelan and Mexican classifications differ somewhat. In Mexico the urban category includes all cities with 2,500 or more inhabitants. In Venezuela the dividing line is 5,000 inhabitants. About 3 per cent of the population in Venezuela resides in towns of from 2,500 to 5,000 inhabitants. Small cities in Venezuela are those with 5,000 to 25,000 inhabitants, and large cities those with 25,000 or more.

next. The upper half of the distribution is again heavily dominated by the urban groups, and nearly nine out of ten of those in the top income group alone are urban residents (see table 264).

While the income distribution data can be classified on a rural-urban basis only for these two countries, a division can be made between the agricultural and non-agricultural sectors for several other countries; and if this is regarded as an approximate representation of the rural-urban split, it is then possible to estimate the importance of this factor throughout much of the region. For Mexico the data can be classified both by rural-urban areas and between the agricultural and non-agricultural sectors, and this gives a good idea of the extent to which the latter grouping is an accurate representation of the former.

With data available for six countries (see table 264) some important generalizations can be made regarding the significance of rural-urban differences in the distribution of income in the region.

First, average urban incomes are likely to be more than double the rural average in nearly all of the region. Of the countries for which data are available, only Argentina is a striking exception to this statement: in Argentina the average agricultural income is very close to the non-agricultural average. This is a reflection of the almost unique situation of the Argentina agricultural sector. There is an unusually favourable land/population ratio, and less than 20 per cent of the agricultural labour force is engaged in primitive-type agriculture.

The situation in Uruguay is similar, but in all other countries of the region half or more of the agricultural population continues to be engaged in primitive-type agriculture. In two countries where the population density is low and a relatively high degree of urbanization has been reached, only half the agricultural population remains in the primitive sector (Chile, Venezuela). In other important countries (Brazil, Colombia, Mexico) close to two thirds of the agricultural population is still in the primitive sector. And in parts of the region where the degree of urbanization is relatively low and there is greater population pressure in the established agricultural areas (Peru, the smaller countries of South America, and much

of Central America and the Caribbean), 80 per cent or more of the agricultural population is still engaged in primitive-type activities.

This situation is reflected in the composition of the different income groups (see table 264). The low-income groups are rural everywhere, except in Argentina; and the high-income groups are urban. There is some variation in the extent to which the rural population dominates the lower income groups, depending mostly on the degree of urbanization which has been reached.

In countries such as Costa Rica and El Salvador, where only about 30 per cent of the population was urban when the estimates were made, the lower half of the distribution is almost wholly rural. In Costa Rica nearly 80 per cent and in El Salvador over 90 per cent of the entire poorer half of the population is in the agricultural sector alone, and the bulk of the remainder is probably accounted for by the rural non-agricultural population.

In Brazil the degree of urbanization is somewhat greater—slightly over 40 per cent. In addition there are relatively larger numbers of farmers in the upper middle part of the distribution, mostly moderately prosperous growers of coffee and other commercial crops in the southern part of the country. As a consequence, the dominance of the lower income groups is less complete. But still close to two thirds of the entire lower half of the distribution is in the agricultural sector and probably three quarters or more are in the rural areas.

In Mexico and Venezuela, with progressively higher rates of urbanization, the proportion of the lower income groups found in the rural areas declines further, and the domination tends to be pushed toward the bottom of the distribution. But the poorest 20 per cent of the population is still heavily concentrated in the rural areas even in these countries.

Only in Argentina is the situation reversed. The very different characteristics of Argentine agriculture have already been noted; only a little more than 20 per cent of the lower income groups are found in the agricultural sector, and even this is primarily a reflection of functional differences in income levels. It is agricultural wage earners who are concentrated in the lower income groups, while the self-employed, in agriculture as elsewhere, are largely in the middle and upper parts of the distribution.

As the lower half of the distribution is predominantly rural, so the upper half is predominantly urban. In the first income group in the upper half of the distribution—the 30 per cent above the median—the non-agricultural population averages about 70 per cent of the total, except, again, in Argentina.

It is in the top income groups however, that the urban population is overwhelmingly dominant, and there is surprisingly little variation from one country to another. There is an important modern sector in all countries of the region which yields high incomes and is concentrated in cities, even in those countries where the degree of urbanization is still relatively low. From 80 to 90 per cent of the top income groups are urban everywhere.

For those countries for which only an agriculture non-agriculture breakdown is available, about four fifths of the 20 per cent of the population at the top of the scale, on the average, is non-agricultural. But the Mexican data indicate that a significant part of the higher income agricultural groups lives in urban areas, so that the proportion of the highest income groups which is urban is even larger. It is possible that at least for the highest income group—the top 5 per cent—this is true in other countries as well.

The importance of these rural-urban differences in the income distribution structure has major implications for any analysis of ways in which the distribution might be improved or of the ways in which particular programmes might be expected to affect the distribution of income. In general, it is clear that bringing rural incomes closer to urban incomes is of primary importance if the over-all inequality is to be reduced. Programmes which do not affect rural-urban differences, regardless of how desirable they may be in themselves, will leave unchanged a major aspect of the over-all inequality.

While this is generally recognized, many of the conventional measures expected to improve the distribution of income do not, in fact, significantly affect rural-urban differences. Social security programmes, for example, have been regarded as perhaps the most important way of improving the situation of the low-income group; but these programmes are almost exclusively limited to the urban areas, whereas the great bulk of the poor is rural. Or again, price control programmes or subsidy payments for basic foodstuffs or public services favour almost exclusively the urban population and, in instances where they depress agricultural prices, may even have a negative effect on the rural poor. Measures of this sort are a reflection of the extent to which policy, even in matters of income distribution, has been concentrated on the modern, or

intermediate, sectors of the economy; relatively little attention has as yet been given to the split between the modern and primitive sectors which underlies the disparities in incomes.

A measure which does deal more directly with the problem of rural poverty, and which has received increasing attention, is land reform. In its purely redistributive aspect—that is, the redistribution of land—this will change the distribution of income only within the agricultural population; but in its broader aspects, which aim at raising rural productivity levels, it may increase rural income in relation to the urban average as well. The broader aspects are therefore those that could contribute most to changing the distributive structure.

