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Part One

SOME ASPECTS OF THE LATIN AMERICAN ECONOMY TOWARDS THE END OF THE NINETEEN-SIXTIES

TABLE OF CONTENTS

Part One

SOME ASPECTS OF THE LATIN AMERICAN ECONOMY TOWARDS THE END OF THE NINETEEN-SIXTIES

INTRODUCTION

The two parts of the present Economic Survey differ in character, but they complement each other in presenting an up-to-date view of the salient features and trends of Latin American development.

Part One comprises a kind of balance-sheet of some of the main aspects of the Latin American economy at the end of this decade, comparing the present magnitudes with the trends they have followed in recent years. This seems the right moment to present such a balance, when there is an evident desire for a critical examination of the guidelines and objectives of development policy, not only for the sake of a deeper interpretation and understanding of the problems of underdevelopment, but also to encourage the efforts now being made to launch a second Development Decade.

Part Two is essentially a review of developments in 1968 in the region as a whole and in each individual country. As in previous Surveys, its purpose is to present a systematic compilation of data and information describing the short-term changes and, in general, the main characteristics of recent economic development.

Although the two parts have different aims, a study of both provides a basis for evaluating recent events in the light of longer-term prospects and, at the same time, for observing how some structural factors are becoming more important while others are changing in their effect on the course of economic development. In more direct terms, the 1968 results were in general most favourable; but, for the appraisal to be accurate, the fact that some of the determining factors were entirely fortuitous must not be overlooked. For example it is necessary to bear in mind that this is not the first time that some areas of the economy have been expanding or relatively prosperous. The last few decades have witnessed others, but as a rule they did not mark the

/beginning of

beginning of a lasting trend. Moreover, data covering a short span should be evaluated within a broader perspective which would reveal the outstanding structural features of the period and, therefore, of the kind of situation that is characterizing or taking shape at the end of the decade. Naturally, the elements of flexibility that seem to emerge from recent experience must not be under-estimated in this appraisal either.

The material contained in the two parts is mainly descriptive and no attempt has been made to present an analytical interpretation. This is done in other secretariat documents which are being presented, together w th this Survey, at the Commission's thirteenth session.

Part One

SOME ASPECTS OF THE LATIN AMERICAN ECONOMY TOWARDS THE END OF THE NINETEEN-SIXTIES

Chapter I

POPULATION, INCOME AND EMPLOYMENT

1. Population

(a) Population size and growth

By 1970 the population of Latin America will be over 280 million, and its share of the world population will be close to 8 per cent.

As the population of the region was less than 90 million in 1920, this means that it has more than trebled in the last fifty years, whereas the world population has not even doubled in the same lapse of time (see table I-1). Latin America is thus the region where the most rapid demographic growth has taken place, and the rate still continues to outstrip that of any other part of the world.

To make a more accurate diagnosis, a closer study is required of over-all population trends in each of the last few decades, and of trends in the individual countries, since the changing angle of observation reveals highly significant differences.

The growth rate of the population of the region as a whole was particularly rapid during the nineteen-forties and fifties, and soared so high that it has risen relatively little during the present decade. Between 1920 and 1930 the over-all increment was 20.9 per cent. This proportion dropped slightly during the thirties to 20.7 per cent, but expanded in the forties to 25.5 per cent and increased equally quickly during the fifties, when it was 31 per cent. In the sixties the increase will have been about 32 per cent (see figure I-1).

/Table I-1

Table I-1

ESTIMATES OF WORLD POPULATION BY MAJOR REGIONS, 1920-70

Region	1920	1930	1940	1950	1960	1970
East Asia	553 345	591 244	634 420	684 353	794 144	910 524
South Asia	469 770	528 964	609 993	696 722	865 247	1 106 905
Europe	324 800	353 947	378 920	391 717	424 657	453 918
Soviet Union	155 300	179 000	195 000	180 000	214 400	245 700
Africa	142 921	163 846	191 458	221 538	272 924	345 949
North America	115 661	134 166	144 342	166 073	198 664	226 803
Latin America	88 967	107 579	129 854	163 014	213 529	282 333
Oceania	8 521	10 044	11 060	12 677	15 713	18 711
TOTAL	1 859 285	2 068 790	2 295 047	2 516 094	2 999 278	3 590 843

Sources: Latin America: Latin American Demographic Centre (CELADE), Boletín Demográfico, Year 1, vol. I (Santiago, Chile, January 1968).

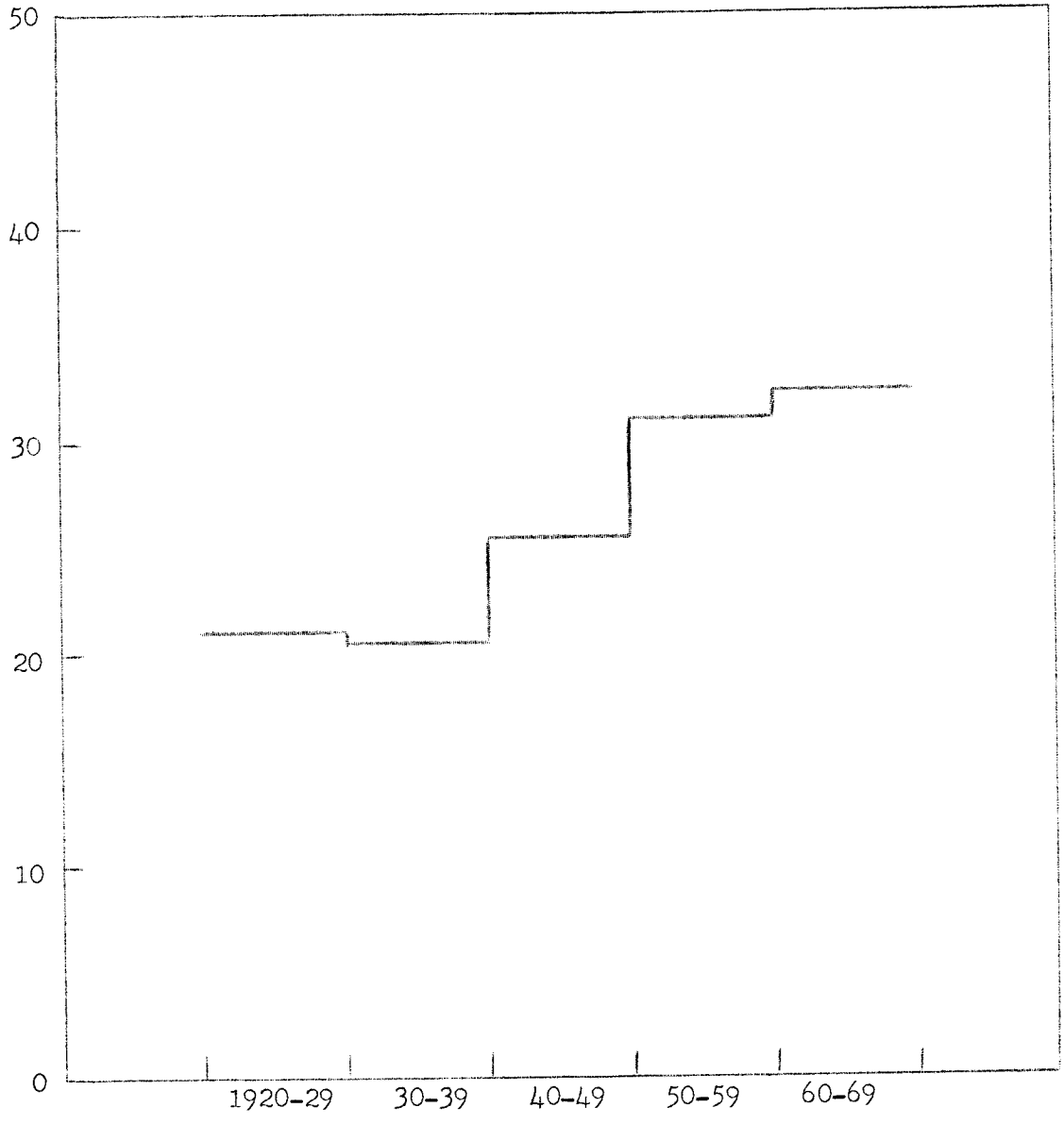
Other regions: World population prospects assessed in 1963 (United Nations publication, Sales No.:66.XIII.2), tables 3.1 and 3.2.

/Figure I-1

Figure I-1

LATIN AMERICA: CHANGES IN THE GROWTH RATE OF THE POPULATION

(Ten-year averages in percentages)
Natural scale



/This recent

This recent deceleration has taken place at very high levels of natural growth, but even so it is significant in itself and in relation to the world total. During the twenties and thirties, the rate of population growth in Latin America was almost twice as high as the world rate, and more than two and a half times as high as in the forties. In the last twenty years, however, it has only been about 60 per cent higher. These changes in the ratio of the growth rates have been partly due to the acceleration of population growth in other under-developed regions, which, with a time-lag of one or two decades, are repeating the process that began in Latin America thirty years ago.[1/]

Within Latin America, population growth has varied widely from one country to another. The populations of Venezuela and Costa Rica in 1970 will be nearly four and one third times as large as in 1920, while that of Uruguay will have barely doubled. Apart from these extreme cases, there are only two countries - the Dominican Republic and Guatemala - in which the population will have increased more than three and a half times in relation to its 1920 level, and in two others - Haiti and Bolivia - it will have increased less than two and a half times. In thirteen countries [2/] which, by 1970, will have nearly 85 per cent of the total regional population, the number of inhabitants will be two and a half to three and a half times as great as in 1920 (see table I-2).

Despite these wide differences in growth, the long-term trends are remarkably similar. In most countries, the growth rate has steadily been gathering speed since 1920, but in at least eight, relative stagnation or a decline has set in at different points in the post-war period (see table I-3).

1/ In Africa and Asia the sharp acceleration took place mainly in the fifties. A comparison of the periods 1940-50 and 1950-60 shows that the ten-year rate of population growth rose from 7.9 to 16 per cent in East Asia, from 14.2 to 24.2 per cent in South Asia and from 15.7 to 23.2 per cent in Africa. The acceleration was shorter-lived than in Latin America, since the ten-year rate of increase dropped to 14.7 in East Asia during the sixties, and rose more slowly in South Asia and Africa (to 27.9 and 26.8 per cent respectively).

2/ Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru.

/Table I-2

Table I-2

LATIN AMERICA: TOTAL POPULATION BY COUNTRIES, 1920-70
(Thousands of persons)

Country	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965	1970
Argentina	8 861	10 358	11 896	13 044	14 169	15 390	17 070	18 893	20 669	22 352	24 050
Bolivia	1 918	2 022	2 153	2 314	2 508	2 740	3 013	3 322	3 696	4 136	4 658
Brazil	27 404	30 332	33 568	37 150	41 375	46 252	52 178	60 496	70 141	81 050	93 292
Chile	3 783	4 098	4 424	4 768	5 147	5 592	6 144	6 854	7 788	8 786	9 969
Colombia	6 061	6 701	7 408	8 190	9 104	10 291	11 796	13 578	15 657	18 053	20 875
Ecuador	2 000	2 118	2 277	2 479	2 726	3 024	3 382	3 748	4 354	5 152	6 093
Paraguay	699	785	880	988	1 111	1 216	1 343	1 527	1 751	2 030	2 379
Peru	4 862	5 229	5 651	6 134	6 681	7 285	7 969	8 790	10 025	11 650	13 586
Uruguay	1 392	1 538	1 699	1 831	1 943	2 057	2 193	2 363	2 536	2 715	2 886
Venezuela	2 408	2 650	2 950	3 300	3 710	4 267	4 974	6 049	7 331	8 722	10 399
Sub-total	59 388	65 831	72 906	80 198	88 474	98 114	110 062	125 620	143 948	164 646	188 187
Costa Rica	421	456	499	551	619	714	849	1 025	1 235	1 491	1 809
El Salvador	1 168	1 301	1 443	1 531	1 633	1 736	1 921	2 175	2 509	2 917	3 441
Guatemala	1 450	1 532	1 771	1 996	2 201	2 586	3 040	3 512	4 013	4 586	5 276
Honduras	783	862	948	1 026	1 117	1 234	1 388	1 589	1 854	2 186	2 603
Nicaragua	645	692	743	797	855	983	1 133	1 308	1 511	1 745	2 024
Sub-total	4 467	4 843	5 404	4 901	6 425	7 253	8 331	9 609	11 122	12 925	15 153
Cuba	2 950	3 364	3 837	4 221	4 566	4 932	5 520	6 133	6 819	7 553	8 341
Dominican Republic	1 140	1 258	1 400	1 567	1 759	1 981	2 243	2 587	3 030	3 589	4 277
Haiti	2 124	2 260	2 422	2 610	2 825	3 085	3 380	3 722	4 140	4 615	5 255
Mexico	14 500	15 204	16 589	18 089	19 815	22 670	26 335	30 684	36 046	42 689	50 670
Panama	429	464	502	524	595	675	765	882	1 021	1 197	1 410
Sub-total	21 143	22 550	24 750	27 011	29 560	33 343	38 243	44 008	51 056	59 643	69 953
Sub-total 20 countries	84 998	93 224	103 060	113 110	124 459	138 710	156 636	179 237	206 126	237 244	273 293
Other countries and territories	3 969	4 214	4 519	4 932	5 395	5 867	6 378	6 866	7 403	8 104	9 040
Total	88 967	97 438	107 579	118 042	129 854	144 577	163 014	186 103	213 529	245 428	282 333

Source: Latin American Demographic Centre (CELADE), Boletín Demográfico, Year 1, vol. 1 (Santiago, Chile, January 1968), table 1.

/Table I-3

Table I-3

LATIN AMERICA: AVERAGE ANNUAL GROWTH RATE OF POPULATION BY FIVE-YEAR PERIODS, 1920-70

Country	1920 1925	1925 1930	1930 1935	1935 1940	1940 1945	1945 1950	1950 1955	1955 1960	1960 1965	1965 1970	1967 1968
Argentina	3.17	2.81	1.86	1.67	1.67	2.09	2.05	1.81	1.58	1.48	1.51
Bolivia	1.06	1.26	1.45	1.62	1.78	1.92	1.97	2.16	2.28	2.41	2.40
Brazil	2.05	2.05	2.05	2.18	2.25	2.44	3.00	3.00	2.93	2.85	2.84
Chile	1.61	1.54	1.51	1.54	1.67	1.90	2.21	2.59	2.44	2.56	2.57
Colombia	2.03	2.03	2.03	2.14	2.48	2.77	2.85	2.89	2.89	2.95	2.94
Ecuador	1.15	1.46	1.71	1.92	2.10	2.26	2.08	3.04	3.42	3.41	3.41
Paraguay	2.35	2.31	2.34	2.37	1.82	2.01	2.60	2.78	3.00	3.22	3.24
Peru	1.47	1.56	1.65	1.72	1.75	1.81	1.98	2.66	3.05	3.12	3.12
Uruguay	2.01	2.01	1.51	1.19	1.15	1.29	1.50	1.42	1.37	1.23	1.26
Venezuela	1.93	2.17	2.27	2.37	2.84	3.11	3.99	3.92	3.54	3.58	3.57
Costa Rica	1.61	1.82	2.00	2.35	2.90	3.52	3.84	3.80	3.84	3.94	3.92
El Salvador	2.18	2.09	1.19	1.30	1.23	2.05	2.51	2.90	3.06	3.36	3.34
Guatemala	1.11	2.94	2.42	1.97	3.28	3.29	2.93	2.70	2.70	2.84	2.83
Honduras	1.94	1.92	1.59	1.71	2.01	2.38	2.74	3.13	3.35	3.55	3.54
Nicaragua	1.42	1.43	1.41	1.41	2.83	2.88	2.91	2.93	2.92	3.01	2.87
Cuba	2.66	2.67	1.93	1.58	1.55	2.28	2.13	2.14	2.07	2.00	2.00
Dominican Republic	1.99	2.16	2.28	2.34	2.41	2.52	2.89	3.21	3.44	3.57	3.56
Haiti	1.25	1.39	1.51	1.60	1.78	1.84	1.95	2.15	2.33	2.50	2.48
Mexico	0.95	1.76	1.75	1.84	2.73	3.04	3.10	3.27	3.44	3.49	3.47
Panama	1.58	1.59	0.86	2.57	2.55	2.53	2.89	2.97	3.23	3.33	3.37

Source: Table I-2.

/With the

With the exception of Argentina, Brazil, Cuba, Uruguay and Venezuela, where international migration has been an important factor in population growth, during certain periods at least, the trends in other countries in Latin America [3/] since the beginning of the century have been largely the product of the drop in the death rate and the maintenance of a high level of fertility. The information available indicates that the crude birth rate in such countries has remained more or less constant at 40 to 50 per 1,000 and the pattern of fertility seems to have changed very little. The small variations detectable in the over-all trend are unlikely to reflect real changes in fertility, and the slight rise in the rates in certain countries, especially after 1950, may be due to one or more of the following factors: better record-keeping, better health conditions, an increasingly small proportion of widows of child-bearing age, more stable marriages and changes in nuptiality. The slight downward trend in some countries' rates at certain times may be attributable to changes in the age structure of the population as a result of the drop in mortality.

The crude mortality rates at the beginning of the century probably ranged from 30 to 35 per 1,000. Since then, they have been dropping steadily at varying speeds depending on the country and period concerned, and are now at a much lower level in most countries. In Colombia, the Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Paraguay and Peru, the rates in 1960-65 (12 to 17 per 1,000) were probably less than half the rates around the turn of the century. The reduction in mortality was no doubt a good deal less in several countries; in 1960-65 the rates in Guatemala (18-20 per 1,000), Bolivia (20-22 per 1,000) and Haiti (20-24 per 1,000) were still very high. In a third group of countries there was a much greater drop; in Chile, Costa Rica, Mexico and Panama, the death rates fell to levels of 8 to 12 per 1,000 in 1960-65, that is, to about a third of their magnitude in 1900.

There are signs that the decrease in mortality was not evenly spread over the period under consideration. In general, it was slow and steady up to about 1930, but then picked up speed slightly to the end of the Second World War and has since been much faster.

3/ This category comprises Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru.

/In Chile,

In Chile, the acceleration of population growth as a result of the falling death rate was slowed down by a marked drop in fertility of a special kind. At the beginning of the century, the birth rate was probably more than 45 per 1,000. From then onwards it gradually declined, and by 1935-39 drew virtually to a standstill at 37 to 38 per 1,000. It is only very recently that the downward trend of fertility has shown signs of resuming.

Argentina and Uruguay form a pair in which population growth has been conditioned by the same kind of factors since the beginning of the century. In both, international migration has played an important part during certain periods, and the trends of their birth and death rates have also been very much alike.

In Argentina, the birth rate, which is thought to have begun to drop before the end of the nineteenth century, continued to fall slowly until the middle of the decade, 1910-20, when it was less than 40 per 1,000. Thereafter it declined much more quickly and by the second half of the thirties stood at 25 per 1,000. It oscillated around this figure until 1958, when it took a further downward turn, and is estimated to have reached 22 or 23 per 1,000 in 1960-65. Mortality also began to decline there before 1900, and by then was already probably less than 25 per 1,000. Since then the rate has dropped slowly but surely, and by the end of the twenties it was less than 13 per 1,000. The decline was fairly slow after that because of the low level it had already reached and the aging of the population. The crude death rate in 1960-65 is estimated to have been 7 to 8 per 1,000. In Uruguay the birth and death rates have followed the same trends as in Argentina, but at lower levels.

Population trends in Cuba since the beginning of the century have been similar to those of Argentina and Uruguay in various aspects. International migration has played a major part in population growth. It is the third Latin American country after Argentina and Uruguay to have a birth rate of less than 30 per 1,000, and during the period under study the death rate dropped to under 10 per 1,000.

/International migration

International migration has recently become an important factor in Venezuela as well. Before the Second World War, it contributed little to the growth of the population, but between 1945 and 1950 as many as 400,000 immigrants entered the country. This influx combined with domestic factors, raised the average annual growth rate to nearly 4 per cent in 1950-55 and 1955-60.

After 1900, population growth in Brazil was almost entirely natural. At the beginning of the century, the rate was less than 19 per 1,000, and then increased very slowly, being still under 2 per cent in 1930-35. It increased a little more rapidly afterwards, but was still less than 2.4 per cent in 1945. It subsequently gathered more speed, but now seems to have become static at a maximum of about 3 per cent annually. This trend was the outcome of the changes in the birth and death rates, which had contradictory effects. The birth rate declined slowly from about 45 per 1,000 in 1900-20 to roughly 40 per 1,000 in 1960, but the slight reduction in natural growth as a result of the decline counted for little against the increase produced by much sharper declines in the death rate after 1930 and, more particularly, 1945. Migration played only a minor role in the growth of the population. From 1850 to 1950 about 4.8 million persons emigrated to Brazil. About three-quarters of them made their home there and, with their descendants, added approximately 6.8 million to the population that is, about 15 per cent of the population increase during that period.[4/] The flow of immigrants increased gradually until it reached its height in 1890 to 1900, when it accounted for 25 per cent of the total population increment. From 1900 onwards, the slackening of the influx of immigrants and the ever-increasing size of the population reduced the relative contribution of the former. In 1900-40, they represented less than 10 per cent of the over-all population increment.[5/]

4/ G. Mortara, "The development and structure of Brazil's population", Population Studies, vol. VIII, No. 2 (London, November 1954).

5/ Ministry of Planning and Economic Co-ordination, Plano decenal de desenvolvimento econômico e social, Demografía, Diagnóstico preliminar (August 1966), Table 3, p. 39.

Immigration dwindled to a trickle in 1930-40 and was negligible during the forties. After 1950 it increased again and between 1950 and 1960 nearly 600,000 immigrants are estimated to have entered the country. Although, in absolute terms, this figure is comparable to or even greater than earlier influxes, its relative importance as a factor of growth has declined considerably (it represented less than 4 per cent of the over-all increase in 1950-60).

To sum up, the data available indicate that the role played by the factors that are quickening the tempo of population growth varies widely in the different countries. In some - Argentina and Uruguay, and Cuba to a lesser extent - the birth rate has been dropping steadily for some time; in others, notably Brazil and Chile, the decline has been slower and the present rate is still quite high. Many countries show no clear-cut trends and rates have fluctuated at fairly high levels. Death rate trends have been somewhat similar; in some countries they fell most sharply several decades ago and subsequently dropped fairly slowly, while in several, the greatest reduction took place in the forties and fifties, and in others again, among which Colombia, Ecuador, Honduras, Nicaragua, Paraguay and Peru must be counted, there have been substantial decreases during the sixties.

When the data are grouped by five-year periods, it is exceptional to find an increase in the birth rate, and the prevailing trend seems to be downward. Death rates are becoming increasingly uniform throughout the region, and are already low enough for subsequent decreases to be necessarily much smaller. This explaing why the rising tempo of demographic growth has slowed down in the sixties.

/(b) Composition

(b) Composition and distribution of the population

It is useful to supplement this general picture of population growth with brief references to two additional aspects which are typical of the demographic situation in Latin America: the age structure of the population and its distribution in urban and rural areas.

Obviously, a rapid deduction in the mortality rate and the persistence of high birth rates necessarily result in a much younger population and, therefore, a higher degree of dependence. These are the characteristics of the present age structure of the Latin American population.

Some projections for 1970 indicate that 42 per cent of the whole population of Latin America will be under fifteen years of age, while old people (65 years and over) will represent 4 per cent; therefore the proportion of economically active population will be about 54 per cent (see table I-4). Of course, these general proportions differ appreciably from country to country. The under-fifteen age group is smallest in countries which have the lowest birth rates (28.2 per cent in Uruguay, 29.3 per cent in Argentina, and less than 40 per cent in Chile and Cuba) and larger than average in countries which continue to record higher birth rates (about 47 per cent in Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador and Nicaragua). The opposite is true of the proportion of old people. Compared with the low regional average (3.8 per cent), it is 4.6 per cent in Chile, 7.3 per cent in Argentina and 8.6 per cent in Uruguay, the country with the lowest birth rate in the region. Thus, the lower proportion of children in these countries is in some degree offset by the larger number of old people.

/Table I-4

Table I-4

LATIN AMERICA: PROJECTED STRUCTURE OF THE POPULATION IN 1970, BY AGE GROUP

	Number of inhabitants (thousands)	Structure (Percentage)
Total population	274 929	100.0
Up to 14 years	116 625	42.4
15 to 64 years	147 997	53.8
65 years and over	10 307	3.8

Source: Latin American Demographic Centre (CELADE), Boletín Demográfico, Year 1, vol. II (October 1968).

In brief, outstanding differences may be noted between Latin America and other regions from the standpoint of the "dependency rates" involved in this age structure of the population. A more accurate interpretation of the significance of these rates requires, however, that other important factors be considered. For example, in developing countries with a high fertility rate, the inhabitants usually start work at an early age and seldom retire before they are quite old. In Latin America itself, notwithstanding the serious unemployment and under-employment problems, it is estimated that more than three-quarters of the 15 to 19 age group and about 70 per cent of those aged 65 years and over are economically active. Factors such as these, which are linked to the relatively low index of years of schooling and the inadequacy or inefficiency of the social security systems, partly mitigate the effects of a relatively small proportion of population being of working age, from the standpoint of the significance attaced to the concept of the dependency rate.

/The distribution

The distribution of the population in Latin America, for its part, is the most important demographic variable as regards the characteristics of development peculiar to the region. The intensive scale of rural-urban migration, combined with the characteristics of income distribution and the general conditions of social organization and structure, has been the main cause of problems such as marginality and under-employment.

As this topic is examined more thoroughly in chapter II, suffice it to give some of the main conclusions here. The first fact to emerge is that towards the end of the present decade the Latin American population will be mainly urban: some 55 per cent will be living in centres of more than 2,000 inhabitants. Secondly, this is not only a general process of urbanization; there is also a definite trend towards an increasing and disproportionate concentration in specific metropolitan areas, while the smaller urban centres are growing much more slowly. If these trends continue up to 1980, at least one-third of the population of nearly all the Latin American countries would be concentrated in cities of over half a million inhabitants, and not less than 55 per cent in urban centres of over 20,000 inhabitants.

These changes in the distribution of the population also have an important impact on the age structure of the population when urban and rural areas are considered separately, since it is mostly the young adult population which migrates. The information available on annual rates of migration by age and sex in a number of countries shows that in both male and female population the highest migration rates apply to groups ranging from ten to thirty-five years of age, while the rates for old people are much lower and in some cases negligible.[6/]

(c) Effect of economic and social factors on demographic parameters

The demographic situation described above is closely bound up with other basic structural factors and economic and social changes in the region. Thus in many cases the population indexes themselves, as defined for the population as a whole, are not sufficiently representative, and some significant distinctions must therefore be made.

6/ Among other studies, see Juan C. Elizaga, Migraciones interiores en la América Latina, published by CELADE.

This is true, for example, of the mortality rates, whose reduction does not affect all sectors of the population with the same intensity. When the improvement of the rate depends on the extension of fairly low-cost public health services and methods of disease control, as a result of technological advances in this field, the effects are felt by the whole or at least the majority of the population. This does not happen, however, when the causes of death lie in the levels of living of specific population groups, particularly nutrition levels and environmental hygiene conditions. In these circumstances, high rates of infant morbidity and mortality are found among a large proportion of both the rural and the urban population. Once the critical stage for infants is past, these sectors are less able to adapt themselves biologically, physically and intellectually, for reasons which are beyond the sphere of action of the public health services.

The same applies to the fertility rates. Generally speaking, the birth rate of urban families is much lower than that of rural families. There are marked differences in the birth rates according to the employment position, and there is a clear relationship between the birth rate and specific socio-economic categories or sectors of the population classified by income levels, of which the middle-income groups tend to have the lowest birth rates.

2. Level, composition and distribution of the product and income

(a) The product and its growth

Towards to the end of the nineteen-sixties the over-all regional product will amount to some 130,000 million dollars, which, in per capita terms, will be an average of 510 dollars.7/

In absolute figures, this is a considerable improvement on the situation immediately after the Second World War and in the early nineteen-sixties. In 1950, the total product was 53,700 million dollars (excluding Cuba, Barbados, Guyana, Jamaica and Trinidad and Tobago) while, by 1960, it had climbed to 86,500 million dollars, representing average per capita figures of 355 and 433 dollars respectively. However, this substantial improvement hides very modest annual rates of growth, and has not been enough to maintain Latin America's former position in the world economy.

Some world figures for 1960 and 1967 (excluding the centrally planned economies) indicate that the average per capita increase in the product was 2.8 per cent annually during that period. It was divided into an average rate of 3.7 per cent for the developed regions and of only 2.5 per cent for the under-developed nations as a whole, to which Latin America's contribution was as little as 1.7 per cent (see table I-5). Allowing for the difference in levels, these estimates suggest that in 1960 the per capita product of the developed areas was just under ten times as much as for the under-developed regions, and had increased to 10.7 times as much by 1967, while, in relation to Latin America, it rose from 3.7 to 4.2 times as much in the same lapse of time.

7/ These are dollars at 1960 prices and estimates based on different factors from those used in former Economic Surveys to convert Latin American currencies into dollars. In the appendix to this chapter, the reasons for the change have been set forth and an account given of the information and methods used for calculating the new ratios. Mention has also been made of the statistical and conceptual reservations that must be made if the figures are to be properly interpreted. The purchasing power equivalents of Latin American currencies in terms of dollars at 1960 values are as follows (in monetary units per dollar): Argentina, 56.03 Argentine pesos; Bolivia, 7.80 Bolivian pesos; Brazil, 105.50 cruzeiros; Chile, 0.985 escudos; Colombia, 5.08 Colombian pesos; Costa Rica, 5.01 Costa Rican colones; Dominican Republic, 0.98 Dominican pesos; Ecuador, 11.39 sucres; El Salvador, 2.04 Salvadorian colones; Guatemala, 0.91 quetzales; Haiti, 3.77 gourdes; Honduras, 1.90 lempiras; Mexico, 8.23 Mexican pesos; Nicaragua, 6.48 córdobas; Panama, 0.87 balboas; Paraguay, 78.32 guaraníes; Peru, 16.83 soles, Uruguay, 7.10 Uruguayan pesos; Venezuela, 4.60 Bolívares.

/Table I-5

Table I-5

TRENDS OF THE PER CAPITA PRODUCT BY ECONOMIC REGIONS,[a/] 1960 AND 1967

(Dollars at 1960 prices and thousands of persons)

Region or country	1960			1967			Growth rate of per capita product
	Gross domestic product (millions)	Population	Per capita product	Gross domestic product (millions)	Population	Per capita product	
Developed							
Western Europe	304 102	259 560	1 172	405 246	277 302	1 461	3.2
Australia	16 357	10 275	1 592	22 935	11 751	1 952	3.0
New Zealand	3 727	2 372	1 571	5 067	2 726	1 859	2.4
United States	509 000	180 684	2 817	703 947	199 118	3 535	3.3
Canada	36 981	17 909	2 065	52 857	20 441	2 536	3.3
Japan	42 769	93 210	459	85 239	99 920	853	9.3
South Africa	7 430	15 925	467	11 360	18 733	606	3.8
Sub-total	920 366	579 935	1 587	1 286 651	629 991	2 042	3.7
Under-developed							
Africa	27 241	247 655	110	34 330	291 184	118	1.0
Latin America	87 981	202 906	433	120 651	247 969	486	1.7
Asia	81 716	863 617	95	113 422	1 027 820	110	2.1
Southern Europe	29 015	94 539	307	49 210	104 125	473	6.4
Sub-total	225 953	1 408 717	160	317 613	1 671 098	190	2.5
	1 146 319	1 988 652	576	1 604 264	2 301 089	697	2.8

Sources: Developed countries: United Nations, Yearbook of National Accounts Statistics - 1966 and Monthly Bulletin of Statistics, various issues; International Monetary Fund, International Financial Statistics, various issues.

Under-developed countries: Except for Latin America, Organization for Economic Co-operation and Development Centre, National Accounts of Less Developed Countries 1950-66 (July 1968).

a/ Excluding centrally planned economies.

/Although Latin

Although Latin America's relative loss of ground is partly attributable to the rising rate of population growth, it has in any case been large enough to reduce the region's share of the over-all world product.

The Latin American countries themselves differ widely, both in the absolute levels of their per capita product and in recent trends.

Forecasts for the end of the sixties show wide oscillations around an average annual figure of 512 dollars for the per capita product, from the lowest extreme of 85 dollars in Haiti to the maximum of 950 dollars in Argentina. Nine countries would be above the average. In descending order, they are Argentina, Venezuela, Panama, Uruguay, Mexico, Chile, Trinidad and Tobago, Costa Rica and Jamaica. Fourteen would be below the average, namely, Peru, Brazil, Barbados, Colombia, Guatemala, El Salvador, Nicaragua, Ecuador, Guyana, Paraguay, Honduras, Dominican Republic, Bolivia and Haiti (see table I-6).

This reordering represents a considerable change from the situation in 1950 and is due to wide disparities in the growth rates of per capita income in the individual countries (see table I-7). In Latin America as a whole, the rate has been relatively low; it was about 2 per cent annually during the fifties and during the sixties has been even less. The country figures show fairly wide differences ranging from stagnation to relatively rapid and sustained growth at annual rates of nearly 3 per cent for the per capita product. It is important to note that, within this diversity, no uniform trends can be detected for the countries in the upper and lower income categories. They changed positions in terms of the absolute per capita product within one group or the other, but there was no modification in individual positions as regards average income. This is clear from the fact that the nine countries which are now above the average income level for Latin America were also above it in 1950.

/Table I-6

Table I-6

LATIN AMERICA: ESTIMATES OF THE TOTAL AND PER CAPITA PRODUCT TOWARDS THE END OF THE NINETEEN-SIXTIES

(Dollars at 1960 prices)

Country	Total product (Millions of dollars)	Per capita product (dollars)
Argentina	22 529	950
Barbados	99	371
Bolivia	923	203
Brazil	34 398	379
Chile	6 411	671
Colombia	7 860	367
Costa Rica	990	570
Dominican Republic	974	233
Ecuador	1 901	323
El Salvador	1 161	349
Guatemala	1 842	359
Guyana	235	320
Haiti	436	85
Honduras	621	247
Jamaica	1 015	559
Mexico	33 108	677
Nicaragua	675	344
Panama	1 008	740
Paraguay	627	272
Peru	5 929	450
Trinidad and Tobago	710	648
Uruguay	2 025	710
Venezuela	8 809	878
Total	134 286	512

/Table I-7

Table I-7

LATIN AMERICA: RATE OF GROWTH OF THE PER CAPITA PRODUCT

(Average annual rates)

Countries	1950-67	1950-60	1960-67
Argentina	1.1	1.2	1.1
Barbados	2.2	2.7	1.6
Bolivia	0.1	-1.6	2.9
Brazil	2.1	2.6	1.3
Chile	1.6	1.2	2.4
Colombia	1.4	1.6	1.1
Costa Rica	3.0	3.2	2.6
Dominican Republic	1.2	2.4	0.6
Ecuador	1.9	2.3	1.0
El Salvador	2.1	1.5	2.9
Guatemala	1.8	0.9	3.0
Guyana	1.4	1.7	0.9
Haiti	-1.3	-0.2	-1.7
Honduras	1.1	0.6	1.8
Jamaica	3.5	4.0	2.9
Mexico	2.7	2.8	2.8
Nicaragua	2.4	2.2	4.1
Panama	3.2	1.9	5.2
Paraguay	0.4	0.1	1.0
Peru	2.9	2.7	3.0
Trinidad and Tobago	1.5	2.3	0.4
Uruguay	-0.2	0.6	-1.1
Venezuela	2.9	3.6	1.7
Total	1.9	2.0	1.7

Source: ECLA, on the basis of official statistics.

/Since that

Since that year the country with the largest per capita product has been Argentina. But as its growth rate has been fairly slow, in fact well below the regional average, other countries have been creeping up and are now approaching the same level. This is particularly true of Venezuela and Panama, whose high growth rates have enabled them to improve their respective positions. Uruguay has lost some ground owing to the stagnation in its per capita product, dropping from second to fourth place since 1950. Although Mexico has maintained its relative position, its high and steadily rising growth rate has brought the per capita product up to that of Chile in absolute terms, although they were far apart in 1950. Compared with those of Mexico and Panama, Chile's position has contracted, while Costa Rica is in the same situation as in 1950.

Of the group where the per capita product is lower than the Latin American average, Ecuador's relative position has remained unchanged, as has that of three countries with a lower absolute level, i.e., the Dominican Republic, Bolivia and Haiti. Peru, Brazil, El Salvador and Nicaragua have improved their positions, the first two mainly because of the progress made in the fifties, whereas those of Colombia, Guatemala, Paraguay and Honduras have worsened.

These figures should be viewed with caution, as regards both their absolute levels and changes over time. Apart from the fact that conversion to a common monetary unit, as discussed in the appendix to this chapter, will arouse legitimate doubts, the official figures used as a basis are often revised, and substantial changes commonly have to be made as a result.

(b) Income distribution

The average per capita product of each of the countries referred to above reflects national conditions which are of somewhat limited significance unless they are supplemented by information on the way in which income is distributed among the various sectors or strata of the population.

In this connexion, some recent research work provides new data that make it easier to assess some features of income distribution in

Latin America, to compare it with income distribution patterns in other regions, and to understand some of the significant differences between the Latin American countries themselves.8/

Figure I-2 shows the results of a comparison between the estimated income distribution patterns of Latin America as a whole and of the United States. The comparison clearly shows the relatively greater inequities in Latin American income distribution and some of its basic features.

The most striking feature is the small share of total income received by the poorer half of the population: barely 14 per cent of the total (see table I-8). Also noteworthy is the considerable difference between the 30 per cent of the population above the median, which receives 25 per cent of total income, and the 15 per cent in the segment above - half as many people - which receives 29 per cent. Moreover, the high concentration of income at the top level, comprising only 5 per cent of the population, which receives more than 31 per cent of income, shows that the pattern of distribution is extremely regressive.

It must be noted that the imbalances shown by this pattern of income distribution for the region as a whole tend to be greater than those existing in any single country, since in the table, the effects of the differences in average income between countries are added to the disparities within each country. Even with this reservation, however, there is no doubt that these features make for an extremely high level of income concentration in the region.

