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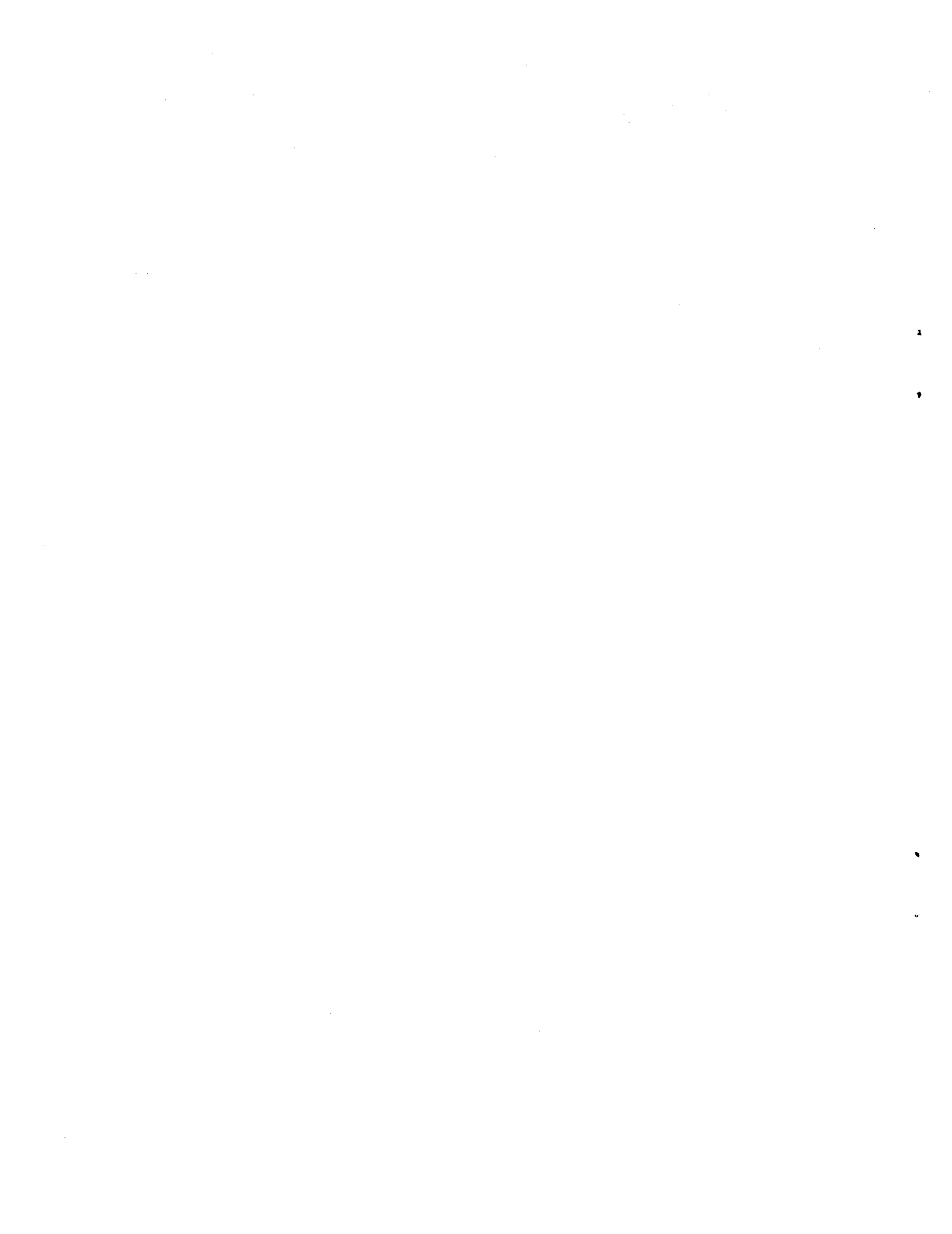
ECONOMIC COMMISSION FOR LATIN AMERICA

ECONOMIC SURVEY OF LATIN AMERICA, 1973

CHAPTER I\*

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\* These pages contain an advance text of Chapter I of the Economic Survey of Latin America, 1973, which is currently being prepared by the secretariat. This text is presented for preliminary consideration by the Latin American delegations to the present session of the General Assembly. This text is provisional and subject to changes of substance and style.



## Chapter I

### I. LATIN AMERICA IN A PROFOUNDLY CHANGING WORLD CONTEXT

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

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

The centre of criticism and self-criticism of the existing order was the international monetary and financial system, this being the most visible and sensitive aspect of the situation in question. We will deal with this aspect, which has itself undergone substantial changes, later on. The point I want to make at the moment, however, is that so few people delved below

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the surface to get to the root of the changes and tensions that had matured deep down below the overlying monetary aspects, while fewer still were able to visualize the original, unexpected and even spectacular forms which the last and still vigorous upheaval would take.

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

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

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

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

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

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

Just how weak are the strong in reality?

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

One of these, and a very general one, is the growing dissatisfaction with what has been termed the myth or cult of pure growth, which is offset by the concern for the "quality of life". Along with these sentiments there has been increasing concern over the environmental deterioration implicit in the

prevailing style of development. In its most utilitarian acceptance, this concern has been focussed on the exhaustion, higher cost or external dependency of basic, and especially energy resources.

Outstanding on another level are the increasing difficulties in reconciling the main economic objectives: expansion and full employment, control of inflation and equilibrium of the external balances. In practice, a notorious quid pro quo has been operating among them, although of course with different characteristics in each country. While the first objective seems to have been dominant in all countries (although with frequent ups and downs or only partial success), in many it has been achieved at the cost of a reactivation of the inflationary process and/or maladjustments in the balance of payments. As noted in an earlier study,<sup>1/</sup> these incompatibilities have shaken confidence in both the orthodox and the most liberal or Keynesian instruments of economic policy and aggravated the atmosphere of dependency.

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

This overall panorama naturally obscures a number of substantial differences in the situation of the central economies. These differences are singularly interesting because their particular effects tend to modify the trends of the last decade as regards the relative positions of these economies. Thus, a notable feature of this period was the increased strength and dynamism of the European Economic Community and Japan (particularly the latter) in comparison with the evolution of the United States, although the most recent

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<sup>1/</sup> See Economic Survey of Latin America, 1971.

developments appear to have interrupted and to some extent rectified this course, since, despite all upsets, the North American economy has proved well able to stand up to the crisis, because of its wider range of energy products and because it has benefited from the increased prices of basic commodities, especially foodstuffs,<sup>1/</sup> even though some direct effects will probably be more marked in the short-term than in other centres. These, however, do not negate the reality of the greater general solidity of the United States economy, based on its wide range of resources, its size, its structure of production and its technological resources.

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

Neither a retrospective view nor an evaluation of the current economic situation leave any doubts as to the gravity of the problems which the central economies have to face. Both approaches are useful to demonstrate that their intrinsic power does not make them invulnerable and that, furthermore, their dominant position in the world concert is not without a certain degree of dependence (in this case with respect to certain basic commodities) which would have been unthinkable not so many years ago.

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

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<sup>1/</sup> While self-sufficiency in petroleum is estimated to be around 74 per cent in the United States (and 98 per cent in Canada), in Germany it amounts to 7 per cent, in France 5 per cent, and in the United Kingdom 2 per cent, while Japan does not produce any petroleum at all. Furthermore, it is estimated that in 1974 the United States will make an extra profit of around 6,000 million dollars because of the higher prices of exports of foodstuffs. See J.P. Grant, "Energy shock and the development prospect", Overseas Development Council, (ODC), Washington, February 1974.