The effect of land redistribution can be estimated if the distribution of income within the agricultural sector, and the importance of this in the total distribution, are known. Table 265 shows the distribution of income within the agricultural and non-agricultural sectors for each of the five countries shown earlier and within the rural and urban sectors for Mexico and Venezuela. Except for Brazil, the inequality is greater in the agricultural (and/or rural) sector, in the sense that there is a greater concentration of income in the hands of the top income group. The data thus support the basis on which land redistribution is often advocated, namely, that there is greater inequality in the rural areas owing to the concentration of land ownership in the hands of a small minority of the population, and that breaking up this concentration would therefore have a particularly favourable effect on the distribution of income.

The magnitude of this effect, however, should not be overestimated. In Venezuela, Mexico, and Argentina the inequality in the agricultural (rural) sector is not much greater than in the non-agricultural (urban) sector. In Brazil the inequality is considerably less in the agricultural sector. Further, in all countries the great bulk of the top income groups are in the non-agricultural sector and would not be affected by land redistribution. In countries like these, therefore, even an extreme land redistribution measure, which left no really high incomes in the agricultural sector, would only reduce the share of the top 5 per cent in the total distribution by about 3 percentage points. More realistic calculations would show a smaller reduction. This of course is illustrated by the data for Mexico, where, after a major land

Table 265. Latin America: distribution of income in the rural and the urban areas in selected countries[a]
(*Percentages*)

Country and sector	*Income groups*				
	Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Venezuela					
Rural	5.0	14.7	28.9	27.4	24.0
Urban	4.9	16.6	28.5	28.4	21.6
Mexico					
Rural	3.3	12.2	26.6	31.4	26.5
Urban	5.3	14.7	25.4	30.2	24.4
Mexico					
Agricultural	4.0	13.0	24.0	28.5	30.5
Non-agricultural	3.5	13.5	25.7	30.7	27.0
Argentina					
Agricultural	5.4	13.7	21.1	25.3	34.6
Non-agricultural	5.0	16.3	25.9	22.1	30.7
Costa Rica					
Agricultural	9.0	15.5	17.1	15.9	42.5
Non-agricultural	4.7	16.1	24.7	29.0	25.5
El Salvador					
Agricultural	7.0	14.7	18.7	20.1	39.5
Non-agricultural	4.2	15.3	29.3	28.5	22.7
Brazil					
Agricultural	6.50	15.25	30.00	25.50	22.75
Non-agricultural	3.00	11.75	22.25	22.75	40.25

[a] The percentages shown represent the distribution of income within each specific sector. For example, the poorest 20 per cent of the rural population in Venezuela received 5.0 per cent of total rural income.

redistribution programme, the income distribution structure remains similar to that in other countries of the region.

Although the direct effect of land redistribution measures to reduce income levels at the top of the scale would be less in these countries, it could be of greater relative importance in improving low incomes. To take a simple example, let us suppose the land redistributed was producing 2 per cent of total income—which would represent a major redistribution. At the top of the scale this would be a relatively minor change, but if the land, and the income it produces, could be transferred to the lowest income group the improvement there would be much more important. The poorest 20 per cent of the population, which is largely rural, receives only around 4 per cent of total income in most countries, so that a potential 50 per cent increase in their income share is involved.[138]

In Costa Rica and El Salvador the effect of land redistribution would be much greater. In those countries the concentration of income at the top of the scale is very much greater in the agricultural than in the non-agricultural sector (see table 265), and the top agricultural incomes are very high in relation to those of other high income groups. An extreme land redistribution programme which left no really high agricultural incomes could reduce the share of the top 5 per cent by as much as 8 or 9 percentage points (compared to the 3 percentage points noted above for other countries). Even a more moderate redistribution which reduced the top agricultural incomes to the level of the non-agricultural incomes at the top of the scale could reduce the share of the top 5 per cent in Costa Rica, for example, from 35 per cent to 30 per cent of total income, and thus bring about a substantial decline in the over-all inequality.

It is important to inquire somewhat further into the reasons why land redistribution would have a relatively large impact on the distribution of income in Costa Rica and El Salvador. As noted, it is because in the agricultural sector there is a very great concentration of income at the top of the scale, and these top agricultural incomes are very high in relation to the top incomes in the non-agricultural sector. There are two observations which need to be made to put this situation in a somewhat broader perspective. First, the great concentration of income at the top of the scale in the agricultural sector is offset by very little inequality throughout the rest of the distribution (see table 265), so that the over-all inequality in the agricultural sector—as estimated by the coefficient of concentration—is not substantially greater than in the non-agricultural sector, even in these countries. Secondly, while the top agricultural incomes are very high in relation to the top non-agricultural incomes, they are not particularly high by comparison with top agricultural incomes in other countries. Their favourable position within the country is due to the fact that the top non-agricultural incomes in these countries are very much lower than elsewhere. Both observations are linked to the type of economy which characterizes these countries and to their present stage of development.

With greater diversification of the economic structure and the expansion of the modern sector this situation tends to change in two ways. First, as the primitive sector declines in relative importance, and as improved practices spread, agricultural groups below those at the top improve their relative position; and this reduces the concentration of income at the very top in the agricultural sector itself. Secondly—and more important—the modern sector is increasingly centred on urban industrial-commercial activities and the top incomes there become comparable to those of the top agricultural export producers.

The larger countries of the region are already characterized by more diversified economies of this sort, and these changes are reflected in the income distribution data. In the agricultural sector there is less concentration of income at the very top of the scale, but more inequality throughout the rest of the distribution—the upper middle groups have substantially more but the lowest income agricultural group relatively less than in Costa Rica or El Salvador (see table 265). And top non-agricultural incomes have risen, so that, as noted, within the top 5 per cent of the total distribution non-agricultural incomes are generally somewhat higher than agricultural incomes.

What all of this suggests is that the effect of land redistribution on the over-all inequality in the distribution of income will be much greater in countries whose economies are at a relatively early stage of diversification.

[138] There are of course difficulties involved in transferring income from the top to the bottom of the scale via land redistribution. Apart from the sharp reduction in the size of holdings implied, with the variable effect on productivity which this might have, those at the bottom of the scale generally lack knowledge of efficient agricultural practices, equipment, sources of credit, etc. For these reasons the income from the land is not automatically transferred with the land itself, and the broader aspects of agrarian reform are here too of fundamental importance.

Even for the smaller, less diversified economies of the region, the other aspects of agrarian reform will be very important with regard to improving income distribution, and for the more diversified economies they will be decisive. Part of the reason is that the high agricultural incomes are a reflection not only of the concentration of land ownership, but also of the use of more modern techniques and of a more complete integration into the monetary economy. If these high incomes are to be effectively redistributed among the lower income groups, it will be necessary not only to redistribute land, but also to educate the new owners in the use of more modern methods, to provide credit, etc.