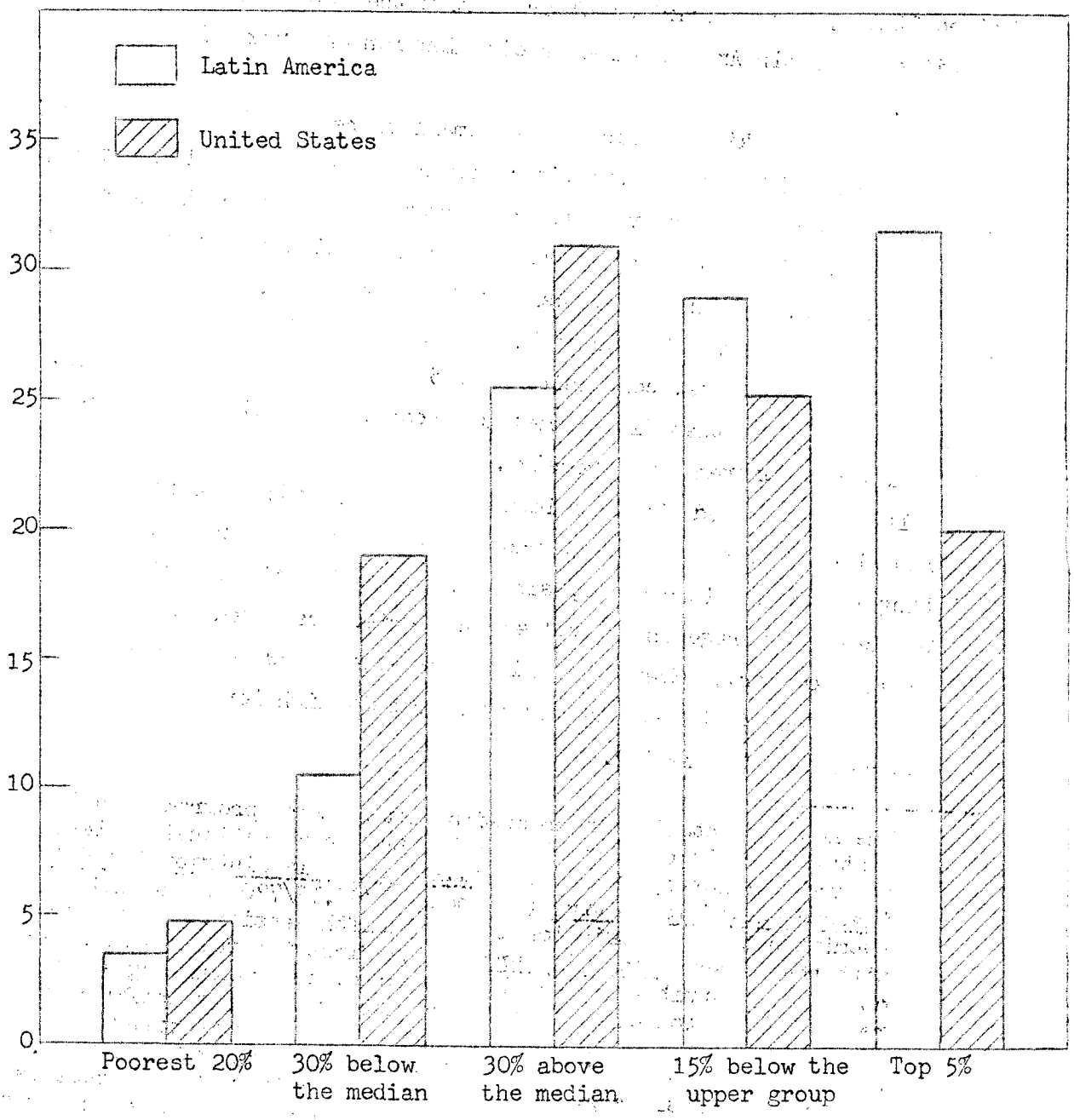
8/ The ECLA secretariat is proceeding with a work programme on income distribution in co-operation with a number of national bodies. Two provisional notes, entitled Estudios sobre la distribución del ingreso en América Latina (documents E/CN.12/770 and Add.1) were submitted to the Commission at its twelfth session. Concurrently with the present Economic Survey, the first two volumes of a series on income distribution will be published, one containing a general review of the topic, and the other discussing the specific case of Argentina based on a wide range of research work undertaken in conjunction with the National Development Council of Argentina. The data and conclusions given here are derived from these documents and are based on the data available for a number of countries comprising some 75 per cent of the population of Latin America and very fragmentary data for the remainder.

/Figure I-2

Figure I-2

INCOME DISTRIBUTION, BY INCOME GROUPS, IN LATIN AMERICA AND THE UNITED STATES

(Percentages)
Natural scale



/Table I-8

Table I-8

INCOME DISTRIBUTION IN LATIN AMERICA, BY INCOME GROUPS

Income group	Percentage share of total income	Average income (regional average = 100)	Average per capita income a/ (dollars)
The poorest 20 per cent	3.5	18.0	68.0
The 30 per cent below the median	10.5	35.0	133.0
The 30 per cent above the median	25.4	85.0	322.0
The 15 per cent below the top 5 per cent	29.1	194.0	740.0
The top 5 per cent	31.5	629.0	2 400.0

Source: ECLA.

a/ The figures, expressed in dollars at 1960 prices, are for 1965.

/Some measurements

Some measurements that show the level of concentration of income distribution as a whole illustrate the above. The relevant coefficient for Latin America is 0.56, which compares very unfavourably with a coefficient of 0.40 for the United States.9/

Other important features are clearly evident from a more careful examination of the situation of the various income groups shown in table I-8. For example, in the 50 per cent of the population at the lower end of the scale - which as a whole receives only 14 per cent of total income - the differences in per capita income levels are considerable, since the levels rise by roughly 30 per cent from the bottom decile to the next. Moreover, the population in both these groups receives extremely low incomes in absolute terms. It is estimated that in 1965 the annual per capita personal income of the poorest 25 per cent or so of the population of Latin America, expressed in dollars at 1960 prices, was less than 100 dollars. At the highest level of the poorer half of the population in the region, it is estimated that the figure was approximately 180 dollars. These figures give a better idea of the income inequalities if it is borne in mind that the average annual per capita personal income for the region as a whole in 1965 was approximately 385 dollars.10/

9/ These coefficients were calculated on the basis of the following formula, which measures the ratio of the area between the Lorenz curve and the line of equal distribution to the area of the triangle in which it is situated:

$$Y = 1 - \frac{\sum_{i=1}^{\frac{n}{2}} fi\,(G_i - 1 + G_i)}{10{,}000}$$ where

n = total number of income groups
i = ordinal number of each group
f = percentage of total population in each income group
G = cumulative percentage of income received

10/ The difference between these figures and those for the per capita product given earlier, besides being partly due to the fact that the periods of reference are different, is explained by the fact that such items as depreciation, external factor income and other items which distinguish the gross domestic product from domestic personal income have been excluded.

/In the

In the two highest income groups, average income is relatively very high, which means that there is a high concentration of total personal income in these two groups. Taken together, their average income is almost twelve times that of the poorer half of the population, a difference which is of great significance and has far-reaching effects. For this is not a comparison between two small groups, but between the one-fifth of the population which is at the top of the income scale and the poorer half of the population. If this situation is contrasted with that of an industrialized western area with a similar population density, it will be soon found that the average income of the richest fifth of the population of the United States is less than five times that of the poorer half of the population; in the socialist countries the proportion appears to be a little less than three times.

Moreover, in the two upper income groups, income rises very rapidly and very unevenly. At the lower limit of the 15 per cent of the population immediately below the top group, per capita income is under 500 dollars, while at the upper limit it is almost three times that sum. The income of the top 5 per cent is, of course, much higher still, with a considerable concentration of income.

As has already been pointed out, these features are not only the result of the patterns of income distribution within each country but also of the differences in average per capita incomes in absolute terms. A look at the distribution by countries of the population comprising each of these income groups makes the importance of this latter factor clear. (See table I-9.)

/Table I-9

Table I-9

INCOME DISTRIBUTION IN SELECTED LATIN AMERICAN COUNTRIES

		Income recipients	PERCENTAGE OF INCOME CORRESPONDING TO EACH DECILE											
			Lowest decile	2nd decile	3rd decile	4th decile	5th decile	6th decile	7th decile	8th decile	9th decile	10th decile	Top 5%	Top 1%
1961	Argentina	Individuals	1.9	3.3	4.2	5.1	6.0	7.1	8.3	10.0	13.2	40.9	31.2	16.3
1960	Brazil	Gainfully employed population	1.8	2.4	3.1	4.2	5.3	6.0	8.1	10.3	13.8	45.0	33.0	18.0
1962	Colombia	Economically active population	2.5	3.4	4.1	4.9	5.3	6.1	7.5	9.5	14.0	42.7	30.4	10.0
1961	El Salvador	Economically active population	2.4	3.1	3.2	3.3	4.0	4.8	7.2	10.6	15.8	45.6	33.0	18.0
1962	Venezuela	Households	1.4	1.6	3.0	3.7	4.6	6.0	8.3	13.4	17.3	40.7	26.5	9.0
1960	Panama	Gainfully employed population	1.9	3.0	3.7	5.9	6.0	6.5	7.0	9.4	12.6	44.0	34.5	16.5
1963	Mexico	Households	1.5	2.1	3.1	3.8	4.9	6.0	8.1	12.0	17.0	41.5	29.0	12.0
1961	Costa Rica	Households	2.6	3.4	3.8	4.0	4.4	5.4	7.1	9.3	14.0	46.0	35.0	16.0

Sources: ECLA, on the basis of official statistics.

/Within each

Within each segment, the highest figures tend to be those for countries with the largest populations in absolute terms; although even so there are some significant features. For example, the fact that income is relatively more evenly distributed in Argentina and Uruguay and the average income higher in absolute terms explains why even the lowest income group in these countries receives more income than the poorest 20 per cent of the population of Latin America as a whole. On the other hand, virtually half of the poorest 20 per cent in the region comes from Brazil - whose population represents one-third of the total population of Latin America - because of its relatively low level of average income. Similarly, the position of the countries listed under the head of "other countries" - those of Central America and the Caribbean (excluding Cuba), and Bolivia, Ecuador and Paraguay - is even more striking: while these countries account for only 14 per cent of the population of Latin America, they comprise more than a third of the poorest 20 per cent.

In the lowest group there is a much greater correlation between the proportion of the poorest 20 per cent corresponding to each country and its proportion of total population, particularly in Chile, Colombia, Mexico and Peru. But even so, the share of the countries with higher average incomes in absolute terms (Argentina, Uruguay, Venezuela) is relatively larger, while the opposite is true for the countries with low average incomes (Brazil and others). The only segment in which the shares of both groups of countries bear a marked resemblance to each other is that of the 30 per cent of the population immediately above the median.

These observations merely confirm the fact that in income distribution for the region as a whole will show very considerable disparities, partly as a result of adding together the national figures of countries with very different average per capita incomes in absolute terms.

In order to determine the extent to which the effects of these differences in average per capita income may be accentuated by higher levels of income concentration in the lowest income countries it would be necessary to make a comparative analysis of the distribution pattern in each individual country. The statistical value of the available estimates, given in table I-9, varies considerably, but they are sufficient to support at least one or two general conclusions.

/The most

The most striking fact that emerges from a comparison of the patterns of distribution of a significant number of Latin American countries is their relative uniformity, despite the differences in these countries' average per capita incomes and general level of development. On this basis, it is possible to pick out some general features of income distribution in Latin America which are markedly different from those in more developed economies.

The estimates also reveal some significant differences between the Latin American countries, although of much lesser importance than the features that differentiate the region as a whole from the industrialized countries. These are probably due to a number of different factors, including factors relating to the level of concentration of property ownership, and other institutional factors. In addition, if it is wished to relate these differences to the development of each country, probably one of the most tempting approaches would be to look at the relative size of the various strata of productivity which can be clearly discerned in the Latin American economies as a whole and at their effect on income distribution.[11/]

In the initial stages of development, a very high proportion of the economically active population is engaged in activities which, in terms of their average productivity, forms of organization, production techniques, stock of capital per person, etc., can be defined as forming a primitive sector of the economy; in contrast, a small fraction of the labour force is engaged in activities which, for similar reasons, form a modern sector in which a high proportion of total production and income will probably tend to be concentrated.[12/] As the modern sector

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11/ This question is discussed at greater length in a later section, where the problems of employment and labour force productivity are discussed.

12/ As explained below, these references to "primitive" and "modern" sectors, and to an "intermediate" sector, do not necessarily coincide with the usual classifications into sectors of economic activity, but relate rather to strata of productivity and degrees of assimilation of technical progress, which can be distinguished within each sector of activity. For example, a primitive and a modern sector can be identified within the agricultural sector, and the same is true for manufacturing and services.

/expands and

expands and the primitive sector shrinks, the additional income tends to go mainly to new members of the modern sector. The influence of the primitive sector, which pushes income levels down, tends to be felt only by a progressively smaller proportion of the population at the lower end of the income scale, while a progressively larger proportion of the population gains access to relatively high income levels. The global effect of all these factors on income distribution is probably to give the groups close to the top of the income scale a larger share of total income, while the opposite is very probably the case with the groups at the very top and the very bottom of the scale.

A comparison of the figures for several countries will show how far these considerations really mirror the situation in Latin America (see table I-10). In countries such as El Salvador, where the primitive sector still predominates, the two median groups receive relatively small proportions of total income, while there is heavy concentration in the upper segment. In others, like Mexico and Venezuela, the modern sector has grown rapidly and has become fairly important, although a sizable proportion of the labour force is still in the primitive sector. Hence, the 30 per cent of the population that is above the median obtains a much larger share of total income, and the share of the next 15 per cent also increases to some extent but there is less concentration at the top.[13/] On the other hand, the share of the poorer half of the population fails to improve and the bottom 20 per cent even find that their relative position has worsened. This type of change can be seen from the figures for Mexico relating to different years in the post-war period.

13/ It is important to bear in mind, particularly in the case of Venezuela, that distribution relates to national and family income levels. Consequently, the profits of the big enterprises that are remitted abroad are not included in the figures.

Table I-10

FIVE LATIN AMERICAN COUNTRIES: ESTIMATED PARTICIPATION OF DIFFERENT POPULATION GROUPS IN TOTAL INCOME

	The poorest 20 per cent of the population	The 30 per cent below the median	The 30 per cent above the median	The 15 per cent below the top group	The top 5 per cent
Argentina	5.2	15.3	25.4	22.9	31.2
Costa Rica	5.5	10.5	22.6	28.4	32.9
El Salvador	5.5	12.5	22.0	25.0	35.0
Mexico	3.6	11.8	26.1	29.5	29.0
Venezuela	3.0	11.3	27.7	31.5	26.5

Source: See table I-9.

The data on Argentina illustrate other kinds of changes which may be characteristic of the next stage. The primitive sector is very small there. As a result, the poorer half of the population receives a much larger proportion of the total income than in countries such as Mexico or Venezuela, and the 30 per cent above the median remains in a relatively favourable position. The high absolute level of average income is also partly due to the absence of a primitive sector, and, as it enjoys a greater relative share of total income, the poorer half of the population is in a much better position than in any other Latin American country.

/As these

As these remarks are merely intended to give a general picture of income distribution in Latin America, there is no need to dwell on aspects which will be discussed at length in the specific studies mentioned. Particular reference has been made to the relationship between the characteristics of distribution and the structure of the economy divided into productivity strata in order to bring out a facet of the problem which has tended to be overlooked in the past, but there is no intention whatsoever of detracting from the importance of other basic factors that determine the pattern of income distribution. It need hardly be stressed that the differences that have been mentioned between the Latin American countries themselves are relatively unimportant compared with the differences between each one of them and economies outside the region. This reservation even applies to Argentina, where there are a number of factors that are particularly conducive to a more equitable pattern of national income distribution.

(c) The composition of the product by sectors of activity

The composition of the product by sectors of activity is a guide to the structure of the Latin American economy towards the end of the nineteen-sixties. Some of its typical features in this respect are described below.

First, in Latin America as a whole, it will be seen that a relatively small proportion of the total product is generated in the sectors producing goods. It amounts to a little under 53 per cent, compared with 8 per cent for basic services - which are mainly the electric power supply, transport and communications - and nearly 39 per cent for the activities grouped under the head of "other services" - commerce and finance, public administration, personal services, etc. (see table I-11). Given this kind of economic structure and absolute level for the per capita product, the proportion of services seems top-heavy, since it invests the economy prematurely with the structural characteristics of a more developed country. In the industrialized economies, the increase in the share of the product contributed by services is necessary for growth, but in Latin America it is more likely

/Table I-11

Table I-11

LATIN AMERICA: PROBABLE COMPOSITION OF THE PRODUCT TOWARDS THE END OF THE NINETEEN-SIXTIES

(Percentages of the total)

Sectors producing goods	52.7
Agriculture	20.4
Mining	4.6
Manufacturing	24.1
Construction	3.6
Basic services	8.3
Other services	39.0
Commerce and finance	19.2
Miscellaneous	19.8
Total	100.0

Source: ECLA estimates.

/to indicate

to indicate that the sectors producing goods are failing to respond with sufficient vigour to labour absorption requirements, which outstrip the job opportunities these sectors have to offer.[14/]

Secondly, the economic structure of the region as a whole, taken at the same level of aggregation, has changed very little since 1950 (see table I-12). The figures for 1950, 1960 and 1967 show that the contribution of the sectors producing goods has remained between 52 and 53 per cent. The basic services enlarged their share slightly, but a tiny reduction took place in the share of "other services".

Thirdly, there have been some significant changes in the internal composition of the major sectors, particularly those producing goods, and, above all in the relative shares of agriculture and manufacturing. Towards the end of the nineteen-sixties, agriculture will be contributing about a fifth of the total product, whereas in 1950 it was providing just over a quarter and in 1960 about 22 per cent. The counterpart to these changes is supplied almost entirely by the growth in the importance of manufacturing, which increased its share of the total product from just under 20 per cent in 1950 to 24.1 per cent in 1967.[15/]

14/ For purposes of comparison, it should be remembered that the relative weight of services - excluding basic services - is more than 39 per cent of the total product in Latin America, while in the Federal Republic of Germany and France in 1965 it was less than 38 and as little as 32 per cent respectively. The proportion of the product that derives from the production of goods is very much smaller in Latin America, being 52.4 per cent as against more than 60 per cent in the Federal Republic of Germany, although the relative importance of their agricultural sectors differ considerably (over 20 and only 5 per cent respectively).

15/ If a relative price structure similar to that of the United States was taken as a basis, as it is for investment later in this document, the sectoral structure of the product would be quite different in some of the Latin American countries; in particular, the relative shares of agriculture and manufacturing would be different.

/Table I-12

Table I-12

LATIN AMERICA: CHANGES IN THE COMPOSITION OF THE PRODUCT BY SECTORS OF ACTIVITY

	Percentage composition in relation to the total			Cumulative annual growth rates		
	1950	1960	1967	1950-60	1960-67	1950-67
Sectors producing goods	52.4	52.4	52.3	4.9	4.6	4.8
Agriculture	25.2	22.1	20.5	3.5	3.5	3.5
Mining	4.1	4.6	4.4	6.1	4.1	5.3
Manufacturing	19.6	22.3	24.1	6.2	5.8	6.0
Construction	3.5	3.4	3.3	4.6	4.1	4.4
Basic services	7.2	7.7	8.3	5.5	5.7	5.6
Other services	40.4	39.9	39.4	4.8	4.4	4.6
Commerce and finance	18.0	18.4	18.8	5.1	4.9	5.0
Miscellaneous	22.4	21.5	20.6	4.5	3.9	4.2
Total	100.0	100.0	100.0	4.9	4.6	4.8

Source: ECLA estimates.

In mining and construction the situation has remained much the same, with the share of the former increasing slightly and that of the latter contracting equally slightly. This is the result of a growth rate for the whole goods-producing sector that has almost matched that of the total product (an annual average of 4.8 per cent from 1950 to 1967), and has been due to a yearly increase of 6 per cent in manufacturing production, 5.3 per cent in mining 4.4 per cent in construction and only 3.5 per cent in agriculture.

/As far

As far as "other services" are concerned, commerce, finance, and miscellaneous services each represent about a fifth of the total product, and there have been no appreciable changes since 1950, either in the contribution of the whole group or of its individual parts.

These general features are superimposed on widely different situations in the individual countries of the region, both in the past and in the present.

In one group, consisting of Argentina, Brazil and Mexico, the distinguishing feature is the relative weight of the sectors producing goods, which is slightly greater than in the region as a whole, and of the "other services" sectors, which is a little less (see table I-13). However, the most striking differences are in some of the components of the major sectors. For instance, the relative importance of manufacturing industry is more than 27 per cent in this group of countries, while in the other four groups it is less than 20 per cent, and in three of them it oscillates round 15 per cent. Argentina is largely responsible for the high figure in manufacturing in the group, since manufacturing contributes more than a third of it's total product, while in Mexico the sector's relative importance is similar to the group average, and in Brazil it is almost 22 per cent (see table I-14).

A second group, composed of Chile, Colombia, Peru, Uruguay and Venezuela, is characterized by a slightly smaller share for the goods-producing sectors than in the former group, and the structure of these sectors, in particular differs considerably. Although their general level of development is lower, the relative share of agriculture is smaller; however, this is offset by the much greater importance of mining and the extractive industry in general (see table I-13). The share of manufacturing is a good deal smaller. There are also some differences between the members of the group, particularly as regards agriculture in Colombia, where the relative share of the agricultural sector is well above the group average.

/Table I-13

Table I-13

LATIN AMERICA: PROBABLE COMPOSITION OF THE PRODUCT TOWARDS THE END OF THE NINETEEN-SIXTIES, BY GROUPS OF COUNTRIES a/

(Percentages of the total)

	Group A	Group B	Group C	Group D	Group E
Sectors producing goods	53.7	50.5	48.9	56.5	49.8
Agriculture	20.7	16.8	30.7	30.5	20.2
Mining	2.7	10.2	0.5	5.4	8.8
Manufacturing	27.1	19.2	15.0	15.5	14.6
Construction	3.2	4.3	2.7	5.1	6.2
Basic services	8.3	8.7	6.9	6.4	9.1
Other services	38.0	40.8	44.2	37.1	41.1
Commerce and finance	20.1	17.3	22.3	13.9	16.0
Miscellaneous	17.9	23.5	21.9	23.2	25.1
Total	100.0	100.0	100.0	100.0	100.0

Source: ECLA estimates.

a/ The groups comprise the following countries: Group A: Argentina, Brazil and Mexico; Group B: Chile, Colombia, Peru, Uruguay and Venezuela; Group C: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; Group D: Bolivia, Ecuador and Paraguay; Group E: Barbados, Dominican Republic, Haiti, Guyana, Jamaica, Panama and Trinidad and Tobago.

/Table I-14

Table I-14

LATIN AMERICA: PROBABLE COMPOSITON OF THE PRODUCT TOWARDS THE END OF THE NINETEEN-SIXTIES, BY COUNTRIES

(Percentages of the total)

1. Group A

	Total	Argentina	Brazil	Mexico
Sectors producing goods	53.7	57.3	54.1	51.0
Agriculture	20.7	17.0	30.1	14.6
Mining	2.7	1.8	0.6	5.1
Manufacturing	27.1	34.6	21.9	27.1
Construction	3.2	3.9	1.5	4.2
Basic services	8.3	9.7	9.9	5.8
Other services	38.0	33.0	36.0	43.2
Commerce and finance	20.1	18.3	15.4	25.5
Miscellaneous	17.9	14.7	20.6	17.7
Total	100.0	100.0	100.0	100.0

2. Group B

	Total	Chile	Colombia	Peru	Uruguay	Venezuela
Sectors producing goods	50.5	52.2	56.0	48.2	44.5	47.4
Agriculture	16.8	10.5	30.7	17.6	19.2	7.6
Mining	10.2	10.5	3.1	5.3	-	22.2
Manufacturing	19.2	26.6	18.4	19.9	21.4	13.8
Construction	4.3	4.6	3.8	5.4	3.9	3.8
Basic services	8.7	12.7	7.7	8.2	9.3	6.9
Other services	40.8	35.1	36.3	43.6	46.2	45.7
Commerce and finance	17.3	18.3	16.3	21.9	22.1	13.2
Miscellaneous	23.5	16.8	20.0	21.7	24.1	32.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

/Table I-14 (concl.)

Table I-14 (concl.)

3. Group C

	Total	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Sectors producing goods	48.9	46.5	51.7	45.0	62.7	46.0
Agriculture	30.7	29.4	28.8	29.6	40.8	29.5
Mining	0.5	-	0.1	0.1	2.0	1.8
Manufacturing	15.0	14.7	18.4	13.6	16.0	12.9
Construction	2.7	2.4	4.4	1.7	3.9	1.8
Basic services	6.9	7.7	6.2	6.4	7.0	8.3
Other services	44.2	45.8	42.1	48.6	30.3	45.7
Commerce and finance	22.3	12.5	21.8	30.1	15.2	22.8
Miscellaneous	21.9	33.3	20.3	18.5	15.1	22.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

4. Group D

	Total	Bolivia	Ecuador	Paraguay
Sector producing goods	56.5	54.8	57.0	57.3
Agriculture	30.5	21.7	33.1	35.5
Mining	5.4	15.8	1.9	0.4
Manufacturing	15.5	10.8	17.0	17.8
Construction	5.1	6.5	5.0	3.6
Basic services	6.4	10.2	5.1	4.6
Other services	37.1	35.0	37.9	38.1
Commerce and finance	13.9	10.3	13.7	19.6
Miscellaneous	23.2	24.7	24.2	18.5
Total	100.0	100.0	100.0	100.0

Source: ECLA estimates.

/The third

The third group, which comprises the five Central American countries, and the fourth group, made up of Bolivia, Ecuador and Paraguay, have fairly similar general characteristics. The agricultural sector generates more than 30 per cent of the total product, and manufacturing industry has a relative importance of only about 15 per cent. Together with the members of the last group, which are too heterogeneous for averages to have any meaning, they form what has been termed the "economically relatively less developed countries" in the region.

This grouping is very much the same as that which would be obtained by taking the absolute size of the national markets as the yardstick. Argentina, Brazil and Mexico have 62.2 per cent of the regional population and contribute 67 per cent of the product. These proportions are 21.7 and 23.2 per cent for the five countries in the second group, while, they are only 16.1 per cent and 9.8 per cent for the other countries as a whole.

There has been no significant change in these structural differences for quite a long time. If the last group is excluded because of its heterogeneity, the average growth rate of the agricultural sector was 3 to 3.7 per cent between 1950 and 1967 in all the others. There is an even closer resemblance between the growth rates of manufacturing production: the annual average was 6.1 for the first group, 6.2 per cent for the second and 6.8 per cent for the third, while industrial development fell even further behind in Ecuador and, above all, in Bolivia and Paraguay.

The internal composition of some of the sectors of economic activity has also changed appreciably in several cases. For instance, it is highly probable that agricultural production for export has been assuming greater relative importance than production for the home market. In 1960-66, at least, the over-all agricultural product of the region increased at an average rate of 3.4 per cent annually, while the average rate for agricultural exports was 4.4 per cent.

Manufacturing industry has no doubt undergone pronounced changes in internal composition, but it is difficult to judge their extent because of the lack of basic statistics. Some data available for 1950-63

/suggest that

suggest that there have been appreciable modifications in the relative importance of the industries described as traditional - food, beverages, tobacco, textiles, footwear and clothing, wood, furniture, printing and publishing, leather and leather products, etc. - the intermediate industries, such as paper and paper products, rubber and rubber products, chemical products, petroleum products, non-metallic minerals and basic metals, and the metal-transforming industries - metal products, construction of machinery, electrical equipment and transport equipment.[16/]

The first group expanded at a fairly slow pace (averaging 3.8 per cent annually), largely because of the very sluggish tempo of growth in Argentina. Production of intermediate goods, however, achieved a rate of over 8 per cent and metal-transforming of 10.6 per cent. As a result of these trends, the share of the traditional industries in the total gross value of industrial output in the region as a whole shrank from 69 to 55 per cent, while that of the intermediate group rose from 22 to 30 per cent and of the metal-transforming industries in particular from 8 to 15 per cent. The trend of these changes has undoubtedly been emphasized in later years as a result, among other things, of the notable progress made by the motor-vehicle industry.

These broad trends cover basic differences in the industrial development of the individual countries. For instance, in many of them, and particularly those at a relatively less advanced stage of industrialization, the bulk of the growth took place in the traditional industries. This explains why Argentina, Brazil and Mexico's joint share of the regional total should have dropped from 67 to 58 per cent in the case of these industries, while it remained constant or increased in relative terms in the case of the intermediate branches (close to 70 per cent) and metal-transforming activities (about 85 per cent).

16/ From various points of view this grouping is not entirely satisfactory. One reason is that it does not make for a more accurate division between the industries producing consumer goods and those producing capital goods, since it is dependent on the availability of the basic statistics and the way they are presented.

(d) Trends and composition of total supply and demand

Towards the end of the nineteen-sixties, total supply and demand will probably amount to about 145,000 million dollars (in terms of 1960 purchasing power). The main features of their composition will be the relatively small share of external transactions, with imports of goods and services accounting for less than 10 per cent of total supply and exports for a similar proportion of total demand, and a structure of demand in which less than 16 per cent would correspond to gross fixed investment and nearly three-quarters to consumption, divided, in its turn, into 8 per cent for public consumption and almost 67 per cent for private consumption (see table I-15).

This over-all structure is the outcome of trends whose main components sometimes diverge sharply.

In Latin America as a whole, the most dynamic factor of supply has been the trend of the domestic product, despite its relatively slow rate of growth, discussed in earlier sections. In other words, the relative importance of imports has declined, and the import coefficient has therefore dropped [17/] steadily from just over 12 per cent in 1950 to under 11 per cent in 1960 and less than 10 per cent in 1967.

However, these general regional trends do not tally with the individual trends in most of the countries. In fact, the averages quoted are strongly influenced by Argentina and Brazil, which carry special weight in the Latin American totals, and where import coefficients are at their lowest and an appreciable reduction really took place in foreign purchases. Other countries where the same trend has cropped up, but at different levels, are Colombia, Haiti, Uruguay and Venezuela; in some the reason has been the relatively unfavourable trend of the external sector, and in Venezuela, the high growth rate of the domestic product (see table I-16). In others, such as Guatemala and Panama, there were no significant changes, and the same is true of Mexico, where the sharp rise in exports coincided with highly dynamic growth on the part of the external sector. In at least ten of the Latin American countries, import coefficients are higher than in 1950 and 1967, at times by a considerable margin.

17/ The imports are measured at constant prices, that is, without allowing for the effect of price increases. For a more extensive analysis of external sector trends, see part one, chapter III.

/Table I-15

Table I-15

LATIN AMERICA [a]: PROBABLE TREND AND COMPOSITION OF TOTAL SUPPLY AND DEMAND AT THE END OF THE NINETEEN-SIXTIES

(Millions of dollars at 1960 prices, market prices and percentages)

	Value (Millions of dollars at 1960 prices)	Percentage composition	Growth rates		
			1950-60	1960-67	1950-67
Total supply	145 400	100.0	4.8	4.5	4.7
Gross domestic product	132 000	90.7	4.9	4.6	4.8
Imports of goods and services	13 400	9.3	3.7	3.4	3.6
Total demand	145 400	100.0	4.8	4.5	4.7
Exports of goods and services	14 100	9.7	3.8	4.4	4.1
Gross fixed investment [b]	22 800	15.7	5.2	3.9	4.7
Total consumption	108 500	74.6	4.8	4.6	4.7
Government consumption	11 300	7.8	6.0	2.7	4.6
Private consumption [b]	97 200	66.8	4.7	4.9	4.8

Source: ECLA, on the basis of official statistics.

a/ Not including Barbados, Guyana, Jamaica or Trinidad and Tobago.

b/ Changes in stocks are included in private consumption.

/Table I-16

Table I-16

LATIN AMERICA: IMPORT COEFFICIENTS, BY COUNTRIES, 1950, 1960 AND 1967

(Imports of goods and services as a percentage of the domestic product)

Country	1950	1960	1967
Argentina	8.9	8.0	6.6
Bolivia	11.9	15.7	21.2
Brazil	10.0	7.8	5.6
Chile	11.4	15.7	15.7
Colombia	14.9	12.2	8.8
Costa Rica	17.7	21.6	23.2
Dominican Republic	21.2	15.9	26.8
Ecuador	7.6	12.2	12.7
El Salvador	19.0	20.4	22.4
Guatemala	13.8	13.6	14.9
Haiti	16.7	13.8	11.2
Honduras	17.4	19.6	28.5
Mexico	8.4	7.8	7.8
Nicaragua	13.8	23.5	43.2
Panama	34.2	30.0	32.9
Paraguay	10.1	12.5	14.3
Peru	12.0	11.9	16.6
Uruguay	14.8	12.5	8.7
Venezuela	41.8	27.1	21.1
Total a/	12.1	10.8	9.9

Source: ECLA, on the basis of official statistics.

a/ Not including Barbados, Guyana, Jamaica or Trinidad and Tobago.

Viewed from this angle, the extent of these country differences is illustrated by the fact that in 1967 five Latin American countries had import coefficients of under 10 per cent, six of 10 to 20 per cent, a further six of 20 to 30 per cent and two of over 30 per cent.

/Of the

Of the components of total demand, exports of goods and services account for less than 10 per cent of the regional total, and there are the same national differences as in the case of imports. Since 1950 the growth rate of exports has kept fairly close to that of the domestic product (see table I-15), and has been much higher than that of imports. It should be remembered, however, that the trend is measured in terms of volume, and thus does not show the generally adverse effect of the terms of trade.

Taken as a whole, the relative shares of investment and consumption in over-all demand remained constant between the end points of the period 1950-67. Both increased at an average annual rate of 4.7 per cent, but with broad disparities when the two decades are considered separately. In 1950-60, the growth rate of investment outstripped that of consumption and the position was reversed in 1960-67. The import coefficient thus ended up in 1967 at the same level as in 1950. This is again a broad trend, which encompasses a number of national differences as regards the share of investment in the total supply of goods and services. This declined in Colombia, Mexico, Uruguay and Venezuela, but took a more positive turn in others, particularly Bolivia, the Dominican Republic, Ecuador, El Salvador, Nicaragua, Panama, Paraguay and Peru (see table I-17).

In 1967, Brazil, Chile, Ecuador, El Salvador, Guatemala, Haiti and Honduras fell short of the average ratio for the region; in the other countries it was exceeded in varying proportions, but only in three cases - Nicaragua, Peru and Venezuela - did the figure reach 20 per cent or over.

As pointed out in other sections, the failure of the investment coefficient to increase vigorously enough has been one of the fundamental reasons for the relatively slow growth of the Latin American product. A word should be added here about the importance of maintaining an investment coefficient (defined as the ratio of gross fixed investment to the total product) of about 16 per cent for the Latin American economies. As per capita income levels in the region are fairly low and there is a justifiable demand for higher consumption levels, an allocation of 16 per cent for capital formation represents a tremendous effort, although this should be reassessed more accurately in the light of the prevailing income distribution models and consumption capacity. Without discounting the latter, it is important to remember that the saving effort envisaged will not necessarily lead to an equivalent volume of real investment, as the relative prices of capital goods are high in most of the Latin American countries.

/Table I-17

Table I-17

LATIN AMERICA: UTILIZATION OF THE SUPPLY OF GOODS AND SERVICES, BY COUNTRIES, 1950, 1960 AND 1967

(Percentages)

Country	1950		1960		1967	
	Consumption a/	Investment	Consumption a/	Investment	Consumption a/	Investment
Argentina	84.0	16.0	78.5	21.5	81.3	18.7
Bolivia	89.8	10.2	86.5	13.5	83.6	16.4
Brazil	85.6	14.4	83.7	16.3	87.4	12.6
Chile	86.1	15.9	85.0	15.0	84.4	15.6
Colombia	81.6	18.4	81.9	18.1	83.9	16.1
Costa Rica	84.2	15.8	83.4	16.6	82.9	17.1
Dominican Republic	86.3	13.7	88.7	11.3	82.0	18.0
Ecuador	91.4	8.6	86.6	13.4	87.3	12.7
El Salvador	90.8	9.2	86.5	13.5	84.9	15.1
Guatemala	89.3	10.7	90.1	9.9	88.4	11.6
Haiti	93.3	6.7	94.6	5.4	96.8	3.2
Honduras	87.0	13.0	87.6	12.4	86.8	13.2
Mexico	79.3	20.7	85.2	14.8	82.5	17.5
Nicaragua	90.3	9.7	87.5	12.5	79.9	20.1
Panama	85.7	14.3	85.9	14.1	80.6	19.4
Paraguay	92.0	8.0	83.6	16.4	81.9	18.1
Peru	83.3	16.7	80.9	19.1	76.4	23.6
Uruguay	83.0	17.0	85.5	14.5	86.9	13.1
Venezuela	74.7	25.3	78.1	21.9	78.8	21.2
Total b/	83.4	16.6	82.9	17.1	83.5	16.5

Source: ECLA, on the basis of official statistics.

a/ Not including Barbados, Guyana, Jamaica or Trinidad and Tobago.

b/ Including changes in stocks.

/The magnitude

The magnitude of the phenomenon is better illustrated by a reference to 1960, for which enough data are available to express the total product and its major components in terms of dollars and at exchange rates which give a clearer picture of purchasing power parities.[18] Table I-18 presents the results of the comparison. It shows that there is a wide gap between the average regional coefficient when measured by the relative price structures in each country and the result of measuring the components of the coefficient against the structure of relative prices in the United States, that is 17.1 as against only 12.1 per cent. In other words, the same investment coefficient in Latin America and the United States, reflecting a saving effort of similar proportions, would, in Latin America, represent a smaller volume of real goods and services available for capital formation. This simply confirms the fact that the relative prices of capital goods are higher there than in the United States.

Individual countries show a variety of differences in this respect, and their position may even range from positive to negative. In a few, such as Chile, Colombia, the Dominican Republic and Honduras, the coefficients are slightly higher when expressed in dollars than in national currencies.[19] In others, such as the majority of the Central American countries, where the relative price structure is closer to that of the United States, the results are virtually the same. But in most cases, coefficients are much lower when calculated in dollars than in local currency. This is particularly true of Argentina, Brazil, Paraguay and Peru.

18/ See the appendix to this chapter.

19/ This may also reflect the effects of differences in the structure of investment, particularly in the relative shares of construction and public works. It should be remembered that these ratios may vary considerably from one year to the next, as a result of changes in domestic relative prices (for example, a modification of the exchange rate has an immediate impact on the prices of imported capital goods).

/Table I-18

Table I-18

LATIN AMERICA:[a/] INVESTMENT COEFFICIENTS CALCULATED IN NATIONAL CURRENCIES AND IN DOLLARS, 1960

(Gross fixed investment as a percentage of the total product)

Country	Calculated in national currency	Calculated in dollars
Argentina	21.7	11.5
Bolivia	14.3	11.3
Brazil	16.5	8.2
Chile	15.4	16.0
Colombia	18.3	19.1
Costa Rica	17.1	13.7
Dominican Republic	10.4	11.5
Ecuador	13.4	13.6
El Salvador	13.4	14.2
Guatemala	10.1	10.5
Haiti	5.5	5.2
Honduras	12.6	15.6
Mexico	14.9	12.7
Nicaragua	12.8	10.7
Panama	14.8	13.8
Paraguay	16.7	9.7
Peru	18.7	13.8
Uruguay	15.0	11.3
Venezuela	18.0	21.9
Total	17.1	12.4

Source: ECLA.

a/ Not including Barbados, Guyana, Jamaica or Trinidad and Tobago.

b/ In calculating these coefficients different exchange rates were used for the product and for gross fixed investment, so as to reflect the respective purchasing power parities (see appendix to this chapter).

/The last

The last outstanding aspect of the composition and trends of total demand is the structure of consumption, in terms of the division between public and private consumption. Government consumption in Latin America as a whole accounted for approximately 11 per cent of the total in 1950. During the next ten years, its growth was fairly rapid (6 per cent annually), and its share therefore expanded to 12.2 per cent, but this upward trend was subsequently reversed and by 1967 its share was slightly smaller than in 1950 (10.7 per cent).

Levels and trends differ widely from country to country. In the group of countries where a government consumption represents a steadily growing proportion of total consumption, Chile, Costa Rica, Honduras, Peru, Uruguay and Venezuela have raised it above the regional average; in Bolivia, Colombia and Mexico, on the other hand, the trend has been similar but at lower levels. The countries where the figures are above the average, but where the trend of government consumption is declining are Brazil, the Dominican Republic, Ecuador, Panama and Paraguay, while the opposite is the case in Argentina, El Salvador, Guatemala, Haiti and Nicaragua (see table I-19).