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

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

This, of course, does not mean that there will be no real transfer in favour of primary producers or, at least, in favour of those in a stronger trading position, but it will be much less than it appears to be at first sight, even though this latter amount is financially manageable.

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

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

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

The first is that whatever may have been the appraisal of the position of the industrialized countries and those on their periphery, there seems to be no doubt that the events in question have strengthened the negotiating position of primary producers.<sup>1/</sup> Some will be in a stronger position than others, and for some the position will remain unchanged, but on the whole, and depending on the strategy used - an aspect to be dealt with further on - the marginal economies will feel that they are in a better

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<sup>1/</sup> A United States expert put the situation this way: "...The United States is rapidly joining the rest of the industrialized countries in depending on the Third World for a critical share of its energy supplies and other natural resources. For oil alone, annual US imports are expected to rise by \$ 20 billion by the end of the decade. But is not only much-publicized oil; accelerating imports of other raw materials will raise these figures significantly. Four countries control more than 80 per cent of the exportable supply of world copper, have organized, and have already begun to use their oligopoly power. Two countries account for more than 70 per cent of world tin exports, and four countries raise the total close to 95 per cent. Four countries combine for more than 50 per cent of the world supply of natural rubber. Four countries possess over one-half the world supply of bauxite and the inclusion of Australia (which might well join the "Third World" for such purposes) brings the total above 90 per cent. In coffee, the four major suppliers have begun to collude (even within the framework of the International Coffee Agreement, which includes the main consuming countries) to boost prices. A few countries are coming to dominate each of the regional markets for timber, the closest present approximation to a truly vanishing resource. The percentages are less, but still quite impressive, for several other key raw materials and agricultural products. And the United States already meets an overwhelming share of its needs for most of these commodities from imports, or will soon be doing so. C. Fred Bergsten, in Foreign Policy, number 11, Summer 1973, "The Threat from the third world".

position at the negotiating tables, that they hold better cards, and that they are being shown greater respect than in the past. This is a change which can be of historic importance.

The second fact is that the industrialized economies - as a result of the events mentioned - will probably introduce major structural changes in their production processes and perhaps in their development patterns. As already pointed out, an industrial society based on oil at one dollar a barrel will not be the same with prices several times higher. A further factor likely to favour change is the increasing concern over the environment, the conservation of non-renewable resources and urban overcrowding.

Thus, a more or less optimistic outlook is possible, although it is much more difficult to guess what form things will take and what the repercussions are likely to be for the developing countries.

The last fact to which attention should be drawn concerns the unknowns which lie ahead, which stem from the trends towards horizontal or vertical integration of the world economy. Both movements were discernible in the past, but recent events seem to have weakened the process of horizontal integration in the major countries, even among groups which already exist such as the European Community. Thus, it has become more difficult to forecast the future development of the relations between the super-powers.

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

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

/How important

How important is it to strengthen the weak?

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

The two studies contained in this Economic Survey of 1973 cover in detail the evolution of the terms of trade of the Latin American countries and the prices of their main export products.

The research involved has brought out a number of facts of undeniable importance.

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

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

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

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

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

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

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

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Let us consider the first point. The increase in price of primary products sometimes overshadows the basic fact that the price of manufactured goods and services that the developing countries purchase are also rising. From this angle, the present situation is somewhat different from other boom periods for basic products, when the prices of the other goods and services were not readjusted to the same extent or else took some time to catch up. A new factor, as has already been mentioned, is the persistence and possible recrudescence of inflation in the central economies which is so easily exported and to which no great attention was devoted in the old discussions over terms of trade. As can be appreciated from the study that has already been made of the subject, the net effect is fairly restricted, save in the exceptional case of petroleum exports.<sup>1/</sup>

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

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

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<sup>1/</sup> An eloquent illustration of this point was provided by the head of the Chilean Copper Corporation (CODELCO), Mr. Andrés Zausquevich. Questioned as to the significance of the extraordinary increase in the price of copper as it affected that branch of activity (and not, of course, the economy as a whole), he pointed out that, along with higher prices for copper, there had been an increase in those of copper inputs. An alarming rise had occurred in the cost of foreign and domestic spare parts, in machinery, sophisticated equipment, chemical reagents, insurance, sea freight, etc. Petroleum, lubricants, and petroleum products such as plastics had had serious repercussions on the production costs of copper. Consequently, almost half the increase in the price of copper on the international market was swallowed up by these higher production costs. In the best of cases, the net increase in price amounted to only 14 per cent. (Reported in "La Tercera", Santiago, Chile, 23 March 1974.)

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

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

Confrontation, negotiation, consensus?

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

One of the first unknown quantities requiring a solution consists of finding out whether the developing countries wish to follow a policy of confrontation or one of bargaining and compromise.

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

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

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

What are the bases for mutual agreement?

It could be the need by developed countries to protect themselves against a continuous upsurge of prices to ceilings far above "reasonable levels" occurring at sudden intervals and continuing for indefinite durations. They need, in short, certainty of access to supplies of primary products largely, though not totally, from developing countries. The benefit to the latter - stable prices negotiated at a new and higher plateau rather than set according to market forces, and geared to reversing the long trend in terms of trade - would be self-evident. (Pollock).

On the other hand, the increased income for the marginal countries as a whole that this process would involve - and possible also in the shorter term the distribution of the oil surpluses (a point dealt with later on) - could play a major role in stimulating the central economies and in their financial operations.

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

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However, the new dimensions of the situation cannot be underestimated, for they offer a possibility where there was none before. The new factor which stands out most clearly is the unique and strong position of the exporters of oil, who are assuming or may assume a very special position as de facto leaders with the backing of their large financial resources. An enlightened policy in these countries could unify and mobilize the peripheral countries in a way and to a degree which was previously unimaginable.<sup>1/</sup>

In the following section, which examines the new dimensions and character of the international monetary and financial situation, the options and the proposals put forward concerning the channelling and the use of the resources which are flowing into the oil countries will be dealt with. In this section there only remains to add a few ideas on the ways of reaching agreement on the action to be taken by the developing countries.

For this purpose, it is necessary to consider the way in which these countries can be grouped: either regionally and sub-regionally or by groups of producers of certain commodities.

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

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<sup>1/</sup> In this connexion it is worthwhile recalling the initiative taken by some of these countries, such as Venezuela and Iran, to channel part of their oil revenue surpluses to the developing countries. This point is dealt with again in the monetary and financial section.



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

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

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

In any event, it is important to place the foregoing discussion in a wider context. For this purpose, mention may be made here of the point raised in the 1971 Economic Survey on the new world order being sought: "The interests of the periphery would in any event be better safeguarded if the new order involved some definite progress

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towards true international integration which neither alienated the developing economies from the dynamic influence of the material, scientific and technological progress of the advanced nations nor entailed an accentuation of the new forms of dependence that have evolved under the system that is now in a state of crisis. There is no reason why this prospect should negatively affect the groupings of countries that have taken shape in recent years; nor could it justify disregarding the blatant inequality of the component parts of the world community and more specifically the difference between the objective positions of the industrialized and developing economies, which calls for special treatment for the countries at the periphery within the context of a new world order. In a word, international integration necessarily presupposes the existence of systems or arrangements that will substantially improve the status of the peripheral countries within the community of nations."

Finally, it should be mentioned that in the process outlined, in respect of the various options and alternatives, both the United Nations family of organizations and the group of regional financial and development institutions have a vital role to play. With respect to the former, it seems obvious that a global negotiating strategy would find in them and in their universal role the instruments and forums most suited to the achievement of the objectives envisaged.