But the principal reason why the broader aspects of agrarian reform are particularly important is that the essential element in the over-all inequality is the sharp split between rural and urban incomes as a whole, in addition to the inequality within the rural sector itself. This is true of all of those countries for which data are available, except of course Argentina, where, as noted, rural-urban differences are not an important factor in the inequality.

The greater importance of the split between the two sectors can for the most part be appreciated from the data shown in the tables. For most countries the distributions within the sectors are easily seen to be quite similar (see table 265), while the split between average incomes is very great, and the rural sector dominates the lower half of the distribution and the urban sector the upper half (see table 264).

Finally, it needs to be noted that this split between rural and urban incomes, with the major influence it exerts on the income distribution structure, has important implications for the concepts of economic development which generally prevail. Nearly all development concepts—and hence development plans—are based on the idea that growth is best achieved by concentrating on the expansion of the modern sector. There are provisions for aiding the rural areas, or the marginal urban groups, but these are secondary or palliative measures and not the centre of the development concept.

The solution of the problems of rural poverty is implicitly expected to come about in a quite different way—by the absorption of this group into the growing modern sector. To some extent, this is in fact occurring. The modern sector has been expanding rapidly in most of the region, and the varying size of the modern sector from one country to another has been shown to explain a good part of the variation in the distribution of income. But it is the groups towards the top of the distribution that have primarily benefited from this process, while, even in absolute terms, the poorer half of the population has as yet been relatively little affected in most countries and there has been little productive absorption of the bulk of the population or of the section engaged in primitive-type activities.

(c) *The regional distribution of income*

Another important way of looking at the problem of income distribution is in terms of the large variations in income levels from one region to another which are common in Latin America. The modern economic growth has often been concentrated in a particular part of the country, so that income levels there are much higher than in other areas. In the smaller countries the modern growth may be limited to one or two major cities and their environs, so that the split is for practical purposes almost entirely of a rural-urban type. But in the larger countries an entire region may be characterized by a more modern type of development, so that both urban and rural incomes are substantially higher than their counterparts in other regions—although it is still probable that there will be a rural-urban income split within the different regions themselves.

Prior to presenting the available data it is necessary to note briefly that the concept of regional differences is rather more ambiguous than the concept of rural-urban differences. In the rural-urban split there are always only two areas, and each area is a clearly understood concept the definition of which is fairly uniform from one country to another. In making regional comparisons, by contrast, there are two types of problems which have to be borne in mind.

First, the greater the number of internal regions the greater will be the range of variation in income levels. This is self-evident, as combining units will average out extremes.

The second problem is that the regions for which data are available are generally defined in terms of administrative units, and these may not coincide with meaningful divisions in economic terms.

Fairly complete data are available for three countries—Brazil, Venezuela and Mexico—and they are shown in table 266. It is with respect to Brazil that regional differences have been discussed most, and their importance in the income distribution structure is clearly shown. Four regions are shown separately, and the average income in the richest of these, the south,

Table 266. Latin America: regional incomes in the income structure in selected countries
(Percentages)

Country and region	Average income (national average = 100)	All income units	Income groups				
			Lowest 20 per cent	30 per cent below the median	30 per cent above the median	15 per cent below the top 5 per cent	Top 5 per cent
Brazil							
South	124	36.2	15.1	27.6	49.4	53.3	46.1
East	102	36.2	39.8	37.5	32.9	35.0	39.5
North and west-central	101	7.2	4.1	7.6	8.8	6.7	6.5
North-east	55	20.4	41.0	27.3	9.5	5.0	7.9
Venezuela							
Lake Maracaibo	141	12.6	4.7	10.1	15.5	19.9	19.2
Cordillera de la Costa	128	40.6	27.9	35.0	45.4	52.8	59.0
Other regions	65	46.8	67.4	54.9	39.1	27.3	21.8
Mexico							
Federal District	185	13.5	1.3	7.5	17.8	24.5	38.0
North Pacific coast	172	7.0	2.5	3.8	6.8	15.9	19.4
Gulf of Mexico	101	11.5	8.2	12.7	12.1	12.3	12.2
North	97	20.3	17.2	20.5	22.7	20.6	15.6
Centre	67	35.0	51.5	40.3	30.2	20.2	11.5
South Pacific coast	65	12.7	19.3	15.2	10.4	6.5	3.3

is 2.6 times that in the poorest, the north-east. Further, this great divergence does not result from a comparison of restrictively defined areas. The south contains a population which is exceeded only by that of Mexico, and the north-east a population approximately the same as that of Colombia.

To a considerable extent these two regions conform to the criteria which are of central interest here. The modern growth of the post-war period which has given Brazil a highly diversified industrial complex has been centred in the south. The north-east, by contrast, remains a primarily agricultural region, there has not been much growth of the modern sector, and the bulk of the population continues in primitive-type activities.

But even within these two regions there are major differences since the state of São Paulo, with rather more than half the population of the south, has an average per capita income some 60 per cent above that of the rest of the region. For a better comparison between a predominantly more modern region and one where extensive primitive-type activity continues to prevail, the average personal income in the State of São Paulo is more than triple that in the north-east.

The other major region of Brazil shown in the table, the east, is not a suitable classification for present purposes. It includes the Rio de Janeiro area, which is a centre of the modern sector and where incomes are therefore high, and a large area further north which is similar to the north-east. The average income shown in the table results from combining a high-income area with a low-income area.

If sufficiently detailed data were available, Brazil could probably be divided into three large and very significant economic regions. There would first be the area where the growth of the modern sector has been very largely concentrated, the São Paulo/Rio-de-Janeiro region, or the São Paulo/Rio-de-Janeiro/Belo Horizonte triangle which is commonly referred to. This region would include perhaps one third of the total population and the average income would be about 50 per cent above the national average. There would then be a region where there has been much less recent growth of the modern sector but where income levels are still moderate, approximating to the national average. This would cover the rest of the south and some scattered outlying areas with relatively little population. Finally, there would be the eastern region running north from the areas of modern growth and extending to include the north-east. This region would include about 40 per cent of the population, and would have an average income of about half the national average. A direct comparison between the modern region and that where primitive-type activities still largely prevail would show an income difference of three to one.