/Table I-19

Table I-19

LATIN AMERICA: COMPOSITION OF CONSUMPTION, BY COUNTRIES, 1950, 1960 AND 1967

(Percentages)

Country	1950		1960		1967	
	Government	Private b/	Government	Private b/	Government	Private b/
Argentina	11.7	88.3	11.3	88.7	9.3	90.7
Bolivia	7.3	92.7	9.5	80.5	10.2	89.8
Brazil	14.7	85.3	18.1	81.9	12.8	87.2
Chile	11.6	88.4	12.3	87.7	12.0	88.0
Colombia	7.5	92.5	7.6	92.4	7.8	92.2
Costa Rica	10.0	90.0	13.5	86.5	14.1	85.9
Dominican Republic	12.8	87.2	15.5	84.5	12.1	87.9
Ecuador	15.2	84.8	14.8	85.2	14.1	85.9
El Salvador	10.1	89.9	11.2	88.8	9.9	90.1
Guatemala	7.5	92.5	8.6	91.4	7.1	92.9
Haiti	13.4	86.6	8.3	91.7	8.5	91.5
Honduras	8.1	91.9	10.8	89.2	11.1	88.9
Mexico	4.7	95.3	5.7	94.3	6.4	93.6
Nicaragua	10.8	89.2	9.5	90.5	9.5	90.5
Panama	15.5	84.5	12.5	87.5	14.3	85.7
Paraguay	14.2	85.8	9.0	91.0	11.0	89.0
Peru	8.0	92.0	11.3	88.7	15.3	84.7
Uruguay	9.4	90.6	10.2	89.8	12.4	87.6
Venezuela	19.4	80.6	21.6	78.4	21.5	78.5
Total a/	11.0	89.0	12.2	87.8	10.7	89.3

Source: ECLA, on the basis of official statistics.

a/ Not including Barbados, Guyana, Jamaica or Trinidad and Tobago.

b/ Including changes in stocks.

3. Employment problems

(a) Employment structure and trends

Among the most salient features of the Latin American economies at the close of the nineteen-sixties are employment problems. Although they have been taking shape in the course of the region's economic history, in recent years they have attained proportions such that far more importance must be attached to them in the diagnosis of over-all development problems.

The already high growth rate of the manpower supply rose between 1960 and 1969, when the total volume of manpower increased by almost 30 per cent; this implies an annual rate of 2.8 per cent, higher even than the 2.6 per cent recorded during the preceding decade (see table I-20). This over-all trend reflects the differing positions of different countries; a few - for instance, Costa Rica, Mexico and Venezuela - showed annual increments of more than 3 per cent, whereas others - Argentina and Uruguay, for example - maintained the same rate as in previous years.

These labour force trends were determined by a variety of factors. In the first place, the Latin American population kept up and indeed increased its rate of growth which averaged 2.9 per cent per annum from 1960 onwards (see table I-21).

Again, from the second half of the nineteen-fifties onwards, the population groups of working age increased faster than the total population, the over-all 1950-59 trend being ultimately reversed (see table I-22).[20/]

A break-down by urban and rural population reveals that the urban population expanded rapidly, and will probably account for over 54 per cent of the total population in 1969. This expansion, largely attributable to immigration of surplus agricultural workers with their families, aggravated the urban unemployment problem, which was in any case gaining in magnitude as a result of the relatively slow rate of over-all development and the application - at least in the more dynamic sectors - of techniques that weaken manpower absorption capacity. Hence the spread of unemployment and under-employment in the various branches of activity was accompanied by the emergence of large groups of marginal urban population, engaged in occupations of minimal productivity.

20/ As a general rule, data for Latin America do not include Barbados, Cuba, Guyana, Haiti, Jamaica, and Trinidad and Tobago.

/Table I-20

Table I-20

LATIN AMERICA:[a] POPULATION STRUCTURE AND TRENDS

(Thousands of persons, and percentages)

	1950	1960	1965	Estimates for 1969
		Thousands of persons		
Total population	147 736	195 528	225 560	253 373
Urban population	58 187	93 059	115 961	137 232
Rural population	89 549	102 469	109 599	116 141
Population of working age	82 092	105 784	121 177	136 168
Economically active population	50 561	65 371	74 751	83 647
		Percentages		
Total population	100.0	100.0	100.0	100.0
Urban population	39.4	47.6	51.4	54.2
Rural population	60.6	52.4	48.6	45.8
Population of working age	55.6	54.1	53.7	53.8
Economically active population	34.2	33.4	33.1	33.0
		Annual growth rates		
	1950-60	1960-65	1965-69	1960-69
Total population	2.8	2.9	2.9	2.9
Urban population	4.8	4.5	4.3	4.4
Rural population	1.4	1.4	1.5	1.4
Population of working age	2.6	2.8	3.0	2.9
Economically active population	2.6	2.7	2.8	2.8

Source: ECLA estimates, based on official statistics

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

Table I-21

LATIN AMERICA: [a/] STRUCTURE OF ECONOMICALLY ACTIVE POPULATION BY SECTORS OF THE ECONOMY

(Thousands of persons, and percentages)

	Thousands of persons			Estimates for	Percentage distribution			Estimates for	Proportion of total population			Estimates for
	1950	1960	1965	1969	1950	1960	1965	1969	1950	1960	1965	1969
Total	50 561	65 371	74 751	83 647	100.0	100.0	100.0	100.0	34.2	33.4	33.1	33.0
Agriculture	26 990	30 855	33 221	35 320	53.4	47.2	44.5	42.2	18.3	15.8	14.7	13.9
Production of non-agricultural goods and basic services	11 900	16 112	18 115	20 702	23.5	24.6	24.2	24.8	8.0	8.2	8.0	8.2
Mining	556	675	741	822	1.1	1.0	1.0	1.0	0.4	0.3	0.3	0.3
Manufacturing	7 272	9 422	10 444	11 546	14.4	14.4	14.0	13.8	4.9	4.8	4.6	4.6
Factory industry	3 469	4 999	5 678	6 462	6.9	7.6	7.6	7.7	2.3	2.5	2.5	2.6
Artisan-type industry	3 803	4 423	4 766	5 084	7.5	6.8	6.4	6.1	2.6	2.3	2.1	2.0
Construction	1 929	2 650	2 954	3 768	3.8	4.1	3.9	4.5	1.3	1.4	1.3	1.5
Basic services	2 143	3 365	3 976	4 566	4.2	5.1	5.3	5.5	1.4	1.7	1.8	1.8
Services	11 671	18 404	23 415	27 625	23.1	28.2	31.3	33.0	7.9	9.4	10.4	10.9
Commerce and finance	3 945	5 892	7 120	8 451	7.8	9.0	9.5	10.1	2.7	3.0	3.2	3.3
Miscellaneous services	6 579	10 198	12 414	14 475	13.0	15.6	16.6	17.3	4.4	5.2	5.5	5.7
Unspecified activities	1 147	2 314	3 881	4 699	2.3	3.6	5.2	5.6	0.8	1.2	1.7	1.9

Source: ECLA, on the basis of official statistics.

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

Table I-22

LATIN AMERICA: [a/] ABSORPTION OF LABOUR FORCE INCREMENT BY SECTORS OF THE ECONOMY

(Thousands of persons and percentages)

	1950-60			1960-69		
	Labour force increment	Percentage distribution	Annual growth rate	Labour force increment	Percentage distribution	Annual growth rate
Total	14 810	100.0	2.6	18 276	100.0	2.8
Total, excluding unspecified activities	13 642	-	2.5	15 891	-	2.6
Agriculture	3 865	26.1	1.3	4 465	24.4	1.5
Production and non-agricultural goods and basic services	4 212	28.4	3.1	4 590	25.1	2.3
Mining	119	0.8	2.0	147	0.8	2.3
Manufacturing	2 150	14.5	2.6	2 124	11.6	2.3
Factory industry	1 530	10.3	3.7	1 463	8.0	2.9
Artisan-type industry	620	4.2	1.5	661	3.6	1.6
Construction	721	4.9	3.2	1 118	6.1	4.0
Basic services	1 222	8.2	4.6	1 201	6.6	3.4
Services	6 733	45.5	4.7	9 221	50.5	4.6
Commerce and finance	1 947	13.2	4.1	2 559	14.0	4.1
Miscellaneous services	3 619	24.4	4.5	4 277	23.4	4.0
Unspecified activities	1 167	7.9	7.3	2 385	13.1	8.2

Source: ECLA, on the basis of official statistics.

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

/The distribution

The distribution of the population between urban and rural areas also differs from one country to another. For example, a comparison of trends over the last two decades shows that in Argentina, Brazil and Guatemala the growth rate of the urban population declined and that of the rural population underwent no change, while the rates of increase of the total population slackened in the first two countries and remained constant in the last-named. In Mexico, the rates of expansion of the rural population continued to stand at the same level and there was a slight acceleration of the urban population growth rate, with the result that the over-all rate rose sharply. In Nicaragua, downward fluctuations in the demographic growth trend were marked in the urban and slight in the rural sector, while similar movements took place in Ecuador, but in an upward direction; the rates of increase of the total population were constant in Nicaragua and rose steeply in Ecuador.

These trends were partly responsible for considerable changes in the structure of the economically active population. One of the most striking modifications is the decrease of the proportion corresponding to agriculture which by the end of the nineteen-sixties may represent only a little more than 42 per cent of the total working population, as against over 53 per cent in 1950, although in the meantime the rate of decline has gradually dwindled (see table I-20). A second outstanding feature is the fact that the relative contraction in the share of agriculture is not reflected in significantly larger proportions of employment in the sectors producing non-agricultural goods and basic services, whose relative importance in this respect increased little in the nineteen-fifties and by barely 0.2 per cent in the nineteen-sixties.

Special mention should be made of manufacturing, which accounted for a decreasing proportion of total employment because the share of factory industry was virtually frozen and that of artisan-type industry steadily declined, at much the same rate in both decades. The labour force in the construction sector gained in relative importance in the nineteen-sixties just as it had in the preceding decade, but the proportion absorbed by the basic services sector expanded very much more slowly than before.

/In these

In these circumstances, the relative falling-off in agricultural employment was offset chiefly in commerce and finance and in the "other services" sector (general government and miscellaneous services). This reflects the pressure of the labour supply on the activities in question, in face of the limited increase of employment opportunities in the sectors producing goods and basic services. A still more suggestive symptom is the sharp upswing in the share of "unspecified activities" (which in essence signify unemployment or employment in marginal services with extremely low productivity). The proportion represented by such activities in 1950 (2.3 per cent) had more than doubled by 1969 (reaching 5.6 per cent), and most of this increment can be seen to have accumulated from 1960 onwards (see table I-21).

The decrease in the percentage of the total economically active population corresponding to the agricultural labour force is more marked in some countries than in others. In Venezuela, for instance, the sharp downward trend observable in the nineteen-fifties hardly weakened at all in the following decade; in Mexico the decline, already rapid in the nineteen-fifties, continued at a still faster rate; elsewhere, on the other hand - in Brazil and Colombia, for example - the earlier rates of decrease were drastically reduced. The relative importance of Ecuador's agricultural labour force, which had increased in the nineteen-fifties, later declined appreciably.

Several countries where the proportion of manpower employed in manufacturing had risen considerably in the nineteen-fifties - including Argentina, Mexico and Venezuela - witnessed a steep downturn in this trend in the following decade. In Chile, on the other hand, the reverse took place.

The rates of increase of the labour force employed in the services sectors (commerce and finance, general government and miscellaneous services), which were rapid in Colombia, Mexico and Venezuela in the nineteen-fifties, slowed down in the nineteen-sixties, whereas just the opposite happened in Ecuador. The share of unspecified activities - which is highly significant, as has been pointed out, inasmuch as it is

/indicative of

indicative of the scale of employment and under-employment in marginal services - increased very fast in the nineteen-sixties in relation to the nineteen-fifties; but the expansion was greatest in Chile, Colombia and Mexico, more moderate in Ecuador and Guatemala, and relatively slight in Argentina and Venezuela.

To revert to Latin America as a whole, it may be estimated that in the nineteen-sixties a little over 60 per cent of the increase in the labour force was actually absorbed into economic activities - a lower proportion than the 62.5 per cent recorded in the preceding decade. This implies that the annual growth rate of the working population was higher in the nineteen-sixties than in the nineteen-fifties (2.6 and 2.8 per cent, respectively), but if the employment figures for "unspecified activities" are not taken into account, the real absorption rate falls from 2.5 per cent in the first of the two decades compared to 2.3 per cent in the second (see table I-22).

If attention is turned to the contribution made by the various sectors of economic activity to the absorption of the labour force increment, it can be seen that in the nineteen-sixties the trends noted in the preceding decade continued, inasmuch as the expansion of employment in the sectors producing goods was inadequate, and it was still the services sector that showed the greater absorption capacity. During the decade in question, agriculture absorbed only 24.4 per cent of the total increase in the labour force. The intake in manufacturing was barely 11.6 per cent, a proportion which compares unfavourably with the previous decade's figure of 14.5 per cent; the decrease was particularly significant in the case of factory industry (from 3.7 to 2.9 per cent). The absorption capacity of the mining sector slightly increased from one period to the next, while the proportion of the manpower increment tapped by the basic services dropped from 8.2 to 5.6 per cent. Within the services sector, different trends were pursued. "Commerce and finance" still constituted the group of activities that absorbed one of the largest shares of the increase in the economically active population; the proportion absorbed by "other services" decreased; and the percentage drawn into "unspecified activities" followed a rising trend, the significance of which has been referred to on many occasions.

/When the

When the foregoing trends and structure of employment are compared with the over-all and sectoral evolution of the product, certain points are brought to light that relate to productivity, defined in terms of the product generated per worker. Broadly speaking, in the Latin American economy as a whole, increases in productivity were slightly smaller in the nineteen-sixties than in the preceding decade, since the average annual rate was 2.2 per cent in 1950-59, and in all likelihood was not more than 2 per cent in 1960-69 (see table I-23). These are relatively low figures in comparison with the rates at which productivity improves in more advanced countries, such as the Federal Republic of Germany, France, Japan, etc., and, in general, with the indexes for the countries with centrally planned economies.

The sectoral growth rates of productivity also compare unfavourably with those achieved in other parts of the world. In agriculture, the rate of increase speeded up between the two periods (from 2.1 to 2.5 per cent), since the absorption of manpower in this sector lagged considerably behind the expansion of the agricultural product. In mining, productivity increments were far smaller in 1960-69 than in the nineteen-fifties, basically owing to a less dynamic growth rate of the sectoral product, for which Venezuelan petroleum was largely responsible. If Venezuelan petroleum is excluded, the rate of increase of the sector's productivity still shows a downward trend, but the decrease is much smaller (from 3.1 per cent in 1950-59 to 2.8 per cent in 1960-69).

If the rate at which productivity in manufacturing - especially in factory industry - improved between the two periods considered is insignificant by non-Latin-American standards, it is fairly rapid in relation to the Latin American economy as a whole, and moreover, higher levels are reached than in any of the region's other economic activities. In this sector the growth rate of the product was relatively high and fairly steady in both periods; the labour force, on the other hand, expanded a good deal more slowly, especially in factory industry, where its rates of increase dropped from 3.7 per cent in 1950-59 to 2.9 per cent in 1960-69. The position is similar, although the trends are more marked, in basic services, while in the construction sector a comparison of the rates at which manpower absorption on the one hand, and the product on the other, increased between the two decades leads to the conclusion that productivity rose at a rate of 1 per cent in 1960-69, as against 1.4 per cent in the nineteen-fifties (see table I-23).

/Table I-23

Table I-23

LATIN AMERICA: [a] TRENDS IN PRODUCTIVITY OF THE LABOUR FORCE, BY SECTORS OF THE ECONOMY

(Dollars at 1960 prices and percentages)

	1950	1960	1965	Estimates for 1969	Annual growth rates 1950-60	1960-69	1950-69
Total	961	1 197	1 321	1 432	2.2	2.0	2.1
Agriculture	450	555	633	394	2.1	2.5	2.3
Production and non-agricultural goods and basic services	1 403	1 843	2 144	2 344	2.8	2.7	2.7
Mining	3 617	5 504	6 103	6 484	4.1	2.0	3.1
Mining excluding Venezuela	2 642	3 584	4 141	4 598	3.1	2.8	3.0
Manufacturing	1 294	1 831	2 206	2 517	3.5	3.6	3.6
Factory industry	...	3 137	...	4 168	...	3.2	...
Artisan-type industry	...	356	...	419	...	1.8	...
Construction	899	1 017	1 058	1 116	1.4	1.0	1.2
Basic services	1 663	1 814	2 049	2 174	0.9	2.0	1.4
Services [b]	1 718	34	1 771	1 817	0.1	0.5	0.3
Commerce and finance	2 261	2 494	2 623	2 731	1.0	1.0	1.0
Miscellaneous services	1 393	1 295	1 282	1 283	-0.7	-0.1	-0.4
Other services, including unspecified activities	1 186	1 055	977	968	-1.2	-0.9	-1.1

Source: ECLA, on the basis of official statistics.

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

b/ Excluding estimated labour force in unspecified activities.

/In the

In the "commerce and finance" sector, high rates of absorption of the labour force were accompanied in both decades by relatively rapid growth rates of the product, with the result that the annual increase in productivity was close to 1 per cent. It should be noted, however, that in this sector it is not strictly possible to speak of physical output trends, so that the relevant indicator must rather be taken as reflecting income and, in essence, rates of profit. The "other services" sector, formed by general government activities and miscellaneous services, of which the latter carry the greater weight in employment and product figures, showed a recovery in the declining trend of productivity - here again to be interpreted in terms of income - which is mainly attributable to the fall in manpower absorption rates. If in addition unspecified activities - in which the population increase is notorious - are taken into account, productivity would seem to have deteriorated in the nineteen-sixties at much the same rate as in the preceding decade.

(b) Characteristics and trends of unemployment and under-employment

From the body of information that exists on the subject it is apparent that many of the Latin American economies are finding it increasingly difficult to absorb an adequate amount of manpower into productive jobs, particularly in the basic goods and services sectors.

This situation is reflected particularly clearly in urban areas, where marginality is growing in a number of broad social strata. The result is that what have been labelled "unspecified activities" are acquiring ever-increasing importance in the structure of the labour force, as was pointed out earlier in this chapter. The decline in employment opportunities is also beginning to affect the rural-urban movements, as the vast differences between the living levels of the lower strata in the country and the towns are gradually ironed out. The outcome has been that unemployment and under-employment, which used to be relatively slight have become at least far more obvious in the nineteen-sixties.

It is impossible to gauge the extent of this phenomenon from the statistics available. However, mainly for the sake of illustration, it should be noted that any effort to quantify the under-utilization of

labour resources should distinguish between its three forms, namely, open unemployment, which is fairly easy to assess; seasonal and circumstantial unemployment; and under-employment, which is very difficult to calculate for various reasons, although some orders of magnitude can be arrived at.

In general, it is taken as axiomatic that there is more under-employment than unemployment, whether voluntary or involuntary. Some truth is also attributed to over-all estimates according to which the under-utilization of human resources represents about a third of the total labour potential: voluntary and involuntary unemployment would account for less than half the total volume of under-utilized resources, while under-employment might cover as much as two-thirds.

To arrive at more precise figures, it would be necessary to make more detailed study of these phenomena and their relation to the structure of population and of employment. Any survey of this kind must, however, bear in mind the fact that the characteristics of unemployment tend to gloss over the real scope of the problem. Hence, it would be essential to consider such aspects as the following:

(i) The census figures for the economically active population that is unemployed or seeking work for the first time are remarkably small, and in some cases are even lower than the figures for unemployment recorded in the key areas of the different Latin American countries. Most of the persons genuinely unemployed are described as belonging to the economically inactive population.

(ii) Nor do the records of persons out of work reveal the full extent of unemployment, either because the records are not complete or because unemployed persons who, as family workers, find occupation in such activities as agriculture, crafts, small-scale commerce and personal services, are not taken into account. They represent the direct conversion of open unemployment into under-employment, about which more will be said later.

(iii) Most of the people who fail to find employment, including those looking for their first job and those who have been unemployed for some time and may even have ceased to look for work, are classified in censuses as belonging to the economically inactive population. But it is

/precisely this

precisely this category of unemployment that forms the bulk of open unemployment and which cannot be quantified without analysing the rate of participation of the employed economically active population and of different population groups of working age, classified by sex and age. Broadly speaking, young people of both sexes between 15 and 20 years of age, who neither go to school nor work, although they are not classified as looking for their first job, belong to this category of unemployment. So do nearly all adult men of under 65 years of age who do not work or live in institutions, and a large proportion of non-working adult women of under 65 years of age. The size of this proportion is influenced by the kind of employment opportunities open to women of 20 to 40 years of age because of child-bearing, and by the difficulty that women over that age have in finding work if they have never been employed before.

(iv) Voluntary unemployment, which crops up both in the economically active and the economically inactive population, is greater in the latter. The origins of this categoy of unemployment are varied, but the most typical is that of persons who for a long time, have been unsuccessful in finding work that they consider compatible with their social status and who may therefore cease to look for any. Problems of a social nature may also lead certain strata in the younger age groups to vegetative. Some people are also employed in unproductive marginal occupations which can be regarded as marginal under-employment. In short, the line of demarcation between involuntary and voluntary unemployment is clearly hard to draw, especially when someone has been out of work for a long time, and when there is no clear distinction between open and disguised unemployment.

(v) The population unrecorded in the censuses, which is estimated from the census omissions, probably comprises the people living in marginal areas and, to an even greater extent, people in urban centres where the shortcomings of the census machinery and the extreme marginality of some population elements, who are prevented by circumstances from having any fixed abode, lead to omissions. In both cases, a large proportion of the adults in this situation may be presumed to be unemployed.

/Between open

Between open unemployment and under-employment there is an intermediate category of non-chronic, seasonal and circumstantial unemployment.

Seasonal unemployment occurs in agricultural work, especially on land owned by others or in industries that process agricultural commodities. It varies in kind depending on the characteristics of the work in question, and is equivalent to the under-employment that exists among members of the labour force who work for a large part of the year on their own land. This type of unemployment is particularly marked in Latin America, where means of using human resources during periods of unemployment have not yet been developed.

The fluctuating levels of certain activities, and of construction in particular, are continually throwing large numbers of people out of work. This is especially true of unskilled labour, which is mainly rural in origin.

The corollary to this situation is its depressive effect on the level of activity in allied industries - such as the building materials industry, particularly the wood products industry, which reduces employment still further.

Typical under-employment, of a chronic or permanent kind, is found in occupations in which only a small part of the available time is used or the effort involved represents a mere fraction of the person's capacity for productive work in the prevailing socio-economic context.

There is, in addition, marginal unemployment, which occurs in occupations that are totally unproductive and in fact simply mask open unemployment.

Both types of under-employment represent an enormous volume of under-utilized labour resources. The former is quantitatively more important but the latter tends to grow more rapidly. Under the conditions prevailing in Latin America, typical under-employment exists on a massive scale in small-scale agriculture, crafts, cottage industry, small-scale commerce, small service firms and most public services (mainly for institutional reasons).

/Under-employment is

Under-employment is seldom found in the activities that form the "modern" sector of the economy, but it is characteristic of the "primitive" sector.[21] In the "intermediate" sector, the situation varies: in industrial activities (manufacturing, mining, construction) in which enterprises of a relatively low technical level predominate, the under-employment is also fairly limited, however, low labour productivity may be. The situation is entirely different in agriculture and in service enterprises and units, which are usually small in scale.

The quantitative assessment of unemployment, which has been analysed above in qualitative terms, presents serious problems as regards the availability of information and the method of calculation. Among other ventures in this respect, an evaluation for 1960 by the Latin American Institute for Economic and Social Planning in conjunction with the Latin American Demographic Centre [22] provides data which give at least some idea of the magnitude of the problem. In fact, it appears that unemployment and under-employment (with the latter expressed in terms of equivalent unemployment) may involve about a quarter of the total economically active population, that is, about 25 million people (see table I-24). The bulk is in agriculture, followed by "other services" and "unspecified activities", but there is also considerable unemployment in manufacturing, and in commerce and finance, although on a much smaller scale.[23]

21/ The terms "modern", "intermediate" and "primitive" are explained in the following section.

22/ "Elementos para la elaboración de una política de desarrollo con integración para América Latina" (INST/5.3/L.3), chapter II.

23/ A large amount of unemployment is to be found in the economically inactive population. This has been confirmed by some preliminary internal studies recently prepared for the Ottawa Plan (see "Las disponibilidades de fuerza de trabajo en América Latina", preliminary estimates for twelve countries). The tentative figures, which will be revised, estimate that the number of unemployed solely among women of working age engaged in household tasks amounted to 5 million in 1960.

/Table I-24

Table I-24

ROUGH ESTIMATES OF EQUIVALENT UNEMPLOYMENT IN THE LABOUR FORCE AROUND 1969

(Thousands of persons and percentages)

Activity	Economically active population	Percentage of equivalent unemployment in the activity	Number of unemployed	Percentage ratios	
				Unemployment in each sector as a proportion of total unemployment	Relative importance of unemployment by sectors
Total	83 647	30.4	25 402	30.4	100.0
Agriculture	35 320	32.6	11 514	13.8	45.4
Mining	822	19.0	156	0.2	0.6
Manufacturing	11 546	16.7	1 928	2.3	7.6
Construction a/	3 768	6.4	241	0.3	0.9
Basic services b/	4 566	2.0	91	0.1	0.4
Commerce and finance	8 451	19.0	1 606	1.9	6.3
Other services	14 475	35.7	5 167	6.2	20.3
Unspecified activities	4 699	100.0	4 699	5.6	18.5

Source: Latin American Institute for Economic and Social Planning, "Elementos para la elaboración de una política de desarrollo con integración para América Latina" (INST/5.3/L.3), chapter II.

a/ The figures represent visible unemployment only.

b/ For lack of information, unemployment in transport and communications was not taken into account under the head of "basic services".

/These aspects

These aspects of labour unemployment will be reverted to later when the heterogeneity of the Latin American economies is discussed in terms of productivity strata. It will then become quite clear that the "under-utilization" of the labour force is unquestionably a question of criteria for economic growth, major changes in development patterns and fairly long periods of time.

(c) Distribution of the labour force by strata of productivity

For a study in depth of employment problems in the Latin American economies it seems useful to analyse the marked disparities in productivity levels between different strata in each sector of economic activity.

It is common knowledge that in most of the Latin American economies the incorporation of technical progress has not been a widespread process extending to a varying but considerable degree, to all sectors and branches of economic activity. Essentially, the assimilation of technical know-how has been concentrated in specific strata, while large segments of the economy have been completely excluded from the process. Thus economic structure have gradually become markedly heterogeneous, with clearly differentiated productivity strata, in both quantitative and qualitative terms. One group, which may be described as the "modern" stratum, consists of economic units operating fairly efficiently as regards organization, rising productivity, and with fairly high technological levels and amounts of capital per worker employed. At the other end of the scale is the "primitive" stratum, which comprises economic units operating at extremely low levels of productivity, with scarcely any mechanization and a negligible stock of capital, and using the most out-dated techniques. The "intermediate" stratum lies somewhere between the two extremes in regard to technical progress and productivity.

This marked differentiation between strata from the standpoint of productivity is observable not only in the whole economy but also in each of the main economic sectors. In other words, the point is not only that average productivity is noticeably lower in some sectors than in others, but within each sector the disparities between productivity strata are becoming increasingly marked.

/This makes

This makes for a development model which necessarily has considerable impact on the characteristics of income distribution and employment problems. From the employment angle, it is obvious that inasmuch as a large proportion of over-all economic growth is concentrated in the modern sector, the system's ability to absorb an active population which is growing fairly rapidly depends upon the attainment of high rates of growth for the total product and the maintenance of equally high rates of capital formation. Otherwise, it would not be possible progressively to reduce employment in the primitive stratum, and the already pronounced disparities in productivity between one stratum and another would be accentuated. The economic and social repercussions of a situation of this kind might necessitate a different policy for the absorption of technical know-how which, without neglecting the absorption of advanced techniques in selected activities, would be aimed mainly at improving productivity in the intermediate and primitive strata.

Of course, there is not much point in trying to force decisions on such options at the level of Latin America as a whole. Each specific situation will depend on the relative proportions of the different productivity strata, the stage of development reached, and other factors which vary considerably from one Latin American country to another.

A quantitative appraisal of this phenomenon presents serious difficulties because of the lack of basic statistics. Thus all that can be done for the time being is to make some provisional estimates, which will at least indicate the scale and varying intensity of this phenomenon in the different countries and sectors of activity.

Subject to these reservations, it is estimated that in the whole of Latin America one-eighth of the economically active population is employed and about half the product is generated in the modern stratum. On the other hand, probably about one-third of the working population belongs to the primitive stratum, which accounts for considerably less than 10 per cent of the total product. Thus sharp differences in manpower productivity may be deduced, which is probable in a ratio of over 20 to 1 between the two strata.

/As stated

As stated above, these relationships vary widely from country to country over the whole of Latin America. In Argentina, for instance, the proportion of employment in the modern stratum is much higher than the average for the region and much lower than in the primitive stratum; moreover, the modern stratum accounts for a higher proportion of the product and the primitive stratum for a lower proportion, which makes the disparities in productivity less pronounced. The opposite is true of other countries in the region, where the share of the primitive stratum is smaller, the modern stratum is less developed, and the productivity ratios reveal sharper disparities than for Latin America as a whole.

The differences noted in the economy as a whole reappear to varying extents in each of the major sectors of economic activity. For example, considering the agricultural sector for the region as a whole, the modern stratum probably represents less than 10 per cent of the total in terms of employment, while its contribution is one-third to half of the total product. In the same sector, the importance of the primitive stratum is relatively high from the employment point of view, while its contribution to the product is very low.

The situation is entirely different in mining, which is probably the sector with the highest proportion of employment in the modern stratum (one-third to 40 per cent of the total) and the one which accounts for most of the product (about 90 per cent). Another notable feature of mining is the persistence of a primitive stratum which still absorbs about one-quarter of the economically active population employed in the sector and where the differences in productivity with respect to the modern stratum are probable greater than in any other sector of activity.

In manufacturing, the situation in factory industry differs from that in artisan-type industry. In the former, the modern stratum probable represents about 30 per cent of total employment in manufacturing and accounts for some two-thirds of the product, its average productivity being about five times that of the remainder of factory industry. This remainder might be said to represent an intermediate stratum, containing practically no productive units that might be classified as primitive.

/In artisan-type

In artisan-type industry, on the other hand, the primitive stratum predominates in terms of both employment and the product; only a small proportion of this segment, consisting of recently developed activities which have sprung up as satellites of some of the major industries, could be regarded as a modern stratum.

Relationships also vary widely in the services sectors. In commerce and finance, for example, the modern stratum absorbs perhaps one-sixth to one-seventh of total employment in the sector and produces about half the product; the primitive stratum employs about 10 per cent of the total and its contribution to the product is very low.

(d) Factors influencing the employment situation and prospects

The foregoing considerations help to form an over-all picture of the kind of factors influencing the present and future employment situation in the Latin American economies. It seems useful to review the whole picture briefly. Although it involves somewhat arbitrary classifications, it may be useful to distinguish in this respect between structural and institutional factors.

(i) Structural factors. In its broadest sense, the root of the above-mentioned employment problems - open unemployment rates, degree of under-employment, and marked disparities in productivity levels - lies in the rate and, in particular, the pattern of Latin American development. This development is bringing to light the economic systems' growing inability to absorb the increase in manpower, especially in activities producing basic goods and services, and to provide reasonable levels of productivity and income.

Other sections of this study deal more fully with the extent to which the over-all economic growth rate is weakening while the labour force is rapidly and steadily expanding. The same may be said about the rates of capital formation, to which may be added the absence of any great changes in the share of investment in directly productive activities which provide stable and lasting employment, or in the amount invested in other activities connected with the expansion of housing and urban infrastructure (associated with temporary and sharply fluctuating employment).

/Among the

Among the productive activities themselves there is an evident tendency to invest a large proportion of the available resources in capital-intensive activities with small labour absorption capacity. Conversely, other sectors where those relationships favour an increase in employment are not expanding nearly so much. This means not only a decline in the product-capital ratio for the economy as a whole but also, in the case of many activities, a very high level of investment per worker (see table I-25).

It is precisely these activities which form the modern stratum. Although their growth is often a highly positive contribution to general economic development, considering the question mainly from the employment point of view it is impossible not to perceive the implicit contradictions, inasmuch as, at those levels of fixed investment per worker, they can absorb only a modest proportion of the annual increase in the active population.[24/]

Moreover, in many cases new up-to-date units are added, not to satisfy greater demand, but merely to replace previously existing activities with lower productivity levels. This not only diminishes the capacity to increase employment but may even jeopardize existing employment levels.[25/]

24/ Purely for illustrative purposes, take a figure equal to half the lowest figure in table I-25 (for example, 10,000 dollars per worker). The annual increase in the active population - some 2.35 million persons - requires the investment of about 24,000 million dollars at those productivity levels. This would be equal to 20 per cent of Latin America's present total product, and two and a half times the present volume of investment.

25/ An investigation carried out in Cuba some time ago revealed that certain units belonging to the modern dynamic industries - including petroleum refining, copper rolling, and the manufacture of tyres, glass and glass products, fertilizers and cigarettes - during the period 1952-58 stepped up their product by about 8 per cent annually (that of the non-sugar industries rose by 5 per cent over the same period), while employment remained at the same level as at the beginning of the period. It is illuminating to examine the different measures adopted to solve the social problems involved, which in some cases - for example, in cigarette manufactures - entailed continuing to pay a proportional wage to the surplus unskilled labour force that was completely excluded from production activities.

/Table I-25

Table I-25

LATIN AMERICA: FIXED INVESTMENT PER WORKER EMPLOYED IN SELECTED INDUSTRIES

(Dollars at current prices)

Industry	Annual production capacity (tons)	Fixed investment per worker	Number of shifts	Process
Bleached Kraft pulp	100 000	56 200	3	Bleached Kraft pulp from conifers not combined with the manufacture of paper
Newsprint	100 000	50 070	3	Newsprint partly combined with the manufacture of mechanical pulp from conifers
Sulphuric acid	36 000	40 000	3	Sulphuric acid (from sulphur)
Caustic soda and chlorine	35 300	100 000	3	Caustic soda (18,800 tons) and chlorine (16,500 tons) from salt by electrolysis
Sodium carbonate	200 000	65 000	3	Sodium carbonate (Solvey process)
Ammonia	66 000	135 000	3	
Polyvinyl chloride	12 000	22 000	3	From calcium carbide and chlorine
Welded steel tubes (two production lines)	19 210	53 800	1	Steel tubes, soldered, 1/4" - 2" in diameter
Cement	400 000	48 100	3	Integrated plants (damp process)
Steel	1 000 000	46 700	3	Integrated plants

Source: ECLA, Industrial Development Division.

Note: Ratios of capital-intensity per worker may also be found in Profiles of Manufacturing Establishments (United Nations publication, Sales No.: E.68.II.B.13). It shows, for example, that in a French ammonium nitrate plant with an annual production capacity of 46,000 tons (nitrogen content) the capital invested in machinery equipment, instruments and tools per worker amounted to about 86,000 dollars. Similarly, in a plant producing wire and wire products with an annual production capacity of 50,000 tons, the capital invested was 30,000 dollars per worker employed in the production process itself, and 21,000 dollars per worker if the repair, maintenance and transport personnel were included.

/These considerations

These considerations do not suggest that employment needs are incompatible with the introduction of technical improvements aimed at attaining peak productivity levels in particular activities. On the contrary, such technical improvements might even be a prerequisite for achieving over-all growth rates which would reinforce the economic systems' capacity to absorb more manpower. They do suggest, however, that the role of the modern strata might have to be redefined and their development supplemented by more active policies governing employment and productivity improvements in other sectors of the economy.

Naturally, the above relationships with respect to the heterogeneous distribution of the Latin American economies in strata with widely differing productivity levels are the result of, and in turn directly affect, other basic aspects of economic and social development. For example, the modern strata tend to receive a larger share of income in comparison with the intermediate and primitive strata.

Concentration of income in the modern stratum, at the levels described above, leads to the concentration of effective demand in this stratum - that is, a substantial part of the market - and means that this demand is mainly for consumer goods, as a result of unequal income distribution and the influence of consumption patterns in the industrialized countries. These pressures determine a structure of production in the modern sector which is mainly characterized by the production of consumer goods, particularly consumer durables of a luxury type. Even the relatively small-scale production of capital goods is designed to reinforce the production machinery that is geared to consumption, to the detriment of a possible expansion of the capital goods sector which might boost the development of the rest of the economy and ensure its ultimate capacity for self-sustained development. This last consideration is all the more important because of the region's difficult external payments position, which limits imports of capital goods and makes their supply from abroad highly unreliable.

Inasmuch as the modern stratum does not sufficiently influence the rest of the economy, by acting as a dynamic nucleus of development, a large proportion of the increase in the labour force must somehow be

absorbed by the non-modern strata; in practice, this has led to the formation of a "reserve army" of manpower, which directly or indirectly accentuates the disparities in income distribution.

In short, part of the economy - the modern stratum - contributes most to the growth of the product, mainly through a relatively accelerated increase in productivity, while absorbing little manpower. On the other hand, the non-modern strata are growing slowly and must somehow absorb the high proportion of the increase in the economically active population which is deprived of access to the modern strata; consequently, they show little improvement in productivity. The sluggish over-all rate of growth, the effects of the relatively high concentration of income on the composition of demand, and the dependence on external technologies are other factors influencing this pattern of growth.

Although all these factors must be considered in the broader context of general development problems, they none the less form part of a structural pattern of the basic causes underlying unemployment and under-employment problems.

(ii) Institutional factors. The structural limitations referred to above are usually accentuated by other factors which are institutional in character. This is the case, for example, with the level of skill of the labour force and the needs arising from the assimilation of technological progress. The fact that the labour force is not homogenous is well known: most countries of the region have large surpluses of unskilled labour side by side with a relative dearth of skilled labour. Besides creating a need for vocational training, this usually has a limiting effect on over-all labour absorption capacity. For example, the fact that not enough skilled labour is available often means that modernization is pushed forward too fast, limiting both skilled and unskilled employment, a situation which is not at all uncommon in industry.

Other factors of particular importance come into play in agriculture, which is exceptional in that increased modernization can help to expand rather than restrict employment opportunities. As land is used more intensively, modern fertilization techniques are applied, more rational use is made of irrigation, and the composition of agricultural production

changes, productivity and employment per unit of area increase proportionally. This can be a factor of great importance in view of the very high proportion of the economically active population still employed in agriculture and the influence of rural-urban migration on the problems of urban unemployment and under-employment. However, its potential is still largely unrealized because of well-known institutional obstacles, which include the characteristics of land tenure and, although of lesser importance, the scarcity of skilled workers in the rural labour force.

The actual way in which technological improvements are introduced has a great deal to do with the contradictions that often exist between employment and productivity targets. In general, the improvements are assimilated passively - the technologies used in industrialized economies are merely copied -, access to the technical know-how depends on the availability of funds for investment in it, and there is a risk of it being capital intensive and absorbing little of the labour force. The proportion of technical progress achieved through regional technical and scientific research, which would help to ensure that the technologies used were more in line with the resources available to the Latin American economies, is much smaller.

Another set of institutional factors related to the criteria used in selecting production techniques, particularly by private enterprises, which are derived from the relative prices of capital and labour. Since capital is scarce and labour relatively abundant the relationship of the social costs of these two factors is completely changed if they are expressed in market prices. Several methods of stimulating investment actually tend to lower the relative price of capital goods, while the effect of social policy measures is often to raise the relative price of labour. With regard to social policy, the effect of social security and the methods of financing it is of special importance; if it is fixed as a proportion of the total wage bill, then it becomes in effect a tax on the use of labour and thus encourages the use of more labour-saving technologies. This is another topic that has not been throughly looked into with a view to developing new methods, although attention has been drawn more than once to the probable effect of financing social security through direct taxation.

Very often, the choice between technologies with different implications for employment is made on the basis of extra-economic criteria, as, for example, when preference goes, for politico-social reasons, to production techniques that limit the number of persons employed in a particular

/enterprise this

enterprise; this hampers the formation or growth of trade unions.[26] At other times, profits are reinvested in the same enterprise instead of being used to open up other lines of production; this leads to unnecessary or premature replacement of machinery with a more mechanized equipment which affects, directly or indirectly the possibility of increasing employment opportunities.