## II. MONETARY AND FINANCIAL EVOLUTION

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

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

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

A. The monetary and financial situation and  
the status of reform up to  
the end of 1973

A picture of the monetary and financial situation and the status of the work aimed at reform up to the end of 1973 may be gained by reviewing the aspects considered to be of most consequence in the work and negotiations which were taking place.<sup>1/</sup>

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

As regards the mechanism for adjusting balances of payments, a consensus was growing up in favour of exchange rates based on stable but flexible rates, with provision for fluctuation (or "floating") under certain circumstances. Complementing this, although with big differences of opinion among the countries, progress had been made in formulating proposals linking the need for and desirability of

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<sup>1/</sup> In this context it may be noted that the work of the Committee of 20 and of the IMF was structured around five working groups of a technical nature - the idea being to obtain political sanction for the agreements later - which coincided with the points estimated to be of most relevance for the reform. Moreover, at the last Assembly of the Governors of IMF (September 1973), it was agreed that the date for the completion and final termination of the work and agreements required for the reform should be July 1974.

adjustments with some system of objective indicators which would make it possible to receive periodic information on and evaluate the international reserve positions of the different economies. On the matter of convertibility, the role of growing importance which the SDRs were to have as central (cash) reserve assets of the system had been accepted and there was a generally-shared view that it was indispensable to improve the protection of the real value of the SDRs and their rate of interest. It had moreover been recognized that the dues and liabilities should be applied symmetrically to countries with deficits and those with surpluses, but progress aimed at defining norms for the convertibility of reserves had been scanty, mainly owing to the different positions upheld by the countries particularly the developed countries, and the failure to define a gold policy.

A third major aspect was that of the global liquidity of the system and the consolidation of the surplus international reserves accumulated by various European countries and Japan. Apart from a rather general agreement that the volume of global liquidity should be subject to an effective form of international control, success in this respect had been very limited. There was an underlying fundamental difference between the majority opinion of the industrialized countries and that of the developing countries. While the former maintained that there was surplus liquidity, the latter argued that this was not so. Further, in addition to the implications of this difference of opinion concerning what was to be done with possible surplus reserves, nothing had been planned nor had positive formulas been adopted for their consolidation.

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

The developing countries considered that a fourth factor essential to reform was the real transfer of resources to the third world. In this respect, the point made was that if the general equilibrium of

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the international trade and monetary system was to be safeguarded, adequate structural guarantees were needed to bring together the surplus on current account of the developed countries and the deficit of the developing ones. A pre-requisite for this purpose - not only for the sake of co-operation but also, in particular, in order to guarantee the reasonable operation and expansion of the world economy - was the establishment of a continuous flow of resources, under acceptable terms, from the industrialized countries to the developing ones.

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

With reference to the "link" to be established between the creation of SDRs and additional finance for development, very little progress was made either. The developing countries stated their preference for the establishment of a link arrangement in which the corresponding SDRs would be channelled directly from the IMF to them, but the very idea of a link continued to be objected to by some relatively powerful developed countries, who maintained that its operation would lead to an unnecessary increase in world liquidity.

Finally, a fifth item referred to the restructuring of the IMF, since many developed and developing countries had decided that the IMF's authority and way in which the institution exercised its supervisory functions in respect of the international monetary system should be strengthened and improved. In this connexion, the idea had been accepted of setting up a permanent and representative 20-member Governing Council, located between the Board of Governors and the Executive Directors, which would meet regularly three or four times a year and have the necessary faculties for administering and adapting the monetary system, supervising the functioning of the

/adjustment process,

adjustment process, and dealing with any disturbing factors which might affect the system. In practice, this Council would replace (with a greater degree of authority) the Committee of 20, which would be done away with in mid-1974, when it was expected to complete the work.

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

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

#### The situation in 1973

In spite of the fact that the situations and problems referred to at the beginning of this chapter became more and more acute in 1973, and that it was not possible to complete or even make any significant headway in monetary reform, a review of that period shows that the existing monetary system continued to operate and permitted a new expansion of world trade. However, its operation was affected by the emergence of tensions rarely experienced before 1971, at any rate with the intensity manifested during the past year. Thus, on the one hand inflation became more widespread and accentuated in the industrialized countries, while on the other hand

- and to a large extent linked with this factor - various developments of an essentially monetary and financial character took place. In this respect mention may be made, for example, of the further official devaluation of the dollar at the beginning of the year, the floating of the main reserve currencies, the sharp fluctuations in the price of gold, and the changes in policy regarding interest rates and movements of capital in a number of countries.

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

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

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



B. Central problems of today

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

Various estimates have already been made as regards the impact of higher petroleum prices on national balances of payments. One of these, prepared and used by several international institutions,<sup>1/</sup> calculates that the increase in costs of oil imports during 1974 will be approximately 60 thousand million dollars, 50 thousand million dollars of this sum being accounted for by the industrialized countries and 10 thousand million by the non-petroleum-producing developing countries. To offset this increase in the income of the developing countries members of OPEC, and other changes in world trade (variations in the prices of other primary products and manufactures, etc.), it has been estimated that the OECD nations would swing from a current account surplus of 10 thousand million dollars in 1973 to a deficit of around 35 thousand million dollars in 1974, while the developing countries which do not belong to OPEC would find their

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<sup>1/</sup> In particular by the OECD and somewhat similarly by the World Bank.

current account deficit increasing from 15 thousand million dollars in 1973 to 25 thousand million in 1974. Preliminary estimates for 1975 indicate that the situation would probably be similar and that the disequilibrium of 1974 might even be aggravated.

This radical change in the volumes involved in the monetary and financial sphere means that international monetary reform is losing its importance and urgency - at least for a while - as regards several of the aspects put forward by the developed countries, which have already been discussed earlier. In contrast, priority has gone to the formulation and setting in motion of mechanisms for facing up to the new situation in which there is a simultaneous "fundamental disequilibrium" in the balances of payments of the industrialized world as a whole and an aggravation of the current account deficit of the non-petroleum-exporting developing countries.

Thus the problems of adjustment of the balances of payments and of the convertibility of reserves are losing their topicality, particularly for the developed countries which were most concerned with levelling out their current account surpluses and deficits in a fairly symmetrical form. In the face of an emergency in which almost all countries come to have current account deficits (with the probable exception of Canada and the United States 1/ which are likely to maintain a relative equilibrium), the basic option existing in the most immediate future 2/ is the free floating of the reserve currencies 3/ and the use of previously accumulated international reserves, especially by the European countries and Japan, this making the question of the pursuit of convertibility largely superfluous.

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- 1/ Curiously enough, in the present economic situation there may be several industrialized countries which would prefer the United States to have a current account and balance of payments deficit so that it would have to pump dollars into the system.
- 2/ Reference is made below to the possibilities of and modalities for the possible recycling of reserve surpluses.
- 3/ Subject to the limitation that competitive depreciation must be avoided, according to the Committee of 20.

The experience of the last few months bears out the intensiveness and relative "cleanness" of floating (particularly of the European and Japanese currencies with respect to the dollar) and also makes it possible to observe that substantial movements in country holdings of international reserves have taken place. Thus, for example, between September 1973 and January 1974 the reserves of industrial Europe decreased from 80 thousand million dollars to 72 thousand million, i.e., by 10 per cent, and Japan's reserves decreased from 14.8 thousand million to 11.6 thousand million, i.e., around 20 per cent, whereas the reserves of Canada and the United States underwent no variation.