This shows that, to be really effective, any programme aimed at increasing incomes of the low-income groups would have to be orientated towards the east and north-east regions, for that is where the bulk of the poor are to be

found; and programmes aimed at restraining high incomes would have to apply primarily to the south and the Rio-de-Janeiro region, where these high incomes are heavily concentrated.

As regards Venezuela, a number of regions can be shown separately with the available data, but the figures shown in table 266 divide the country into only three areas. There are two high-income regions, Lake Maracaibo, and Cordillera de la Costa (which includes Caracas). Although there is some variation among the other regions, they are all low-income areas and so are shown in a single grouping in the table.

The differences from one region to another are again substantial. The average income in the high-income areas is double that in the rest of the country, and this difference is reflected in the composition of the different income groups: over two thirds of the lowest income group are found in the poor areas, while some three quarters of those in the high-income groups are located in the two high-income regions. But the differences are less extreme than those observed in Brazil. The divergence in average incomes is not so great, and there is a lesser concentration of the low-income groups in the poorer regions.

Table 267 shows the distribution for a high-income region and a low-income region in Brazil and Venezuela.

The less general nature of the regional differences in Venezuela is a reflection of the way in which these differences have been brought about, and its importance is emphasized by a study of the regions themselves. There are two high-income regions in Venezuela, which are not geographically contiguous, and each is largely based upon a particular aspect of the modern sector: Maracaibo, with its petroleum activities, and Cordillera de la Costa, with the Government and the industrial and commercial activities of Caracas and the area around it.

Each of these centres can be regarded as focal points of the modern sector set in a surrounding economy with much lower productivity and income levels. But the region which they dominate does not represent a broad area with generally higher productivity levels in quite the same sense as in Brazil. This can be seen by comparing urban and rural incomes in the different regions of Venezuela. The percentage figures are as follows:

	Sector		
	Rural	*Urban*	*Total*
Distribution of income units			
Maracaibo and Cordillera de la Costa	23.7	76.3	100
Other regions	60.3	39.7	100
Average income (national average = 100)			
Maracaibo and Cordillera de la Costa	66.0	152.0	131
Other regions	46.0	94.0	65

In brief, regional differences in Venezuela are substantial and are clearly a major factor in the income distribution structure, although such differences are less fundamental than in Brazil. In part this is due simply to the much larger size of Brazil and therefore the increased possibilities of regional variation. In part, however, it also reflects the difference in general efficiency of the socio-economic organization in the South Central of Brazil in contrast with the north-east. Such a generalized split is less evident in Venezuela.

The figures shown in table 266 would appear to indicate, at first glance, greater regional differences in Mexico than elsewhere, as the average income in the highest income region is fully 2.8 times that of the lowest. This, however, is in part due to the definition of the regions, and in part is a reflection of the nature of the regional variations themselves. It seems probable that in a more meaningful sense regional differences are less fundamental in

Table 267. Regional population in each income group of the total distribution scale
(*Percentages*)

Region	*Income groups*				
	Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
High-income regions					
Brazil (South)	8.4	22.4	41.2	22.1	6.4
Venezuela (Cordillera de la Costa)	13.7	25.9	33.5	19.5	7.3
Low-income regions					
Brazil (north-east)	40.2	40.1	14.0	3.7	1.9
Venezuela (other regions)	28.8	35.2	25.1	8.8	2.3

Mexico than in a number of other countries.

Most of the larger regions include one or more centres of the modern sector, but none is sufficiently dominated by such centres to show a very high relative income level. The north, for example, includes the second most important industrial centre: Monterrey; and the most important oilfields are in the Gulf of Mexico region. The Distrito Federal is actually located in the central region, and if it is shown as part of that region instead of separately the average income would be similar to that of the north and the Gulf of Mexico region.

If the dividing line is carefully drawn, Mexico could be split into a higher income north and a lower income south. Most of the modern industrial sector and the extensive and more capital-intensive agriculture would be in the relatively sparsely populated north, while the more densely populated south would be dominated by traditional agriculture. But regional problems in Mexico are best explained as the contrast between the still limited focal points of the modern sector and other areas; and this contrast occurs in varying degree in all major regions of the country.

The data for Argentina are less complete, and mostly do not refer to the distribution of personal income, so that the regional composition of the different income groups cannot be shown; but the data are sufficient to indicate the nature of the marked regional split in the country. Argentina can be divided into the following four economic regions:

Region	*Average income (national average = 100)*	*Percentage of total population*
Patagonia . .	174	1.0
Pampa . . .	114	71.4
West central . .	84	8.2
North	52	19.4

The most significant of these regions for purposes of this study are the high-income Pampa region, with the bulk of the country's population, and the low-income north, with about one fifth of the total population. The Pampa region includes Buenos Aires, but the high average income does not reflect this alone. Income levels through most of the region, and in a diversity of economic activities, tend to be uniformly high. In the north they are uniformly lower, and again suggest an entire system of economic organization which operates at a lower level of efficiency. This is seen more clearly in the agricultural sector, although it also reflects differences in natural productivity. The average agricultural income in the Pampa region is 2.4 times that in the north, and is approximately the same as the average non-agricultural income in the Pampa itself.

This regional split is mitigated in Argentina, however, by two circumstances. First, over two thirds of the total population is concentrated in the Pampa, and incomes are fairly uniformly high throughout that region; in Brazil only about one third of the population is in the high-income Rio-de-Janeiro/São-Paulo area, and there is greater variation within that area itself. Secondly, when considered in relation to a number of other regions in Latin America, the north of Argentina is itself a high-income area; for example, the average income there is about triple the average income in the north-east of Brazil.

On the basis of these data for four major countries, it seems safe to generalize and say that, at least in the larger countries, regional differences are very substantial throughout Latin America, and are an important factor in the income distribution structure. Thus a region which has been a centre of growth of the modern sector has an average income double or more than double that of the low-income regions in the same country.

The central point is that a major factor in the over-all inequality is the disparity in *average* incomes between one region and another; therefore if the situation is to be improved, programmes will have to be devised with the aim of reducing this disparity. Social security programmes for example, are seen to be ineffective as a measure for increasing the income of the poorest groups. The coverage of such programmes tends to be limited to the higher income regions, and this is not where the poor are concentrated.