As long as situations such as these continue, and markedly weaken the ability of economies to provide employment for the growing economically active population, it is quite natural for some labour circles to exert pressure and to secure agreements which increase their opportunities of employment or safeguard the positions they have attained. Hence the proliferation of posts created by statute in the public sector; the increase in the number of staff carrying out the same work, which results in under-employment; the employment of staff without definite work who are not organically linked to the whole; the contraction of working hours in certain activities; the creation of logus institutions to give marginal or semi-marginal employment; and the compulsory retention of staff hired under legal statute. The institutional repercussions of these pressures - as far as public administration and services are concerned - usually take the form of the creation of artificial jobs. In private enterprises, the most common forms are the compulsory retention of workers who have been hired; increasing the number of posts corresponding to particular functions; resistance to modernization, either organizational or technological or both, etc. In view of current unemployment and the fact that it is likely to exist for some time, the trend is to set up semi-institutional and other services simply because certain sectors of the labour fource are unemployed. Lastly, there are those activities and services in which employment is a monopoly, as with port workers, stevedores and the like.

This kind of pressure is only really effective, however, when it comes from those segments of the working population which are in the modern sector. It is less so when it comes from segments which are not in the modern sector, i.e., from precisely those segments in which unemployment and under-employment are most apparent.

26/ See The process of industrial development in Latin America, (United Nations publication, Sales No.: 66.II.G.4) for a more thorough analysis of factors of this kind.

1. In the first place, it was considered essential that the exchange rates should be those which best ensured the comparability of income levels as between the Latin American countries themselves; alternatively between the region as a whole and other countries or areas. This principle carried fundamental weight in the final decision, which was also influenced by practical circumstances, such as the availability of data, and the practical possibilities of undertaking short-term supplementary research which would provide a complete set of purchasing power equivalents with alternative groupings of goods and services.

2. The above-mentioned study on the measurement of real income in Latin America put forward various formulae for measuring the dollar equivalent of the purchasing power of each Latin American currency, depending on the weighting system adopted. The most interesting of these involved:

(a) Weightings based on an average per capita expenditure pattern in Latin America 1960 (formula (3) in the mathematical appendix);

(b) Weightings based on a per capita expenditure pattern in the United States in 1960 (formula (4) in the mathematical appendix);

(c) A geometric crossing of the foregoing results, giving an approximate average expenditure pattern for both areas (formula (5) in the mathematical appendix);

(d) An additional variant in which price relatives are weighted according to the per capita expenditure structure in each country (formula (6) in the mathematical appendix).

3. The first of these formulae has the drawback of combining a Latin American average for physical quantities of each of the goods and services comprised in the market-basket with United States prices. The objection can be raised that these prices, taken from a country with a high level of per capita incomes, result in a relative price structure that may differ widely from the average structure in Latin America. This assumes that a common currency for expressing Latin American prices on a uniform basis already exists. However, as this is not *a priori* the case, the formula in question could be accepted as a reasonable approximation.

4. Formula (b) was also thought to be an unsatisfactory solution of the weighting problem, as it transfers to Latin America the average per capita expenditure of the United States, reflecting consumer preference and valuations

/conditioned by

conditioned by different tastes and by an income level far higher than the Latin American average.

5. The third formula - (c) - although also open to criticism, seemed the most satisfactory, as its results, being in the form of an average, are based on a weighting structure which deviates the least from each of the individual expenditure patterns for the different countries included in the comparison. Furthermore, it has the practical advantage of resembling formulae used in similar income comparisons for other areas, thus making the results more easily comparable with estimates already available for other parts of the world.

6. The fourth variant was considered an interesting possibility for binary comparisons, averaging individual country expenditure patterns with that of the United States. Clearly, however, it does not meet the requisite of maximum inter-regional and intra-regional comparability which was established earlier as a basic criterion for selecting a formula suitable for measuring the purchasing power of Latin American currencies in terms of dollars, and for calculating the income of the Latin American countries and of the region as a whole in this same currency.

7. There is yet another problem. Although a single market-basket of goods and services has been referred to here, in actual fact estimates of purchasing power equivalents were calculated by applying the formulae described to groups of goods representative of private consumption, governmental consumption, fixed investment and inventory changes (the official exchange rate being taken as representative in the case of the balance-of-trade position). One way of estimating the real income of a Latin American country in terms of dollars would be to apply the corresponding purchasing power equivalents to each of the above-mentioned sectors of the gross domestic product, measured at market prices and expressed initially in the currency of each country. The sum of these components would then give a total for the gross domestic product in dollars. This result would differ in absolute figures from the estimate obtainable when a single exchange rate, based on purchasing power parities but calculated with a single market-basket comprising both consumer and investment goods, is applied to the total gross domestic product expressed in national currency. In a similar way, differences would also exist between this latter exchange rate and the rate obtained by

/implication when

implication when the country's gross domestic product, expressed in national currency, is related to the dollar total obtained by adding up the various components of expenditure.

8. To reach a decision on this point, both conceptual factors and practical considerations relating to the use of the formulae in ECLA studies were taken into account, and the decision was made to adopt a single exchange rate for the base year, calculated on the basis of a single market-basket of goods and services. The reasons for this decision was as follows:

(a) By this means, maximum intra-regional comparibility is ensured. The application of different purchasing power equivalents for each component of expenditure in each country would on the other hand have implied weighting each country's expenditure in accordance with the size of its major aggregates (in national currency terms). This would in turn distort comparability between countries or groups of countries within the region.

(b) There are no purchasing power equivalents which can be applied to a breakdown of the gross domestic product by sectors of activity. Consequently, any sectoral analysis for the Latin American countries would have to use, for the time being, a single exchange rate, and this would give rise to a number of inconsistencies between analyses of national income by type of expenditure and by sector of origin.

(c) The present application of the new exchange rates is regarded as an initial phase. Additional modifications may be made in the future, once further research is carried out to provide a means of meeting the needs alluded to in sub-paragraph (b).

(d) If purchasing power equivalents based on component sectors are used to determine an implicit exchange rate, practical difficulties arise since t e resultant rate fluctuates from one year to another, according to the differing composition of the gross domestic product. This happens even if data are expressed in constant prices for each country. The country's growth rate then differs, depending on whether it is measured in constant prices for a base year in national currency units, or at constant prices converted into dollars by the aggregative method described.

(e) It is recognised, on the other hand, that analyses of expenditure components, such as fixed investment, can justifiably be made on the basis of the purchasing power equivalents calculated specifically for those components.

/9. It

9. It should however be noted that there is one small exception to the general method of applying a purchasing power exchange rate based on a single market-basket representing the total gross domestic product, and therefore applicable to all its components (whether by type of expenditure or by sector of origin). As already pointed out, the balance-of-trade position is converted into dollars by applying the official exchange rate prevailing in the base year. The reason for this empirical decision is to avoid creating discrepancies in relation to existing balance-of-payments estimates in dollars, for which the official exchange rates are used. Moreover, the trade exchange rates are considered satisfactory for the objectives in mind since they reflect the actual impact of this sector within a country's economy.

The procedure described will give rise to a minor statistical discrepancy which will be implicitly incorporated in the item "Private comsumption".

PURCHASING POWER EQUIVALENTS OF LATIN AMERICAN CURRENCIES IN RELATION TO THE DOLLAR, 1960 a/

Argentina	56.03	pesos
Bolivia	7.80	pesos
Brazil	105.50	cruzeiros b/
Chile	0.985	escudos
Colombia	5.08	pesos
Costa Rica	5.01	colones
Dominican Republic	0.98	pesos
Ecuador	11.39	sucres
El Salvador	2.04	colones
Guatemala	0.91	quetzales
Haiti	3.77	gourdes
Honduras	1.90	lempiras
Mexico	8.23	pesos
Nicaragua	6.48	córdobas
Panama	0.87	balboas
Paraguay	78.32	guaraníes
Peru	16.83	soles
Uruguay	7.10	pesos
Venezuela	4.61	bolívares

Source: ECLA, Special Studies Section.

a/ Measurements effected in June 1960. Estimates of Latin American and United States market-baskets prepared by application of the geometric-mean formula.

b/ In view of the basic data available for Brazil, it seemed more appropriate to adhere to the exchange rate previously used.

MATHEMATICAL APPENDIX

The formulae for the aggregative-type and fixed-weighting price relatives are as follows:

$$L.\bar{P}_{ku} = \frac{\sum_{i=1}^{n} Pik\ Qi\bar{o}}{\sum_{i=1}^{n} Piu\ Qi\bar{o}} \qquad (1)$$

$$P.\bar{P}_{ku} = \frac{\sum_{i=1}^{n} Pik\ Qiu}{\sum_{i=1}^{n} Piu\ Qiu} \qquad (2)$$

(i = 1, 2, 3 .....j.....n items)
(o = a, b, c .....k.....m countries)

in which:

k is any Latin American country, and u is the United States;

Pik, Piu are the prices of item i in countries k and u;

Qio and Qiu are average per capita quantities purchased of one and the same item in Latin America and the United States, respectively;

$L.\bar{P}_{ku}$ is a price index for country k relative to country u with quantitative weightings based on the Latin American consumer market-basket;

$P.\bar{P}_{ku}$ is a similar index with weightings based on United States expenditure patterns.

As purchasing power is in inverse ratio to the level of prices, it will suffice to invert the preceding formulae to measure the purchasing power of any Latin American country k in relation to the United States. Formula (3) uses the average Latin American weightings and formula (4) those of the United States.

$$R_{ku} = \frac{\sum_{i=1}^{n} Piu\ qi\bar{o}}{\sum_{i=1}^{n} Pik\ qi\bar{o}} \qquad (3)$$

$$= \frac{\sum_{i=1}^{n} Piu\ qiu}{\sum_{i=1}^{n} Pik\ qiu} \qquad (4)$$

The combination of the two formulae by geometric crossing will give the practical solution adopted in the present study, as follows:

$$R_{ku} = \sqrt{\frac{\sum_{i=1}^{n} Piu\ qi\bar{o}}{\sum_{i=1}^{n} Pik\ qi\bar{o}} \cdot \frac{\sum_{i=1}^{n} Piu\ qiu}{\sum_{i=1}^{n} Pik\ qiu}} \qquad (5)$$

If weightings differentiated by countries were applied, the following formula would be obtained for a given country k:

$$R_{ku} = \frac{\sum_{i=1}^{n} Pik\ qik}{\sum_{i=1}^{n} Pik\ qik\ \frac{Pik}{Piu}} \qquad (6)$$

The foregoing result could also be crossed with United States expenditure patterns. The formula obtained would be similar to (5), but with average per capita quantities for each country and for the United States, in every case.

Chapter II

THE REGIONAL DISTRIBUTION OF ECONOMIC ACTIVITIES

1. Background information

The patterns of economic growth reviewed in chapter I - characterized by the heavy concentration of advanced technology in certain sectors, with a pronounced effect on the structure of production capacity, income distribution and labour absorption capacity - are also clearly revealed in the regional distribution of economic activities.

The high degree of geographical concentration and the marked disparities between areas in a single country are also part and parcel of this pattern, and are distinguishing features of the economic structure of the region towards the end of the present decade. Looking back over the past history of the problem, there are some indications that circular relationships exist in which these regional features both spring from and tend to accentuate specific aspects of the development process.

The present regional division of Latin America largely emerged in the colonial era. The first Spanish settlements were established close to the natural resources which most interested the colonists and to the means of communication with the metropolis. Subsequent events did little to change this division into regions. This is shown by the fact that, towards the end of the sixteenth century, sixteen of the twenty Latin American cities which are most densely populated today had already been founded. Although subregional centres were established later, most of the principal cities continued to be those founded in the colonial era, and they gradually accumulated all kinds of administrative, trade (including port), cultural, religious and military activities.[1/] In addition, the metropolitan areas gained more and more influence over the whole economic, political and cultural life of each country.

1/ See Jorge Enrique Hardoy, El rol de la ciudad en la modernización de América Latina, Cuadernos del Centro de Estudios Urbanos y Regionales, N° 6 (Buenos Aires, 1966).

/During the

During the stage of "outward-directed growth", the major development nodes were located in the vicinity of exportable resources. It was these resources, not the national resources as a whole, which determined the layout of the transport network, whose essential function was to facilitate the rapid and cheap transportation of agricultural or mining products to the export centre. Thus each development node was more closely linked with other countries than with the rest of the national territory, and it had even fewer ties with other development nodes in the region. This process resulted in export-oriented regional economies which have good communications with the metropolis and the exporting port - often one and the same - but are virtually isolated from one another. Other characteristics are the development enclaves in unoccupied or sluggish economic areas, and the disconnected economies in which a growth impetus at one point does not generally spread to the whole area.2/

2/ This process is revealed, for example, in the Plan de Desarrollo Económico y Social del Perú, 1967-1970, in which it is stated that the marked disparities in the use of Peru's economic space, are closely bound up with the way in which the country's economy has evolved, and are one of the most significant indicators of its under-development. Up to a few years ago, Peru had in general maintained a production structure typical of the primary export economies: on the one hand, an export sector devoted to the exploitation of agricultural and mining resources, with efficient techniques, high productivity and a small volume of employment; on the other, a subsistence agriculture based on the system of latifundia and feudal production relationships, which provided a livelihood for the bulk of the population. In these circumstances, the hinterland, where these two production activities had to be carried on, could neither obtain any of the benefits deriving from export activities nor generate substantial saving in that part of the economy which was not associated with international trade. It was therefore impossible to initiate a self-sustaining process of capital formation, and stagnation was the general rule in the provinces. In contrast, Lima went from strength to strength, and appropriated most of the profits accruing from production which were not remitted abroad, through the commercial, administrative and financial services it provided. This naturally led to the emergence of a dynamic centre based on export activities, and with imports as its main source of supply. In other words, it became a point in geographical space which was economically separate from the rest of the country except as a port for exporting primary products and a centre for expert formalities, with little or no power to radiate its own progress to other areas (National Planning Institute, vol. I, pp. 280-281).

/The subsequent

The subsequent industrial development in the "inward-directed stage" did little to change this geographical pattern. In the first place, import substitution was directed mainly towards the existing market for manufactured consumer goods, in order to take advantage of the increasing demand from the cities, which was unsatisfied because of the inelasticity of the import capacity. Accordingly, the aim was to establish the export substitution industries close to the consumer centres. The concentration of industry at these points continued to attract new capital and population. It was only when the possibilities of import substitution were nearing exhaustion that other locations were chosen, closer to certain natural resources; but even then, administration and often the final stages of processing remained in the traditional centres.

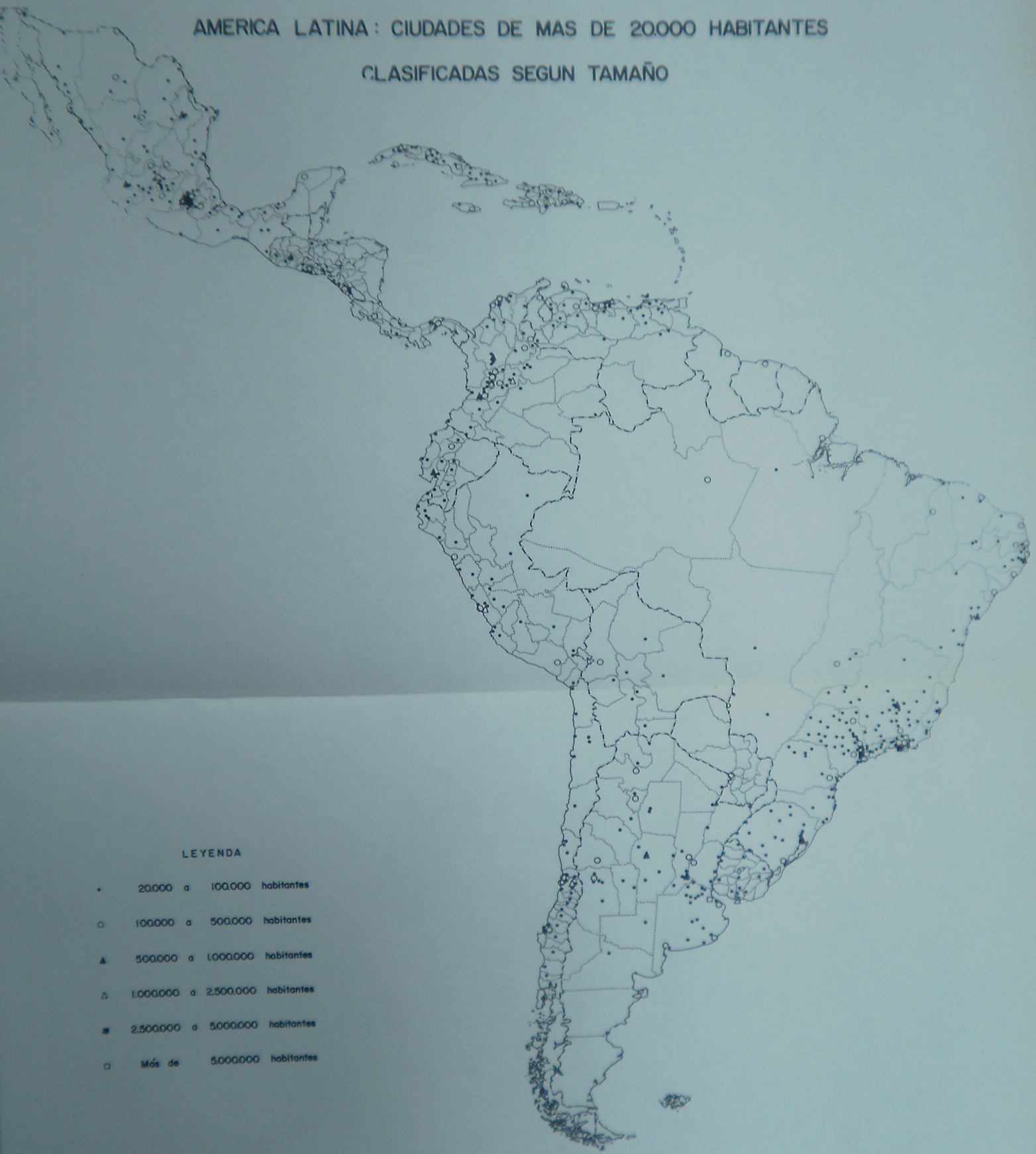
To some extent, industry proper took the place of an artisan-type industry which had a wider regional distribution. This explains the loss of relative importance of many secondary urban centres over an extensive geographical area. First, the traditional artisan-type products, such as textiles, were replaced by similar imported manufactures at lower prices, and once these artisan-type activities had disappeared or been relegated to the local handicrafts level, imported products were superceded by domestic products from the modern areas.

Similarly, as local industry was strongly protected and there was no great incentive to improve efficiency and productivity, extra-economic factors, such as the convenience of living in the major urban centre, had a great influence on decisions regarding location.

Once a set pattern is established for the regional distribution of economic activities, it seems to be consolidated by a wide range of factors, whether or not the original factors underlying it still exist. Proximity to the consumer market, manpower reserves, the urban infrastructure, better supply, the financial markets and the sub-contracting markets tend to have more influence than the advantages that the more backward areas may offer or the incentives that might be provided to boost their development.

AMERICA LATINA: CIUDADES DE MAS DE 20.000 HABITANTES

CLASIFICADAS SEGUN TAMAÑO



LEYENDA

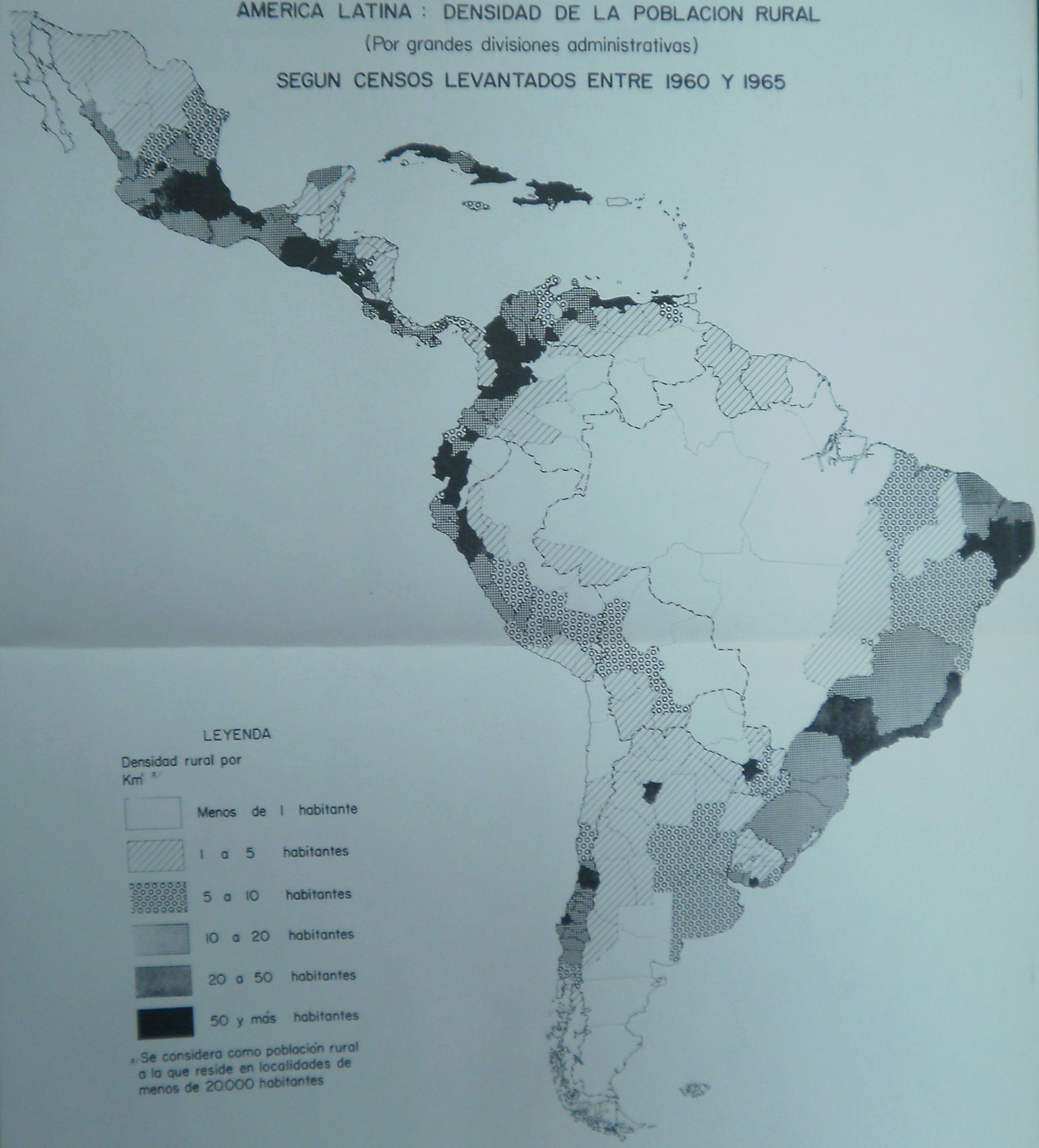
- • 20.000 a 100.000 habitantes
- ○ 100.000 a 500.000 habitantes
- ▲ 500.000 a 1.000.000 habitantes
- △ 1.000.000 a 2.500.000 habitantes
- ■ 2.500.000 a 5.000.000 habitantes
- □ Más de 5.000.000 habitantes

Escala 1'

AMERICA LATINA : DENSIDAD DE LA POBLACION RURAL

(Por grandes divisiones administrativas)

SEGUN CENSOS LEVANTADOS ENTRE 1960 Y 1965



LEYENDA

Densidad rural por Km² a/

- Menos de 1 habitante
- 1 a 5 habitantes
- 5 a 10 habitantes
- 10 a 20 habitantes
- 20 a 50 habitantes
- 50 y más habitantes

a/ Se considera como población rural a la que reside en localidades de menos de 20.000 habitantes

2. Characteristics of geographical concentration

The background sketched in above helps to explain the present high indexes of geographical concentration and the natural tendency for the existing characteristics of the process to become more marked. For a better understanding of the situation as it is now, its results must be considered from two main angles: population distribution, and the location of production activities and regional income distribution.

(a) Regional distribution of the population

Map I-1 and I-2 shows the distribution of population in Latin America at the beginning of the nineteen-sixties. The population was concentrated in a few major cities, and population density in the rural areas varied considerably.

Rapid urbanization is frequently noted as one of the main features of Latin American development, particularly because it bears no relation to the population shifts from the country to the towns which would be explained by the rate of industrialization and the opening up of new productive employment possibilities in the cities. Although the indexes vary widely from one country to another, it is estimated that by the end of the present decade the proportion of urban population - defined as the population living in centres with 2,000 inhabitants or more - will represent not less than 54 per cent of the total population of Latin America (see table I-26).

By 1960 already, one-third of the population of Latin America was living in cities of more than 20,000 inhabitants, and nearly one-quarter in cities with more than 100,000 inhabitants. Ten cities with more than 1 million inhabitants therefore accounted for about 13 per cent of the total population; in fifteen of the twenty-one countries of the region, half or more of the urban population was living in a single city. Other countries also showed very high indexes of concentration: 47 per cent in the capital of Chile; 70 and 40 per cent in the two largest cities of Ecuador and Brazil, respectively, and 40 per cent in the metropolitan area of Mexico City (see table I-27).

Table I-26

LATIN AMERICA: PROJECTED URBAN AND RURAL POPULATION, BY COUNTRY, 1950-80

Country		1950	1955	1960	1965	1970	1975	1980
Argentina	Urban	11 124	13 095	15 015	16 839	18 674	20 553	22 468
	Rural	5 946	5 798	5 654	5 513	5 376	5 243	5 112
	Total	17 070	18 893	20 669	22 352	24 050	25 796	27 580
	% Urban	65.2	69.3	72.6	75.3	77.6	79.7	81.5
Bolivia	Urban	778	915	1 104	1 345	1 652	2 040	2 504
	Rural	2 235	2 407	2 592	2 791	3 006	3 237	3 471
	Total	3 013	3 322	3 696	4 136	4 658	5 277	5 975
	% Urban	25.9	27.5	29.9	32.5	35.5	38.7	41.9
Brazil	Urban	16 083	21 596	28 217	35 867	44 598	54 704	66 434
	Rural	36 095	38 900	41 924	45 183	48 694	52 479	56 558
	Total	52 178	60 496	70 141	81 050	93 292	107 183	122 992
	% Urban	30.8	35.7	40.2	44.3	47.8	51.0	54.0
Chile	Urban	3 430	4 087	4 967	5 910	7 037	8 359	9 864
	Rural	2 714	2 767	2 821	2 876	2 932	2 990	3 048
	Total	6 144	6 854	7 788	8 786	9 969	11 349	12 912
	% Urban	55.8	59.6	63.8	67.3	70.6	73.7	76.4
Colombia	Urban	4 135	5 556	7 257	9 257	11 665	14 601	18 191
	Rural	7 661	8 022	8 400	8 796	9 210	9 644	10 09[illegible]
	Total	11 796	13 578	15 657	18 053	20 875	24 245	28 2[illegible]
	% Urban	35.1	40.9	46.3	51.3	55.9	60.2	64.3
Ecuador	Urban	924	1 133	1 572	2 192	2 944	3 856	4 909
	Rural	2 458	2 615	2 782	2 960	3 149	3 350	3 564
	Total	3 382	3 748	4 354	5 152	6 093	7 186	8 473
	% Urban	27.3	30.2	36.1	42.5	48.3	53.4	57.9
Paraguay	Urban	376	438	524	648	822	1 063	1 385
	Rural	967	1 089	1 227	1 382	1 557	1 754	1 976
	Total	1 343	1 527	1 751	2 050	2 379	2 817	3 361
	% Urban	28.0	28.7	29.9	31.9	34.6	37.7	41.2
Peru	Urban	2 490	2 986	3 877	5 137	6 687	8 561	10 786
	Rural	5 479	5 804	6 148	6 513	6 899	7 308	7 741
	Total	7 969	8 790	10 025	11 650	13 586	15 869	18 527
	% Urban	31.2	34.0	38.7	44.1	49.2	53.9	58.2
Uruguay	Urban	1 472	1 675	1 877	2 074	2 268	2 470	2 682
	Rural	721	688	659	641	618	594	573
	Total	2 193	2 363	2 536	2 715	2 886	3 064	3 255
	% Urban	67.1	70.9	74.0	76.4	78.6	80.6	82.4
Venezuela	Urban	2 423	3 415	4 611	5 913	7 499	9 439	11 756
	Rural	2 551	2 634	2 720	2 809	2 900	2 995	3 092
	Total	4 974	6 049	7 331	8 722	10 399	12 434	14 848
	% Urban	48.7	56.5	62.9	67.8	72.1	75.9	79.2

/Table I-26 (concl.)

Table I-26 (concl.)

Country		1950	1955	1960	1965	1970	1975	1980
Costa Rica	Urban	247	310	386	483	612	789	1 040
	Rural	602	715	849	1 008	1 197	1 422	1 688
	Total	849	1 025	1 235	1 491	1 809	2 211	2 728
	% Urban	29.1	30.2	31.3	32.4	33.8	35.7	38.1
El Salvador	Urban	530	627	787	1 001	1 309	1 724	2 271
	Rural	1 391	1 548	1 722	1 916	2 132	2 372	2 639
	Total	1 921	2 175	2 509	2 917	3 441	4 096	4 910
	% Urban	27.6	28.8	31.4	34.3	38.0	42.1	46.3
Guatemala	Urban	732	917	1 095	1 305	1 587	1 981	2 527
	Rural	2 308	2 595	2 918	3 281	3 689	4 148	4 664
	Total	3 040	3 512	4 013	4 586	5 276	6 129	7 191
	% Urban	24.1	26.1	27.3	28.5	30.1	32.3	35.1
Honduras	Urban	241	291	386	525	724	997	1 366
	Rural	1 147	1 298	1 468	1 661	1 879	2 126	2 405
	Total	1 388	1 589	1 854	2 186	2 603	3 123	3 771
	% Urban	17.4	18.3	20.8	24.0	27.8	31.9	36.2
Nicaragua	Urban	318	405	511	637	797	1 015	1 318
	Rural	815	903	1 000	1 108	1 227	1 359	1 506
	Total	1 133	1 308	1 511	1 745	2 024	2 374	2 824
	% Urban	28.1	31.0	33.8	36.5	39.4	42.7	46.7
Cuba	Urban	2 700	3 216	3 802	4 432	5 113	5 844	6 621
	Rural	2 820	2 917	3 017	3 121	3 228	3 339	3 454
	Total	5 520	6 133	6 819	7 553	8 341	9 183	10 075
	% Urban	48.9	52.4	55.8	58.7	61.3	63.6	65.7
Dominican Rep.	Urban	482	638	874	1 203	1 637	2 203	2 942
	Rural	1 761	1 949	2 156	2 386	2 640	2 921	3 232
	Total	2 243	2 587	3 030	3 589	4 277	5 124	6 174
	% Urban	21.5	24.7	28.8	33.5	38.3	43.0	47.7
Haiti	Urban	340	401	513	683	927	1 274	1 751
	Rural	3 040	3 321	3 627	3 962	4 328	4 727	5 163
	Total	3 380	3 722	4 140	4 645	5 255	6 001	6 914
	% Urban	10.0	10.8	12.4	14.7	17.6	21.2	25.3
Mexico	Urban	12 131	15 338	19 467	24 777	31 319	39 496	49 805
	Rural	14 204	15 346	16 579	17 912	19 351	20 906	22 587
	Total	26 335	30 684	36 046	42 689	50 670	60 402	72 392
	% Urban	46.1	50.0	54.0	58.0	61.8	65.4	68.8
Panama	Urban	271	343	433	555	710	906	1 154
	Rural	494	539	588	642	700	764	833
	Total	765	882	1 021	1 197	1 410	1 670	1 987
	% Urban	35.4	38.9	42.4	46.4	50.4	54.3	58.1
Total (20 countries)	Urban	61 227	77 382	97 275	120 783	148 581	181 855	221 774
	Rural	95 409	101 855	108 851	116 461	124 712	133 678	143 409
	Total	156 636	179 237	206 126	237 244	273 293	315 533	365 183
	% Urban	39.1	43.2	47.2	50.9	54.4	57.6	60.7

Source: ECLA estimates based on the hypothesis that the rural population (i.e., population living in centres of 2,000 inhabitants or more) will increase at the same rate as 1950-60. The figures for the urban population represent the difference between the estimates of rural population and the figures for total population.

/Table I-27

Table I-27

LATIN AMERICA: INDEXES OR URBANIZATION AND URBAN CONCENTRATION, BY COUNTRY ACCORDING TO CENSUSES TAKEN SINCE 1920

Country	Census year	Percentage of total population living in centres with a specified number of inhabitants			Percentage of urban population living in centres with a specified number of inhabitants	
		20 000 or more	100 000 or more	Most densely populated city	100 000 or more	Most densely populated city
Central America						
Costa Rica	1927	19.3	-	19.3	-	100.0
	1950	22.3	22.3	22.3	100.0	100.0
	1963	24.0	24.0	24.0	100.0	100.0
Cuba	1919	24.3	14.7	14.7	60.4	60.4
	1931	27.6	18.5	16.0	67.0	57.8
	1943	30.7	19.9	17.4	64.9	56.8
	1953	35.5	22.9	18.3	64.7	51.4
Dominican Republic	1920	3.5	-	3.5	-	100.0
	1935	7.1	-	4.8	-	67.6
	1950	11.1	8.5	8.5	76.5	76.5
	1960	18.7	12.1	12.1	65.0	65.0
El Salvador	1930	9.0	-	6.2	-	69.0
	1950	12.9	8.7	8.7	67.5	67.5
	1961	17.7	10.2	10.2	57.6	57.6
Guatemala	1950	11.2	10.2	10.2	91.0	91.0
	1964	15.5	13.4	13.4	86.2	86.2
Haiti	1950	5.1	4.3	4.3	84.8	84.8
Honduras	1940	6.1	-	4.2	-	69.1
	1950	6.9	-	5.3	-	76.6
	1961	11.6	7.1	7.1	61.5	61.5
Jamaica	1921	10.3	-	10.3	-	100.0
	1943	16.3	16.3	16.3	100.0	100.0
	1960	24.8	23.4	23.4	94.0	94.0
Mexico	1940	18.1	10.2	7.4	56.4	40.8
	1950	24.1	15.1	8.7	62.8	36.0
	1960	29.6	18.6	8.1	62.9	27.4
Nicaragua	1950	15.2	10.3	10.3	67.7	67.7
	1963	23.0	15.3	15.3	66.3	66.3
Panama	1930	22.3	-	15.8	-	71.2
	1940	26.5	19.4	19.4	73.3	73.3
	1950	28.6	22.1	22.1	77.4	77.4
	1960	33.1	25.4	25.4	76.7	76.7

/Table I-27 (concl.)

Table I-27 (concl.)

Country	Census year	Percentage of total population living in centres with a specified number of inhabitants			Percentage of urban population living in centres with a specified number of inhabitants	
		20 000 or more	100 000 or more	Most densely populated city	100 000 or more	Most densely populated city
South America						
Argentina	1914	38.0	31.5	25.8	83.0	68.0
	1947	49.3	40.0	29.7	81.2	60.3
	1960	57.7	47.5	33.7	82.3	58.4
Bolivia	1950	19.6	10.6	10.6	54.1	54.1
Brazil	1920	11.3	8.7	3.8	77.0	33.3
	1940	15.3	10.7	3.7	69.8	24.0
	1950	20.2	13.2	4.4	65.5	21.9
	1960	28.1	18.8	4.5	66.8	16.2
Chile	1920	28.0	18.4	13.6	66.2	48.6
	1930	32.5	20.7	16.2	63.9	50.0
	1940	36.4	23.1	18.9	63.5	52.0
	1952	42.8	28.5	22.7	66.5	53.2
	1960	54.7	33.3	25.9	60.8	47.3
Colombia	1938	13.2	7.5	4.1	56.6	31.0
	1951	23.0	15.4	6.2	66.8	26.9
	1964	36.6	27.5	9.7	75.1	26.5
Ecuador	1950	17.8	14.6	8.1	82.3	45.4
	1962	26.9	18.9	11.2	70.2	41.4
Paraguay	1950	15.6	15.6	15.6	100.0	100.0
	1962	15.9	15.9	15.9	100.0	100.0
Peru	1940	14.2	8.4	8.4	59.1	59.1
	1961	28.9	18.4	14.5	63.9	50.2
Uruguay	1908	30.0	28.0	28.0	93.3	93.3
	1963	61.3	44.7	44.7	72.9	72.9
Venezuela	1936	17.0	11.1	7.8	65.1	45.9
	1941	18.7	12.4	9.2	66.2	49.2
	1950	32.7	20.6	13.8	63.0	42.2
	1961	47.3	30.0	17.8	63.4	37.5

Source: ECLA, on the basis of national census data.

/Conversely, extremely

Conversely, extremely low density indexes are recorded in some rural areas. In more than 40 per cent of Latin America the index is less than one inhabitant per square kilometre, and in nearly two-thirds, it is less than five. In more than half of Paraguay, Bolivia, Chile, Brazil and Ecuador, it is less than one inhabitant per square kilometre; however the rural population density is high in Haiti, El Salvador, the Dominican Republic, Cuba and Guatemala, or in some parts of those countries (see table I-28).

Bolivia is a striking example of sharp disparities in the density of its rural population. While there are large areas which are practically uninhabited, there is a high concentration of rural population in relatively small areas. One and a half million inhabitants (more than half the entire rural population) live in the valleys, occupying an area of 24,000 square kilometres; of these, nearly 900,000 live on the flat land at the bottom of the valleys, with a density of nearly 38 inhabitants per square kilometre. This leads to serious erosion problems - caused by over-grazing and cutting down the vegetation for fuel - so that it has become necessary to cultivate poor land on the slopes, thereby creating minifundia, as in the Cochabamba valley, where only 0.37 hectares are cultivated per head of population, and even this small area is shrinking because of the population pressure.

(b) Regional income distribution and location of production activities

In addition to the characteristics described above, there is an even higher geographical concentration of economic activities, which is reflected in marked disparities in income levels between regions.

This concentration is particularly marked in industry. A few years ago,[3/] it was estimated that the metropolitan area of Buenos Aires, São Paulo and Mexico City accounted for over a third of the total value of Latin America's industrial production, and that in several countries the two main industrial centres represented a very high proportion of the nation's industry: 66 per cent for the metropolitan area and Rosario in Argentina; 80 per cent for the triangle formed by São Paulo, Guanabara and Belo Horizonte in Brazil; 66 per cent for the cities of Santiago and Valparaíso in Chile; 45 per cent for Mexico City and Monterrey in Mexico; 56 per cent for the Lima-Callao area in Peru; and 75 per cent for the city of Montevideo in Uruguay.

3/ The process of industrial development in Latin America (United Nations publication, Sales N° 66.II.G.4) pp.89-91.

/Table I-28

Table I-28

LATIN AMERICA: RURAL POPULATION DENSITY, AS A PERCENTAGE OF THE TOTAL RURAL POPULATION IN EACH COUNTRY

Country	Less than 1 inhabitant per km2	1 to 4.9 inhabitants per km2	5 to 9.9 inhabitants per km2	10 to 19.9 inhabitants per km2	20 to 49.9 inhabitants per km2	50 and over inhabitants per km2	Total
Argentina	30.1	43.3	25.8	-	0.8	-	100
Bolivia	59.0	8.3	32.7	-	-	-	100
Brazil	54.8	12.4	10.5	15.9	6.4	-	100
Chile	55.4	13.8	8.9	17.2	4.7	-	100
Colombia	34.1	23.9	1.8	22.3	16.5	1.4	100
Ecuador	50.5	-	5.6	6.1	37.8	-	100
Paraguay	60.8	20.9	13.6	-	4.0	0.7	100
Peru	43.3	14.7	21.5	16.0	4.5	-	100
Uruguay	-	77.0	11.2	8.9	2.6	0.3	100
Venezuela	49.8	25.7	10.1	7.8	6.5	0.1	100
Sub-total	48.1	19.5	14.5	11.8	6.0	0.1	100
Costa Rica	-	-	18.9	44.2	34.4	5.1	100
Cuba	-	-	-	23.0	77.0	-	100
Dominican Republic			2.1	3.8	50.5	43.6	100
El Salvador	-	-	-	-	-	100.0	100
Guatemala	32.9	-	-	8.3	31.5	27.3	100
Haiti	-	-	-	-	-	100.0	100
Honduras	14.8	29.7	-	29.0	25.1	1.4	100
Mexico	3.7	38.2	13.4	30.8	12.3	1.6	100
Nicaragua	-	56.3	8.3	11.2	22.9	1.3	100
Panama	-	34.0	24.8	38.0	3.2	-	100
Sub-total	4.8	33.2	11.4	27.9	17.5	5.2	100
Total Latin America	42.4	21.3	14.1	13.9	7.5	0.8	100

Source: ECLA, on the basis of national census data.