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

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

/In other

In other words, the developed countries whose balances of payments are affected by the present crisis are taking quick action and using their manoeuvring ability to take immediate measures to render their international payments situation manageable, while at the same time they are taking positions and adopting orientations on the monetary reform and the system itself 1/ with the aim of being able, in the medium term, to secure the operation of formulas which will allow their balances of payments to function in an acceptable manner.

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

Redistribution of resources accumulated by the OPEC countries and other compensatory formulas

The redistribution of the additional export earnings of the member countries of OPEC is an important factor for the smooth operation of the international monetary and financial system. Furthermore, the bringing into operation of machinery for the redistribution of resources could bring nearer the objectives of the

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

increased transfer of resources to the developing countries and thus make possible a bigger expansion of trade and of the world economy. It is a complex and delicate task, however, because of the large amounts involved - up to 60,000 million dollars in 1974 1/ - the prompt action required, and the various possibilities as regards terms and channelling of the resources concerned.

Another compensatory scheme of a general nature could be the creation of additional international liquidity through the central bank of the system, i.e., the International Monetary Fund. In this respect, it is known that the IMF is in the process of bringing into operation a temporary supplementary service to assist those countries which may show a current account deficit owing to the oil problem. This service, which is being strongly supported by the developed countries, could inject additional liquidity during its first year of operation, and at the same time redistribute funds, to a value of some 12,300 million SDR units. It has been proposed, however, that approximately 11,000 million would be transferred to the developed countries, while only about 1,300 million would go to the developing countries.2/

The developed countries have other possibilities of covering or reducing their current account deficits. A short-term measure already referred to is the use of previously accumulated international reserves. Another more medium-range measure is to increase their exports to the OPEC countries, particularly if these nations are able to accelerate their development in the present circumstances. A third

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1/ It may be noted that this is equal to one-third of the total international reserves existing at the end of 1973.

2/ Incidentally, for many years the third world has been striving unsuccessfully to obtain an appreciable improvement in the compensatory financing machinery of the IMF and, in particular, the establishment of such machinery in the World Bank, using much the same arguments as those now produced in connexion with the oil issue. As we have just seen, the international community has reacted more rapidly now that the developed countries are also affected.

way is through a fairly rapid and continuous increase in the prices of goods and services, including know-how, which the industrialized countries sell to the developing world.

The redistribution of the bigger international reserves of the OPEC countries may well take place spontaneously, resulting in the restoration of a substantial proportion of those reserves to the developed countries, although of course with sizable differences according to the individual situations. In fact, considerations of security and liquidity, of the real possibilities of disposal and use, and of the conservation of the real value and returns of these funds may be instrumental in channelling a high proportion of them into the industrialized economies, particularly through direct investment and/or the placing of financial resources on the international capital markets. In this respect, for example, the reduction in the rate of interest on the Eurodollar market at the beginning of 1974 may be interpreted as a sign that this automatic redistribution is already taking place.

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

#### The situation of the developing countries

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

/Regards of

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

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

The proposal made recently by Venezuela at the last Assembly of the Governors of the IDB, in April 1974, is not only interesting on account of its simplicity and its financial and other implications, but also because it contains many aspects favouring Latin American regional integration. It provides for the setting up of a Trust Fund to be administered by IDB, as trustee, and this proposal was approved at the Assembly. The Trust Fund will, it is hoped, operate on a broad and flexible basis in order to assist in the efficient promotion of the development of the region.<sup>1/</sup>

<sup>1/</sup> In this connexion, Venezuela's Minister of Finance, Mr. Hector Hurtado, stated that: "Since Venezuela will receive a considerable amount of extra funds, it is prepared to take the initiative in setting up this fund, but Venezuela considers this a collective responsibility and hopes that the better-off countries of Latin America will contribute to the fund as well. The collective structure that Venezuela wishes the fund to have also presupposes that in the management of these resources no country should enjoy a privileged position nor have the right of veto. No country can set itself up as leader or supervisor in a collective enterprise which belongs to all. This means, however, that the objectives and terms of reference for the administration of the fund must be set out very clearly, so that it may have the widest possible scope and the greatest flexibility".

It is to be hoped that the international community will show sufficient vision and flexibility to propose and put into practice other machinery to foster the redistribution of funds and the provision of extra development and so as to help the developing countries which are not members of OPEC to face their problems.

It will be essential for the industrialized countries and the developing member countries of OPEC to participate jointly in this task, which it will also be indispensable for a considerable proportion of the resources transferred to be made available on concessionary terms.<sup>1/</sup>

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<sup>1/</sup> In this connexion it is interesting to bear in mind the declaration made on 13 March 1974 by the chief executive of the five international financial institutions (IBRD, IMF, IDB, African Development Bank and Asian Development Bank), one paragraph of which says:

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



### III. EVOLUTION OF THE TERMS OF TRADE IN LATIN AMERICA

This section will endeavour to evaluate in more detail the effect of recent events on the terms of trade and the increase in the purchasing power of Latin American exports.<sup>1/</sup>

As was to be expected, earnings from regional exports increased substantially in 1973, with the result that the growth rate recorded the previous year, which had already been very high, more than doubled, was rising from 19 per cent in 1972 to 44 per cent in 1973.

This increased dynamism was mainly due to higher prices, since the volume of exports increased by only 7 per cent (compared with 4 per cent in 1972). The unit value of exports underwent an increase of 34 per cent in 1973, compared with 15 per cent the previous year (see table 1).

The changes indicated were offset by price increases in imports, the unit value of which increased in 1973 by 19 per cent, or more than half the increase already indicated for export prices (34 per cent). In comparison with 1972 the proportion of these variables thus deteriorated slightly (8 per cent for imports and 15 per cent for exports).

As a result of these changes and relations, the terms of trade improved by 13 per cent in 1973 and the purchasing power of exports by 21 per cent, constituting a notable advance in comparison with the previous year, when the increase was 7 per cent for the terms of trade and 11 per cent for the purchasing power of exports.

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<sup>1/</sup> The terms of trade expresses the implicit transfers of earnings from or to the exterior deriving from the development (increase or decrease) of the prices (or unit values) of goods exported and imported by the region. The purchasing power of exports, for its part, represents the extent of the variations in the volume of exports, combined with variations in the terms of trade, i.e., it indicates the volume or quantity of goods which may be purchased with the earnings from external trade. For further details see "Relación de precios del intercambio de América Latina", ECLA, document E/CN.12/L.99, July 1973.

Table 1  
 LATIN AMERICA<sup>a/</sup>: TERMS OF TRADE IN 1973  
 (Millions of dollars; indexes:1963 = 100)

	1971	1972	1973	Percentage annual variation	
				1973	1972
				1972	1971
<b>1. Exports (FOB)</b>					
Value at current prices	14 219	16 929	24 387	44	19
Value at constant prices (volume) <u>b/</u>	11 654	12 077	12 955	7	4
Index of unit value	122	140	188	34	15
<b>2. Imports (CIF)</b>					
Value at current prices	15 747	18 213	23 878	31	16
Value at constant prices (volume) <u>b/</u>	13 520	14 528	16 049	10	7
Index of unit value	116	125	149	19	8
<b>3. Terms of trade</b>					
	105	112	126	13	7
<b>4. Index of purchasing power of exports</b>					
	135	150	181	21	11
<b>5. Trade balance</b>					
Value at current prices	-1 528	-1 284	+509	...	...
Value at constant prices (volume) <u>b/</u>	-1 866	-2 451	-3 094	...	...

Source: ECLA, on the basis of official statistics.

a/ Excluding Cuba, Barbados, Guyana, Jamaica and Trinidad and Tobago.

b/ At 1963 prices.