Regional variations may mean a further limitation on the extent to which land redistribution can reduce the inequality of the economy as a whole, as occurs in countries such as Brazil and Argentina, where regional differences reflect different levels of income in all sectors of the economy. About three quarters of the high agricultural incomes in Brazil are obtained in the south-central region and in Argentina in the Pampa region; but the bulk of the agricultural poor is in other regions—in the north-east and the poor areas of the east in Brazil, and in the north in Argentina. Where regional differences reflect less generalized focal points of the modern sector, as in Venezuela, this consideration is less important: the high and low agricultural incomes tend to

be more evenly proportioned throughout the different regions.

Lastly, it should be noted that regional differences must be directly faced, and in one way or another reduced if this factor of inequality is to be mitigated. When discussing rural-urban differences it was noted that most development concepts have implicitly assumed that the problem of rural poverty can be resolved by the absorption of a large part of this group into the growing urban economy. In the case of regional differences however, the problem is much more complicated. Since regional migration on the required scale is out of the question, measures would have to be taken to raise relative average incomes directly in the poor regions.

Although rural-urban differences and regional differences have been discussed separately, it will have been clear at many points that these two aspects of the distribution are often closely related, and this relationship needs to be specifically mentioned.

There are first of all some countries where it can be said that the problem is almost entirely of one or the other sort, as happens in Argentina, where the problem is clearly regional. In the high-income Pampa region there is no important rural-urban income differential; but there is a very large one between the Pampa and the low-income north. Here any proposed solution could be applied almost exclusively in regional terms. At the other extreme are a few of the smallest countries, where the contrast is essentially between one or two important urban areas and the rest of the country, and could therefore be considered essentially in rural-urban terms.

But in most countries there is a mixture of the two aspects, and an effective solution would have to reflect the balance in the particular country. Table 268 presents cross-classified data for Brazil and Venezuela, grouped differently for the two countries to bring out the contrast. For Venezuela the grouping is basically rural-urban, while for Brazil it is regional, and in terms of high- and low-income areas. The east region of Brazil has been split on this basis to show the over-all situation more simply. Since no direct data

Table 268. Brazil and Venezuela: combined regional and rural–urban income structures
(*Percentages*)

	Proportion of all income units	*Income groups*				
		Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Brazil						
High-income regions (South and 40 per cent of East)[a]						
Non-agricultural . . .	33.0	10.9	14.0	47.2	68.2	66.0
Agricultural	17.6	8.9	22.2	23.0	12.8	7.5
Intermediate-income regions						
Non-agricultural . . .	3.2	2.0	2.2	5.0	4.2	4.8
Agricultural	4.1	2.0	5.9	4.1	2.5	1.9
Low-income regions (North-east and 60 per cent of East)[a]						
Non-agricultural . . .	17.8	24.8	18.7	13.3	10.3	17.1
Agricultural	24.3	51.4	37.0	7.4	2.0	2.7
Venezuela						
Larger cities in high-income areas (Lake Maracaibo and Cordillera de la Costa)	34.0	5.8	21.1	45.2	62.4	70.7
Larger cities in low-income areas and all smaller cities . . .	25.2	21.3	30.3	26.1	21.3	17.0
Rural areas.	40.8	72.9	48.6	28.7	16.3	12.2
High-income regions (Lake Maracaibo and Cordillera de la Costa).	(12.6)	(17.5)	(16.3)	(10.7)	(5.7)	(3.1)
Other regions	(28.2)	(55.4)	(32.3)	(18.0)	(10.6)	(9.1)

[a] The East region in Brazil has been divided into high- and low-income regions on the assumption that 40 per cent of the population of the East is in the high-income area around Rio de Janeiro, with a distribution—between sectors and within each sector—among the different income groups similar to that of the South. The remaining 60 per cent is assumed to be in the northern part of this area with a distribution similar to that of the north-east. Adjustments have been made arbitrarily so that these estimates will conform to the figures available for the East as a unit. The figures shown above should therefore be regarded as only very approximate, and are presented only for the purpose of illustrating the concept here discussed.

are as yet available for making such a calculation, the figures represent only an approximate estimate, but they are sufficiently accurate for present purposes.

In both countries the rural population in the low-income regions accounts for over half of the lowest income group. At the other extreme, the urban population in the high-income regions represents about two thirds of the top income groups in each country. The principal centres of poverty and of high incomes are therefore the same, and reflect the same combination of rural-urban and regional differences.

But in the remaining parts of the distribution, there are two important contrasts. First, the problem of poverty in Brazil is better viewed with emphasis on the regional aspect, since the bulk of the poor is in the low-income regions, mostly in the agricultural sector, but with much of it in the non-agricultural sector as well. In Venezuela, however, the problem is best seen as primarily one of rural poverty, mostly in the low-income regions, but also including a large part of the rural population in the high-income areas.

(d) *The distribution of income by economic sector*

The final aspect of the income distribution structure which will be treated here is the importance of the sectoral differences in income levels. Differences in productivity and income levels from one sector to another are readily observable in nearly all countries and have received considerable attention. However, as will be seen, the three aspects already covered —functional, rural-urban and regional differences—are more useful than the sectoral approach in understanding the income distribution structure. This is partly due to the lack of sufficiently detailed data to answer certain questions which could perhaps be seen more clearly in terms of sectoral differences.

Despite this shortage of data on personal income in the various economic sectors, a rough idea of the main differences can be obtained from productivity estimates that have been prepared for the entire region (see table 269). Differences in average personal income from one sector to another can mostly be expected to be smaller than differences in productivity[139] but, judging from available information on personal income, they are still considerable and are very likely related to the differences in productivity shown in table 269.

Although the situation varies from country to country, a certain number of generalizations can be made. With the notable exceptions of

[139] Productivity is calculated on the basis of estimates of the gross product per person engaged in each sector, from which three main sets of figures must be deducted to obtain real income per head. In the first place, some of this gross income may be sent abroad and not benefit anybody in the country; this is particularly relevant to the mining sector, where, in some countries, average personal income is much lower than the sector's productivity level would suggest. Secondly, allowance has to be made for depreciation. Finally, corporate income not accruing to individuals, such as direct company taxes and non-distributed profits, also have to be discounted. Business companies occur most frequently in sectors requiring major investment, and consequently the last two of these factors have a direct bearing on productivity. The existence of a relatively large quantity of capital goods is essential to a high productivity level in a given sector and, as the corresponding deductions would be unusually large too, differences in personal income would be less acute than in productivity.