/The primary

The primary industries, which must have a relatively large scale of production and therefore tend to be fairly concentrated are located in these centres.

The location of services in the main urban centres - public administration (even in countries with a federal organization), financial services, foreign trade and domestic wholesale trade - also makes for the geographical concentration of economic activities.

These services are more concentrated than would seem to be required by the distribution of the population and economic activities.

The disparities in rural population density suggest that regional concentration also occurs in the agricultural sector, where some areas are worked intensively and others are not cultivated at all. In this respect, the important factor is not only the proportion of new farm land brought under cultivation and the proportion still uncultivated, but also the type of land use. A large part of the agricultural product is generated in fairly small areas which have better irrigation and means of communication and where production is organized along more efficient lines.

The electricity systems and transport facilities reflect and reinforce these patterns of the regional distribution of economic activity. In almost all countries, more than 40 per cent of the installed capacity of the public electricity system supplies a few major cities: a few years ago in Argentina, 47 per cent of the national total supplied Greater Buenos Aires; in Brazil, 57 per cent supplied Río de Janeiro and São Paulo; and in Mexico, 44 per cent supplied the metropolitan areas.[4/] The same is true of transport facilities, both roads and railways.[5/]

4/ See United Nations, Estudios sobre la electricidad en América Latina, Informe y Documentos del Seminario latinoamericano de energía eléctrica (United Nations publication, Sales No.: 63.II.G.3), Vol. I, p. 111.

5/ See ECLA, El transporte en América Latina (United Nations publicatio... Sales No.: 65.II.G.7).

/For example,

For example, the Amazon area of Brazil, which covers half the country's territory, has only 1,000 kilometres of railway line, while the railway network in the states of Río de Janeiro and São Paulo is very dense; in Argentina the highly concentrated railway system in the provinces of Buenos Aires and Santa Fe contrasts with the few railway lines in the provinces of Santa Cruz and Misiones (see table I-29). The regional imbalances in the distribution of roads (see table I-30) are also quite striking: there are few roads in areas with little economic activity, and such areas make little headway, inter alia, because they lack suitable roads.

The fact that economic activity is more highly concentrated than population means that there are very marked differences between the income levels of the different regions. For example, it is estimated that 78 per cent of the gainfully employed population in the Brazilian Nordeste has an income lower than the national average; other estimates covering Brazil conclude that the average per capita income indexes, as compared with the national average, are 51 for the north-west, 60 for the north and central-west, 96 for the east and 144 for the south. In Mexico, average rural family income is slightly more than 40 per cent of its urban counterpart and, as compared with the average per capita income of the Federal District, the regional average income indexes are 35 for the Pacific, south and central areas, 54 for the north and the Gulf of Mexico and 93 for the north Pacific.[6/] Moreover, there is a concentration of income in the metropolitan areas where the major part of modern industry is situated. It is estimated, for example, that 45 per cent of Argentina's gross domestic product is generated in Greater Buenos Aires, 43 per cent of Chile's in the province of Santiago, 35 per cent of Mexico's in the Federal District of Mexico City and 40 per cent of Peru's in the city of Lima.[7/]

6/ The data on regional income distribution was taken from ECLA, Estudios sobre la distribución del ingreso en América Latina (E/CN.12.770/Add.1).

7/ The sources for these percentages are as follows: Argentina, Federal Investment Council, Bases para el desarrollo regional argentino, (Buenos Aires, 1963), p.54; Chile, ODEPLAN, Políticas de Desarrollo Regional (Santiago, 1968), p.76; Plan de Desarrollo Económico y Social del Perú, 1967-1970, vol. I, p.285; Mexico, CIAP, El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de México (Washington, December 1967), II-39.

Table I-29

REGIONAL DENSITY OF THE THREE MAJOR RAILWAY SYSTEMS OF LATIN AMERICA

	Population per km2	Length of railway line (km)	Kilometres of lines per 100 km2	Kilometres of line per 1,000 inhabitants
Argentina: Total	7.1	43 923	1.57	2.23
Province of Buenos Aires	16.8	14 368	4.67	2.79
Province of Santa Fe	15.1	5 193	3.90	2.59
Province of Misiones	11.6	77	0.26	0.22
Province of Santa Cruz	0.2	287	0.12	5.02
Brazil: Total	8.3	38 339	0.45	0.45
State of Río de Janeiro	79.3	2 787	6.49	0.82
State of São Paulo	52.3	7 664	3.09	0.59
State of Pará	1.2	449	0.04	0.29
State of Goiás	3.0	498	0.08	0.25
Mexico: Total	17.8	23 369	1.19	0.67
State of Sonora	4.3	1 469	0.97	2.26
State of Nuevo León	16.6	939	1.44	0.87
State of Baja California	7.3	185	0.26	0.36
State of Guerrero	18.4	103	0.16	0.09

Source: ECLA, El transporte en América Latina (United Nations publication, Sales No.: 65.II.G.7), p.7.

/Table I-30

Table I-30

SOME EXAMPLES OF REGIONAL IMBALANCES IN THE DISTRIBUTION OF ROADS, 1960 a/

	Kilometres of road per 1,000 km2	Kilometres of road per 10,000 inhabitants
Argentina: National average	67.8	94.1
Buenos Aires	126.7	57.9
Mendoza	149.4	273.0
Santa Cruz	25.7	1 188.2
San Juan	31.4	76.7
Brazil: National average	56.0	71.9
São Paulo	319.3	67.6
Espíritu Santo	373.4	149.0
Amazonas	0.2	4.0
Acre	1.6	14.6
Chile: National average	78.1	75.9
Valparaíso	229.8	17.2
Maule	408.9	246.2
Aysén	9.7	252.6
Chiloé	28.2	51.1
Mexico b/: National average	22.9	12.9
Mexico City	96.4	10.9
Morelos	120.4	15.4
Baja California	21.2	191.3
Chihuahua	7.6	15.4

Source: ECLA, El transporte en América Latina (United Nations publication, Sales No.: 65.II.G.7), p. 17.

a/ Including roads which are impassable at certain times of year.

b/ Excluding local roads, since their distribution among federal agencies is not known.

/In contrast

In contrast to this high concentration of income in metropolitan areas, there are large groups of population with very low income and productivity levels in, for example, the valleys of Bolivia and the Brazilian Nordeste. In the latter region, which has been termed the largest area of poverty in the western hemisphere, there are 25 million people with an average annual per capita income of less than 100 dollars.8/

This kind of disparity is becoming more and more useful for an understanding of the problems of under-development. Some experts stress that the phenomenon is independent in character and suggest that some areas are lagging further and further behind, not so much because they are isolated from the over-all economic process but because income is transferred from them, through various channels, to the more advanced areas which to some extent base their expansion on this appropriated income.

There is no research which supports this argument; on the contrary, one of the few attempts that have been made to construct a form of inter-regional balance of payments points to the opposite conclusion. This was a study on Argentina,9/ which showed how a large economic centre - the metropolitan area - actually absorbs resources generated in the provinces, but the transfer of income is not homogeneous, nor is it in the same direction in all cases: it involves a transfer of income from the richer agricultural areas to the metropolitan area, and a subsidy from the metropolitan area to the poorer provinces. Hence, there are two areas that benefit - the metropolitan area and the poorer provinces - and an area which subsidises them - the highly productive agricultural provinces and two provinces producing wool and oil (see table I-31). The metropolitan area, made up of the Federal capital and Greater Buenos Aires, 'exports' manufactures and 'imports' agricultural products so that relative prices influence income transfers. For example, the terms of trade for the metropolitan area improved by 21.7 per cent between 1956 and 1959: the price index of its 'imports' rose by 263.6 per cent while that of its 'exports' rose by 234.5 per cent. Furthermore, it is in the metropolitan area that the services used by the other provinces - particularly financing, insurance and export facilities - are located.

8/ Celso Furtado, A luta pelo Nordeste e a estrategia da Sudene (Recife, 1962), mimeographed, p.2.

9/ See Bases para el desarrollo regional argentino, op.cit.

/Table I-31

Table I-31

ARGENTINA: PER CAPITA GROSS DOMESTIC PRODUCT AND INTER-PROVINCIAL TRADE BALANCE, 1959

	Per capita gross domestic product (thousands of pesos at 1953 prices)	Inter-provincial trade balance on the inter-provincial balance of payments on current account (millions of pesos at 1959 prices)	
		Total a/	Domestic b/
Metropolitan area	7.6	-27 175	-34 477
Remainder of the province of Buenos Aires	8.1	12 750	12 322
Catamarca	2.8	-663	-663
Chaco	4.1	777	468
Chubut	9.3	-210	1 284
Córdoba	5.3	9 566	11 970
Corrientes	3.1	293	610
Entre Ríos	4.2	-492	-492
Formosa	2.9	117	-32
Jujuy	5.2	645	1 107
La Pampa	8.2	1 818	1 956
La Rioja	2.9	-238	-217
Mendoza	6.5	2 654	3 479
Misiones	2.1	-1 016	-720
Neuquén	3.8	414	551
Río Negro	6.2	727	860
Salta	4.0	-1 266	56
San Juan	5.0	679	906
San Luis	3.8	-449	-398
Santa Cruz	14.8	-1 832	1 790
Santa Fe	6.4	4 085	-308
Santiago del Estero	2.3	-739	-313
Tierra del Fuego	20.5	81	128
Tucumán	4.2	-645	40

Source: Federal Investment Council, Bases para el desarrollo regional argentino (Buenos Aires 1963), pp. 56 and 98.

a/ Including international trade.

b/ Excluding international trade.

/The poorer

The poorer provinces, on the other hand, are subsidized to an extent that in absolute terms may be small, but the amount is significant if compared with their gross internal product. These subsidies consist mostly of the allocation of resources by the national government for public works or current expenditures on education and health.

The provinces in which these resources originate are those in which modern farming is carried on a large scale, and they generate roughly three-quarters of the country's crop and livestock production (remainder of the province of Buenos Aires, Córdoba, Santa Fe, Mendoza and La Pampa), added to which are the two provinces producing wool and oil (Santa Cruz and Neuquén). These are all thriving provinces with high per capita incomes that, with the exception of Neuquén, are above the national average and very close to incomes in the metropolitan area. Thus a situation exists in which a large industrial area - the metropolitan area - absorbs economic resources from the modern agricultural areas through payments for services and relative prices and also absorbs labour, particularly from the poorer provinces, while at the same time subsidizing the poorer provinces, but to a much lesser degree.

In contrast, the five wealthy agricultural provinces and the two wool and oil provinces subsidize the metropolitan area to a large extent. They generate 73 per cent of the national crop product and 75 per cent of the national livestock product, at a relatively high level of productivity, but they are dependent on the metropolitan area for financing, domestic marketing, exports and for most of the manufactured goods that they use. The poorer provinces, on the other hand, are a source of labour - unskilled for the most part - and recover what they lose in respect of the payment of services and relative prices through government subsidies.

It is difficult to estimate the extent to which this phenomenon occurs in other Latin American countries, particularly if it is borne in mind that Argentina is relatively speaking not a typical case since regional differences are less pronounced than in most of the other countries, as are population pressures in its more backward areas. It is clear, however, that, even if the experience of Argentina could be applied to other countries, this would not mean that regional disparities

/in income

in income and living conditions would tend to level out of their own accord. Something more than a transfer of real income in the form of social services is needed before the backward areas can achieve more dynamic economic growth.

3. Some examples of regional development in Latin America

The fact that there has been no spontaneous effort to achieve a better regional distribution of economic growth or to prevent regional disparities from becoming more pronounced, and no definite development proposals in this respect, had led some countries to take action and to initiate policies to promote regional development that in some cases have significance on a national scale. Some experience has been accumulated in this way covering various approaches and methods of action.

A few examples will suffice to illustrate the type of motivation behind regional development policies. The National Planning Office of Chile has defined the reason for regional planning as the need to eliminate the huge disparities separating one area from another; regional development policy is thus "a multipurpose instrument designed to improve the conditions for regional integration".[10/] Three goals are sought in regional integration: at the physical level, to achieve satisfactory access to all points in the country; at the economic level, to provide similar rewards for the factors of production and equality of opportunity irrespective of geographical location; and at the socio-political level, to establish a single institutional framework and equal levels of participation in social life and decision-making.

The Venezuelan national plan (1965-68) calls for the formulation of regional plans as instruments to promote economic integration, to make better use of potential resources and to channel internal migration. For this purpose, the Plan indicates that it is necessary to: (a) channel investment towards the exploitation of the resources of backward areas in order to integrate them with the more advanced industries, regions

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10/ ODEPLAN, Política de desarrollo regional (Santiago, 1968), mimeographed, p.9.

or areas; (b) make both the technology and the financing and information required to improve production accessible to backward areas; and (c), channel interregional population movements in order to control the urbanization process.

In Brazil, the ten-year economic and social development plan outlines the stages through which regional policy has passed, starting with assistance (primarily public works), then an attempt to alter the economic structure of the region in order to promote development, and finally a national-regional policy promoting the integration of the various areas. At this final stage the ten-year plan was prepared, basically consisting of the creation of a self-sustained development process in each region, with an appropriate growth rate being fixed for each, and the incorporation of this process into the main stream of national integration with a view to reducing the economic differences between regions and establishing an integrated national market.

On the basis of these general guidelines, specific criteria can be worked out for the allocation of resources in terms of three development options, according to which either the regional product, or regional employment or regional balance will be increased to the maximum. Chile's regional development policy, for example, focuses on the areas with the greatest potential, "in which development can get going most rapidly", in order to make the best use of investment resources. Hence, priority is given to the areas which already have an infrastructure or known resources; although account is also taken - as a conditioning factor of secondary importance - of the need to redistribute income among the regions.

The Brazilian plan states that developing countries must prevent the over-all growth rate from falling, however slightly, to the benefit of a particular region, because of the risk of slowing down the whole development process. Consequently, a different growth rate should be established for each region, in line with the national rate and the possibilities for self-sustained growth.

The Venezuelan plan points out that a backward regional economy needs a continual inflow of resources until it has passed the 'critical' point at which it can continue on its own. The policy here is to

concentrate resources on a limited number of backward regions until each of them passes the critical point, and then do the same for other regions, on the assumption that the resources would be lost if they were dispersed among a large number of regions without any single region achieving self-sustained growth.

With regard to population matters, it is argued - for example by ODEPLAN in Chile - that action should be focused on the regions with the greatest development potential, while according to another view, it is justifiable in the short term to subsidize - through public works, for instance - certain regions which are incapable of providing full employment on their own. Similarly, as in the Venezuelan plan, an attempt is being made to guide the urbanization process by channelling population movements among the regions and preventing excessive growth in a small number of cities.

Once the over-all aims and methods of action are established, then national policies have to be defined which can be effective in ensuring their practical application. There are two main approaches: either an attempt is made to develop backward areas with a view to improving the living conditions of large segments of the population, or the main aim is to open up new areas in order to exploit resources that are of importance for national development. In the first case, stress is laid on income transfers, mainly through public services and State action to modify or improve the bases of production of the region. In the second case, the stress is on investment in the infrastructure and other direct State investment. In both cases, a number of direct incentives can be used, mainly tax exemptions.

The programmes for the Brazilian Nordeste and the Guayana area of Venezuela illustrate these two basic approaches. Their main features are described below.

(a) The Nordeste of Brazil

The Nordeste programme in Brazil is an outstanding example of action designed to raise the level of living of a large population group in Latin America. Its aim is to promote development in an area of 1.57 million square kilometres,[11/] with 25 million inhabitants and an average per capita income of less than 100 dollars. The programme has two basic objectives: to promote industrial development and to increase the supply of food. An executing agency - the Department for the Development of the Nordeste (Superintendencia de Desenvolvimento do Nordeste - SUDENE) was established to achieve these objectives, and plans for industrial development and the expansion of agricultural supplies, and pre-investment plans in connexion with natural and human resources were launched. The main policy instrument used, and the most original of its kind, is the "fiscal credit" mechanism under article 34/18, which is described below.

In the field of industrial development, the programme is aimed at promoting private investment in industry through the creation of tax, credit and exchange incentives, and the construction of an infrastructure (particularly for energy and transport); the purpose of the agricultural plan is to bring new farm land under cultivation, and to improve productivity; and the twin aims of the pre-investment programme are to train manpower and carry out research on natural resources.

11/ Comprising the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraiba, Pernambuco, Alagoas, Sergipe, Bahía and part of Minas Gerais. There are four large subregions: the mata or humid area, the east coast, the sertão or arid region, and the intermediate area between this and the Amazon region.

The establishment of SUDENE was basically a new way of tackling the Nordeste's problems,[12/] since it was considered essential to adopt an over-all development approach in order to tackle the main problems simultaneously. Some important propositions stem from this approach; one of these is that the situation is most serious in the humid area, where resources are less efficiently utilized than in the semi-arid regions, with the result that problems which are apparently unrelated to the drought, such as unsuitable farming methods and urban unemployment, are given priority attention.

The industrial development plan. The proposed development of industry is based on the processing of local raw materials for export (to the southern central area of Brazil and to other countries), since import substitution is limited by the small local market. The cornerstone of the plan is private investment, stimulated by tax, exchange and credit incentives, the construction of an adequate infrastructure and, as a supplementary measure, the establishment of public and semi-public industrial enterprises.

12/ For several decades, the serious consequences of the periodic droughts in the agreste area (lying between the humid regions) and the sertão - with their repercussions on production and employment - had been focusing attention on the region's economic problems. Thus the National Drought Relief Department was established, which did what it could to deal with the problem by building dams and highways. The Companhia Hidroelétrica do San Francisco, a semi-public co-operation in which the Government had the controlling interest, began operations in 1948 and by 1955 it had completed the construction of the Paulo Alfonso hydroelectric plant. The Banco do Nordeste do Brasil S.A., was established in 1952 after the 1951 drought. Following a further drought in 1958, the Federal Government strengthened the Nordeste working group which had been attached to the Banco Nacional do Desenvolvimento Economico (BNDE) since 1956 and it prepared a diagnosis and a development strategy for the Nordeste. Its report highlighted the basic causes underlying the region's unequal development, which include the shortage of land which is suitable for cultivation by the techniques known in the region, the scanty rainfall, the unsatisfactory distribution of income, especially in the sugar-growing area, and the predominance of subsistence farming in the semi-arid region.

The strongest stimulus was provided by tax incentives, which were applied on a large scale and along original lines which facilitated the transfer of resources from the southern central area to the Nordeste. Thus, it was established that under certain conditions legal entities throughout the country could obtain a rebate of up to half the amount of their income tax if they invested that amount in the Nordeste (article 34/18); they were also entitled to a rebate equal to 75 per cent of the value of any shares purchased in the Fondo de Investimento do Nordeste (they would thus be exempt from tax if they purchased shares to a value of one and one third times the amount of the tax) and up to 50 per cent of gross taxable income if it was used to buy shares in companies which SUDENE considered of interest to the Nordeste. Companies already operating in the area would be granted a 50 per cent reduction in their income tax and additional taxes from June 1963 to 1973; and activities initiated after July 1963 would be tax-free for a period of ten years, which might be extended to fifteen.

The exchange privileges consist of exemption from taxes and prior deposits in respect of imports of equipment for the Nordeste to which SUDENE had assigned priority. In addition, the President of Brazil may authorize imports without prior "exchange cover", that is, regardless of the amount of foreign exchange available under that head in the exchange budget.

Credit financing is mainly the responsibility of the Banco do Nordeste do Brasil, S.A., which will lend up to 50 per cent of the total investment required for a project and 80 per cent of the fixed investment, and the Banco Nacional do Desenvolvimento Econômico, which provides up to 60 per cent of the fixed capital. The Fondo de Investimento do Nordeste, which is administered by SUDENE, can in its turn buy preference shares, without the right to vote, in Nordeste enterprises.

SUDENE used its own resources for the infrastructure projects (construction of energy and water supply systems, organization of transport and urban services, surveying of natural resources, and manpower training), but it mainly co-ordinated the action of various national and state agencies operating in the area. The task of

creating such "external economies" absorbed most of the resources earmarked for industrial development, since the industrial enterprise itself generally remained in charge of the private project.

SUDENE has established public or semi-public corporations to carry out different activities and participates in them to a varying degree. The two most important enterprises, both owned mainly by the State, are the Usina Siderúrgica de Bahía - in process of installation - with a production capacity of 130,000 tons of thin steel sheet and tinplate, and the Companhia Pernambucana da Borracha Sintética, which manufactures butadiene and polybutadiene from cane alcohol. Moreover, SUDENE has shares in twelve electric power companies and in some enterprises engaged in specific activities (Artesanato do Nordeste S.A., Companhia de Aguas e Esgotos do Nordeste, Companhia Nordestina de Sondagens e Perforaçoes) whose relatively small capital has nearly all been provided by SUDENE.

The agricultural plan. The main purpose of the agricultural plan is the supply of food. This is being achieved through four projects: more intensive land use in the humid areas, utilization of public land, land settlement in Maranhão, and improvement of farming methods. The first project provided for capital investment in sugar-growing in order to increase productivity by means of irrigation and mechanization. At the same time, the cultivation of food crops was to replace the cultivation of sugar-cane in some areas. This project was abandones, however, because of a sudden change in the conditions in which it was to be carried out; the old sharecroppers became agricultural wage-earners, and the sugar economy was able to stand this increase in costs only because more sugar was exported at preferential prices owing to Cuba's exclusion from the United States market.

The second project relates to the organization of farms for the production of foodstuffs on 25,000 hectares of public land within easy access of population centres. In addition, it was planned to bring 250,000 hectares under cultivation in Maranhão, 30,000 hectares of which would be devoted to market gardents and fruit farms. Lastly, a programme of research was initiated with a view to discovering appropriate techniques for some areas and crops giving rise to problems

/which had

which had not been solved by the usual farming methods (for example, improving the soil of 3 million hectares of tableland with enough rainfall but a low level of fertility).

Administrative planning and organization. SUDENE did not prepare a real over-all development plan for the Nordeste. The three "master plans" which it has drawn up so far merely group the main investment projects within the context of an over-all strategy. It also co-ordinates the work of all the national agencies operating in the area.

SUDENE has a secretariat and a Deliberative Council;[13/] the former is responsible for ensuring the adoption of technical solutions, and the latter for co-ordination at the policy-making level. It is financed by 2 per cent of Federal tax revenue, and by whatever funds are allocated to it in the Federal budget for implementation of the Master Plan. It also uses 50 per cent of the convertible exchange earnings on foreign exports from the Nordeste to pay for its own imports.

Some results in the field of industrial development. The results of SUDENE's action reveal notable progress in industrial development programmes.

SUDENE gave considerable impetus to industrial development thanks to the influx of resources from the south-central area under the "fiscal credit" system. It was thus successful in applying policy instruments which were specially designed to further regional development and were necessarily different from those that have traditionally launched or aided the process at the national level. Tariff protection, which embraces the country as a whole without discrimination between regions, was not applicable in these cases, and the peculiar combination of

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13/ The Deliberative Council is composed of Governors of the states within the purview of SUDENE and representatives of the Ministries of Agriculture, Education and Culture, Finance, Industry and Trade, Mines and Energy, Health, Labour and Social Security, Transport and Public Works; of the Banco do Brasil S.A., the Banco Nacional do Desenvolvimento Economico and the Banco do Nordeste do Brasil S.A.; of the Armed Forces, and of the Companhia Hidroelétrica do San Francisco; in addition, the Head of SUDENE, the Director of Grought Relief Works and the Director of the San Francisco Valley Authority are ex oficio members.

inflation, over-valuation of the currency and import control,[14] which resulted in high prices for Brazilian manufactures and subsidized the purchase of equipment and intermediate goods, was not operative either.

In order to promote the concentration of industries in specific locations, recourse was had to indirect methods which went even beyond the construction of infrastructure works and the granting of tax privileges for local activities. Although the execution of public works - particularly for transport services and energy supply - was a big step foreward compared with the previous situation, the advantages it brings are not necessarily big enough to compare with the external economies which already exist in more developed areas. Moreover, experience with tax exemption shows that this is not a decisive factor in choosing a location, since although it affects costs, it does nothing to reduce the risks and possible losses involved in an unprofitable investment.[15] Hence the importance of the additional advantages offered by the "fiscal credit" system used in the Nordeste of Brazil, whereby the funds for payment of up to 50 per cent of income tax, which would otherwise have constituted a direct transfer of income from entrepreneurs to the public sector, may be used to subscribe part of the capital of new Nordeste enterprises.

Twenty-five, 50 or 75 per cent of the capital investment comes from the funds provided under article 34/18, the proportion depending on the priority assigned to the project by SUDENE. Furthermore, the Banco do Nordeste do Brasil may lend up to 50 per cent of the capital, without any adjustment for inflation. Thus, in highly important projects the entrepreneur's contribution may be as little as 12.5 per cent of the necessary capital. This system has resulted in considerable industrial growth. Up to April 1967, 254 projects had been approved with a planned investment of 840 million new cruzeiros.

14/ See Albert O. Hirschman, "Desenvolvimento industrial do Nordeste Brasileiro e o mecanismo de crédito fiscal do artigo 34/18", Revista Brasileira de Economía, December 1967, p. 24.

15/ Ibid., p. 26.

The payments made under article 34/18 increased from 5.9 million new cruzeiros in 1962 to 252 million in 1966, and their share in the income tax revenue collected from limited companies rose from 9.5 per cent in 1962 to 50 per cent in 1966; nearly four-fifths of those deposits came from the states of São Paulo and Guanabara.

There has been some discussion of the question of whether or not it is justifiable or desirable to transfer a significant volume of fiscal resources to private industry, which is what the "fiscal credit" mechanism in fact entails. To some extent, this is also linked to the degree to which the profits generated by the new enterprises are ploughed back and are absorbed by the economy of the Nordeste, or the extent to which they are remitted to the south-central area, particularly after the first stage, when the main flow of resources was naturally in the direction of the Nordeste. Other questions have also arisen, such as the capital-intensity of the new enterprises in relation to the original employment situation, and whether the system would be in operation long enough for the process of industrial development to become self-sustaining.[16/]

(b) The Venezuelan Guayana area

The work being done in the Venezuelan Guayana area is a typical example of a programme for the utilization of unexploited resources and the construction of a large industrial centre in a region rich in natural resources, particularly hydroelectric power, mining products (coal, dolomite and quartz) and forests.

This regional programme is organized on a very different basis from that of the programme for the Nordeste area of Brazil, since this is a sparsely populated region which has never really been part of the national economy, and the primary consideration is the efficient utilization of its huge natural resources potential.

The problems encountered and the instruments for their solution are also quite different. There is no question of changing existing situations or harming vested interests; in particular, the problem here is to prepare land for cultivation which has been virtually abandoned,

16/ Ibid., pp. 24-32.

/rather than

rather than to disrupt and transform a long-established agrarian structure. On the other hand, it is necessary to mobilize human and capital resources on a considerable scale with a view both to facilitating direct production activities and to establishing an urban centre - Guayana City, at the confluence of the Orinoco and Caroní rivers, the population of which is expected to grow from 2,000 to 250,000 between 1950 and 1980.

The programme consists mainly in constructing an industrial centre, producing hydroelectric power on a large scale, cultivating new land, establishing a city, and training manpower. Its execution has been entrusted to the Venezuelan Guayana Corporation (Corporación Venezolana de Guayana), which was established at the end of 1960 as an autonomous institute under the Office of the President of the Republic.[17/] The Corporation may take direct action or operate through subsidiary bodies, and it is authorized both to mobilize the government resources assigned to it and to participate in specific projects financed jointly with foreign capital and domestic private capital. Thus, through one subsidiary body it is building the Guri dam and managing the electricity supply system, and through another it is installing a steel plant. At the same time, it is associated with foreign investors in a project for the production of aluminium, and with domestic investors in the operation of a pulp mill for the manufacture of paper and paperboard. It is also laying a gas pipeline, which will enable the foreign company mining iron ore to smelt it, and in general it is providing the necessary infrastructure - including the construction of the new urban centre - for the establishment of private industry.

The guiding principle of all these new activities is that they must be effectively integrated in the over-all domestic economy, so that

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17/ The assets and functions that had formerly been those of the Survey Committee for the Electrification of the Caroní and the Venezuelan Iron and Steel Institute were transferred to the Venezuelan Guayana Corporation also. It has a President, who is responsible for all executive functions, and a Board of Directors composed of four members, all of whom are appointed by the President of the Republic, which acts in an advisory capacity.

even though a good deal of the region's production is to be exported, the new development node will not result in enclaves whose contribution to the rest of the domestic economy is confined to the payment of royalties and taxes.[18/]

The proposed industrial centre comprises a steel plant, an aliminium plant and a pulp and paper mill. The steelmaking programme is administered by Siderúrgica del Orinoco C.A., which built and is now managing the Planta Siderúrgica del Orinoco, with a capital of 200 million bolívares. This company belongs to the Venezuelan Guayana Corporation and came into being as a result of a change in the legal status of the Steel Division. The construction and administration of the aliminium plant is in the hands of the Compañía Alumina del Caroní S.A. (ALCASA), which is owned on a fifty-fifty basis by the Venezuelan Guayana Corporation and the Compañía Reynolds International. Construction started in February 1966 at Matanzas (Guayana City), and the aim is to build a reduction plant for ingots and billets. The Sociedad Pulpa Guayana is establishing a paper and paperboard plant which will draw its raw materials from the huge forest resources in the Guayana area. This company comprises the Venezuelan Pulp and Paper Corporation, Cartones Nacionales S.A. and Cartón de Venezuela S.A.

Besides these projects, there are others under study or in course of execution. For example, it is expected that, upon completion of the Anaco-Guayana City gas pipeline, the Orinoco Mining Company will produce briquettes with a high iron content by a process of reduction with natural gas. Other projects include the manufacture of liquid ammonia for export, a slag cement plant - which would make use of material obtained from the steel plant -, wheat and maize flour mills, and food-processing plants.

The hydroelectric potential of the Caroní River is one of the main natural resources of the area. The Compañía CVG - Electrificación del Caroní C.A. - was set up as a subsidiary of the Venezuelan Guayana Corporation for the purpose of constructing the hydroelectric works and distribution network and of managing the whole system. It is at present

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18/ See Alexander Ganz, La planificación regional, clave de la etapa actual del desarrollo económico de América Latina: el caso de Guayana, una región "frontera", paper presented at the Seminar on State Planning organized by ECLA and BNDE at Rio de Janeiro in July 1965, p. 9.

/managing the

managing the Macagua I plant and is responsible for the power transmission and distribution lines, interconnexion of the regional electrical system with those in the east and centre of Venezuela, and the construction of the Guri hydroelectric dam and plant.

The Venezuelan Guayana Corporation is engaged directly or through contractors in the building of Guayana City. The use of land and the provision of public services for both government and private activities are laid down in the plan for the town. Work has already begun on the Alta Vista centre; some areas have been set aside for industry and other sectors are being urbanized.

It is planned to develop the Orinoco delta in order to solve the problem of food supplies for the region, particularly Guayana City. This area of some 20,000 square kilometres is periodically devastated by floods. As part of the bank protection works, the first step has been to close the Mánamo channel and to build dikes. Irrigation projects are also being carried out in areas near Guayana City, such as Culíes, and forestry and fisheries studies are being undertaken.

As regards human resources, community development programmes have been launched, with the establishment of Social Welfare Boards which encourage the people themselves to take part in studying and solving their common problems. In the field of education, the programme for the establishment of primary schools and technical training facilities for adults has been worked out in the light of a projection of manpower needs over the next ten years; a regional centre for research, programming and educational services has also been established.

4. Regional development prospects and policies

However widely the objectives, scope and patterns of the above-mentioned regional development programmes may vary, a feature common to them all is the increasing importance attached to regional questions in national development policies as a whole. In all probability, this tendency will become even more marked in the next few years, both on account of situations already existing and as a result of the possible repercussions of other factors - including Latin American economic integration and the prospects and demands of agricultural and industrial development - on the allocation of resources by regions.

/It would

It would therefore be appropriate to devote fuller consideration to the criteria that should be applied in defining a regional development policy, but the difficulty is that in the end, an analysis of this kind covers the same ground as a global development strategy and an over-all policy for the allocation of resources. Without overlooking the need to envisage the subject in this broad context, the following paragraphs will touch upon a few points relating mainly to the two alternatives represented by concentration or wider regional distribution of resources, and to other factors which are coming increasingly to the fore as determinants of the location of economic activity.

(a) Over-all development and zoning

The first necessity seems to be to discuss the basic guidelines for a policy relating to the regional allocation of resources, in the light of its predictable effects on the over-all rate of growth, the capacity to maintain or increase that rate in the future, and the extension of the benefits of development to the majority of each country's population. In a first approximation, it might be argued that the concentration of resources in a metropolitan area would represent at once a requisite for the expansion and diversification of the structure of the economy, and an optimum allocation from the standpoint of the over-all growth rate, since it would constitute a mean of taking maximum advantage of external economies. Secondly, it might likewise be assumed that the enlargement and consolidation of this central focus of development would make it a radiation factor that would promote the development of the rest of the economy. Were this to happen, the problem would not be strictly one of regional development requiring the adoption of policies deliberately designed to tackle it. The only trouble would be the lack of synchronization between the period of consolidation of the metropolitan area and the process of radiation throughout the rest of the system; and in the course of time that process would spontaneously bring about the integration and unification of the national economy.

Several aspects of Latin America's experience appear to suggest that the first of these postulates is linked to specific stages of growth, and that there is good reason to doubt the validity of the second.

/Unquestionably, throughout

Unquestionably, throughout one entire phase, a "polarized" type of development represents an allocation of resources which is economically justifiable and implies substantial progress from the standpoint of the possibilities of improving the population's levels of living. It is also true, however, that these merits will hold good only as long as the following two requisites are fulfilled: the productivity of the resources invested in the more advanced development nodes must be higher than it would be in newly-opened-up or backward areas; and there must be evidence of capacity to impart dynamism to the rest of the system and to absorb an increasing proportion of the national population at adequate levels of productivity and income. Hence the content of a regional policy cannot be defined irrespective of the specific stage of development through which the economy is passing, and from another point of view this means that the wide variety of situations existing in the various Latin American countries may invalidate any generalization formulated for Latin America as a whole.

(i) The significance of external economies. It is common knowledge that factors relating to external economies carry a great deal of weight in the economic analysis of location options and decisively influence the regional distribution of investment. In order to study their significance in relation to the present characteristics of the Latin American economies, a distinction must be drawn between two categories of determinants of the external economies in question. The factors more directly linked to a specific production unit and to questions of supplies of inputs, access to financing and sub-contracting markets, proximity to the decision-making centres and to technical research and manpower training services, etc., must be differentiated from those connected with the infrastructure - usually the responsibility of the public sector - required for the development of productive activity, such as transport and means of communication, and urban infrastructure with its supplementary services (housing, water supply, medical services, schools, etc.).

/This distinction

This distinction is important both from the standpoint of the real duration of the external economies concerned and from that of the incidence of each type of factor on private and public decisions as to the location of investment.

Generally speaking, it may be granted that the factors directly linked to production units go on increasing the external economies they signify for an indefinite length of time. The more a specific development node expands and the more activities are concentrated in it, the more substantial and widely varied will be the advantages it offers to new activities in this respect. But the same is not necessarily true of factors of the second type, in particular, those relating to urban infrastructure.

Theoretically, once a specific urban centre has been established on a firm footing and adequately provided with the appropriate public utilities, it will be in a position to accommodate the more numerous population justified by the installation of new enterprises. The general facilities already available will be more intensively utilized, and every additional person will therefore mean a decrease in costs.

This ratio cannot be of the linear type, since in the utilization of certain services successive saturation points will inevitably be reached, and at each of these critical junctures relatively substantial investment in expansion will have to be effected, opening up new possibilities of external economies, until the next time a similar situation arises. For example, supposing that in a given city the potable water or the electric power supply is sufficient for 100,000 inhabitants, once this limit is exceeded an aqueduct will have to be built, or new generator groups installed, which will serve the needs of a population of 300,000; and when that number is reached the problem will again recur.

Hence it is clear that the external economies linked to the establishment of new population settlements in a given region are contingent upon each individual situation and point of time. An important longer term question is whether the cost of urban infrastructure tends to increase or to decrease in relation to the size of the population

/concerned. Little

concerned. Little empirical research has been conducted on this subject, and its findings are not always consistent even for one and the same country. For example, in a study made by SVIMEZ in Italy in 1956, the costs of fixed social investment per inhabitant of an urban centre were estimated at 123,000 liras in towns with 30,000 inhabitants, 194,000 liras in those with 30,000-200,000 inhabitants, and 357,000 liras in those with a population of over 200,000.[19] In contrast, another study, also carried out in Italy, assigns the highest costs of construction, installation of facilities and maintenance to towns with about 100,000 inhabitants, the figures being lower both for smaller and for larger towns.[20]

At all events, it should be borne in mind that in many Latin American countries there are other factors currently in operation which may weaken or thwart the possibilities of utilizing the greater external economy potential of metropolitan areas. Suffice it to recall the extremely high urban concentration indexes already attained (high both in comparison with other more developed countries and in relation to the nature of the urban economy concerned), the speed of the in-migration process, and the cumulative social service deficits that are so marked in the metropolitan areas in question.

In many instances, urban development has outstripped the capacity to meet demand for public utilities, understandably enough in view of the fact that during the nineteen-fifties the increase in the urban population was 71 per cent in Latin America [21] (as against only 18 per cent in Europe). It often happens that in towns which have grown very

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19/ See SVIMEZ, "La localizzazione industriale ed i costi sociali dell'insediamento di nueva unitá lavorative", Informazioni SVIMEZ, Rome, May 1957. Quoted by Alessandro Busca and Salvatore Cafiero in "Costo social del asentamiento", Cuadernos de la Sociedad Venezolana de Planificación (August 1966), p. 40.

20/ See TEKNO, Ricersa sui costi di insediamento urbani ed industriali in varie cita d'Italia, Milan, 1963. Quoted by Busca and Cafiero in "Costo social del asentamiento", op.cit., p. 41.

21/ Of this increase, about one-third - in decreasing proportion in the larger countries - is due to the new towns with more than 20,000 inhabitants; the rest may be ascribed to the population growth in existing cities.

fast the ability to provide such services efficiently declines, and serious inconveniences ensue, especially in respect of intra-urban transport and communications. In some metropolitan areas, tens of thousands of persons living at distances of anything from 30 to 60 kilometres from their place of work are dependent upon daily transport; the cost of this commuting has not been measures, but indirectly it undoubtedly implies an increase in working hours and a drain on wages, in addition to the direct cost of transport facilities.

The cumulative shortfalls in social services, in their turn, reach abnormal extremes. For example, the urban housing deficit in Latin America was estimated at 14 million housing units in 1961, and, to make matters worse, shows a rising trend. About 30 per cent of the urban population has no piped water supply. As regards education, in 1960 there were 40 million illiterate adults in the region as a whole, and the adult population had not received more than 2.2 years of schooling on the average.

In these circumstances, it is doubtful whether the expansion of many of Latin America's metropolitan areas would afford opportunities for external economies. On the contrary, in some instances the per capita cost of urban infrastructure entailed in the establishment of entirely new towns would be lower than that of expanding the major urban centres already in existence. For example, in the case of the underground railways in Rio de Janeiro and São Paulo, the cost per kilometre of track is estimated at 10 million dollars.