/The favourable

The favourable nature of the external economic situation may also be appreciated in the light of the trade balances expressed in current and constant values (see table 1, indicator 5). The trade deficit, expressed in constant values, shows the increase in the volume of goods available to the region through trade with the exterior. This volume increased considerably during the period 1971-1973, from 1.9 to 2.4 thousand million dollars in 1972 and to 3.1 thousand million in 1973.<sup>1/</sup> The interesting feature of this situation in 1973 is that this improvement is not essentially due to external financing as in the last two years when there was a current account trade deficit (of 1.5 and 1.3 thousand million dollars): the determining factor in last year's situation is the increase in export earnings, which exceeded import costs by 0.5 thousand million dollars, thus relieving the chronic tension in the balance of payments of the region and probably increasing monetary reserves.

1. A retrospective view of the terms of trade of the region

Before continuing, it is of interest to examine the substantial progress achieved in the terms of trade and the purchasing power of exports in the light of the levels and situations of recent years, on the basis of the historical external trade series prepared by the Statistics Division of ECLA.<sup>2/</sup>

Table 2 gives the trends of these aspects, using average annual indexes for longer periods and thus mitigating the impact of short-term changes in the economic situation, as, for example, drops in harvests of agricultural products, the interruption of mining activities, etc.

From the analysis of the figures given, two main facts may be deduced which reaffirm some of ECLA's basic theories.

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<sup>1/</sup> Constant values at 1963 prices.

<sup>2/</sup> See document referred to in note <sup>1/</sup> of page 31.

Table 2  
LATIN AMERICA: PAST DEVELOPMENT OF TERMS OF TRADE, 1930-1973

(Indexes: 1963=100)

	Exports		Imports		Terms of trade	Purchasing power of exports
	Volume	Unit value	Volume	Unit value		
<b>1. Average annual indexes</b>						
1930	52	67	54	66	102	53
1931-1934	51	37	34	44	84	42
1935-1939	58	33	47	35	92	53
1940-1944	49	45	39	45	99	48
1945-1949	60	84	70	74	112	67
1950-1954	60	123	86	94	132	79
1955-1959	75	115	100	97	119	89
1960-1964	94	102	103	100	103	96
1965-1967	111	105	116	106	99	110
1968-1970	125	111	147	108	102	127
1971-1973	136	150	189	130	114	155
1970	131	118	160	112	105	138
1971	129	122	174	116	105	135
1972	134	140	187	125	112	150
1973	144	188	206	149	126	181
<b>2. Percentage change (<math>\pm</math>) with respect to previous period</b>						
1931-1934	-2	-45	-37	-33	-18	-21
1935-1939	14	-11	38	-20	10	26
1940-1944	-16	36	-37	28	8	-10
1945-1949	22	87	79	64	13	40
1950-1954	0	46	23	27	18	18
1955-1959	25	-7	16	3	-10	13
1960-1964	25	-11	3	3	-14	26
1965-1967	18	3	13	6	-4	14
1968-1970	13	6	27	2	3	15
1971-1973	9	35	28	20	12	22
1971	-2	3	9	4	0	-2
1972	4	15	7	8	7	11
1973	7	34	10	19	13	21

Source and footnotes: As for table 1.

/Firstly, taking

Firstly, taking the average index of the terms of trade for the period of sustained external expansion covering the years 1971-1973, it may be seen that this index (114) barely exceeds the level for 1945-1949, when it was 112, and is actually down as the levels for the two five-year periods of the 1950's (132 in the first period and 119 in the second). Even if 1973 is taken alone, the level for that year (126) is lower than that reached at the beginning of the 1950's. It is of course impossible to forecast probable developments in 1974. Although in the first months of this year the rising trend in prices has been strengthened, it is equally true that observers anticipate a slackening-off, to which must be added the almost certain continuation of the increase in the prices of industrial products. This point will be taken up again later.

The second conclusion is more general, and shows up the unquestionable dependence of the terms of trade on the events originating or taking place in the central economies.

A retrospective review of the last forty years gives an idea of which economic situations have had most influence on the terms of trade and the purchasing power of Latin American exports. First of all, there were the years of world economic crisis at the beginning of the 1930's, when the prices of basic commodities dropped much more than those of manufactures. During the Second World War the opposite was the case (at least as regards prices, but not volume of trade). Secondly, there was the substantial and more comprehensive boom of the postwar reconstruction years (1945-1949), which was prolonged and accentuated during the phase of international tensions and the Korean War (1950-1954).

During the second half of the 1950's and the greater part of the 1960's, there was a considerable increase in the demand of the industrialized countries and in the volume of regional exports, but at the same time a weakening in export prices and an increase in prices of manufactures imported by Latin America. Consequently, there was

/a distinct

a distinct deterioration in the terms of trade, although the purchasing power of exports continued to increase owing to the increase in their volume already referred to.<sup>1/</sup>

At the end of the 1960's and especially at the beginning of the 1970's, very different features appeared, resulting in an appreciable increase in export prices and in the improvement in the terms of trade mentioned above.

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

The trend of the unit value of exports in the region is determined essentially by the changes in the prices of raw materials and other basic products, which account for about 90 per cent of Latin America's sales abroad (89 per cent in 1970).<sup>2/</sup> Obviously, in the case of the more industrially developed countries the prices of manufactures are considerably more important, and even increasingly so (see table 8). Taking Latin America as a whole, however, it is easy to see the general coincidence between movements of the price index of the 21 main primary products and the unit value of all exports.

If we follow the trend of prices and of the unit value of sales (see table 3), we see that the average increase in prices for the region, which was 40 per cent, resulted in an increase of 34 per cent in the unit value of exports. The corresponding variations in 1972 were 17 and 15 per cent respectively. The difference is due mainly

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<sup>1/</sup> It should be noted that Latin America's share of world trade dropped from 11 to 6 per cent between 1948 and 1965. This was largely due to a deterioration in its competitive position vis-à-vis other commodity exporting regions. On this subject, see the Economic Survey of Latin America, 1971, Part One.

<sup>2/</sup> The study on "The international market in basic products in 1973" in this survey analyses price and market trends for Latin America's main export products in greater detail. This section endeavours rather to determine the impact of these trends on the unit value and terms of trade, which are somewhat wider categories.

Table 3

LATIN AMERICA: UNIT VALUE OF EXPORTS AND PRICES OF SOME MAJOR COMMODITIES  
ON THE INTERNATIONAL MARKET

(Rates of variation based on annual indexes)

Groups and products	Weighting (average 1970-1971)	Rates of variation			
		Triennial averages a/		Annual values b/	
		1965-1967 1960-1964	1968-1970 1965-1967	1972 1971	1973 1972
A. <u>Unit value of exports</u>	...	3	6	15	34
B. <u>International prices of 21 major commodities</u>	100.00	1	6	17	40
Petroleum and petroleum products	29.08	-10	0	20	36
Other products	70.92	6	9	15	41
C. <u>International prices of some commodities</u>					
I. <u>Foodstuffs and beverages</u>	41.09	1	2	21	34
(1) <u>Tropical zone</u>	32.20	-1	11	26	28
Sugar: Free market	7.29	-57	55	62	30
United States	3.99	3	12	6	13
Bananas:	3.45	-1	1	4	9
Cocoa	1.11	-8	64	21	96
Coffee: Manizales	8.36	10	8	15	28
Santos N° 4	8.00	6	4	14	31
(11) <u>Temperate zone</u>	8.89	12	1	5	54
Beef	4.55	18	5	11	29
Maize	3.54	12	-4	-6	89
Wheat	0.80	2	-4	13	98
II. <u>Agricultural raw materials</u>	10.16	-2	-2	16	72
Cotton: São Paulo	2.00	-1	3	4	54
Mexicano	1.59	-4	0	6	72
Pima N° 1	0.50	2	10	4	...
Wool: Buenos Aires	0.68	27	9	66	71
Montevideo	0.50	-7	-19	37	...
Fish meal	2.74	25	18	17	120
Soya	1.40	-21	-25	10	56
III. <u>Metals</u>	19.67	33	17	2	42
Copper	9.53	57	28	-1	66
Iron ore	4.70	-9	1	5	7
Aluminium	2.71	...	...	-7	1
Zinc	1.19	22	-3	22	124
Tin	0.93	38	-6	7	28
Lead	0.61	37	2	19	42

Source: Unit value: table 1; International prices: Indice de precios de los principales productos exportados por América Latina, calculated by the Statistics Division of ECLA.

a/ Indexes calculated on the basis of 1963 = 100.

b/ Indexes calculated on the basis of 1970 = 100.