Table 269. Productivity estimates by sector
(*Non-agricultural average = 100*)

	Agriculture	*Total non-agriculture*	*Mining*	*Manufacturing*			*Construction*	*Basic services*[a]	*Commerce*	*Other services*
				Total	*Factory-type*	*Artisan-type*				
Latin America[b]	*35*	*100*	*329*	*128*	*211*	*21*	*57*	*110*	*139*	*65*
Argentina	111	100	268	158	239	28	63	129	120	53
Brazil	49	100	80	140	223	22	29	113	125	89
Colombia	60	100	224	119	270	28	67	149	179	59
Chile	41	100	244	133	216	30	75	207	140	44
Ecuador	45	100	515	95	269	30	86	110	133	77
Peru	25	100	206	81	163	18	91	125	170	70
Uruguay	120	100	—	112	156	31	112	118	187	67
Venezuela	23	100	1,060	87	132	12	49	81	71	68
Mexico	19	100	298	123	175	17	55	92	149	56
Central America	29	100	140	84	173	18	47	140	180	66
Other countries[c]	27	100	154	94	244	24	90	164	127	77

[a] Electricity, gas, water and health services, transport and communications.

[b] Excluding Barbados, Cuba, Guyana, Haiti, Jamaica and Trinidad and Tobago.

[c] Bolivia, Dominican Republic, Panama and Paraguay.

Argentina and Uruguay, agricultural productivity is everywhere well below the aggregate non-agricultural average. As regards personal income, certain direct data reveal the tendency of productivity estimates to exaggerate differences between personal income levels in the various sectors. For the region as a whole, the ratio of the non-agricultural to the agricultural sector is 3 to 1 in terms of productivity, but only about 2 to 1 in terms of personal income.

There are also marked differences among the non-agricultural sectors. Productivity levels in mining, factory-type manufacturing and commerce are well above the average in practically all countries. Productivity is low by contrast in artisan-type manufacturing, construction and other services.

To a major extent, this variation can be explained by the heterogeneous nature of Latin America's economic structure and by the degree of modern or primitive-type activity in the different sectors. Table 270 provides a hypothetical estimate of the distribution of the labour force in these terms which broadly coincides with productivity estimates.

Naturally, primitive-type activity is concentrated in the agricultural sector. Slightly more than 80 per cent of all primitive-type labour in the region remains in agriculture and accounts for close to two thirds of the total labour force in that sector. Only a small section is engaged in modern-type agriculture. This is a vital element in the region's income distribution structure and has already been studied in terms of urban-rural differences.

There is great variation in the structure of the labour force within the non-agricultural sector. The bulk of the non-agricultural primitive-type labour is engaged in artisan-type manufacturing and other services, and this readily explains the low productivity levels in these sectors. At the opposite extreme, the percentage of the labour force engaged in modern-type activities is extraordinarily high in mining and factory-type manufacturing and this of course is the reason behind its high productivity level.

However, these variations in the type of production characterizing each sector do not altogether account for the differences in productivity. The term "productivity" is generally taken to indicate the technological level in the engineering sense; but here it is being used in an economic sense to measure the production value in terms of market values and of the cost of public services that are not sold. Although the technological level is important, there are also other factors to consider, in determining the value of what a worker produces.

For example, the productivity level in the basic services sector is usually far below the level in factory-type manufacturing, despite the almost identical labour structure in both cases and the likelihood of capital requirements being very similar, in other words, despite the fact that the technological level may be much the same in both sectors. Basic services, however, are for the most part either provided directly by governments or under State control. The most important implication from the present point of view is that prices remain relatively low—deficits are fairly common in this sector—and so, when valued at these

Table 270. Latin America:[a] sectoral distribution of the labour force engaged in primitive-type activities and composition of the labour force in each sector

(Hypothetical estimated percentages)

	Distribution of primitive-type labour force	*Composition of labour force by sector*		
		Modern	*Intermediate*	*Primitive*
Agriculture	80	7	28	65
Mining	1	38	34	28
Manufacturing	7	17	65	18
Factory-type	—	28	72	—
Artisan-type	(7)	4	56	40
Construction	1.5	25	65	10
Basic services[b]	0.5	25	71	3
Commerce	3	14	76	10
Other services	7	16	71	13
TOTAL	*100.0*	*12*[c]	*48*[c]	*34*[c]

[a] Excluding Barbados, Cuba, Guyana, Haiti, Jamaica, and Trinidad and Tobago.
[b] Electricity, gas, water and health services, transport and communications.
[c] Non-specified activities were not broken down by levels of productivity, and they account for some 6 per cent of total employment.

prices, the product and therefore the measure of productivity as defined here are also low.

In the commerce sector, productivity is relatively high, although commerce is not one of the most technically advanced sectors. On the contrary, the proportion of the labour force at the fully modern level is smaller than in the other non-agricultural sectors, and there are substantial numbers engaged in primitive-type commerce. But commerce is dominated by the small-scale individual enterprise and, as noted earlier, this type of organization tends to be characterized by large profit margins per unit of sales. It is this which gives high value to the product of the sector and creates relatively high productivity.

In construction, on the other hand, the productivity level is low. Contrary to what is sometimes assumed, however, the sector is not dominated by primitive-type activities, since most construction work is undertaken in urban areas and is modern or semi-modern in nature. Wages are low, nevertheless, mainly because there is a surplus of labour in the sector.[140] Consequently, the value of output per worker is also low, resulting in a low level of productivity.

In terms of income distribution, it is important to note certain exceptions. Incomes are to a large extent associated with the economic structure of each sector and its level of technology. There are, however, other important factors which affect income levels and these limit the extent to which an analysis of sectoral differences can shed light on the distribution of income. The more general concepts of structural heterogeneity and functional differences, which go beyond sectoral boundaries, also help to explain the prevailing income structure.

For the three largest countries of the region, data on the distribution of personal income can be broken down into three main sectors: agriculture, industry and services—as is done in table 271. In Argentina, the differences in average income are small, and sectoral differences are not so important a factor in explaining the structure of income distribution. In Brazil and Mexico the differences are much greater, although what is of primary importance is the difference between agriculture and the other sectors.

Perhaps the most interesting aspect of these figures is that in each country it is the services sector which appears in the most favoured position. The average income is high, particularly in Brazil and Mexico, and in all three countries this sector dominates the upper half of the distribution. This is contrary to the rather widely held impression that services in the region are a low-income activity owing to the prevalence of marginal-type employment in the sector. While it is certainly true that in most countries marginal-type services are very

[140] Since capital requirements are relatively high in the construction sector, the number of self-employed workers is small. The structure of the labour force in construction is similar to that in factory-type industry, although in the latter labour costs and hence the value of output and the level of productivity are very much higher.