Clearly, therefore, the significance of external economies and consequently of criteria for the regional allocation of resources differs greatly according to whether they are envisaged from the standpoint of a particular enterprise or project or from that of the national economy as a whole. In the first case, as long as foreseeable operational results are related to directly productive investment, the advantages will be on the side of unlimited agglomeration, and this is, in the last analysis, one of the chief principles on which private investment decisions are based. But such estimates of productivity or profitability fail to take into account the need for supplementary

public investment (national or municipal), which sometimes has to be on a substantial scale, and in practice represents an indirect subsidy to enterprises. In other words, the national economy might derive more benefit from the location of new enterprises in second- or third-category development nodes, where they might help to further the modernization process, than from their installation in major urban centres, in so far as these latter record rising costs for the expansion of infrastructure and public utilities. Unfortunately, no data are available for testing the validity of this judgement, even in relation to some of the metropolitan areas of Latin America.

(ii) Concentration of resources and incentives to regional development. Despite the foregoing reservation, the possible advantages of concentrating resources in a few development nodes would still hold good, in so far as these centres were capable of acting as instruments for radiating progress to the rest of the economy and for promoting economic growth. A prerequisite for defining the advantages in question is to investigate the relations between the major urban centres, on the one hand, and, on the other, the secondary urban centres and the whole of the rural periphery. This is another field in which very little research has been undertaken in Latin America.

In their early stages, industrial development and the diversification of the economy call for a relatively high degree of regional concentration in the allocation of resources, and can make advantageous use of a set of external economies. In addition, the development and consolidation of the centres of economic growth implies that income is diverted to them from traditional activities, either directly, through the channelling of part of the investment capacity generated in such activities towards the centres concerned, or indirectly, through the transfer of surpluses by means of taxation (mainly taxes on primary exports at first). At a later stage, especially in the conditions attendant upon the development of Latin America, the major urban centres find other ways of appropriating surpluses from the rest of the economy; for example, in a framework of strongly protected industrial development, what happens is not that part of the benefits of technical

/progress are

progress are transferred through reductions in the prices of manufactured goods, but that relative prices tend to favour the urban centres, to which real income is thus transferred from the rest of the system.

A process of this kind might be regarded as a temporary necessity, required until the more advanced development nodes were firmly established and were capable of engendering on their own account sufficient surpluses to safeguard their subsequent expansion, while at the same time bringing the higher levels of productivity and better living conditions by which they are characterized within reach of an increasing proportion of the country's population, and diverting part of the surplus to the rest of the economy in order to make the system as a whole better integrated and more homogeneous.

The investment levels attained are much lower than might be expected in view of the high degrees of income concentration, and the production techniques in use are increasingly capital-intensive and employ relatively little manpower. These two circumstances in conjunction considerably reduce the capacity of modern activities in the metropolitan economy to absorb a growing proportion of the labour force. Thus, the development nodes fail to increase their potential as instruments for imparting dynamism and homogeneity to the rest of the economy; what is more, the rapid tempo of migration from the rural areas to the towns is creating within the metropolitan areas themselves a steadily growing population sector which has to find employment in activities where productivity and income are minimal, with the result that internal disparities are created which are just as striking as the differences between the metropolitan area as a whole and the rest of the country. The very structure of production capacity tends to reinforce this process, inasmuch as it is geared to the consumption patterns of the upper income strata and therefore places emphasis on the expansion of more highly capital-intensive activities providing less employment per unit of product, while increasing diversification is demanded which involves the disadvantage of unduly small scales of production.

The special conditions in which the development of Latin America is taking place, however, do not seem propitious to such a process. The investment levels attained in the large urban centres are usually

much lower than might be expected in view of the high degrees of income concentration, largely because of the ways of living and consumption expectations of the social groups receiving those incomes; and since at the same time the production techniques in use are increasingly capital-intensive and employ relatively little manpower, the capacity to absorb the labour force is reduced. Thus, the development nodes fail to increase their potential sufficiently as instruments for imparting dynamism to the rest of the economy; what is more, the rapid tempo of migration from the rural areas to the towns is creating within the major cities a steadily growing population sector which has to find employment in activities where productivity and income are minimal, with the result that internal disparities are created which are just as striking as the differences between the urban areas and the rest of the country. The very structure of production capacity tends to reinforce this process, inasmuch as it is geared to the consumption patterns of the upper income strata and therefore places emphasis on the expansion of more highly capital-intensive activities providing less employment per unit of product, while increasing diversification is demanded, which increases their costs because of the unduly small scales of production. The process is further consolidated by means of price mechanisms and the tapping of financial surpluses through the bank system. Accordingly, the economic system tends to accentuate the disparities in regional development.

(b) Other factors destined to influence regional development policies

The foregoing considerations point to the necessity of formulating a regional development policy which would fit into the framework of an over-all development policy. In the special conditions prevailing in each country, it would be necessary deliberately to alter the traditional pattern of location of economic growth. Thus, the efforts that are already being made in several Latin American countries, as described in an earlier section, would take their place within a more general programme.

There are also other factors which enhance the need for an active regional development policy and which will in all probability influence the direction it takes.

/(i) Latin

(i) Latin American economic integration. Outstanding among these factors are Latin America's economic integration prospects. The traditional development centres, cut off from one another as they are, could hardly constitute the basis for a more closely integrated Latin American economy.

The difficulty lies not merely in the vast distances and topographical obstacles involved, but also in the principles which governed the establishment of the Latin American transport and communications systems. The whole of the transport network was constructed in line with the needs of the export trade, and the golden rule was to follow the easiest route from the production site to the foreign consumer centre. Generally speaking, each individual country's transport system was designed to serve foreign markets, with the seaports forming its axis, and the interconnexion with points in the interior was neglected. Similarly, at the international level there was no regular linkage, either by sea or by land, between different Latin American countries.

If the resulting pattern of regional distribution of economic activity did not even serve definite integration objectives within the national economies, much less could it have taken into account the possibilities of complementarity among the Latin American countries. There were even specific stages at which intra-regional connections that had previously been established tended to disappear.

Signs of what the subsequent course of the Latin American integration movement may mean in terms of each country's regional development are already discernible. An excellent illustration is afforded by the regional agricultural policy pursued in the Central American Common Market, which, as it operates at the level of the five countries in conjunction, has permitted the restructuration and zoning of agricultural production. This has led to a form of specialization by areas which may revolutionize the structure of

agricultural production in each of the countries concerned.[22/] In the future, moreover, the subregional integration projects of the Andean Group and the countries of the River Plate basin may imply a radical change in the structure and location of demand, which will necessarily affect the location of the activities intended to satisfy it.

A Latin American integration programme based essentially or solely on the activities and potential of the existing centres of economic activity might still further accentuate the existing disparities, unless a strategy for regional development is adopted.

(ii) The requirements of agricultural development. Whatever the requirements of Latin American integration with respect to the geographical allocation of resources, a concurrent pressure will be exerted by internal needs themselves. Agricultural development prospects constitute an illustrative case in point.

The existing food shortage, population growth and the need to increase and redistribute income will necessitate a very rapid expansion of agricultural production. It may be estimated that during a fairly representative period (for example, ten or fifteen years) these demands can largely be met by increasing productivity in the areas already farmed; but even if yields are relatively high, much more land will still have to be brought under cultivation. According to the studies that are being

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22/ See ECLA, Evaluación de la integración económica en Centroamérica (United Nations publication, Sales N°: 66.II.G.9), pp. 60 et seq. This document, which is published only in Spanish, was partly based on a study prepared for presentation at the ninth session of the Economic Commission for Latin America (E/CN.12/CCE/327/Rev.1), from which the following passage is taken: "Greater possibilities for the zoning of production are afforded by the wide range of variations in climate, physical conditions, soil fertility and distribution of water resources in Central America as a whole, as well as by the marked extent to which one country differs from another in respect of the relations between the size of the rural population and the quantity and quality of the resources available for agricultural production. All this would enable the economic use of the less productive areas to be given a new structure, and would facilitate more intensive farming of the land best suited for various crops, which today is often technically and economically under-utilized".

/carried out

carried out by the ECLA/FAO Joint Agriculture Division, by 1975, if reasonable agricultural consumption targets are to be attained, farm land in Latin America should be expanded by 70 million hectares, of which 35 million would have to be used for crops and 35 million for livestock production.[23/] It should be recalled that in 1965 the total area under crops amounted to 80 million hectares, and grazing land - measured in terms of artificial pastures - represented 222 million hectares (65 million of artificial pastures and 157 million of natural pasture equivalent). Expansion on the scale indicated would involve the implementation of a regional policy aiming at bringing under cultivation the equivalent of one-fourth of the existing agricultural area.

This implies not only the construction of infrastructure to facilitate access to the areas opened up, but also significant changes in agricultural location patterns. But the process cannot stop there; in one way or another, the incorporation of new agricultural land will bring new urban centres into being, and will afford opportunities for new regional development nodes to spring up on the basis of more diversified economies.

(iii) Industrial development policy. In the past, industrial development has unquestionably been one of the factors that have done most to promote the geographical concentration of development. Nevertheless, especially once specific stages of industrial growth have been attained, the continuance of this concentration is not necessarily inherent in that of the industrialization process.

Generally speaking, apart from the external economies already discussed, the location of industry in the major cities has been determined by certain principles of manufacturing development which are unlikely to carry out the same weight in the future. As long as industry was geared to import substitution in respect of consumer goods and to the satisfaction

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23/ Per capita agricultural consumption in the lower income groups - 50 per cent of the total population - will probably rise from 62 dollars per annum in 1965 (at 1960 prices) to 103 dollars in 1985; at the same time, per capita consumption in the higher income groups - the other half of the population - should increase from 145 to 158 dollars. This would mean that the agricultural consumption of the lower income groups would reach what is at present the average level for the total population.

/of the

of the growing and increasingly diversified demand of the upper income strata, a location pattern other than agglomeration in the large urban areas was hardly conceivable. With the exhaustion of import substitution possibilities in the field of final consumer manufactures, however, industrial development is compelled to seek means of utilizing and processing natural resources, with a view both to the domestic market and to exports of manufactured goods. By their very nature, many such industries are bound to be located near the resources concerned, irrespective of the markets afforded by the traditional development centres; and this implies new regional patterns of industrial distribution.

Other factors of regional location are linked to the strategy for development policy. Obviously, a policy will have to be adopted in which priority is given to raising the productivity of the non-modern economic sectors and the real income of the population living in subsistence conditions. The considerable increase in demand for intermediate, capital and consumer goods, besides the large-scale agglomeration which such a policy is likely to promote, would require the development of new centres of development which would have to be given deliberate impetus.

In so far as all this involves significant changes in income distribution, other factors will emerge which would also facilitate a broader regional distribution of the industries producing consumer goods. If the population of rural areas and of new urban centres obtains a larger share in real income, the structure of demand for consumer manufactures will alter in favour of wage goods, which in their turn are precisely those for which requirements in respect of scales of production and concentration in large units are less exigent, and which therefore lend themselves better to more balanced regional location.

(c) Criteria for regional allocation of resources

Taken as a whole, the considerations set forth in the two preceding sections suggest that the formulation of a regional development policy aiming at the opening-up of new areas and the establishment of new development nodes does not necessarily represent a sacrifice of resources justifiable only in the light of income redistribution criteria or by the political expediency of closer integration of the national territory.

/Strict adherence

Strict adherence to a profit-cost criterion based on short-term prospects is not enough, since in most cases the conclusions to which it led would be unfavourable to the broader regional distribution of resources. As a general rule, when profit-cost ratios are calculated no account is taken of the indirect investment required to expand infrastructure and urban services, and there is good reason to doubt whether these would continue to afford opportunities of benefiting by external economies in several of the Latin American metropolitan areas.

Furthermore, it is essential that decisions of this type should be based on a sufficiently long-term outlook. Naturally, the yields that may derive from the establishment of development centres in potentially wealthy areas which have not, however, been settled or developed, can only be properly assessed over the medium or long term. Hydropower, irrigation or land settlement projects and road-building, for example, which permit the development of new areas, entail investment that is slow to mature, but is often more than justified by the direct and indirect benefits subsequently reaped; what is more, in many instances it is precisely such economic penetration projects that have given the Latin American economies their present structure. Cases in point are such projects as those relating to the valleys of the Rivers Negro and Papaloapan (in Argentina and Mexico), to land settlement in Paraná (Brazil), and to the areas of Tingo María Pucallpa in Peru and Putumayo in Colombia. Through these undertakings, not only have sources of wealth been created, but markets have also been established or expanded, giving rise in their turn to new investment. No less significant is the potential of other projects not yet completed, such as that of the Carretera Marginal de la Selva. Latin America abounds in undeveloped areas of great potential wealth, where the establishment of new development nodes would be justified. Thus a snowballing process similar to that which determined the concentration of economic activity in the existing centres would be reproduced in a different setting, on a different scale and with different objectives. Obviously, however, in such cases economic expendiency cannot be evaluated project by project, but must be assessed from different angles and on the basis of a comprehensive comparison of various programmes under an over-all development plan.

/Lastly, in

Lastly, in relation to some regional undertakings at least, it should be recalled that the problem cannot always be stated in terms of options for the allocation of a given quantity of aggregate resources, since regional development policies themselves may result in the mobilization of additional resources which would otherwise remain idle. In other words, a more active regional development policy may not only imply a different pattern for the allocation of resources by regions, but may also serve as an instrument whereby a larger volume of domestic resources can be mobilized for capital formation purposes.

This involves recognition of the need for broader approaches to investment questions than those traditionally adopted. Hitherto, attention has been almost entirely concentrated on the mobilization of financial resources and the removal of obstacles to increases in monetary saving; on the other hand, much less heed has been paid to the potential capacity of substantial unemployed or under-employed human resources to contribute to real capital formation, particularly in agricultural infrastructure expansion projects. This potential would be difficult to harness efficaciously anywhere but in the local environment, where it is easier to mobilize relatively numerous groups of workers for the attainment of objectives capable of providing them with motivations.

Another point to bear in mind is the possible significance of a policy for regional dissemination of technical progress and economic activity in relation to the establishment or expansion of a genuine domestic market. The existing disequilibria, whose intensity and influence varies according to each country's situation, make up a heterogeneous body of conditions which militate against internal integration and the possibilities of trade within the national economy. Just as at the international level economic relations are more dynamic between diversified or industrialized producers than between the centres and the periphery, so too, at the national level, the network of trade will tend to spread wider in so far as the various parts of the territory take a real share in it, on the basis of more diversified supply. From this standpoint, it may be contended that the emergence of a true domestic market represents an external economy of vital importance for the whole of the production system.

Chapter III

THE EXTERNAL SECTOR

The relative importance still attaching to the external sector in the present structure of the Latin American economy has already been discussed in the preceding chapters, particularly in connexion with the structure of aggregate supply and demand. The object of this chapter is to build up a fairly substantial body of data that will give an up-to-date picture of the situation and indicate the major trends of both foreign trade and external financing and external capital movements since the mid-nineteen-fifties.[1/]

1. Characteristics and trends of foreign trade

(a) General features

The essential features of Latin America's foreign trade at the present time may be summed up as follows:

(i) A relatively small and steadily dwindling share of total world trade;

(ii) Little diversification of exports, which still largely consist of a limited number of primary commodities;

(iii) Little momentum in export trade, owing to the instability and slow growth of external demand for this type of goods, growing competition from other areas and the protectionist policies of the industrialized areas aimed at self-sufficiency;

(iv) Greater dependence on imports for domestic supplies, not only of complex industrial goods but also of primary commodities, mainly raw materials with some foodstuffs;

1/ With regard to foreign trade in particular, the aim of presenting as much detailed information as possible by areas and types of products has limited the period covered to 1955-66. The data given in Part Two, which reviews events in 1968, can be used to update some of the more important series, although they are less detailed in coverage. In view of the way in which the data are set forth in the basic sources, trade has been divided into six categories of products: three for primary commodities (food, raw materials and fuels) and three for manufactures (chemical products, machinery and equipment, and other manufactures).

/(v) A

(v) A high degree of concentration in the geographical distribution of trade, a particularly large volume of transactions with the industrialized countries being set against very little trading among the Latin American countries themselves, and between them and other under-developed regions or socialist countries;

(vi) Marked disequilibria in trade balances with the industrialized countries, which have led to a sort of three-cornered trade, in which there are appreciable export surpluses in trade with Europe and import surpluses in transactions with the United States.

These characteristics have become accentuated in recent years at a time when world trade has been growing exceptionally fast and has undergone far-reaching structural changes. The following are some of the main features of these changes and their repercussions on Latin America's foreign trade:

(i) The share of industrial products in world trade flows has increased enormously at the expense of primary commodities;

(ii) The major industrialized regions have greatly reduced their deficit position in world commodity trade and, in some cases, have become net exporters;

(iii) In the face of these changes, intra-Latin American trade is making insufficient progress, and trade between Latin America and other under-developed regions seems to have come to a standstill;

(iv) Import substitution in manufactures has not prevented a rapid deterioration from taking place in the deficit position of chemical products and machinery in Latin America's foreign trade, and has merely served to stabilize the negative balance for "other manufactures", while the absolute value of imports has been rising;

(v) Although Latin America has favourable net trade balances for the three categories of primary commodities, the absolute value

of regional imports has remained constant for fuels only, while imports of foodstuffs and raw materials have continued to increase.

Data bearing out most of these general arguments are presented in tables I-32 and I-33.

It will be seen that primary commodities accounted for nearly 87 per cent of the region's entire exports up to 1966, and as much as 95 per cent of semi-finished non-ferrous metal products, which appear under the heading of "other manufactures", are included. About 73 per cent of its imports consist of industrial goods. If trade within Latin America is discounted, the shares of primary commodities in exports and of manufactures in imports both increase.

These figures make it clear that there have been no appreciable changes in the structure of Latin American's foreign trade. The process of industrialization, which is based essentially on import substitution, is not reflected in the composition of exports, and has had relatively little effect on the structure of imports. Where it has, it has mainly altered the relative importance of different types of manufactures, for example, the share of "other manufactures" has decreased while those of chemical products, and of machinery and equipment, including motor vehicles and parts, have expanded.

In this sense, intra-Latin American trade shows a different pattern, although in absolute terms it carries little weight in over-all trade. In 1955, nearly 90 per cent was primary commodity trade, while manufactures accounted for less than 11 per cent. By 1966, the latter's share had risen to over 30 per cent (70 per cent of the region's 86 million dollars' worth of exports of machinery went to the Latin American countries, as did a fifth of the miscellaneous manufactures and more than a third of the chemical products).

/Table I-32

Table I-32

LATIN AMERICA: TRADE BY REGIONS AND CATEGORIES OF GOODS

(Millions of dollars)

Goods	Year	Total			Developed regions			United States			Canada			EEC			EFTA			United Kingdom			Other EFTA countries		
		Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total	1955	7 970	7 060	910	6 170	5 670	500	3 510	3 300	210	120	165	-45	1 240	1 210	30	870	670	200	560	320	240	310	350	-40
	1960	8 590	7 940	650	6 750	6 640	110	3 600	3 550	50	145	195	-50	1 580	1 560	20	1 010	900	110	740	480	260	270	420	-150
	1965	11 060	9 320	1 740	7 990	7 170	820	3 530	3 730	-200	320	300	20	2 220	1 630	590	1 070	870	200	680	445	235	390	425	-35
	1966	11 660	10 410	1 250	8 600	8 080	520	3 870	4 170	-300	290	340	-50	2 290	1 830	460	1 120	950	170	700	445	255	420	505	-85
Food (0 and 1)	1955	3 760	890	2 870	3 230	510	2 720	1 920	345	1 575	63	49	14	620	43	577	460	52	408	255	15	240	205	37	168
	1960	3 810	880	2 930	3 260	570	2 690	1 800	390	1 410	42	46	-4	790	47	743	470	57	413	300	17	283	170	40	130
	1965	4 870	1 090	3 780	3 580	570	3 010	1 550	350	1 200	43	89	-46	1 210	50	1 160	430	56	374	205	24	181	225	32	193
	1966	5 090	1 250	3 840	3 850	680	3 170	1 720	425	1 295	41	82	-41	1 230	73	1 157	445	67	378	200	32	168	245	35	210
Raw materials (2 and 4)	1955	1 540	550	990	1 300	280	1 020	500	145	355	4	13	-9	375	28	347	185	38	147	135	3	132	50	35	15
	1960	1 590	470	1 120	1 360	275	1 085	540	155	385	9	33	-24	420	23	397	205	27	178	170	9	161	35	18	17
	1965	2 130	660	1 470	1 760	380	1 380	540	240	300	22	39	-17	570	30	540	215	26	189	180	5	175	35	21	14
	1966	2 320	690	1 630	1 910	360	1 550	580	225	355	19	37	-18	590	28	562	240	26	214	195	4	191	45	22	23
Fuels (3)	1955	1 900	640	1 260	970	155	815	690	145	545	36	-	36	105	5	100	115	3	112	78	3	75	37	-	37
	1960	2 350	630	1 720	1 390	135	1 255	900	120	780	87	1	86	125	6	119	240	4	236	195	4	191	45	-	45
	1965	2 740	600	2 140	1 720	115	1 605	930	105	825	255	-	255	145	8	137	310	2	308	220	2	218	90	-	90
	1966	2 700	670	2 030	1 690	145	1 545	970	135	835	225	-	225	145	8	137	275	2	273	195	2	193	80	-	80
Chemical products (5)	1955	85	620	-535	65	600	-535	35	365	-330	2	20	-18	14	125	-111	9	78	-69	7	39	-32	2	39	-37
	1960	110	790	-680	94	740	-646	63	410	-347	1	10	-9	19	210	-191	8	105	-97	6	48	-42	2	57	-55
	1965	160	1 090	-930	94	970	-876	59	480	-421	1	11	-10	20	325	-305	9	125	-116	7	56	-49	2	69	-67
	1966	200	1 260	-1 060	120	1 130	-1 010	75	540	-465	1	13	-12	24	385	-361	12	150	-138	4	65	-61	8	85	-77
Machinery (7)	1955	12	2 220	-2 208	5	2 180	-2 175	3	1 320	-1 317	-	29	-29	2	540	-538	-	245	-245	-	135	-135	-	110	-110
	1960	19	3 010	-2 991	13	2 930	-2 917	9	1 570	-1 561	-	26	-26	2	750	-748	2	450	-448	2	285	-283	-	165	-165
	1965	64	3 410	-3 346	12	3 150	-3 138	6	1 680	-1 674	-	66	-66	3	740	-737	2	425	-423	1	245	-244	1	180	-179
	1966	86	3 880	-3 794	21	3 570	-3 549	13	1 870	-1 857	1	105	-104	4	820	-816	2	440	-438	1	235	-234	1	205	-204
Other manufactures (6 and 8)	1955	660	1 900	-1 240	600	1 730	-1 130	345	790	-445	5	52	-47	140	460	-320	100	240	-140	86	115	-29	14	125	-111
	1960	680	1 960	-1 280	680	1 780	-1 100	265	740	-475	3	78	-75	230	520	-290	105	255	-150	78	115	-37	27	140	-113
	1965	1 060	2 300	-1 240	820	1 840	-1 020	420	750	-330	4	93	-89	260	455	-195	105	235	-130	80	105	-25	25	130	-105
	1966	1 240	2 490	-1 250	1 000	2 030	-1 030	505	850	-345	5	105	-100	295	495	-200	145	250	-105	105	100	5	40	150	-110

Table III-2 (conclusion)

Goods	Year	Other Western European countries			Japan			Developing regions			Latin America	Middle East			Africa			Asia			Eastern Europe			Mainland China		
		Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance		Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total	1955	180	120	60	230	180	50	1 620	1 250	370	760	24	53	-29	41	12	58	32	180	-148	175	140	35	6	3	3
	1960	140	130	10	240	275	-35	1 540	1 060	480	680	25	44	-19	61	37	24	36	140	-104	265	235	30	41	11	30
	1965	340	200	140	480	410	70	2 130	1 430	700	1 080	51	99	-48	91	35	56	66	125	-59	730	590	140	205	125	80
	1966	420	280	140	570	465	105	2 180	1 520	660	1 180	72	110	-38	51	47	4	86	110	-24	700	730	-30	185	80	105
Food (0 and 1)	1955	110	20	90	54	2	52	435	375	60	360	20	-	20	21	3	18	23	8	15	90	5	85	6	-	6
	1960	80	26	54	75	5	70	350	280	70	260	22	-	22	33	6	27	22	8	14	170	33	137	34	-	34
	1965	240	19	221	92	2	90	500	385	115	360	43	-	43	72	13	59	18	7	11	610	100	510	185	27	158
	1966	295	25	270	100	3	97	530	405	125	390	62	-	62	43	9	34	32	6	26	550	140	410	175	20	155
Raw materials (2 and 4)	1955	50	39	11	170	1	169	155	265	-110	145	2	-	2	2	8	-6	5	115	-110	79	10	69	5	-	5
	1960	15	22	-7	160	3	157	125	180	-55	92	1	1	-	3	11	-8	3	73	-70	91	16	75	8	-	8
	1965	55	14	41	345	5	340	240	225	15	175	5	-	5	1	4	-3	41	45	-4	115	48	67	9	10	-1
	1966	50	18	32	415	8	407	265	255	10	195	7	2	5	2	3	-1	36	48	-12	140	64	76	4	7	-3
Fuels (3)	1955	15	1	14	-	1	-1	940	460	480	175	2	52	-50	18	-	18	3	1	2	-	23	-23	-	-	-
	1960	25	-	25	1	1	0	980	450	530	260	2	40	-38	24	4	20	1	1	-	-	47	-47	-	-	-
	1965	45	1	44	27	1	26	1 020	380	640	210	-	89	-89	15	13	2	3	1	2	-	105	-105	-	1	-1
	1966	40	-	40	32	1	31	1 000	425	575	230	-	105	-105	4	26	-22	12	3	9	-	100	-100	-	1	-1
Chemical products (5)	1955	2	7	-5	3	5	-2	14	15	-1	14	-	-	-	-	-	-	-	-	-	6	6	-	1	10	-9
	1960	1	5	-4	2	7	-5	15	18	-3	15	-	-	-	-	-	-	-	-	-	3	24	-21	-	6	-6
	1965	2	15	-13	2	18	-16	60	70	-10	57	-	2	2	-	4	-4	2	1	2	7	43	-36	-	9	-9
	1966	3	15	-12	4	26	-22	75	76	-1	69	-	1	1	-	1	-1	3	-	3	9	49	-40	-	8	-8
Machinery (7)	1955	-	15	-15	-	33	-33	6	6	0	-5	-	-	-	-	-	-	-	-	-	-	34	-34	-	-	-
	1960	-	20	-20	-	120	-120	7	8	-1	6	-	1	-1	-	-	-	-	1	-1	-	66	-66	-	3	-3
	1965	-	75	-75	-	155	-155	51	52	-1	50	-	1	-1	-	-	-	-	1	-1	-	195	-195	-	12	-12
	1966	1	140	-139	-	190	-190	64	66	-2	61	1	1	-	-	-	-	1	3	-2	-	240	-240	-	8	-8
Other manufactures (6 and 8)	1955	5	50	-45	1	140	-139	65	125	-60	63	-	1	-1	-	-	-	1	60	-59	-	50	-50	-	2	-2
	1960	5	55	-50	7	140	-133	60	125	-65	50	-	1	-1	1	15	-14	9	59	-50	1	49	-48	-	6	-6
	1965	10	70	-60	22	225	-203	230	295	-65	220	2	3	-1	1	4	-3	1	66	-65	1	100	-99	6	66	-60
	1966	25	85	-60	26	240	-214	235	285	-50	230	2	3	-1	1	6	-5	2	48	-46	2	135	-133	6	38	-32

Source: United Nations, Monthly Bulletin of Statistics, (March 1968). Items classified according to SITC.

Table I-33

LATIN AMERICA: EXTERNAL TRANSACTIONS OF GOODS

(Annual averages in millions of dollars)

	Exports				Imports				Balance of goods			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	2 344.9	2 465.0	2 436.0	2 342.0	1 392.1	1 116.5	1 341.0	1 297.0	952.8	1 348.5	1 095.0	1 045.0
Mexico	786.7	911.8	1 146.0	1 228.0	1 018.0	1 204.0	1 522.0	1 563.0	-231.3	-292.2	-376.0	-335.0
Argentina	970.0	1 207.0	1 493.0	1 593.0	998.1	1 068.1	1 043.0	978.0	-28.1	138.9	450.0	615.0
Brasil	1 364.0	1 345.2	1 596.0	1 741.0	1 163.8	1 253.8	941.0	1 303.3	200.2	91.4	655.0	438.0
Chile	439.3	498.2	688.0	866.3	381.1	543.3	568.9	712.9	58.2	-45.1	119.1	153.4
Peru	310.0	550.1	684.6	786.5	320.9	444.4	659.7	746.2	-10.9	105.7	24.9	40.3
Colombia	585.8	513.8	591.0	533.9	491.1	528.7	430.4	625.4	94.7	-14.9	160.6	-91.5
Uruguay	159.6	161.3	196.3	188.6	182.0	179.7	123.1	145.0	-22.4	-18.4	73.2	43.6
Ecuador	130.7	148.1	180.7	187.2	97.5	117.9	155.2	152.7	33.2	30.2	25.5	34.5
Bolivia	71.6	70.8	115.5	133.1	75.8	88.1	126.6	138.8	-4.2	-17.3	-11.1	-5.7
Paraguay	36.4	41.5	60.8	53.6	38.4	44.2	53.0	58.3	-2.0	-2.7	7.8	-4.7
Haiti	36.5	38.1	37.8	34.7	43.1	43.9	42.6	42.3	-6.6	-5.8	-4.8	-7.6
Republica Dominicana	127.9	163.9	125.9	138.0	114.7	132.3	120.7	160.5	13.2	31.6	5.2	-22.5
Panama	42.5	58.9	92.6	103.2	89.2	141.8	192.5	217.7	-46.7	-82.8	-99.9	-114.5
Costa Rica	79.4	93.8	111.9	136.7	86.7	107.1	160.5	161.2	-7.3	-13.3	-48.6	-24.5
El Salvador	117.3	137.2	190.0	189.8	96.3	129.6	186.2	201.5	21.0	7.6	3.8	-11.7
Guatemala	111.0	135.3	192.1	228.7	124.5	139.8	206.1	201.8	-13.5	-4.5	-14.0	26.9
Honduras	67.4	80.1	128.8	146.7	63.3	77.8	113.2	138.3	4.1	2.3	15.6	8.4
Nicaragua	72.3	91.2	149.2	141.9	60.7	78.9	132.8	150.6	11.6	12.3	16.4	-8.7
Total	7 853.3	8 711.4	10 216.2	10 772.9	6 837.3	7 439.9	8 118.5	8 994.2	1 016.0	1 271.5	2 097.7	1 778.7

Source: ECLA, on the basis of official statistics.

/Generally speaking

Generally speaking, the persistence of this type of structure with primary commodities predominating in exports and manufactures in imports is matched by the geographical distribution of trade. In the last few years, about three-quarters of Latin America's exports, have been channelled towards the industrialized areas, and this proportion rises to 80 per cent if the socialist countries of Eastern Europe are included. On the side of imports, these areas together supplied 85 per cent of Latin America's purchases. Only a fifth of its exports go to the developing countries and mainland China. About half of this represents trade within Latin America, which, added to exports of Venezuelan petroleum to Aruba and Curaçao totals 17 per cent. Thus only 3 per cent is left for exports to Asia, Africa, the Middle East and mainland China. The geographical origin of Latin America's imports is divided in much the same way.

Some of the changes that took place in the benchmark period were largely due to Cuba, since the shift in its trade flows raised the share of the socialist countries. Trade with the developing countries fell off slightly, but in this case the main cause seems to have been the decline in exports from Venezuela to Aruba and Curaçao.

If specific industrialized areas or countries are considered, it will be seen that fairly pronounced changes occurred. For instance, the United States' share of Latin American exports dropped considerably between 1955 and 1966, both in over-all terms and in each category of products. In 1955, the United States market took 44 per cent of Latin America's exports, whereas in 1966 it received only 33 per cent. Foodstuffs were particularly affected, as their share shrank from 51 to less than 34 per cent, and total sales declined as well. The United States' share of Latin America's imports also dwindled, except in raw materials, but less than in the case of exports. In other words, while Latin America's trade with the United States slackened off in relative terms, the balance of their transactions changed in magnitude and nature, since from being a net exporter in 1955 (with a surplus of some 200 million dollars) Latin America had an import surplus of 300 million dollars in 1966.

/Latin American

Latin American exports to the group of countries forming the European Economic Community (EEC) increased considerably from 15.6 per cent in 1955 to nearly 20 per cent in 1966, while its imports remained at approximately the same level (just over 17 per cent). Thus, from having a more or less even balance of trade with EEC in 1955, Latin America achieved a large export surplus by 1966.

The group of countries that make up the European Free Trade Association (EFTA) have lost ground in Latin America's exports and imports, and Latin America continues to hold an export surplus of about 200 million dollars a year with them. This deterioration in relative and absolute terms has been largely due to its trade with the United Kingdom, since Latin America imports more from the other EFTA countries than it sells to them.

Owing to these balances, Latin America's trade with the main industrialized areas is three-cornered and this, apart from difficulties arising from the structure of trade itself, helps to prevent the region from developing its trade with markets that are relatively more dynamic but with which it already has sizable export surpluses.

In Latin America's trade with other industrialized areas, Canada ranks foremost, since the region, while still a net importer, is stepping up the volume of its transactions with that country. Its deficit position is largely due to the fact that trade is still on a unilateral basis. Fuels are virtually the only item in which Latin America has increased its exports, and it remains a net importer in all other groups.

If the United Kingdom is excluded from EFTA, Latin America's trade with the other countries shows a constant and larger deficit than with Canada. Its only important export is food, and those of raw materials and fuels are marginal, whereas its purchases of manufactures are rising steadily. To offset these deficits, Latin America is compelled to maintain a surplus with the United Kingdom, which limits its possibilities of building up its trade with that country.

Japan is gaining in importance as a buyer and supplier for Latin America. Sales to Japan rose from 2.9 per cent in 1955 to 4.9 per cent

/in 1966,

in 1966, with increases in the three categories of primary commodities, raw materials in particular. Between the same two years, Latin America's imports from Japan expanded from 2.5 to 4.5 per cent, which has given it a fairly considerably credit balance.

Among the developing countries, Latin America's trade with the Middle East is relatively very small and shows a deficit. Although the Middle East is a net importer of food and manufactures, and, to some extent, of raw materials as well, Latin America's chances of acquiring a larger share of that market are limited by its capacity to export manufactured goods and by competition from the industrialized areas in the supply of primary commodities. Hence, trade consists almost entirely in an exchange of food for petroleum and even so is adverse for Brazil, Argentina and possibly Chile, although the first two have the biggest potential for exporting food and raw materials, and all three produce textiles, clothing and footwear and durable consumer goods. Despite the fact that the Middle East imported 810 million dollars' worth of food in 1966, Latin America's share of the supply was only 62 million dollars, and it provided no consumer manufactures whatsoever although the Middle East bought 1.56 million dollars' worth in that year.

The pattern is repeated in trade with Asia, now a net food importer, where Latin America's long-standing deficit is rapidly diminishing, more because of a contraction in imports - due to import substitution - than because of an increase in exports. In 1966, Asia's food imports rose to 2.6 million dollars in value, in which Latin America's share was no more than 62 million. More than half the total value came from the industrialized countries, and the bulk of this from the United States.

As Cuba's trade was reorganized and geared to Eastern Europe, and Argentina, Brazil, Colombia, Mexico and Uruguay also traded with that area, though on a lesser scale, Latin America's share of the total increased. Cuba has a deficit position, while the countries generally have export surpluses, having met with some difficulty in attempting to build up their imports from Eastern Europe. Cuba has also set the pace in the expansion of trade with mainland China, while other countries' transactions have been largely circumstantial, e.g., Argentina's sales of food surpluses.

/As regards

As regards the structure of Latin America's trade by types of products and geographical areas, the foregoing observations show that it has been steadily losing ground in world trade flows, owing to a number of factors connected with international trade policy and modes of internal development and, above all, with the changes in the structure of world trade after the Second World War. These have been so drastic that they should be considered at greater length, as they are an essential element for seeing Latin America's current foreign trade problems in the right perspective.

(b) Latin America in the structure and trends of world trade

The expansion of the industrialized economies, at least since the mid-nineteen-fifties, was accompanied by a very high rate of growth in world trade, although trade in primary commodities and trade in manufactures develop along very different lines. Since demand for primary commodities did not increase at the same rate as demand for manufactures, the structure of world trade was substantially modified; relatively speaking, foodstuffs, raw materials and fuels steadily lost ground, while chemical products, machinery and "other manufactures" steadily gained (see table I-34).

In 1955, primary commodities and manufactures had an equal share of world trade, but the share of the three categories of primary commodities has steadily decreased since then. In 1966, primary commodities made up only 40 per cent of total world trade, while manufactures increased their share to 60 per cent. This means that the growth rate of trade in primary commodities was much lower than that of trade in manufactures - little more than half, in fact.

Among primary commodities, raw materials (hides, fibres, fertilizers, etc.) lost the most ground. This was due to a number of factors, but mainly to the fall in the prices of primary commodities on the world market, which reduced the current value of imports and exports of these commodities, thus accentuating the effects of the sluggish growth in the volume of world trade, and of the appearance of a growing number of synthetics as a result of technological progress. In addition, from the viewpoint of the exporting countries, some influence was exerted by changes in the exports themselves, since some primary commodities were given more processing before being sold and were thus reclassified as manufactures.

/Table I-34

Table I-34

STRUCTURE AND TRENDS OF WORLD TRADE 1955-66

	1955	1960	1965	1966	Cumulative annual rates of increase		
					1955-60	1960-65	1966
Total (millions of dollars)	93 540	127 870	186 390	203 480	7.3	7.8	9.1
Foodstuffs (0 and 1)							
Millions of dollars	18 400	22 310	30 990	32 850	3.9	5.8	6.0
Percentage of total	19.7	17.4	16.6	16.1			
Raw materials (2 and 4)							
Millions of dollars	17 480	21 320	24 770	26 210	4.1	3.1	5.8
Percentage of total	18.7	16.7	13.3	12.9			
Fuels (3)							
Millions of dollars	10 270	12 640	17 920	19 050	4.3	7.2	6.3
Percentage of total	11.0	9.9	9.6	9.4			
Chemical products (5)							
Millions of dollars	4 270	7 520	12 220	13 680	9.8	10.2	11.9
Percentage of total	5.0	5.9	6.6	6.7			
Machinery (7)							
Millions of dollars	16 920	27 770	45 690	51 540	10.4	10.5	12.8
Percentage of total	18.1	21.7	24.5	25.3			
Other manufactures (6 and 8)							
Millions of dollars	24 200	34 860	51 820	56 940	7.6	8.2	9.9
Percentage of total	25.9	27.3	27.8	28.0			

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

/The relative

The relative share of foodstuffs also declined appreciably, but to a lesser degree. Added to the long-term factors behind the slow growth of world trade - mainly lack of elasticity in demand compared with total expenditures on foodstuffs - was the declining trend in prices over the period, especially for coffee, cocoa and sugar.

Fuels lost comparatively less ground than the other two categories of primary commodities, and the decline - which was moderate on the whole - affected the main supplying areas to differing degrees.

In contrast, the three categories of manufactures strengthened their position. The annual rate of growth for chemical products, and particularly for machinery, rose to 10 per cent or more; and, although "other manufactures" did not expand at the same rate, they grew appreciably faster than primary commodities.

These very pronounced changes in the structure of world trade within a relatively short period are mainly responsible for the decline in the share of the under-developed countries in general, and of Latin America in particular. Other factors also exerted a specially strong influence in Latin America. In the following sections, the consequences of these changes are discussed in terms of the share of the various regions in world trade, beginning with the major geographical regions and ending with selected countries having the largest shares in world trade.

(i) World trade by major regions. In very general terms, a distinction can be drawn between the developed and the developing regions; this distinction coincides with a relatively high level of specialization in the exports produced and with a kind of international division of labour which is clearly reflected in the structure of their trade. The special features of the socialist countries of Eastern Europe make it advisable to place them in a separate group.