/to the

to the fact that the index price reflects the annual average prices registered in the various world markets, which does not immediately and accurately reflect the final prices obtained by the exporting countries. The contrast is particularly important in period of sharp changes in world prices, as happened in 1973.

The most pronounced price rises in 1973 were in agricultural raw materials, which went up by 79 per cent compared with a rise of 16 per cent in 1972 and a decline during previous periods. The increases were particularly substantial in the case of fish meal (120 per cent), Mexican cotton (72 per cent) and Argentine wool (71 per cent).

There was also a considerable rise in the price of temperate-zone agricultural products (54 per cent compared with 5 per cent in 1972), especially in the case of cereals, where wheat prices, for example, went up by 98 per cent and maize by 89 per cent.

Metals, whose prices had levelled off in 1972, also shared in the general upward trend, particularly zinc (124 per cent) and copper (66 per cent).

Prices of tropical products maintained the rapid upward movement of the year before, rising by 28 per cent in 1973; the main increases were in the price of cocoa (96 per cent), Brazilian coffee (31 per cent) and sugar sold on the free market (30 per cent).

Average reference prices for Venezuelan petroleum in 1973 only partially reflect the big jump that took place in October of that year, when they rose by more than two-and-a-half times.<sup>1/</sup>

Careful analysis and comparison of price increases and their effect on the average price index and unit values of exports reveal that, unfortunately, the goods which did best on the world market represent a relatively small proportion of the total sales of the region. Indeed, their share actually tended to decline during the 1960's (see table 4).

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<sup>1/</sup> See again the study on "The international market in basic products in 1973".



Table 4

LATIN AMERICA: PRIMARY COMMODITIES SHOWING GREATEST PRICE INCREASES IN 1973 AND  
THEIR SHARE IN TOTAL COMMODITY EXPORTS

Groups and products	Price increases		Share (percentages) <sup>a/</sup>	
	Rate	$\frac{1973}{1972}$	1963	1970-1971
<u>Agricultural raw materials</u>		79	12.1	10.2
Cotton (Mexico)		72	3.9	1.6
Wool (Buenos Aires)		71	2.1	0.7
Fish meal		120	1.1	2.7
<u>Temperate zone products</u>		54	6.2	8.9
Wheat		98	1.8	0.8
Maize		89	1.7	3.5
<u>Metals</u>		42	12.5	19.7
Zinc		124	0.6	1.2
Copper		66	6.6	9.5
<u>Tropical zone products</u>		28	35.4	32.2
Cocoa		96	1.5	1.1
<u>Petroleum and petroleum products</u>		36	33.7	29.1

Source: Table 3.

a/ Corresponds to the weightings of the index of prices of Latin America's major export commodities, calculated on the basis of 1963 and 1970-1971.

/The share

The share of agricultural raw materials, for example, which registered the biggest price rises, dropped from 12.1 per cent of the total to 10.2 per cent. Only fish meal increased its share. Relative declines also occurred in the share of upward-moving products such as wheat, cocoa and petroleum, although the share of some other products in great demand, such as maize, zinc and copper, increased.

This undoubtedly significant fact should encourage more concentrated research into the supply of the various products, just as it should be taken into account in formulating programmes designed to expand production. It must not be forgotten, however, that changes in relative position are often directly inspired by factors affecting on the demand side. It would therefore be valuable to make a tentative investigation of the main causes that have been put forward to explain the boom in prices of basic products.

#### A few hypotheses with regard to the rise in prices

As will be appreciated, the phenomenon is affected by a wide range of factors which, moreover, influence particular products or groups of related products in very different ways and in very different degree.

It is generally felt that the general explanation of these price movements is the steady growth of the industrialized countries, together with the effect of political tensions and armed conflicts.

Furthermore, the economic expansion of the central countries has been accompanied by a revival of inflation and the international monetary crisis. All this has led to fluctuations and realignments of the principal reserve currencies and to speculation with "safe goods", i.e. non-perishable raw materials, which has accentuated the demand for non-ferrous metals and other products, such as cotton, wool, ground cocoa, etc. There is good reason for assuming that much of the appreciable reduction in stocks of certain basic products is reflected in a corresponding increase of products in the hands of intermediaries and consumers in the industrialized countries. The large expansion of Japan's imports in 1973 would seem to be a case in point.

/The second

The second devaluation of the dollar in February 1973 and the corresponding currency revaluation in Europe and Japan undoubtedly helped to improve the unit value of exports and the terms of trade of the region, in view of its positive trade balance with these two areas (not forgetting the differences with individual countries (see table 9)).

From the standpoint of supply, other factors - whether transitory or more deep-rooted - are discernible. The transitory factors include such elements as the very poor crops of certain agricultural products in both the temperate zone (cereals in the Soviet Union, for example) and the tropical zone (e.g., sugar in Cuba, cocoa in Africa, coffee in Latin America, etc.). The decline in the production of other basic materials, such as copper, had a similar effect.

As for the other side of the question, i.e., the long-term structural factors, one should bear in mind first of all the fairly widely accepted view that the physical expansion of some basic products is becoming more difficult and certainly more expensive. The incorporation of lower quality land, of deposits with a lower mineral content, and of technological processes that demand more and more capital and technological progress are just a few of the elements that support this hypothesis. In addition, of course, there is the environment crisis in the industrialized countries, the insistence that pollution should be reduced or eliminated, and fears concerning the future or eventual exhaustion of non-renewable natural and energy resources.

It goes without saying that this array of influencing factors does not work in only one direction. While in the short and even medium term it tends to improve the position and prices of many primary products, particularly those that may become exhausted, it is equally true that extremely powerful forces are at work to substitute them or increase their supply. An unknown but very interesting factor in the case of petroleum, for example, is the possibility of expansion of supply as a result of the new prices, the vast profits of the producing companies, and the policies designed to raise the level of self-sufficiency or security of the industrialized economies.

/Finally, there

Finally, there is the point already raised in the first part of this chapter, namely, the growing negotiating power of the countries producing raw materials and foods.

It would be beyond the scope of this analysis to attempt to forecast future trends with any degree of accuracy. Although the broad hypothesis that the position of the countries exporting basic products is becoming stronger is generally accepted, it is quite certain that it does not apply in the same way and to the same extent either to all primary goods or to all countries. This fact is attested by the impact of the present situation on some Latin American countries, which will be discussed further on.

### 3. World inflation and its impact on the unit value of Latin American imports

As already indicated, the unit value of Latin American imports in 1973 increased by 19 per cent, i.e., at a much higher rate than in previous years (8 per cent in 1972, for example).