Table 271. Argentina, Brazil, and Mexico: incomes in the major sectors

	Percentage of income units	*Average income (total 100)*	*Income groups*				
			Lowest 20 per cent	*30 per cent below the median*	*30 per cent above the median*	*15 per cent below the top 5 per cent*	*Top 5 per cent*
Argentina[a]							
Agriculture . . .	17.1	85	28.6	23.6	7.6	12.8	15.7
Industry and construction	33.6	100	22.9	36.5	38.8	30.7	24.4
Services	49.3	105	48.5	39.9	53.6	56.5	59.9
Brazil[a]							
Agriculture . . .	47.4	52	63.7	67.8	36.0	18.2	13.1
Industry and construction	14.6	124	6.1	9.2	22.1	21.4	16.8
Services . . .	38.0	150	30.2	23.0	41.9	60.4	70.1
Mexico							
Agriculture . . .	43.7	64	68.2	56.3	26.6	26.4	20.7
Industry and construction	21.2	116	8.6	19.7	30.9	23.9	17.2
Services	35.1	133	23.1	24.1	42.4	29.5	62.1

[a] The figures for Argentina and Brazil shown here differ somewhat from those shown in table 264. In the data in table 264, inactive income recipients (retired persons and *rentiers*) are included in the non-agricultural figures. As inactive persons cannot be allocated between the industrial and service sectors, they are not included in this table, and the figures refer only to the active population. Information on inactive income recipients is not available for Mexico, so that the figures for Mexico in the two tables are the same.

important, it is also true that they may be a much less important part of total employment than is often assumed. Commerce is a major and relatively high-income activity in nearly all countries; and the development of other services of a modern type, or which are closely linked to the modern sector and yield relatively high incomes—tourism, for example in Mexico—is very widespread. The services sector as a whole appears to be commonly a high-income sector in the region, and those employed in it dominate the high-income levels.

While data on personal income in Argentina and Mexico can be looked at in relation to a large number of sectors, it must be borne in mind when comparing total income levels in the various sectors that what may appear to be sectoral differences may essentially be a reflection of differences in functional income levels. Self-employed income is generally so much higher than wage and salary income that the average income may be raised in a particular sector if the number of self-employed is very high.

An extreme example of this is Argentina, where the average income in the commerce sector is 30 per cent more than in the communications and transport sector. Yet both self-employed and wage and salary incomes are lower in the commerce sector than in the transport sector, an apparent contradiction which is attributable to the fact that there are relatively few self-employed workers in the transport sector but many in commerce. Hence, what gives the appearance of being a sectoral difference is in fact a reflection of differences in functional income.

Because of this kind of problem, it is not very helpful to compare aggregate incomes in a large number of sectors, since such comparisons might confuse rather than clarify the analysis, as is even the case with the general groupings shown in table 271. The higher incomes of the services sector in Argentina and Mexico, as compared with industry, can be attributed to the fact that there are fewer wage and salary earners in the services sector.[141]

Sectoral differences show up more clearly if wage and salary earners and the self-employed are considered separately, as is done in table 272, which covers Argentina and Mexico only, since this kind of data is not plentiful and its over-all scope, must be determined before the figures are analysed in detail.

[141] This may also hold true for Brazil, but the data are not available.

Table 272. Argentina and Mexico: sectoral incomes by functional grouping

	Argentina			*Mexico*	
	Percentage of total	*Average income (non-agricultural average 100)*[a]		*Percentage of total*	*Average income (non-agricultural average = 100)*[a]
Wage and salary earners					
Agriculture	14.2	52		33.6	41
Mining	0.8	134		0.8	118
Industry	29.7	103		20.9	97
Public utilities	1.3	144		0.8	116
Construction	7.7	84		7.0	55
Transport and communications	8.6	111		3.9	87
Commerce	7.7	102	117	5.3	126
Finance	1.5	197			
Government	15.4	118			
Domestic service	8.0	39	87	27.7	109
Other services	5.1	69			
TOTAL	*100.0*			*100.0*	
Self-employed					
Agriculture	26.2	78		58.5	57
Industry and mining	24.4	109		4.9	153	152
Construction				0.8	147	
Transport and communications	4.2	132		1.1	117
Commerce	28.6	98		21.0	84
Professionals	6.5	144	80	13.7	104
Services	10.1	39			
TOTAL	*100.0*			*100.0*	

[a] The index numbers in relation to the average non-agricultural income within each functional group (that is, wage and salary earners or self-employed) in the country.

First, by breaking the data down into socio-economic groupings, of the kind used in table 272, it is possible to describe the composition of the different income levels in the economy. It would be useful to have a breakdown into more detailed groups for many reasons, since this is an essential tool to explain in any detail the way in which the income distribution structure is affected by economic change, whether spontaneous or the result of political measures. Most countries do not yet have sufficiently detailed estimates to permit this kind of analysis, and hence it is rare for attention to be focused on the way in which an anticipated or proposed change may affect income distribution.

Secondly, these data shed some light on the extent to which income inequality in the region serves to stimulate growth and the efficient use of resources, although again much more detailed information than that presented here is required. One of the main justifications given for inequality is that it is needed to stimulate increased effort, promote the acquisition of skills and the improvement of training, attract people to the sectors in which it is desired to encourage growth, etc. Exactly how much inequality is needed to achieve these aims is a rather academic question. However, if this argument is used to justify inequality, then the inequality must be consonant with the aims sought, i.e., it must be shown that income levels are closely linked to the amount of effort, skill or training. Moreover, the sectors which it is desired to develop must really be those which yield higher incomes. Only a few comments of a very tentative nature can be made on the basis of the data presented in table 272.

The figures show a very considerable variation in average wage and salary incomes among sectors in Argentina. There are three small sectors with very high average incomes: finance, public utilities, and mining. With the exception of some groups in mining, practically all wage and salary earners are in the top half of the distribution in Argentina. At the other extreme, agricultural wage earners have an average income only slightly more than half the non-agricultural average. There is relatively little variation in incomes, and wage earners in the sector are to be found almost entirely in the lower half of the distribution. The incomes of domestic servants and workers in other services and construction are also considerably below the average.