Table I-35 gives an historical breakdown of world trade by regions and by categories of goods. In 1966, exports from the developed regions totalled more than 140,000 million dollars, while exports from the developing regions were less than 39,000 million dollars, and from the socialist countries of Eastern Europe approximately 21,000 million dollars. Compared with 1955, these figures represent an increase of more than 100 per cent for the developed regions, roughly 60 per cent for the developing regions and 125 per cent for the socialist countries of Eastern Europe.

/Table I-35

Table I-35

WORLD TRADE BY REGIONS AND BY CATEGORIES OF GOODS, 1955-66

(Millions of dollars)

		Developed regions					Developing regions					Socialist countries of Eastern Europe				
		Exports	Imports	Balance	Percentage distribution		Exports	Imports	Balance	Percentage distribution		Exports	Imports	Balance	Percentage distribution	
					Exports	Imports				Exports	Imports				Exports	Imports
Total	1955	60 480	60 960	-480	100.0	100.0	23 730	23 140	590	100.0	100.0	7 910	7 320	590	100.0	100.0
	1960	85 440	82 790	2 650	100.0	100.0	27 390	29 140	-1 750	100.0	100.0	12 970	12 910	60	100.0	100.0
	1965	128 180	126 530	2 288	100.0	100.0	36 490	37 580	-1 090	100.0	100.0	19 710	19 030	680	100.0	100.0
	1966	141 450	139 400	2 050	100.0	100.0	38 900	40 780	-1 880	100.0	100.0	20 910	19 650	1 260	100.0	100.0
Foodstuffs (0 and 1)	1955	9 160	13 340	-4 180	15.1	21.9	7 720	3 570	4 150	32.5	15.4	1 060	1 370	-310	13.4	18.7
	1960	11 820	15 370	-3 500	13.8	18.6	8 110	4 710	3 400	29.6	16.2	1 840	2 000	-160	14.2	15.5
	1965	17 690	21 360	-3 670	13.8	16.9	10 380	5 900	4 480	28.4	15.7	2 290	3 180	-890	11.6	16.7
	1966	19 960	22 670	-3 610	13.5	16.3	10 530	6 430	4 100	27.1	15.8	2 540	3 120	-580	12.1	15.9
Raw materials (2 and 4)	1955	8 530	13 480	-4 950	14.1	22.1	6 970	1 880	5 090	29.4	8.1	1 350	1 880	-530	17.1	25.7
	1960	11 250	16 220	-4 970	13.2	19.6	7 640	2 150	5 490	27.9	7.4	1 760	2 480	-720	13.6	19.2
	1965	13 640	19 050	-5 410	10.6	15.1	8 190	2 550	5 640	22.4	6.8	2 340	2 750	-410	11.9	14.5
	1966	14 340	20 280	-5 940	10.1	14.5	8 640	2 700	5 940	22.2	6.6	2 670	2 850	-180	12.8	14.5
Fuels (3)	1955	3 260	6 220	-2 960	5.4	10.2	5 990	2 720	3 270	25.2	11.8	1 100	690	410	13.9	9.4
	1960	3 350	8 290	-4 940	3.9	10.0	7 650	2 900	4 750	27.9	10.0	1 620	930	690	12.5	7.2
	1965	4 320	12 710	-8 390	3.4	10.0	11 310	3 250	8 060	31.0	8.6	2 260	1 320	940	11.5	6.9
	1966	4 510	13 630	-9 120	3.2	9.8	12 220	3 440	8 780	31.4	8.4	2 300	1 280	1 020	11.0	6.5
Chemical products (5)	1955	4 160	2 700	1 460	6.9	4.4	240	1 630	-1 390	1.0	7.0	295	240	55	3.7	3.3
	1960	6 550	4 510	2 040	7.7	5.4	300	2 200	-1 900	1.1	7.5	620	560	60	4.8	4.3
	1965	10 620	7 670	2 950	8.3	6.1	510	3 210	-2 700	1.4	8.5	1 020	1 080	-60	5.2	5.7
	1966	11 970	8 600	3 370	8.5	6.2	580	3 660	-3 080	1.5	9.0	1 050	1 150	-100	5.0	5.9
Machinery (7)	1955	14 650	8 160	6 490	24.2	13.4	125	5 390	-5 265	0.5	23.3	2 130	1 740	400	26.9	23.4
	1960	23 840	14 680	9 160	27.9	17.7	190	8 030	-7 840	0.7	27.6	3 730	3 150	580	28.8	24.4
	1965	39 240	27 740	11 500	30.6	21.9	395	11 460	-11 065	1.1	30.5	6 000	5 550	450	30.4	29.2
	1966	44 780	32 140	12 640	31.7	23.1	495	12 420	-11 925	1.3	30.5	6 230	5 940	290	29.8	30.2
Other manufactures (6 and 8)	1955	19 320	15 040	4 280	31.9	24.7	2 700	6 720	-4 020	11.4	29.0	1 910	1 400	510	24.1	19.1
	1960	27 380	21 920	5 460	32.0	26.5	3 400	8 100	-4 700	12.4	27.8	3 280	3 700	-420	25.3	28.7
	1965	40 150	36 160	3 990	31.3	28.6	5 490	10 140	-4 650	15.0	27.0	5 410	5 050	360	27.4	26.5
	1966	44 240	40 320	3 920	31.3	28.9	6 290	10 790	-4 500	16.2	26.5	5 610	5 220	390	26.8	26.6

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

/With regard

With regard to the features of the trade of each region, the trade balance of the developed regions as a whole showed a favourable trend during the decade, with an export surplus of 2,600 million dollars in 1960 and slightly more than 2,000 million in 1966. This trade surplus is the outcome of a sizable contraction in their imports of foodstuffs, raw materials and fuels, and large surpluses in their exports of chemical products, "other manufactures" and especially machinery. At the same time, however, beginning in the mid-fifties, appreciable changes occurred in the relative size of the surpluses and in the volume of trade as compared with other regions.

This is particularly striking in the case of foodstuffs. The developed regions' position as a net importer declined in both absolute and relative terms: net imports of foodstuffs decreased from some 4,200 million dollars in 1955 to slightly more than 3,600 million in 1966. In other words, while exports of foodstuffs from the developed regions more than doubled during the period, imports rose by not more than 70 per cent. The significance of these changes will be readily appreciated if it is remembered that in 1955 the developed regions exported 18 per cent more foodstuffs than the developing regions, against 80 per cent more in 1966.

There were similar trends, although less pronounced, in trade in raw materials. In absolute terms, net imports from the developed regions rose between 1955 and 1966, but their exports of raw materials climbed more steeply than those of the developing regions. The only category of commodities in which the developed regions increased their net imports was that of fuels.

The developed countries export surpluses rose sharply for the first two categories of manufactures - chemical products and machinery - and remained relatively constant for "other manufactures".

A glance at the changes in the composition of the imports of the developed regions brings out the significance of these trends. In 1955, primary commodities made no more than 54 per cent of the total, compared with less than 41 per cent in 1966. This contraction affected all three categories; foodstuffs dropped from 21.9 to 16.3 per cent, raw materials from 22.1 to 14.5 and fuels from 10.2 to 9.8 per cent.

/These changes

These changes in the composition of the developed countries total imports and the sharp increase in their exports of primary commodities were the result of such factors as the terms of trade, technological progress in the production of synthetic substitutes for natural raw materials, domestic agricultural development policies, restrictions on imports of primary commodities from under-developed regions, and growing support for the establishment or maintenance of exportable surpluses (through price policies or special financing arrangements). Hence, the developed countries' former dependence on imports of primary commodities gradually lessened while their lead in exports of manufactures increased.

The other side of the picture can be seen in the trends and composition of trade in the developing regions. Of the three categories of commodities, only in fuels did they strengthen their position as net exporters in relative and absolute terms between 1955 and 1966. The slight increase in the export surplus of raw materials (less than 20 per cent over the period) was actually a decline in relative terms, since their imports increased at a considerably higher rate than their exports. There was not even an improvement, in absolute terms, in the over-all position with regard to foodstuffs; there was a slight increase in exports (less than 30 per cent) but a much more pronounced increase in imports (round 80 per cent).

Thus, in contrast to what happened in the developed regions, the changes in the composition of the trade of the developing regions were not very significant. Primary commodities still made up more than 30 per cent of total imports, a decrease of some 35 per cent over 1955, almost entirely due to the fact that there was only a very slight increase in fuel imports. The combined share of foodstuffs, raw materials and fuels in total exports dropped from 87.1 to 80.7 per cent during the period, while the share of the three categories of manufactures, especially "other manufactures", increased slightly, to some extent as a result of increased exports of some semi-processed intermediate goods which were still essentially primary commodities.

From the above it would seem that the traditional pattern of trade based on the division of labour is becoming increasingly one-sided in

/world trade.

world trade. While the developing regions continue to concentrate mainly on the export of primary commodities, the industrialized regions are tending to become self-sufficient in terms of these commodities and to generate ever larger exportable surpluses in competition with the developing countries, while at the same time retaining their position as almost the only suppliers of chemical products, machinery and, to a lesser extent, other manufactued consumer goods.

The over-all result is that the external trade problems of the developing regions are becoming more and more acute. Instead of fostering new trade flows and outlets which would increase their participation in world markets, the abandonment of the traditional pattern of trade which was not favourable to the developing countries has only meant fresh restrictions, with all that that involves for the growth of the domestic market.

(ii) Trade in the developed countries. The general comments above on the changes in the structure of trade in the developed regions cannot be applied equally to each of the countries concerned (see table I-36).

The trade structure of one group of countries - Australia, Canada, New Zealand and South Africa - is similar to that of the developing regions: net surpluses on their trade in foodstuffs and raw materials and a net deficit on their trade in manufactures. Nevertheless, apart from other sizable economic differences (income levels, levels of living and economic growth rates), the trade of these countries has developed in a very different way, helped in some measure by the preferential treatment which they enjoy but which is not extended to Latin America. Their exports of foodstuffs and raw materials have grown much more rapidly than their imports of these commodities, considerably strengthening their position as net exporters. Moreover, although they continue to be net importers of fuels, the amounts they need to import are becoming appreciably smaller. Also very significant are the differences in their trade in manufactures (see table I-36). For example, although it had a large and growing adverse trade balance in respect of machinery, Canada exported machinery to a value of nearly 2,000 million dollars, which represents almost a seven-fold increment between 1955 and 1966. In "other manufactures", Canada also had a favourable net balance, while Australia, New Zealand and South Africa reduced their unfavourable net balances.

/Table I-36

Table I-26

TRADE OF THE INDUSTRIALIZED COUNTRIES, 1955-66

(Millions of dollars)

		United States			EEC countries a/				EFTA countries b/				Japan			Canada			Australia and New Zealand			South Africa		
		Exports	Imports	Balance	Exports	Imports	Balance	EEC Trade	Exports	Imports	Balance	EFTA Trade	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total	1955	15 430	11 390	4 040	18 920	19 240	-320	6 210	14 030	16 180	-2 150	2 570	2 010	2 170	-160	4 390	4 390	-	2 450	2 530	-80	950	1 320	-390
	1960	20 410	14 840	5 570	29 730	28 150	1 580	10 250	18 500	21 430	-2 930	3 470	4 050	3 880	170	5 550	5 420	130	2 790	3 020	-230	1 120	1 490	-370
	1965	27 190	20 890	6 300	47 900	46 670	1 230	20 820	26 100	29 300	-3 200	5 770	8 450	6 840	1 616	8 110	7 840	270	3 910	4 030	-120	1 480	2 380	-900
	1966	30 000	24 580	5 420	52 630	51 020	1 610	23 230	27 990	30 930	-2 940	6 280	9 780	8 080	1 700	9 550	9 070	480	4 140	3 780	360	1 680	2 250	-570
Foodstuffs (0 and 1)	1955	2 100	3 120	-1 020	2 410	4 030	-1 620	950	1 520	4 400	-2 880	465	135	560	-425	900	415	485	1 000	210	790	200	74	126
	1960	3 150	3 410	-260	2 940	5 200	-2 260	1 300	1 870	4 950	-3 080	550	270	510	-240	1 020	550	470	1 110	185	925	245	75	170
	1965	4 520	3 880	640	4 880	8 340	-3 460	2 620	2 640	5 700	-3 060	790	345	1 320	-975	1 580	710	870	1 700	225	1 475	330	95	235
	1966	5 190	4 330	860	5 040	8 690	-3 650	2 790	2 800	5 860	-3 060	860	385	1 440	-1 055	1 820	770	1 050	1 650	210	1 440	330	140	190
Raw materials (2 and 4)	1955	1 810	2 870	-1 060	1 230	4 920	-3 690	620	1 610	3 500	-1 890	455	115	1 070	-955	1 350	370	980	1 230	195	1 035	400	105	295
	1960	3 080	3 070	10	1 690	6 100	-4 410	970	1 810	3 820	-2 010	500	155	1 860	-1 705	1 860	465	1 395	1 300	255	1 045	475	115	360
	1965	3 330	3 140	190	2 540	7 410	-4 870	1 520	2 260	3 990	-1 730	630	250	2 500	-2 250	2 280	660	1 620	1 510	270	1 240	530	140	390
	1966	3 430	3 280	150	2 740	7 870	-5 130	1 670	2 270	3 920	-1 650	610	255	3 090	-2 835	2 400	650	1 750	1 650	255	1 395	510	125	385
Fuels (3)	1955	1 130	1 170	-40	1 590	2 100	-510	690	420	1 630	-1 210	160	7	205	-198	59	395	-336	13	240	-227	16	91	-75
	1960	810	1 630	-820	1 800	2 890	-1 090	870	430	2 000	-1 570	190	17	530	-513	150	430	-280	65	290	-225	18	98	-80
	1965	950	2 100	-1 150	2 210	4 770	-2 560	1 100	520	2 790	-2 270	240	30	1 300	-1 270	415	610	-195	98	305	-207	43	135	-92
	1966	980	2 230	-1 250	2 250	5 150	-2 900	1 120	540	2 970	-2 430	270	32	1 460	-1 428	460	640	-180	115	295	-180	54	130	-76
Chemical products (5)	1955	1 120	335	785	1 560	820	740	335	1 040	720	320	150	94	100	-6	245	260	-150	24	135	-111	41	81	-40
	1960	1 800	450	1 350	2 710	1 600	1 110	710	1 540	1 190	350	250	170	240	-70	190	335	-145	38	220	-182	44	105	-61
	1965	2 400	680	1 720	4 740	2 940	1 800	1 580	2 310	1 920	390	435	550	355	195	290	465	-175	85	355	-270	51	170	-119
	1966	2 680	850	1 830	5 390	3 370	2 020	1 900	2 530	2 040	490	485	670	425	245	345	510	-165	105	360	-255	55	185	-130
Machinery (7)	1955	5 460	510	4 950	4 400	2 160	2 240	970	4 060	1 850	2 210	570	245	110	135	285	1 450	-1 165	40	750	-710	43	420	-377
	1960	7 010	1 660	5 350	8 940	4 220	4 720	2 060	6 160	3 630	2 530	860	940	340	600	430	1 910	-1 480	62	930	-868	51	540	-489
	1965	10 020	3 290	6 730	15 730	9 260	6 470	3 270	8 930	6 120	2 810	1 610	2 640	660	1 980	1 190	3 090	-1 900	140	1 510	-1 370	66	1 060	-994
	1966	11 160	5 000	6 160	17 660	10 170	7 490	3 490	9 770	6 660	3 110	1 750	3 310	720	2 590	1 930	3 980	-2 050	155	1 490	-1 335	88	1 010	-922
Other manufactures (6 and 8)	1955	3 180	3 340	-160	7 480	4 470	3 010	2 470	4 910	3 710	1 200	710	1 400	76	1 324	1 540	1 190	350	130	930	-800	225	500	-275
	1960	4 080	4 530	-450	11 340	7 380	3 960	3 940	6 310	5 520	790	1 080	2 510	285	2 225	1 900	1 530	370	185	1 070	-885	280	520	-240
	1965	4 920	7 650	-2 730	17 230	13 270	3 960	7 950	8 910	8 360	550	1 990	4 590	670	3 920	2 320	2 120	200	355	1 220	-865	415	750	-335
	1966	5 430	8 690	-3 260	18 940	15 180	3 760	9 120	9 590	9 060	530	2 230	5 070	890	4 180	2 540	2 360	180	440	1 110	-670	560	640	-80

Source: United Nations, Monthly Bulletin of Statistics, March 1968, items classified according to SITC.

a/ Belgium and Luxembourg, the Federal Republic of Germany, France, Italy and the Netherlands.

b/ Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The rapid growth of these countries exports of foodstuffs and raw materials necessarily affected the trade of the developing regions, which have surpluses of these commodities; however, the development of United States trade had a far greater effect and was the major reason for the changes in the structure of world trade and the decline in the relative position of the developing regions. In 1955, the United States had a net deficit of more than 2,000 million dollars on its trade in foodstuffs and raw materials, but during the next ten years the situation changed rapidly and in 1966 it had a surplus of more than 1,000 million dollars. Between 1955 and 1966, United States exports of foodstuffs expanded much more rapidly than its exports of manufactures, increasing by two and a half times. Its imports of foodstuffs and raw materials over the same period grew by only 40 and 14 per cent respectively, while the steady increase in the United States adverse trade balance on fuels and "other manufactures" did not mean that these developing regions supplied a larger quantity of those commodities.

In contrast to these trends in United States trade, trade between the developing countries and the EEC and EFTA countries and Japan, continued to be characterized by greater complementarity and specializations. This position is also tending to deteriorate, however, owing to competition from other developed regions and the establishment of common markets.

Between 1955 and 1966, EEC trade virtually tripled in value, totalling more than 50,000 million dollars in 1966. This confirmed the fact that EEC was the largest and fastest-growing market in the developed regions, and strengthened its position as a net importer of the three categories of primary commodities. The rapid growth of its imports, however, was not reflected in a corresponding growth of exports from the developing countries, since the increase was due to trade between the developed countries, which accounted for some 45 per cent of the total. Hence, in the period 1955-66 the EEC countries raised their level of self-sufficiency from 24 to 33 per cent in foodstuffs and from 13 to 21 per cent in raw materials. Only in fuels was their degree of self-sufficiency reduced (from 33 to 22 per cent), which was presumably of benefit to certain specific areas.

/Other factors

Table I-37

TRADE OF THE DEVELOPING COUNTRIES, 1955-66

(Millions of dollars)

		Latin America				Asia a/			Africa b/			Middle East c/		
		Exports	Imports	Balance	Latin American trade	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Total	1955	7 970	7 060	910	760	6 860	7 220	-360	4 430	5 090	-660	3 050	2 130	920
	1960	8 590	7 940	650	680	7 660	9 590	-1 930	5 310	6 470	-1 160	4 250	3 040	1 210
	1965	11 060	9 320	1 740	1 080	9 290	12 890	-3 600	7 750	8 170	-420	6 510	4 450	2 060
	1966	11 660	10 410	1 250	1 189	9 750	14 220	-4 470	8 380	8 150	230	7 130	5 050	2 080
Foodstuffs (0 and 1)	1955	3 760	890	2 870	360	1 723	1 230	490	1 750	840	910	200	395	-195
	1960	3 810	880	2 930	260	1 913	1 833	80	1 870	1 140	730	205	560	-355
	1965	4 870	1 090	3 780	360	2 480	2 330	150	2 290	1 320	970	325	750	-425
	1966	5 090	1 250	3 840	390	2 370	2 600	-230	2 300	1 320	980	350	810	-460
Raw materials (2 and 4)	1955	1 540	550	990	145	3 210	980	2 230	1 829	195	1 625	225	120	105
	1960	1 590	470	1 120	92	3 340	1 170	2 170	2 210	265	1 945	195	180	15
	1965	2 130	660	1 470	175	3 020	1 150	1 870	2 370	360	2 010	290	300	-10
	1966	2 320	690	1 630	195	3 190	1 240	1 950	2 390	380	2 010	325	305	20
Fuels (3)	1955	1 900	640	1 260	175	550	570	-20	34	395	-361	2 490	270	2 220
	1960	2 350	630	1 720	260	550	670	-120	245	510	-265	3 630	285	3 345
	1965	2 740	600	2 140	210	550	840	-290	1 610	470	1 140	5 480	375	5 105
	1966	2 700	670	2 030	230	650	970	-320	1 980	485	1 495	5 960	375	5 585
Chemical products (5)	1955	85	620	-535	14	100	520	-420	38	325	-287	7	94	-87
	1960	110	790	-680	15	95	710	-615	58	440	-382	13	165	-152
	1965	160	1 090	-930	57	165	1 050	-885	10	620	-610	38	280	-242
	1966	200	1 260	-1 060	69	175	1 240	-1 065	90	650	-560	55	335	-289
Machinery (7)	1955	12	2 220	2 208	5	75	1 260	-1 185	25	1 290	-1 265	9	465	-456
	1960	19	3 010	-2 991	6	125	2 090	-1 965	20	1 810	-1 790	17	780	-763
	1965	64	3 410	-3 346	50	255	3 560	-3 305	47	2 780	-2 733	23	1 260	-1 237
	1966	86	3 880	3 794	61	320	3 810	-3 490	48	2 730	-2 682	31	1 470	-1 439
Other manufactures (6 and 8)	1955	660	1 900	-1 240	63	1 150	2 110	-960	760	1 790	-1 030	100	640	-540
	1960	680	1 960	-1 280	50	1 590	2 630	-1 040	890	2 150	-1 260	195	950	-755
	1965	1 060	2 300	-1 240	220	2 670	3 400	-730	1 310	2 480	-1 170	340	1 370	-1 030
	1966	1 240	2 490	-1 250	230	2 950	3 630	-680	1 530	2 430	-900	415	1 560	-1 145

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

a/ Excluding mainland China and Japan.

b/ Excluding South Africa.

c/ Including Cyprus and Iran.

/The determining

The determining factors behind the changes in the size or the type of the trade balances vary from region to region, depending on the goods concerned. In Latin America, the increases in the export surpluses of primary commodities were the result of similar increases in exports and imports of foodstuffs and of the fact that the absolute value of imports of raw materials and fuels remained virtually constant. In other words, import substitution had relatively more influence in some cases than increased exports.

Between 1955 and 1966, the disequilibrium in the developing countries' trading manufactures became more pronounced, particularly in chemical products and machinery, in which exports from the developing countries are still small in absolute terms and for which they still depend largely on imports. There was substantial progress in exports of "other manufactures", although these were basically semi-processed primary commodities, while there was a parallel increase in imports of these manufactures. As a result, the unfavourable trade balance in respect of "other manufactures" rose considerably in the Middle East, remained constant in Latin America and Africa, and fell slightly in Asia.

The disequilibria in the trade balances on chemical products, machinery and "other manufactures" were offset by the net surplus on primary commodities. Throughout the period, this net surplus was more than enough to cover the deficits in Latin America and the Middle East, while in Asia the deficits increased, and in Africa they were not covered until 1966, when there was a net export surplus for the region as a whole. Latin America achieved this result thanks to slower growth of its imports than any other developing region - less than 50 per cent between 1955 and 1966 - while Asia's imports almost doubled, Middle Eastern imports more than doubled and Africa's rose by 80 per cent.

(iv) World export trends. Since the mid-fifties, the share of manufactures in world trade has increased, while that of primary commodities has declined. This is due to a number of factors, which include differing relative price trends for the two types of goods, more dynamic growth in the industrialized economies, and the efforts of these economies to achieve a greater measure of self-sufficiency in primary commodities.

/In view

In view of its importance, the problem should be looked at from other angles, for example, in terms of the world export trends, by countries and regions and categories of goods (see tables I-38 and I-39).

World exports have sustained a relatively high growth rate, which has been more rapid in the sixties than in the second half of the fifties. This was the case in almost all regions, except in Eastern Europe (where the rate did not rise so much although it remained above the world average) and mainland China.

Throughout the period 1955-66 the exports of the developing regions grew at a higher rate than those of the industrialized regions and the countries of Eastern Europe, and - logically enough - the difference between the two was greatest when the prices of primary commodities were at their lowest. Between 1955 and 1959, when the prices of primary commodities fell steadily, the annual growth of exports from the developing countries was only 2.9 per cent while that of exports from the industrialized countries was 7.2 per cent. During the following period (1960-66), the fact that prices for primary commodities were more stable and some even recovered lost ground, and with world trade in a more buoyant state, the exports of the developing countries did grow more rapidly. But even so, they still did not grow so fast as the exports of the developed countries, the annual rate of increase being 6 per cent compared with 8.8 per cent for the developed countries.

Hence, the share of the developing regions in world exports steadily declined, dropping from 25.4 per cent in 1955 to 21.4 per cent in 1960 and 19.1 per cent in 1966. Over the same period the share of the industrialized countries rose from 64.7 per cent in 1955 to 66.8 in 1960 and 69.5 in 1966.

/Table I-38

Table I-38

WORLD EXPORT TRENDS, BY REGIONS AND BY CATEGORIES OF GOODS, 1955-66

(Cumulative annual rates)

	World exports			Foodstuffs (0 and 1)			Raw materials (2 and 4)			Fuels (3)			Chemical products (5)			Machinery (7)			Other manufactures (6 and 8)		
	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960	1966/1955	1960/1955	1966/1960
Total	7.3	6.4	8.1	5.4	3.9	6.7	3.7	4.1	3.5	5.8	4.3	7.1	10.1	9.8	10.5	10.7	10.4	10.9	8.1	7.6	8.5
Developed regions	8.0	7.2	8.8	6.9	5.2	8.3	3.8	3.8	3.8	3.0	0.6	5.1	10.1	9.5	10.6	10.7	10.2	11.1	7.8	7.2	8.3
United States	6.2	5.8	6.6	8.6	8.4	8.7	6.0	11.2	1.8	-2.3	-6.4	3.2	8.3	5.9	6.8	6.7	5.1	8.1	5.0	5.1	4.9
European Economic Community	9.7	9.5	10.0	6.9	4.1	9.4	7.6	6.6	8.4	3.2	2.5	3.8	11.9	11.7	12.1	13.5	15.3	12.0	8.8	8.7	8.9
EEC trade	12.7	10.5	14.6	10.3	6.5	13.6	9.4	9.4	9.5	4.5	4.7	4.3	17.1	16.2	17.8	12.3	16.3	9.2	12.6	9.8	15.0
European Free Trade Area	6.5	5.7	7.1	5.7	4.2	7.0	3.2	2.4	3.9	2.3	0.5	3.9	8.4	8.2	8.6	8.3	8.7	8.0	6.3	5.1	7.2
EFTA trade	8.5	6.2	10.4	5.7	3.4	7.7	2.7	1.9	3.4	4.9	3.5	6.0	11.3	10.8	11.7	10.7	8.6	12.6	11.0	8.8	12.9
Japan	15.5	15.0	15.8	10.0	14.9	6.1	7.5	6.2	8.7	14.8	19.4	11.1	19.5	12.6	25.9	26.5	30.9	23.2	12.4	12.4	12.4
Canada	7.3	4.8	9.5	6.6	2.5	10.1	5.4	6.6	4.3	20.5	20.5	20.5	3.2	-4.9	10.5	19.0	8.6	28.4	4.7	4.3	5.0
Australia and New Zealand	4.9	2.6	6.8	4.7	2.1	6.8	2.7	1.1	4.1	21.8	38.0	10.0	14.4	9.6	18.5	13.0	9.2	16.5	11.7	7.3	15.5
Developing regions	4.6	2.9	6.0	2.9	1.0	4.5	2.0	1.9	2.1	6.7	5.0	8.1	8.4	4.6	11.6	13.3	8.7	12.3	8.0	4.7	10.8
Latin America	3.5	1.5	5.2	2.8	0.3	4.9	3.8	0.6	6.5	3.2	4.3	2.3	8.1	5.3	10.5	19.6	9.6	28.9	5.9	0.6	10.5
Latin American trade	4.1	-2.2	9.6	0.7	-6.3	7.0	2.7	-8.7	13.3	2.5	8.2	-2.0	15.6	1.4	29.0	25.8	3.7	47.0	12.5	-4.5	29.0
Asia	3.2	2.2	4.1	3.0	2.1	3.7	-0.1	0.8	-0.8	1.5	0.0	2.8	5.2	-1.0	10.7	14.1	10.8	17.0	8.9	6.7	10.9
Africa	6.0	3.7	7.9	2.5	1.3	3.5	2.5	4.0	1.3	45.0	48.5	41.4	8.2	8.8	7.6	6.1	-4.4	15.7	6.6	3.2	9.4
Middle East	8.0	6.9	9.0	5.2	0.5	9.3	3.4	-2.8	8.9	8.3	7.8	8.6	20.6	13.2	27.0	11.9	13.6	10.5	13.8	14.3	13.4
Centrally-planned economies																					
Eastern Europe	9.2	10.4	8.3	8.3	11.7	5.5	6.4	5.5	7.2	6.9	8.0	6.0	12.2	16.0	9.2	10.2	11.9	8.9	10.3	11.4	9.4
Mainland China	4.1	7.1	1.3	4.0	2.2	5.5	-1.1	0.9	-2.7	9.2	5.0	12.9	10.2	10.9	9.6	8.2	1.5	14.2	10.4	24.3	0.0

Source: ECLA, on the basis of United Nations, Monthly Bulletin of Statistics. Items classified according to SITC.

/Table I-37

Table I.39

COMPOSITION OF WORLD EXPORTS, BY REGIONS AND BY CATEGORIES OF GOODS

(Percentages)

	World exports				Foodstuffs (0 and 1)				Raw materials (2 and 4)				Fuels (3)				Chemical products (5)				Machinery (7)				Other manufactures (6 and 8)			
	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966	1955	1960	1965	1966
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developed regions	64.7	66.8	68.8	69.5	49.7	53.0	57.1	58.0	48.8	52.8	55.2	54.7	31.5	26.5	24.1	23.7	88.1	87.1	86.9	87.5	86.6	85.8	85.9	86.9	79.8	78.5	77.5	77.7
United States	16.5	16.0	14.6	14.7	11.4	14.1	14.6	15.8	10.4	14.4	13.5	13.1	10.9	6.4	5.3	5.1	23.7	23.9	19.6	19.6	32.3	25.2	21.9	21.7	13.1	11.7	9.5	9.5
European Economic Community	20.2	23.3	25.7	25.9	13.1	13.2	15.7	15.3	7.0	7.9	10.3	10.5	15.3	14.2	12.3	11.8	33.1	36.0	38.8	39.4	26.0	32.2	34.4	34.3	30.9	32.5	33.2	33.3
EEC trade	6.6	8.0	11.2	11.4	5.2	5.8	8.5	8.5	3.5	4.5	6.1	6.4	6.7	6.9	6.1	5.9	7.1	9.4	12.9	13.9	5.7	7.4	7.2	6.8	10.2	11.3	15.3	16.0
European Free Trade Area	15.0	16.8	14.0	13.8	8.2	8.4	8.5	8.5	9.2	8.5	9.2	8.7	4.1	3.4	2.9	2.8	22.0	20.5	18.9	18.5	24.0	22.2	19.5	19.0	20.3	18.1	16.1	16.8
EFTA trade	2.7	2.7	3.1	3.1	2.5	2.5	2.5	2.6	2.6	2.3	2.5	2.3	1.6	1.5	1.3	1.4	3.2	3.3	3.6	4.9	3.4	3.1	3.5	3.4	2.9	3.1	3.8	3.9
Japan	2.1	3.2	4.5	4.8	0.7	1.2	1.1	1.2	0.7	0.7	1.0	1.0	0.1	0.1	0.2	0.2	2.0	2.3	4.5	4.9	1.4	3.4	5.8	6.4	5.8	7.2	8.9	8.9
Canada	4.7	4.3	4.4	4.7	4.9	4.6	5.1	5.5	7.7	8.7	9.2	9.2	0.6	1.2	2.3	2.4	5.2	2.5	2.4	2.5	1.7	1.5	2.6	3.7	6.4	5.5	4.5	4.5
Australia and New Zealand	2.6	2.2	2.1	2.0	5.4	5.0	5.5	5.0	7.0	6.1	6.1	6.3	0.1	0.5	0.5	0.6	0.5	0.5	0.7	0.8	0.2	0.2	0.3	0.3	0.5	0.5	0.7	0.8
Developing regions	25.4	21.4	19.5	19.1	41.9	36.4	33.5	32.1	39.9	35.8	33.2	33.0	57.8	60.5	63.1	64.1	5.1	4.0	4.2	4.2	0.7	0.7	0.9	1.0	11.2	9.8	10.6	11.0
Latin America	8.5	6.5	5.9	5.7	20.4	17.1	14.5	15.5	8.8	7.5	8.6	8.9	18.3	18.6	15.3	14.2	1.8	1.5	1.3	1.5	0.1	0.1	0.1	0.2	2.7	2.0	2.0	2.2
Asia	7.3	6.0	5.0	4.8	9.3	8.6	8.0	7.2	18.4	15.7	12.2	12.2	5.3	4.4	3.1	3.4	2.1	1.3	1.4	1.3	0.4	0.5	0.6	0.6	4.8	4.6	5.2	5.2
Africa	4.7	4.2	4.2	4.1	9.5	8.4	7.4	7.0	10.4	10.4	9.6	9.1	0.3	1.9	9.0	10.4	0.8	0.8	0.1	0.7	0.1	0.1	0.1	0.1	3.1	2.6	2.5	2.7
Middle East	3.3	3.3	3.5	3.5	1.1	0.9	1.0	1.1	1.3	0.9	1.2	1.2	24.0	28.7	30.6	31.3	0.1	0.2	0.3	0.4	-	-	0.1	0.1	0.4	0.6	0.7	0.7
Centrally-planned economies	9.9	11.8	11.7	11.4	8.4	10.6	9.4	9.9	11.3	11.4	11.6	12.3	10.7	13.0	12.8	12.3	6.8	8.9	8.9	8.2	12.7	13.5	13.2	12.1	9.0	11.7	11.9	11.3
Eastern Europe	8.4	10.2	10.6	10.3	5.8	8.2	7.4	7.7	7.7	8.3	9.5	10.2	10.6	12.8	12.6	12.1	6.3	8.3	8.4	7.7	12.6	13.4	13.1	12.1	7.9	9.4	10.4	9.9
Mainland China	1.5	1.6	1.1	1.1	2.6	2.4	2.0	2.2	3.6	3.1	2.1	2.1	0.1	0.2	0.2	0.2	0.5	0.6	0.5	0.5	0.1	0.1	0.1	-	1.1	2.3	1.5	1.4

Source: ECLA, on the basis of United Nations, Monthly Bulletin of Statistics. Items classified according to SITC.

/Some industrialized

Some industrialized countries - for example, the United States, the EFTA countries, and Australia and New Zealand - showed growth rates that were below the over-all average, and their relative shares only just remained constant or even declined. In contrast, Japan's exports grew very rapidly, at an annual rate of 15 per cent as did those of the EEC countries, to a lesser extent (10 per cent), and Canada. As a consequence, the EEC countries maintained their share of exports - the largest for the industrialized regions - Japan more than doubled its share, and Canada recovered some of the ground it had previously lost. It is noteworthy that the growth of the EEC countries' exports was increasingly due to the expansion of trade within the Community, so that gains in intra-regional trade helped to cushion the effect of the decline in their share of world exports.

Among developing regions, the Middle East slightly increased its share of exports, while Africa lost some ground. In both these cases, the most positive factor was the favourable trend of the world petroleum market. Particularly during the period 1960-66, the boom in petroleum exports from Libya, Nigeria, and to a lesser degree Algeria, was the reason for the relatively rapid increase in exports from Africa; but even so, the growth rate did not equal that of world exports as a whole.

Export trends were much less favourable in Latin America and Asia, whose exports grew at a slower rate than those of any other region, thus substantially reducing their share of world exports.

A clearer picture of other aspects of this process can be gained from a consideration of export trends by types of goods, which are closely linked to the changes in the shares of the various regions.

As noted above, manufactures (machinery, chemical products and "other manufactures") had the highest growth rate of all world exports, while exports of primary commodities (foodstuffs, raw materials and fuels) grew at a much slower pace.[2/] This in itself would be enough to increase

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2/ Taking 1 as the average rate of growth of world exports, the relative growth rates were as follows: machinery, 1.5; chemical products, 1.4; "other manufactures", 1.1; fuels, 0.8; foodstuffs, 0.7; and raw materials, 0.5. In other words, on the average, in relation to total exports, exports of machinery grew three times as fast as exports of raw materials and about twice as fast as foodstuffs and fuels.

/the share

the share of the developed regions; but the situation is made much worse by the fact that the exports of primary commodities from the developed regions grew faster than those of the developing regions.

The average annual growth rate of the industrialized countries' exports throughout the period 1955-66 was 2.4 times that of the developing countries for foodstuffs, and almost double for primary commodities; only in fuels did the developing regions achieve a favourable trade balance (see table I-37).

Comparing the three main food-supplying areas in 1955, Latin America's share of world exports (20.4 per cent) was much larger than those of the United States (11.4 per cent) and the EEC countries (13.1 per cent). In 1966, the share of the United States and the EEC countries had risen to 15.8 and 15.3 per cent respectively, while Latin America's had fallen to 15.5 per cent, i.e., a 25 per cent drop. During the same period, United States exports of foodstuffs outstripped all three categories of manufactures, while the annual growth rate for the EEC countries was some 7 per cent. In general, the formation of large exportable surpluses combined with policies to promote self-sufficiency in the developed countries reduced potential export markets for Latin American foodstuffs. In addition, the special financing arrangements for placing exportable United States surpluses (Public Law 480), together with the protectionist tariffs applied by the EEC countries and their efforts to find other sources of supply did not encourage Latin America to expand its production of foodstuffs.

Exports of foodstuffs from the EFTA countries, and from Australia and New Zealand also increased appreciably, particularly in the sixties. The annual growth rates of Japan's exports, were higher than those of any other industrialized country particularly in the latter half of the fifties; however, since its imports grew at almost the same rate, its net deficit increased in absolute terms.

World exports of raw materials developed along much the same lines as exports of foodstuffs, although there were significant differences between one developing country and another. Between 1955 and 1966, the share of the industrialized regions as a whole in the world total

/increased from

increased from 48.8 to 54.7 per cent, while the share of the centrally planned economies rose slightly and that of the developing countries declined. Most of this decline was attributable to Asia, whose share fell from 18.4 to 12.2 per cent, since those of Africa and the Middle East fell only slightly, while Latin America's remained practically unchanged. In the case of Asia, whose exports did not increase even in absolute terms, the drop was to some extent due to a policy of exporting raw materials with a higher degree of processing, and even in the form of final consumer goods applied by India, Hong Kong and China (Taiwan), for example, to their exports of textile and leather goods and ready-made clothing, and also to increased exports of metals from other Asian countries.

Looking at the situation as a whole, however, the major cause of the deterioration in the position of the developing countries on the world raw materials markets was growing competition from the synthetic substitutes manufactured by the industrialized countries and the exportable surpluses of the United States. During the sixties, United States exports of raw materials slackened compared with the second half of the fifties, while the opposite was true for the EEC countries.

In brief, the only one of the three categories of primary commodities in which the developing countries strengthened their position in world trade was that of fuels (their share rose from 57.8 per cent in 1955 to 64.1 per cent in 1966). The three industrialized regions lost ground, especially the United States as a result of its policy of stockpiling strategic materials. Australia and New Zealand increased their exports of fuels substantially, but their exports are still small compared to the world total. There was also a considerable expansion of Canada's fuel exports, as a result of increased purchases of Latin American petroleum for refining and export to the United States in the form of petroleum products.

These changes mainly benefited the Middle East, whose share in world fuel exports rose from 24 to 31.3 per cent, and Africa, which increased its share significantly (from 0.3 per cent in 1955 to 10.4 per cent in 1966). Latin America and Asia, however, lost ground; Latin America's share fell from 18.3 to 14.2 per cent and Asia's from 5.3 to 3.4 per cent.