Although no detailed information is available on the evolution of the prices of the different import items, it seems obvious that the general upward trend of the unit value has its origin in the links which exist between the structure of Latin American imports and the price increases recorded in the central economies.

From data at hand <sup>1/</sup> it may thus be seen that approximately 75 per cent of regional imports consist of manufactures, while the remaining 25 per cent is made up of basic commodities (food, 10 per cent; raw materials, 8 per cent, and fuels, 6 per cent). Given this structure, and bearing in mind the fact that manufactures mainly come from the industrialized countries, there can be no doubt that the higher rates of inflation recorded in 1973 in these countries must have been a major influence in the rise observed in the unit value of Latin American imports.

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<sup>1/</sup> These data are for 1970 (see table 8). The structure at later periods may be affected by the different price increases undergone by the various goods which Latin America imports.

In this context, if the evolution of the wholesale prices of manufactures in several of the largest industrialized countries is reviewed, it may be seen that in all of them the 1973 increase was substantially greater than in 1972. The rates were 10.5 per cent in 1973 as against 3.3 per cent in 1972 in the United States; 13.7 per cent and 7.3 per cent in Canada; 12.4 per cent and 4.6 per cent in France; 19.6 per cent and 2.9 per cent in Italy, and 13.4 per cent and 0.8 per cent in Japan (see table 5).

In conclusion, the intensive acceleration in the increase of prices of manufactures produced by the central economies gives an indication of their flexibility to react to the various external and internal pressures which they undergo.

#### 4. The different situations in the regional context

If the evolution of prices and of the terms of trade are taken as reference, the difference in the situations of the different countries and groups of countries (which mainly results, as may be expected, from the nature and structure of their exports) is immediately obvious (see tables 6, 7, 8 and 9).

The economies exporting agricultural products show a more favourable evolution in these sectors in 1973. In Argentina, unit values increased by 49 per cent and the terms of trade by 26 per cent. In Paraguay, unit values increased by 44 per cent and the terms of trade by 24 per cent, and in Uruguay, unit values increased by 45 per cent and the terms of trade by 21 per cent. It should be borne in mind that this latter country is one of those most affected by the oil situation.

The second group of countries is made up of the petroleum exporting economies, the data for which do not, however, reflect the price increases at the end of 1973 and the beginning of 1974. The terms of trade improved by 17 per cent in Venezuela, 15 per cent in Ecuador, and 14 per cent in Bolivia.

Table 5

INCREASE IN INFLATION IN SELECTED INDUSTRIALIZED COUNTRIES AND IN  
UNIT VALUES OF LATIN AMERICAN IMPORTS

(Indexes of wholesale prices and unit import values  
on the basis of 1963 = 100)

	1970	1971	1972	1973		
				January	October	January October
<b>1. Wholesale prices of manufactured products</b>						
United States <u>a/</u>	117.6	121.1	125.1	129.1	141.7	138.2 <sub>b/</sub>
Canada <u>a/</u>	117.4	121.6	130.5	138.7	157.9	148.4
Federal Republic of Germany <u>a/</u>	108.2	114.0	118.3	122.1	127.9	125.3 <sub>c/</sub>
France <u>d/</u>	124.4	127.1	132.9	140.4	157.7	149.4
Italy <u>e/</u>	-123.4	125.6	129.2	136.7	169.0	154.5
United Kingdom <u>a/</u>	128.3	139.8	147.2	152.6	164.2	156.4
Japan <u>d/</u>	-109.6	108.4	109.3	114.9	131.8	123.9 <sub>e/</sub>
<b>2. Unit value of Latin American imports</b>						
	112	116	125	...	...	149 <sub>b/</sub>
<b>3. Annual growth rates</b>						
1) Prices of manufactured products						
United States <u>a/</u>	3.4	3.0	3.3	...	...	10.5 <sub>b/</sub>
Canada <u>a/</u>	1.2	3.6	7.3	...	...	13.7
Federal Republic of Germany <u>a/</u>	5.6	5.4	3.8	...	...	5.9 <sub>c/</sub>
France <u>d/</u>	7.4	2.2	4.6	...	...	12.4
Italy <u>e/</u>	11.1	1.2	2.9	...	...	19.6
United Kingdom <u>a/</u>	7.1	9.0	5.3	...	...	6.3
Japan <u>d/</u>	4.2	-1.1	0.8	...	...	13.4 <sub>e/</sub>
ii) Unit value of Latin American imports						
	4.7	3.6	7.8	...	...	19.2 <sub>b/</sub>

Source: United Nations, Monthly Bulletin of Statistics, February 1974, pp. 150-160 and table 1.

a/ Finished products.

b/ January - December.

c/ January - November.

d/ Industrial products.

e/ Production goods.

Table 6

## LATIN AMERICA: TERMS OF TRADE AND PURCHASING POWER OF EXPORTS BY COUNTRY, 1970-1973

A. Indexes: 1962=100

Country	Unit value						Terms of trade			Purchasing power of exports						
	Exports			Imports												
	1970	1971	1972	1973	1970	1971	1972	1973	1970	1971	1972	1973				
Argentina	108	123	142	212	125	127	135	161	86	97	105	132	105	101	105	138
Bolivia	172	144	149	199	110	112	119	140	156	129	125	142	247	226	237	273
Brazil	120	116	145	199	110	115	123	147	109	101	118	135	178	181	231	301
Colombia	125	113	122	156	108	112	119	140	116	101	103	111	152	137	160	194
Costa Rica	110	104	110	132	104	107	115	133	106	97	96	99	234	222	253	272
Chile	186	148	145	202	108	112	117	140	172	132	124	144	214	159	138	163
Ecuador	119	114	119	160	109	113	120	140	109	101	99	114	136	143	181	280
El Salvador	122	120	131	166	98	99	105	124	124	121	125	134	152	150	170	187
Guatemala	128	124	137	165	103	107	116	140	124	116	118	118	183	172	187	202
Haiti	124	116	119	141	109	112	118	139	114	104	101	101	90	102	89	90
Honduras	110	113	117	139	103	107	114	135	107	106	103	103	201	209	204	217
Mexico	121	120	143	167	111	115	133	157	109	104	108	106	130	130	147	159
Nicaragua	111	110	122	150	99	107	111	133	112	103	110	113	170	166	207	226
Panama	117	124	131	145	103	106	110	127	114	117	119	114	175	184	183	172
Paraguay	115	121	135	194	125	130	137	158	92	93	99	123	128	125	157	200
Peru	162	151	149	194	109	110	120	145	149	137	124	134	179	151	147	143
Dominican Republic	115	120	135	173	105	109	114	135	110	110	118	128	118	131	174	188
Uruguay	108	109	141	205	105	111	117	140	103	98	121	146	135	112	111	138
Venezuela	93	121	144	201	126	133	140	166	74	91	103	121	89	103	110	134
Total Latin America	118	122	140	188	112	116	125	149	105	105	112	126	138	135	150	181

/Table 6 (concluded)

Table 6 (concluded)

B. Percentage variation

Country	Unit value				Terms of trade		Purchasing power of exports	
	Exports		Imports		1973/1972	1973/1970	1973/1972	1973/1970
	1973/1972	1973/1970	1973/1972	1973/1970				
Argentina	49	96	19	29	26	53	31	31
Bolivia	34	16	18	27	14	-9	15	11
Brazil	37	66	20	34	14	24	30	69
Colombia	28	25	18	30	8	-4	21	28
Costa Rica	20	20	16	28	3	-7	8	16
Chile	39	9	20	30	16	-16	18	-24
Ecuador	34	34	17	28	15	5	55	106
El Salvador	27	36	18	27	7	8	10	23
Guatemala	20	29	21	36	0	-5	8	10
Haiti	18	14	18	28	0	-11	1	0
Honduras	19	26	18	31	0	-4	6	8
Mexico	17	38	18	41	-2	-3	8	22
Nicaragua	23	35	20	34	3	1	9	33
Panama	11	24	15	23	-4	0	-6	-2
Paraguay	44	69	15	26	24	34	27	56
Peru	30	20	21	33	8	-10	-3	-20
Dominican Republic	28	50	18	29	8	16	8	59
Uruguay	45	90	20	33	21	42	24	2
Venezuela	40	116	19	32	17	64	22	51
Total Latin America	34	59	19	33	13	20	21	31

Sources and footnotes: As for table 1.