The most important provisional conclusion that can be drawn from this is that these appreciable differences in incomes do not clearly correlate either with differences in skill and training or with the aim of attracting labour to selected sectors of the economy. It is likely that most occupations in the finance, public utility and mining sectors require a relatively high level of skill and training, and that average labour requirements are not as high as in other sectors. Probably, the level of skill is much more varied in agriculture and also the average income is probably much closer to the non-agricultural average than the figures indicate. The same may well be true in the construction sector.

Similar comments could be made if it were possible to break down the large groupings in table 272 into smaller groups. For example, within the manufacturing sector, average wage and salary incomes tend to be low in the more traditional industries and substantially higher in the newer industries, and it is doubtful that this reflects differences in skill or training. Salary levels in the government sector appear to depend not only on the job to be performed but also on the level of government—local, provincial or federal—at which it is located.

In determining the sectors in which the demand for labour is greatest, it should be borne in mind that the finance, public utility and mining sectors offer the largest incomes, while the lowest incomes, with the exception of domestic service, are in agriculture. It has been argued, however, that if Argentina employed more labour in agriculture rather than in non-agricultural activities, it would increase its net product since its low level of agricultural output has been an obstacle to economic growth. Probably, there is no need to attract more labour to the high-income sectors, since their incomes are high mainly for institutional reasons.

It is important to note that a clear correlation between inequality and the economic objectives it supposedly promotes also does not exist in Argentina, where the primitive sector is not a major influence and there are none of the major distortions that this sector normally creates.

In Mexico, given that fewer sectors can be distinguished, the variation in average wage and salary incomes is greater than in Argentina. To a considerable extent, the differences in Mexico reflect the importance and constant pressure of the primitive sector, and again point up the limitations of using an unrestricted sectoral approach.

As noted in the section on functional income differences, the average salary earner in Mexico receives a much higher income than the average

wage earner, and this to a large extent explains the differences shown in table 272. The sectors with high wage and salary incomes are usually those in which there is a high proportion of salary earners. In the commerce and services sectors, salary earners make up over half the total, and in the public utility sector nearly half; although in the mining sector the average income is relatively high even though wage earners represent over four fifths of the labour force; high wage incomes here reflect the special situation of the mining sector, in Mexico and in most of the other countries.

In agriculture, construction, industry and transport, by contrast, the labour force is very largely made up of wage earners, and average wage and salary income is therefore lower.

A comparison of wage and salary incomes by sector in Mexico and in Argentina shows consistent variations in line with this structure of the paid labour force. The sectors in Mexico where salary earners are dominant are also the sectors where wage and salary incomes are higher, in relative terms. In sectors where wage earners make up the great bulk of the labour force in Mexico, average wage and salary incomes are relatively lower than in Argentina.

This suggests that the pressure from the substantial primitive-type labour force in Mexico tends to hold down relative wage income levels in all sectors to a much greater extent than in Argentina.[142] It is primarily the salary-earning group as a whole, regardless of sector, which is best able to protect itself from this pressure and obtain relatively high incomes. The fundamental aspect of the inequality in wage and salary incomes in Mexico and probably in other countries with an important primitive sector—turns therefore the comparative proportions of wage and salary earners.

The existing inequality thus serves primarily as an incentive to acquire the particular type of skill required for employment as a salary earner, rather than to increase levels of skill in general. To a considerable extent it places a premium on white-collar work, and this may even discourage rather than stimulate economic growth. Manual and technical skills are a major aspect of growth, and these need generally to be acquired by those who work as wage earners.

There are some important sectoral differences in Mexico among wage earners. Average wage incomes in the various sectors, as a percentage of the non-agricultural average, are as follows:

Agriculture	50	Transport	121
Construction	72	Commerce	127
Services	79	Public utilities	139
Industry	116	Mining	154

While the average wage in mining is high, the clearest division is between the relatively low wage incomes in agriculture, construction and services, and the much higher wage incomes in all other sectors. Primitive-type labour is concentrated in agriculture, and upon leaving that sector gains easiest access to construction and services; consequently, wage rates are depressed to especially low levels in these sectors.

In such circumstances, inequality in wage and salary levels—and such inequality is very great in Mexico—is not likely to serve effectively and consistently as a stimulus to acquire additional skills and training. This will be seen to be too often insufficient, and other factors too often more important, in obtaining higher incomes.

Self-employment incomes in the different sectors are also shown in table 272, but less can be said about this group. In Argentina many of the differences in self-employed incomes can be reasonably explained on the basis of variations in the amount of capital employed. Differences among the three major sectors of agriculture, industry, and commerce are relatively modest, and it would appear that, if he can obtain capital, the entrepreneur is quite at liberty to enter whichever sector appears to offer the best return. There is no indication here, as there was among wage and salary earners, that the inequality may not serve as a stimulus to greater effort or efficiency.

Comparison with the Mexican data again shows the influence of the primitive sector. Most of the self-employed in Mexico remain in agriculture with a very low average income, a reflection of the continuing importance of primitive-type self-employment in the sector. The great bulk of the remainder are in the commerce and services sectors, where low capital requirements permit considerable marginal-type self-employment; and incomes here are consequently lower than in the other non-agricultural sectors, although much higher than in agriculture itself. At the other extreme is the industrial sector, where generally higher

[142] The division between wage earners and salary earners is available for Argentina only in the industrial sector, but there it fully confirms this statement. The composition of the labour force in the sector is the same—12–13 per cent are salary earners in both countries—but, whereas in Argentina the average salary income is 70 per cent above the average wage income, in the industrial sector in Mexico it is on average two and three-quarter times wage income.

capital requirements restrict entry and the average income is sharply higher. In Mexico, only 5 per cent of the self-employed are in the industrial sector, with an average income more than 50 per cent above the non-agricultural average. In Argentina, by contrast, nearly one quarter of the self-employed are in this sector, but with average incomes only modestly above the non-agricultural average.

As noted earlier, the preceding discussion has reached only very tentative and partial conclusions. Much more detailed data are required to give a definite answer to all the questions raised, and it might be advisable to look more closely at all the various sectors and subsectors, rather than simply the major economic sectors in the aggregate. Moreover, account must be taken of the functional groupings within sectors and the general importance of the structural heterogeneity of the economy, if the analysis is to serve any useful purpose. The sectoral differences usually analysed shed much less light on the structure of income distribution than the factors considered above.

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