Table 7

LATIN AMERICA: EXTERNAL DEPENDENCE ON CRUDE OIL, PETROLEUM  
PRODUCTS AND NATURAL GAS IN 1972

(Net exports and imports in millions of dollars and as  
percentages of total exports and imports)

Country	Net exports		Net imports	
	Dollars	% of total	Dollars	% of total
Argentina			59	3.1
Bolivia	40	19.8		
Brazil			513	10.7
Colombia	59	7.0		
Costa Rica			13	3.5
Chile			68	5.1
Ecuador	40	12.4		
El Salvador			12	4.3
Honduras			15	7.8
Guatemala			14	4.2
Jamaica			43	6.9
Mexico			127	4.3
Panama			36	8.2
Paraguay			6	7.2
Peru			43	5.4
Trinidad and Tobago	63	11.4		
Uruguay			35	16.5
Venezuela	2 924	77.0		
<u>Total Latin America</u>	<u>3 126</u>	<u>18.3</u>	<u>984</u>	<u>5.2</u>
Balance	2 142	12.5	...	...

Source: ECLA, on the basis of national statistics.

Table 8

LATIN AMERICA: SECTORAL STRUCTURE OF EXTERNAL TRADE OF SOME COUNTRIES OF THE REGION IN 1970  
(Percentages of total exports and imports by SITC section)

Country	Exports					Imports				
	Food (0+1)	Materials (2+4) a/	Fuels (3)	Primary goods (0+4) a/ goods b/	Manu- factured goods b/	Food (0+1)	Materials (2+4) a/	Fuels (3)	Primary goods (0+4) a/ goods b/	Manu- factured goods b/
<b>Total Latin America</b>	6 570	3 770	3 250	13 590	1 425	1 480	1 215	940	3 635	11 075
Millions of dollars										
Percentage of total	43.0	24.7	21.2	88.9	9.3	10.1	8.2	6.4	24.7	75.3
Argentina	68.7	16.9	0.4	86.0	14.0	5.7	16.3	4.7	26.8	73.2
Brazil	72.4	24.3	0.5	97.2	2.8	10.1	8.5	12.4	31.0	68.9
Chile	4.1	91.1	-	95.1	4.9	18.2	10.4	7.3	35.8	64.2
Colombia	74.2	7.1	10.6	91.9	8.1	5.8	9.4	1.0	16.2	83.8
Costa Rica	78.7	0.9	0.4	80.1	19.9	9.6	4.5	3.9	17.9	82.1
El Salvador	58.8	12.0	0.5	71.2	28.8	12.3	5.9	2.4	20.6	79.4
Guatemala	58.0	13.9	-	72.0	28.0	9.5	4.9	2.2	16.5	83.5
Honduras	71.6	16.6	3.7	91.9	8.1	10.3	2.5	6.7	19.5	80.5
Mexico	39.3	24.8	3.2	67.3	32.7	6.0	10.2	3.2	19.3	80.7
Nicaragua	52.4	31.1	-	83.5	16.5	8.7	3.8	6.1	18.7	81.3
Panama	76.4	2.2	20.2	98.8	1.2	8.7	1.9	18.8	29.4	70.7
Venezuela	1.5	5.8	90.9	98.1	1.9	8.9	6.3	1.4	16.5	83.5

Source: United Nations, Yearbook of International Statistics, 1972.

a/ Including division 68, non-ferrous metals.

b/ Including other unclassified goods, and excluding division 68.

Table 9

LATIN AMERICA: EXTERNAL TRADE WITHIN THE WESTERN HEMISPHERE AND WITH OTHER REGIONS IN 1970  
(Percentage of total exports and imports and trade balance in millions of dollars)

Country	Exports		Imports		Trade balance		
	Western hemisphere	Other regions	Western hemisphere	Other regions	Total	Western hemisphere	Other regions
Argentina	30	70	51	49	86	-317	403
Bolivia	23	77	55	45	13	-45	58
Brazil	38	62	47	53	-110	-292	182
Chile	26	74	58	42	293	-226	519
Colombia	48	52	60	40	115	-160	45
Costa Rica	67	33	66	34	-89	-56	-33
Dominican Republic	86	14	66	34	-63	-	-63
Ecuador	47	53	55	45	-10	-30	20
El Salvador	55	45	66	34	15	-15	30
Guatemala	66	34	65	35	6	8	-2
Haiti	63	37	58	42	-12	-5	-7
Honduras	74	26	76	24	-49	-40	-9
Mexico	70	30	69	31	-1 061	-729	-332
Nicaragua	62	38	73	27	-19	-35	-16
Panama	75	25	65	35	-248	-152	-96
Paraguay	46	54	45	55	0	0	0
Peru	40	60	54	46	429	83	346
Uruguay	21	79	48	52	0	-62	62
Venezuela	83	17	57	43	1 424	1 650	-226
Total Latin America	53	47	58	42	280	-541	821

Source: International Monetary Fund: Direction of Trade Annual, 1968-1972.

The progress of Chile (16 per cent) and Brazil (14 per cent) come under the same heading, although both are affected by the increase in prices of petroleum or of raw materials and foods - especially in the case of Chile. The manoeuvring capacity of these two countries is obviously very different; the purchasing power of Brazilian exports increased by 69 per cent between 1970 and 1973, while that of Chile decreased by 24 per cent, and this was reflected in the situations of the balance of payments and the monetary reserves. Thus, in Brazil, the latter increased by around 2.3 thousand million dollars between December 1972 and October 1973, i.e., by more than 4 times the value of imports of petroleum in 1972, while in Chile, on the contrary, they decreased.

Among the countries which least shared in the basic commodities boom in 1973 were the Central American countries, whose terms of trade either improved only slightly (Costa Rica, El Salvador, Nicaragua, Dominican Republic), showed no change (Guatemala, Honduras), or even deteriorated (Mexico and Panama).

These countries, with the exception of Mexico which has considerable monetary reserves and access to the world capital market, appear to be more exposed to the general negative effects of the international economic situation. The position is more serious for the countries which depend more heavily on imports of petroleum (e.g. Honduras, Panama) or of foodstuffs (Costa Rica, El Salvador, Honduras). On the other hand, their considerable degree of integration in the trade of the hemisphere (see table 9) could help them to find some relief to their problems with the assistance of the United States, Venezuela, etc.

An appraisal of the development of the terms of trade in 1973 in the different Latin American countries reveals - as already confirmed in other areas - that the negative effects of the situation have heavier repercussions on the smallest and poorest countries, while the relatively more developed countries (which frequently have a broader base of energy resources and basic commodities) are in better position to defend themselves.

This is another consideration which underlines the importance of the international transfer of income reviewed in the last section.