/As to

As to world trade in manufactures, the industrialized countries maintained their strong lead with a few variations (approximately 88 per cent of world exports of chemical products, 87 per cent of machinery exports and 70 per cent of exports of other manufactures). The relatively favourable trend of exports from the developing regions - particularly in machinery and other manufactures, exports of which grew at a faster rate than in the industrialized regions - can be considered a good omen; but the quantities involved are too small and their share of world trade too modest for this to mean any real change in view of other much more adverse trends. In particular, Latin America and Africa lost ground in chemical products and "other manufactures" and Asia in chemical products. The Middle East, however, gained ground in the three categories of manufactures, although still at very low levels. Also worthy of note is Asia's increased share in exports of machinery and particularly of other manufactures, mainly as a result of the increased sales of textile and leather goods and clothing.

(v) Origin of imports to the main markets. In the over-all picture sketched in above clearly shows the decline in Latin America's share of world trade, not only compared with the developed regions but also compared with the other developing regions. This is due to a number of different factors, of both internal and external origin, many of which are outside the scope of this chapter. It is relevant here, however, to examine the extent to which these factors were influenced by the degree to which they were linked to the different characteristics and dissimilar trends of individual markets. The following paragraphs, therefore, examine the origin of imports to each of the main markets - the United States, EEC, EFTA and Japan - which absorb almost 70 per cent of Latin America's exports.

United States imports. Between 1955 and 1966 the value of total United States imports more than doubled, totalling some 24,000 million dollars in 1966. Over the same period its imports from Latin America rose by only 10 per cent, Latin America's share in the United States market declining from 30.8 to 15.7 per cent (see tables I-40 and I-41).

Table I-40

UNITED STATES: IMPORTS, BY REGIONS OF ORIGIN AND BY CATEGORIES OF GOODS

(Millions of dollars)

Year	Total	Developed regions	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
							Total									
1955	11 390	5 790	2 650	2 380	1 160	1 020	580	455	170	5 540	3 510	1 070	240	445	59	-
1960	14 840	8 800	3 140	4 130	2 240	1 610	1 000	1 110	245	5 960	3 600	1 190	320	420	78	3
1965	20 890	13 990	4 670	6 190	3 420	2 340	1 400	2 510	440	6 760	3 530	1 660	380	560	140	3
1966	24 580	17 040	5 790	7 490	4 100	2 880	1 750	3 010	570	7 360	3 870	1 750	385	620	175	4
							Foodstuffs (0 and 1)									
1955	3 120	750	300	385	135	160	87	46	19	2 350	1 920	215	12	185	17	-
1960	3 410	1 060	340	510	165	205	125	79	125	2 330	1 800	270	8	210	28	-
1965	3 880	1 480	450	700	205	315	190	98	210	2 360	1 550	385	8	340	40	-
1966	4 330	1 770	465	850	250	390	220	135	305	2 510	1 720	355	11	340	47	-
							Raw materials (2 and 4)									
1955	2 870	1 480	910	280	100	125	46	56	120	1 370	500	620	20	165	23	-
1960	3 070	1 710	1 150	270	105	115	38	43	94	1 340	540	530	19	155	18	2
1965	3 140	1 910	1 260	310	130	135	40	59	175	1 200	540	365	20	155	23	2
1966	3 280	1 970	1 350	325	135	135	35	51	180	1 270	580	380	20	150	26	3
							Fuels (3)									
1955	1 170	60	56	5	4	-	-	-	-	1 110	690	20	1 851	-	-	-
1960	1 630	155	145	3	6	-	-	5	-	1 470	900	28	255	2	-	-
1965	2 100	415	400	12	11	1	1	3	-	1 670	930	46	290	43	1	-
1966	2 230	480	450	26	19	4	4	3	-	1 750	970	40	270	76	1	-
							Chemical products (5)									
1955	335	285	140	130	88	39	21	7	3	46	35	8	-	2	8	-
1960	450	360	125	210	145	58	30	17	7	78	63	9	-	5	12	-
1965	680	580	185	335	205	105	52	46	14	91	59	15	1	6	4	-
1966	850	720	225	400	250	125	64	73	19	125	75	17	2	6	10	-
							Machinery (7)									
1955	510	500	150	325	170	165	120	19	-	4	3	1	-	-	1	-
1960	1 660	1 640	255	1 230	700	515	395	160	2	14	9	3	1	-	6	-
1965	3 290	3 230	810	1 840	1 140	680	470	575	6	55	6	46	1	-	8	-
1966	5 000	4 800	1 530	2 530	1 540	960	690	820	9	100	13	83	2	1	15	-
							Other manufactures (6 and 8)									
1955	3 340	2 670	1 090	1 210	650	500	285	305	25	660	345	195	20	99	9	-
1960	4 530	3 810	1 120	1 850	1 100	670	370	800	17	700	265	345	33	53	16	-
1965	7 650	6 240	1 530	2 910	1 709	1 050	600	1 710	38	1 350	420	800	62	30	60	1
1966	8 690	7 050	1 720	3 270	1 870	1 220	690	1 910	53	1 570	505	870	77	45	74	-

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

Table I-41

UNITES STATES: SHARE OF IMPORTS, BY REGIONS AND BY CATEGORIES OF GOODS

(Percentages)

Year	Developed regions	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
							Total								
1955	50.8	23.3	20.9	10.2	9.0	5.0	4.0	1.5	48.6	30.8	9.4	2.1	3.9	0.5	-
1960	59.3	21.2	27.8	15.1	10.8	6.7	7.5	1.7	40.2	24.3	8.0	2.2	2.8	0.5	-
1965	67.0	22.4	29.6	16.4	11.2	6.7	12.0	2.1	32.4	16.9	7.9	1.8	2.7	0.7	-
1966	69.3	23.6	30.5	16.7	11.7	7.1	12.2	2.3	29.9	15.7	7.1	1.6	2.5	0.7	-
							Foodstuffs (0 and 1)								
1955	24.0	9.6	12.3	4.3	5.1	2.8	1.5	0.6	75.3	61.5	6.9	0.4	5.9	0.5	-
1960	31.1	10.0	15.0	4.8	6.0	3.7	2.3	3.7	68.3	52.8	7.9	0.2	6.2	0.8	-
1965	38.1	11.6	18.0	5.3	8.1	4.9	2.5	5.4	60.8	39.9	9.9	0.2	8.8	1.0	-
1966	40.9	10.7	19.6	5.8	9.0	5.1	3.1	7.0	58.0	39.7	8.2	0.3	7.9	1.1	-
							Raw materials (2 and 4)								
1955	51.6	31.7	10.1	3.5	4.3	1.6	2.0	4.2	47.7	17.4	22.0	0.7	5.7	0.8	-
1960	55.7	37.5	8.9	3.4	3.7	1.2	1.4	3.1	43.6	17.6	17.3	0.6	5.0	0.6	0.1
1965	60.8	40.1	9.9	4.1	4.3	1.3	1.9	5.6	38.2	17.2	11.6	0.6	4.9	0.7	0.1
1966	60.1	41.2	9.9	4.1	4.1	1.1	1.6	5.5	38.7	17.7	11.6	0.6	4.6	0.8	0.1
							Fuels (3)								
1955	5.1	4.8	0.4	0.3	-	-	-	-	94.9	59.0	1.7	15.8	-	-	-
1960	9.5	8.9	0.5	0.4	-	-	0.3	-	90.2	55.2	1.7	15.6	0.1	-	-
1965	19.8	19.0	0.5	0.5	-	-	0.1	-	79.5	44.3	2.2	13.8	2.0	-	-
1966	21.5	20.2	1.2	0.9	0.2	0.2	0.1	-	78.5	43.5	1.8	12.1	3.4	-	-
							Chemical products (5)								
1955	85.1	41.8	38.8	26.3	11.6	6.3	2.1	0.9	13.7	10.4	2.4	-	0.6	2.4	-
1960	80.0	27.8	46.7	32.2	12.9	6.7	3.8	1.6	17.3	14.0	2.0	-	1.1	2.7	-
1965	85.3	27.2	49.3	30.1	15.4	7.6	6.8	2.1	13.4	8.7	2.2	0.1	0.9	0.6	-
1966	84.7	26.4	47.1	29.4	14.7	7.5	8.6	2.2	14.7	8.8	2.0	0.2	0.7	1.2	-
							Machinery (7)								
1955	98.0	29.4	63.7	33.3	32.4	23.5	3.7	-	0.8	0.6	0.2	-	-	0.2	-
1960	98.8	15.4	74.1	42.2	31.0	25.8	9.6	0.1	0.8	0.5	0.2	0.1	-	0.4	-
1965	98.2	24.6	55.9	34.7	20.7	14.3	17.5	0.2	1.7	0.2	1.4	-	-	0.2	-
1966	97.6	30.6	50.6	30.8	19.2	13.8	16.4	0.2	2.0	0.3	1.7	-	-	0.3	-
							Other manufactures (6 and 8)								
1955	79.9	32.6	36.2	19.5	15.0	8.5	9.7	0.7	19.8	10.3	5.8	0.6	3.0	0.3	-
1960	84.1	24.7	40.8	24.3	14.8	8.2	17.7	0.4	15.4	5.8	7.6	0.7	1.2	0.4	-
1965	81.5	20.0	38.0	22.2	13.7	7.8	22.4	0.5	17.6	5.5	10.5	0.8	0.4	0.8	-
1966	81.1	19.7	37.6	21.5	14.0	7.9	22.0	0.6	18.1	5.8	10.0	0.9	0.5	0.9	-

Source: ECLA, on the basis of table 7.

/These figures

These figures put most of Latin America's external trade problems in a nut shell. They also illustrate, perhaps over-dramatically, the intensity and nature of the changes that have been taking place in world trade.

One of the most decisive factors is the fact that while primary commodities made up approximately 63 per cent of United States imports in 1955, the proportion had fallen to 40 per cent by 1966. United States purchases of machinery increased almost ten-fold over the same period, and purchases of chemical products and "other manufactures" increased two and a half times; but purchases of foodstuffs rose by less than 40 per cent, raw materials by only 14 per cent and fuels by 90 per cent.

Since there were no correspondingly significant changes in the capacity to export of the developing regions, these modifications in the composition of United States imports necessarily involved substantial changes in their geographical origin. Between 1955 and 1966, United States proportion of imports from the developed regions rose from 51 per cent to more than 69 per cent. What is most significant, however, is that this increase was not due solely to the change in the composition of imports - in which, as has been seen, manufactures predominated - but also to the fact that the developed countries rapidly increased their share of United States imports of primary commodities from 24 to 41 per cent for foodstuffs, from 52 to 60 per cent for raw materials and from 5 per cent to almost 22 per cent for fuels.

The decline in Latin America's share in the United States market was especially marked in the case of foodstuffs, since Latin America's share of United States imports of foodstuffs dropped from 61.5 per cent in 1955 to less than 40 per cent in 1966, and even declined in value in absolute terms. This is only partly attributable to the diversion of Cuba's trade to other markets, since its United States sugar quota benefited other Latin American countries; neither can it be considered the result of the drop in coffee and cocoa prices. The United States began to import a substantial proportion of its supplies from other regions, partly because of health restrictions, and partly because of changes in consumption patterns. Over this period United States imports from Asia and Africa rose by 65 and 83 per cent respectively, those from Australia and New Zealand increased sixteen-fold, those from Japan tripled and those from Eastern Europe more than doubled.

/With regard

With regard to raw materials, United States imports from other industrialized regions increased considerably to the detriment of the developing countries. Although Latin America was able to maintain its relative share - while the shares of Asia, Africa and the Middle East declined - total United States imports of raw materials increased very slowly, the inelasticity of the demand for raw materials being due to growing competition from synthetic substitutes.

With respect to fuels, too, the developing countries lost ground, as a result of the increase in United States imports of fuels from industrialized regions, especially Canada. The different developing regions were affected to differing degrees: Asia managed to maintain its small share and Africa increased its share, while Latin America's share declined (from 59 to 43.5 per cent), as did that of the Middle East (15.8 to 12.1 per cent). Canadian exports of fuels to the United States rose from 4.8 per cent to 20.2 per cent, mainly as a result of increased re-exports of refined Latin American petroleum and sales of its surpluses of natural gas, coal and electricity.

United States imports of chemical products, machinery and other manufactures increased, with the developed regions still maintaining their strong lead and no significant change occurred in the small share of the developing regions. As was noted above, Latin America's share of imports of "other manufactures" fell substantially while Asia's grew.

EEC imports. There were also changes in the composition of EEC imports which reinforced the trend towards increased trade between the industrialized regions and the relegation of the developing countries to a peripheral position in relation to world trade as a whole.

Between 1955 and 1966, EEC imports of machinery quintupled, chemical products quadrupled and "other manufactures" more than tripled; these increases are far higher than any increase in imports of primary commodities (see tables I-42 and I-43). Moreover the proportion of raw materials and foodstuffs imported from other developed regions increased considerably, the developing regions being able to improve their position only with regard to fuel imports.

/Table I-42

Table I-42

EUROPEAN ECONOMIC COMMUNITY: IMPORTS, BY REGIONS OF ORIGIN AND BY CATEGORIES OF GOODS

(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
								Total									
1955	19 240	13 550	2 590	270	9 920	6 210	3 070	1 160	81	490	5 190	1 240	880	990	1 900	435	66
1960	28 150	20 850	3 930	455	15 610	10 250	4 450	1 580	175	485	6 230	1 580	840	1 280	2 320	930	135
1965	46 670	36 130	5 200	590	29 000	20 820	6 780	2 530	485	580	8 880	2 220	1 030	1 880	3 490	1 480	180
1966	51 020	39 460	5 460	600	31 870	23 230	7 060	2 670	600	620	9 580	2 290	1 140	2 040	3 880	1 750	230
								Foodstuffs (0 and 1)									
1955	4 030	2 180	405	95	1 580	950	380	46	9	46	1 720	620	125	46	870	110	18
1960	5 200	2 980	540	130	2 200	1 300	560	81	29	53	1 950	790	135	40	910	245	21
1965	8 340	5 430	1 050	170	4 020	2 620	830	190	56	78	2 470	1 210	180	62	930	420	19
1966	8 690	5 630	1 120	160	4 170	2 790	800	185	67	62	2 540	1 230	225	60	930	480	37
								Raw materials (2 and 4)									
1955	4 920	2 850	560	96	1 610	620	690	82	25	440	1 900	375	660	110	740	125	41
1960	6 100	3 830	550	155	2 140	970	810	94	37	425	1 930	420	570	56	840	255	81
1965	7 410	4 630	830	245	2 920	1 520	1 020	125	40	455	2 290	570	570	70	1 040	380	105
1966	7 870	4 960	890	260	3 120	1 670	1 030	130	32	500	2 320	590	560	80	1 060	460	130
								Fuels (3)									
1955	2 100	1 000	215	1	790	690	97	83	-	-	1 040	105	33	810	6	64	-
1960	2 890	1 180	190	-	990	870	110	82	-	2	1 530	125	12	1 140	185	180	-
1965	4 770	1 550	260	-	1 280	1 100	160	110	1	-	2 980	145	25	1 660	1 050	240	5
1966	5 150	1 550	255	-	1 290	1 120	145	80	1	-	3 320	145	44	1 780	1 270	285	3
								Chemical products (5)									
1955	820	750	170	26	550	355	190	89	4	2	38	14	6	1	16	31	5
1960	1 600	1 490	395	9	1 070	710	345	155	17	3	51	19	5	4	24	51	4
1965	2 940	2 780	550	15	2 150	1 580	520	240	55	11	60	20	10	4	19	82	12
1966	3 370	3 190	600	22	2 500	1 900	550	245	59	13	71	24	13	11	16	92	17
								Machinery (7)									
1955	2 160	2 120	365	13	1 740	1 100	640	360	2	1	13	2	1	-	11	22	-
1960	4 220	4 170	770	27	3 360	2 340	1 010	530	11	1	15	2	1	1	9	37	-
1965	9 260	9 170	1 410	63	7 610	5 800	1 760	890	85	2	24	3	8	5	6	69	-
1966	10 170	10 050	1 510	55	8 340	6 410	1 880	980	140	3	29	4	13	4	7	83	1
								Other manufactures (6 and 8)									
1955	4 470	3 910	305	40	3 690	2 470	950	415	41	3	490	140	50	13	265	63	3
1960	7 380	6 450	540	130	5 640	3 940	1 520	560	81	3	750	230	110	35	350	160	29
1965	13 270	11 920	790	92	10 700	7 950	2 390	900	245	33	1 030	260	220	76	440	280	38
1966	15 180	13 540	920	95	12 120	9 120	2 550	980	275	34	1 280	295	280	97	580	315	44

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

Table I-43

EUROPEAN ECONOMIC COMMUNITY: SHARE OF IMPORTS, BY REGION AND BY CATEGORIES OF GOODS

(Percentages)

Year	Developing regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
							Total									
1955	70.5	13.5	1.4	51.6	32.3	16.0	6.0	0.4	2.5	27.0	6.4	4.6	5.1	9.9	2.3	0.3
1960	74.1	14.0	1.6	55.5	36.4	15.8	5.6	0.6	1.7	22.1	5.6	3.0	4.5	8.2	3.3	0.5
1965	77.4	11.1	1.3	62.1	44.6	14.5	5.4	1.0	1.2	19.0	4.8	2.2	4.0	7.5	3.2	0.4
1966	77.3	10.7	1.1	62.5	45.5	13.8	5.2	1.2	1.2	18.8	4.5	2.2	4.0	7.6	3.4	0.5
							Foodstuffs (0 and 1)									
1955	54.1	10.0	2.4	39.2	23.6	9.8	1.1	0.2	1.1	42.7	15.4	3.1	1.1	21.6	2.7	0.4
1960	57.3	10.4	2.5	42.3	25.0	10.8	1.6	0.6	1.0	37.5	15.2	2.6	0.8	17.5	4.7	2.4
1965	65.1	12.6	2.0	48.2	31.4	10.0	2.3	0.7	0.9	29.6	14.5	2.2	0.7	11.2	5.0	0.2
1966	64.8	12.8	1.8	48.0	32.1	9.2	2.1	0.8	0.7	29.2	14.2	2.6	0.7	10.7	5.5	0.4
							Raw materials (2 and 4)									
1955	57.9	11.4	2.0	32.7	12.6	14.0	1.7	0.5	8.9	38.6	7.6	13.4	2.2	15.0	2.5	0.8
1960	62.8	15.6	2.5	35.1	15.9	13.3	1.5	0.6	7.0	31.6	6.9	9.3	3.9	13.8	4.1	1.3
1965	62.5	11.2	3.3	39.4	20.5	13.8	1.7	0.5	6.1	30.9	7.7	7.7	0.9	14.6	5.1	1.4
1966	63.0	11.3	3.3	39.6	21.2	13.1	1.7	0.4	6.4	29.5	7.5	7.1	1.0	13.5	5.3	1.7
							Fuels (3)									
1955	47.6	10.2	0.1	37.6	32.9	4.6	4.0	-	-	49.5	5.0	1.6	38.6	0.3	3.0	-
1960	40.8	6.5	-	34.3	30.1	3.8	2.8	-	0.1	52.9	4.3	0.4	39.4	6.4	6.2	-
1965	32.5	5.5	-	26.8	23.1	3.4	2.3	-	-	62.5	3.0	0.5	34.8	22.0	5.0	0.1
1966	30.1	5.0	-	25.0	21.7	2.8	1.6	-	-	64.5	2.8	0.9	34.6	24.6	5.5	0.1
							Chemical products (5)									
1955	91.5	20.7	3.2	67.1	43.3	23.2	10.9	0.5	0.2	4.6	1.7	0.7	0.1	2.0	3.8	0.6
1960	93.1	24.7	0.6	66.9	44.4	21.6	9.7	1.0	0.2	3.2	1.2	0.3	0.3	1.5	3.2	0.3
1965	94.6	18.7	0.5	73.1	53.7	17.7	8.2	1.9	0.4	2.0	0.7	0.3	0.1	0.6	2.8	0.4
1966	94.7	17.8	0.7	74.1	56.4	16.3	7.3	1.8	0.4	2.1	0.7	0.4	0.3	0.5	2.7	0.5
							Machinery (7)									
1955	98.1	16.9	0.6	80.6	50.9	29.6	16.7	0.1	0.1	0.6	0.1	0.1	-	0.5	1.0	-
1960	98.8	18.2	0.6	79.6	55.4	23.9	12.6	0.3	-	0.4	0.1	-	-	0.2	0.9	-
1965	99.0	15.2	0.7	82.2	62.6	19.0	9.6	0.9	-	0.3	-	0.1	0.1	0.1	0.7	-
1966	98.8	14.8	0.5	82.0	63.0	18.5	9.6	1.4	-	0.3	-	0.1	-	0.1	0.8	-
							Other manufactures (6 and 8)									
1955	87.5	6.8	3.9	82.5	55.3	21.3	9.3	0.9	0.1	11.0	3.1	1.1	0.3	5.9	1.4	0.1
1960	87.4	7.3	1.8	76.4	53.3	20.5	7.6	1.1	-	10.2	3.1	1.5	0.5	4.7	2.2	0.4
1965	89.8	6.0	0.7	80.6	59.9	18.0	6.8	1.8	0.2	7.8	2.0	1.7	0.6	3.3	2.1	0.3
1966	89.2	6.1	0.6	79.8	60.1	16.8	6.5	1.8	0.2	8.4	1.9	1.8	0.6	3.8	2.1	0.3

Source: ECLA, on the basis of table I-42. Items classified according to SITC.

Unlike the United States, EEC imported more foodstuffs and raw materials from Latin America than from other developing regions. Latin America's share of the market remained the same, which meant that it doubled its exports of foodstuffs and increased its exports of raw materials by 57 per cent.

EEC imports of fuels mainly came from the developing regions, which as a group increased their share of the market from 49.5 per cent in 1955 to 64.5 per cent in 1966. The improvement, however, was confined to the African countries, since the position of the Middle East - the major supplier - deteriorated somewhat and there was a marked decline in the shares of Latin America and Asia.

The dynamic growth of EEC imports of chemical products, machinery and other manufactures benefited suppliers in industrialized regions, which continued to improve their already strong lead, more than the developing countries. The most significant feature of the latter's trade with EEC was the increase in imports of "other manufactures" from Asia, which even increase its share of the market.

In other words, despite the fact that its share of the EEC market declined, the growth of Latin America's exports of foodstuffs and raw materials to EEC countries partly offset the decline in its share of the United States market; on the other hand, unlike other developing regions, it had no share in the increase of EEC imports of manufactures.

EFTA imports. As in other industrialized regions, EFTA imports were also characterized by an increase in manufactures and a decrease in primary commodities, and by increased purchases of primary commodities from other developed regions. When the sluggish rate of growth of total EFTA imports (compared with EEC, Japan and the United States), is taken into account also it is understandable that the position of the developing countries should have been seriously weakened, so much so that exports of foodstuffs remained constant, exports of raw materials fell, and only exports of fuels and, to some extent, "other manufactures" rose (see table I-44 and I-45).

/Table I-44

Table I-44

EUROPEAN FREE TRADE AREA: IMPORTS, BY REGION OF ORIGIN AND BY CATEGORIES OF GOODS

(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
								Total									
1955	16 180	11 600	1 680	880	7 530	4 210	2 570	850	90	1 120	3 900	870	1 050	500	1 120	640	51
1960	21 430	16 030	2 430	1 080	11 000	6 500	3 470	1 080	230	940	4 430	1 010	1 120	760	1 150	880	95
1965	29 300	22 840	2 770	1 250	16 780	9 600	5 770	1 670	460	1 040	5 050	1 070	1 030	1 000	1 550	1 290	120
1966	30 930	24 140	2 970	1 240	17 850	10 000	6 280	1 860	530	970	5 210	1 120	990	1 140	1 560	1 430	135
								Foodstuffs (0 and 1)									
1955	4 400	2 940	440	300	1 420	600	465	21	19	650	1 300	460	340	43	340	150	8
1960	4 950	3 310	570	290	1 650	640	550	32	66	610	1 370	470	385	56	325	255	15
1965	5 700	4 040	520	300	2 310	940	790	61	74	690	1 380	430	340	81	365	260	14
1966	5 860	4 210	660	290	2 410	910	860	76	56	640	1 330	445	310	82	330	300	21
								Raw materials (2 and 4)									
1955	3 500	1 990	255	255	970	280	455	32	16	395	1 310	185	530	36	510	180	32
1960	3 820	2 250	370	370	1 120	330	500	43	26	275	1 290	205	460	25	530	240	52
1965	3 990	2 530	300	460	1 390	455	630	59	21	240	1 050	215	295	29	425	315	59
1966	3 920	2 490	265	435	1 390	485	610	55	17	240	1 010	240	265	27	400	350	64
								Fuels (3)									
1955	1 630	780	115	3	660	500	160	155	-	-	720	115	17	400	1	125	-
1960	2 000	780	61	-	720	510	190	175	-	2	1 080	240	9	650	12	140	-
1965	2 790	1 010	61	1	940	670	240	165	-	1	1 600	310	5	820	325	185	-
1966	2 970	1 020	58	1	960	670	270	195	1	1	1 750	275	26	950	370	200	-
								Chemical products (5)									
1955	720	650	96	35	500	345	150	52	3	5	24	9	7	-	3	39	5
1960	1 190	1 110	190	27	880	620	250	88	6	5	22	8	6	2	4	49	2
1965	1 920	1 800	265	36	1 450	980	435	150	25	11	37	9	6	3	13	79	7
1966	2 040	1 900	265	39	1 540	1 020	485	170	30	10	47	12	5	10	13	80	10
								Machinery (7)									
1955	1 850	1 820	255	9	1 540	970	570	290	5	9	4	-	2	2	-	27	-
1960	3 630	3 580	540	28	2 960	2 060	860	370	45	4	14	2	7	3	-	35	-
1965	6 120	6 040	870	55	4 940	3 270	1 610	610	165	6	18	2	10	4	1	61	1
1966	6 660	6 560	920	59	5 340	3 430	1 750	700	230	8	30	2	13	11	2	70	-
								Other manufactures (6 and 8)									
1955	3 710	3 080	295	275	2 320	1 480	710	255	46	51	530	100	150	12	265	100	6
1960	5 520	4 690	510	375	3 580	2 280	1 080	330	85	40	650	105	245	28	270	150	26
1965	8 360	7 000	650	400	5 550	3 180	1 990	560	175	77	940	105	340	56	425	370	40
1966	9 060	7 590	700	410	5 990	3 320	2 230	610	190	76	1 020	145	365	58	440	405	41

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

Table I-45

EUROPEAN FREE TRADE AREA: SHARE OF IMPORTS BY REGION AND BY CATEGORIES OF GOODS

(Percentages)

Year	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Japan	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
								Total								
1955	71.7	10.4	5.4	46.5	26.0	15.9	5.3	0.6	6.9	24.1	5.4	6.5	3.1	6.9	3.9	0.3
1960	74.8	11.3	5.0	51.3	30.3	16.2	5.0	1.1	4.4	20.7	4.7	5.2	3.5	5.4	4.1	0.4
1965	78.0	9.5	4.3	57.3	32.8	19.7	5.7	1.6	3.5	17.2	3.7	3.5	3.4	5.3	4.4	0.4
1966	78.1	9.6	4.0	57.7	32.3	20.3	6.0	1.7	3.1	16.9	3.6	3.2	3.7	5.0	4.6	0.4
								Foodstuffs (0 and 1)								
1955	66.8	10.0	6.8	32.3	13.6	10.6	0.5	0.4	14.8	29.6	10.5	7.7	1.0	7.7	3.4	0.2
1960	66.9	11.5	5.9	33.3	12.9	11.1	0.6	1.3	12.3	27.7	9.5	7.8	1.1	6.6	5.1	0.3
1965	70.9	9.1	5.3	40.5	16.5	13.9	1.1	1.3	12.1	24.2	7.5	6.0	1.4	6.4	4.6	0.3
1966	71.8	11.3	4.9	41.1	15.5	14.7	1.3	1.0	10.9	22.7	7.6	5.3	1.4	5.6	5.1	0.4
								Raw materials (2 and 4)								
1955	56.7	7.3	7.3	27.6	8.0	13.0	0.9	0.5	11.2	37.3	5.3	15.1	1.0	14.6	5.1	0.9
1960	58.7	9.7	9.7	29.2	8.6	13.0	1.1	0.7	7.2	33.7	5.3	12.0	0.7	13.8	6.3	1.3
1965	64.0	7.6	11.6	35.1	11.5	15.9	1.5	0.5	6.1	26.5	5.4	7.5	0.7	10.7	8.0	1.5
1966	63.6	6.8	11.1	35.5	12.4	15.6	1.4	0.4	6.1	25.8	6.1	6.8	0.7	10.2	9.0	1.6
								Fuels (3)								
1955	48.0	7.1	0.2	40.6	30.8	9.8	9.5	-	-	44.3	7.1	1.0	24.6	0.1	7.7	-
1960	39.0	3.1	-	36.0	25.5	9.5	8.8	-	0.1	54.0	12.0	0.4	32.5	0.6	7.0	-
1965	36.1	2.2	-	33.6	24.0	8.6	5.9	-	-	57.3	11.1	0.2	29.3	11.6	6.6	-
1966	34.4	2.0	-	32.3	22.6	9.1	6.6	-	-	58.9	9.3	0.9	32.0	12.5	6.7	-
								Chemical products (5)								
1955	90.5	13.4	4.9	69.6	48.0	20.9	7.2	0.4	0.3	3.4	1.3	0.8	-	0.4	5.4	0.7
1960	93.7	16.0	2.3	74.3	52.3	21.1	7.4	0.4	0.3	1.9	0.7	0.4	0.2	0.4	4.1	0.3
1965	93.6	13.7	1.9	75.4	51.0	22.6	7.8	1.3	0.6	1.9	0.5	0.3	0.2	0.7	4.1	0.4
1966	93.3	13.0	1.9	75.6	50.1	23.8	8.3	1.5	0.5	2.3	0.6	0.2	0.5	0.6	3.9	0.5
								Machinery (7)								
1955	98.4	13.8	0.5	83.2	52.4	30.8	15.7	0.3	0.5	0.2	-	0.1	0.1	-	1.4	-
1960	98.6	14.9	0.8	81.5	56.7	23.7	10.2	1.2	0.1	0.4	0.1	0.2	0.1	-	1.0	-
1965	98.7	14.2	0.9	80.7	53.4	26.3	10.0	2.7	0.1	0.3	0.0	0.2	0.1	0.0	1.0	
1966	98.5	13.8	0.9	80.2	52.4	26.3	10.5	3.5	0.1	0.4	0.0	0.2	0.2	0.0	1.1	
								Other manufactures (6 and 8)								
1955	82.9	7.9	7.4	62.4	39.8	19.1	6.9	1.2	1.4	14.2	2.7	4.0	0.3	4.4	2.7	0.2
1960	85.0	9.2	6.8	64.9	41.3	19.6	6.0	1.5	0.7	11.8	1.9	4.4	0.5	4.9	2.7	0.5
1965	83.8	7.8	4.8	66.5	38.1	23.8	6.7	2.1	2.1	11.3	1.3	4.1	0.7	5.1	4.4	0.5
1966	83.8	7.7	4.5	66.1	36.6	24.6	6.7	2.1	0.8	11.3	1.6	4.0	0.6	4.8	4.5	0.4

Source: ECLA, on the basis of table I-44.

/The increased

The increased EFTA imports of foodstuffs all came from Eastern Europe and the industrialized countries, including the EFTA countries themselves, the EEC countries and other countries of Western Europe. EFTA imports of raw materials from the developing regions declined in value, even in absolute terms, principally because of the sharp fall in purchases from Asia and, to a lesser extent, from Africa and the Middle East, while purchases from Latin America increased. On the other hand, the developing regions increased their sales of fuels to EFTA and improved their share of the market (from 44.3 per cent in 1955 to 58.9 per cent in 1966) as a result of increases in the share of Africa, and to a lesser extent, those of the Middle East and Latin America.

For other types of goods, "other manufactures" were the only goods for which the share of the developing regions attained significant proportions. The increase was mainly attributable to the Middle East and Asia, and to a lesser degree Africa, while Latin America's share declined.

In other words, EFTA imports of foodstuffs from Latin America remained stationary while there was only a slight movement in its imports of other goods; hence Latin America lost ground, to the benefit of the industrialized countries.

Japanese imports. Of the regions referred to above, Japan's is the only import market in which primary commodities have the major share, which facilitates specialized trade with the developing countries. While the proportion of primary commodities in total imports declined between 1955 and 1966 (from 84.5 to 74.1 per cent), this occurred in circumstances which forced Japan to increase its total imports from abroad: the total value of its imports grew at an annual rate of close to 13 per cent, imports of foodstuffs increased two and a half times, imports of raw materials almost tripled, and imports of fuels increased more than seven-fold (see tables I-46 and I-47).

There is also another important difference: the proportion of Japan's imports from the developed regions, after rising in the second half of the fifties, began to fall in 1960, and by 1966 had returned to their 1955 level (slightly less than 53 per cent). The share of the developing countries thus remained at approximately 40 per cent, Eastern Europe and mainland China making up the remainder.

/Table I-46

Table I-46

JAPAN: IMPORTS, BY REGION OF ORIGIN AND BY CATEGORIES OF GOODS

(Millions of dollars)

Year	Total	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
							Total									
1955	2 170	1 120	680	92	160	91	59	38	170	970	230	570	125	35	5	78
1960	3 880	2 370	1 440	185	360	210	135	80	340	1 400	240	760	300	77	83	28
1965	6 840	3 640	2 070	295	620	340	250	140	550	2 760	480	1 180	890	165	215	220
1966	8 080	4 270	2 350	365	760	410	315	180	680	3 220	570	1 340	1 030	225	290	300
							Foodstuffs (0 and 1)									
1955	560	295	170	64	24	15	3	2	30	240	54	185	2	1	-	24
1960	510	270	110	91	21	12	6	5	35	225	75	140	1	8	7	7
1965	1 320	780	510	105	49	22	11	7	92	450	92	330	1	26	12	73
1966	1 440	840	530	120	56	30	17	10	125	475	100	330	2	38	13	115
							Raw materials (2 and 4)									
1955	1 070	470	280	23	22	9	8	6	135	550	170	325	12	33	4	48
1960	1 860	1 050	660	68	32	12	15	11	275	770	160	530	8	57	26	11
1965	2 500	1 250	670	145	36	16	15	7	355	1 090	345	640	7	65	65	83
1966	3 090	1 550	810	190	47	19	21	9	430	1 320	415	790	16	81	105	110
							Fuels (3)									
1955	205	54	53	-	-	-	-	-	-	145	-	35	110	-	1	5
1960	530	150	130	5	2	1	2	2	13	350	1	52	290	-	21	8
1965	1 300	220	140	10	3	2	1	1	68	1 000	27	87	870	1	63	14
1966	1 460	230	145	11	4	4	1	1	72	1 130	32	86	990	-	74	20
							Chemical Products (5)									
1955	100	92	41	2	45	35	9	4	2	8	3	5	-	1	-	-
1960	240	225	130	1	91	70	21	9	4	6	2	4	-	-	7	-
1965	355	320	150	10	150	96	47	16	10	18	2	14	2	-	11	5
1966	425	395	180	13	180	115	63	26	19	17	4	12	1	1	6	7
							Machinery (7)									
1955	110	110	70	1	37	17	20	13	-	-	-	-	-	-	-	-
1960	340	340	200	5	130	81	51	25	1	1	-	1	-	-	1	-
1965	660	650	415	5	230	130	100	58	1	4	-	3	-	1	6	-
1966	720	700	440	9	250	140	110	65	1	8	-	4	-	4	6	-
							Other manufactures (6 and 8)									
1955	76	59	24	3	32	14	18	13	1	17	1	16	-	-	-	-
1960	285	210	93	15	82	32	38	27	11	55	7	36	-	13	18	2
1965	670	370	155	18	150	73	75	51	16	205	22	91	13	75	59	64
1966	890	500	210	21	211	100	100	69	30	260	26	115	19	99	78	50

Source: United Nations, Monthly Bulletin of Statistics, March 1968. Items classified according to SITC.

Table I-47

JAPAN: SHARE OF IMPORTS BY REGIONS AND BY CATEGIRES OF GOODS

(Percentages)

Year	Developed regions	United States	Canada	Western Europe	EEC	EFTA	United Kingdom	Australia and New Zealand	Developing regions	Latin America	Asia	Middle East	Africa	Eastern Europe	Mainland China
							Total								
1955	51.5	31.2	4.2	7.4	4.2	2.7	1.7	7.8	44.7	10.6	26.2	5.8	1.6	0.2	3.6
1960	61.1	37.1	4.8	9.3	5.4	3.5	2.1	8.8	36.1	6.2	19.6	7.7	2.0	2.1	0.7
1965	53.3	30.3	4.3	9.1	5.0	3.7	2.0	8.0	40.4	7.0	17.3	13.0	2.4	3.1	3.2
1966	52.8	29.1	4.5	9.4	5.1	3.9	2.2	8.4	39.9	7.0	16.6	12.7	2.8	3.6	3.7
							Foodstuffs (0 and 1)								
1955	52.8	30.4	11.4	4.3	2.7	0.5	0.4	5.4	42.9	9.7	33.1	0.3	0.2	-	4.3
1960	53.0	21.6	17.9	4.1	2.4	1.2	1.0	6.9	44.2	14.7	27.5	0.2	1.6	1.4	1.4
1965	59.3	38.8	8.0	3.7	1.7	0.8	0.5	7.0	34.2	7.0	25.1	0.1	2.0	0.9	5.6
1966	58.2	36.7	8.3	3.9	2.1	1.2	0.7	8.7	32.9	6.9	22.9	0.1	2.6	0.9	8.0
							Raw materials (2 and 4)								
1955	43.8	26.1	2.1	2.1	0.8	0.7	0.6	12.6	51.3	15.9	30.3	1.1	3.1	0.4	4.5
1960	56.5	35.5	3.7	1.7	0.6	0.8	0.6	14.8	41.5	8.6	28.5	0.4	3.1	1.4	0.6
1965	50.2	26.9	5.8	1.4	0.6	0.6	0.3	14.3	43.8	13.9	25.7	0.3	2.6	2.6	3.4
1966	50.2	26.3	6.2	1.5	0.6	0.7	0.3	13.9	42.8	13.5	25.6	0.5	2.6	3.4	3.6
							Fuels (3)								
1955	26.4	25.9	-	-	-	-	-	-	70.7	-	17.1	53.7	-	0.5	2.4
1960	28.3	24.6	0.9	0.4	0.2	0.4	0.4	2.4	66.2	0.2	9.8	54.8	-	4.0	1.5
1965	17.0	10.8	0.8	0.2	0.1	0.1	0.1	5.2	77.1	2.1	6.7	67.1	0.1	4.8	1.1
1966	15.8	10.0	0.8	0.3	0.3	0.1	0.4	4.9	77.7	2.2	5.9	68.1	-	5.1	1.4
							Chemical products (5)								
1955	92.0	41.0	2.0	45.0	35.0	9.0	4.0	2.0	8.0	3.0	5.0	-	1.0	-	-
1960	94.5	54.6	0.4	38.2	29.4	8.8	3.8	1.7	2.5	0.8	1.7	-	-	3.0	-
1965	94.4	42.4	2.8	42.4	27.1	13.3	4.5	2.8	5.1	0.6	4.0	0.6		3.1	1.4
1966	92.9	42.4	3.1	42.4	27.1	14.8	6.1	4.5	4.0	0.9	2.8	0.2	0.2	1.4	1.7
							Machinery (7)								
1955	100.0	63.6	0.9	33.6	15.5	18.2	11.8	-	-	-	-	-	-	-	-
1960	99.4	58.5	1.5	38.0	23.7	14.9	7.3	0.3	0.3	-	0.3	-	-	0.3	-
1965	98.5	62.9	0.8	34.8	19.7	15.2	8.8	0.2	0.6	-	0.5	-	0.1	0.9	-
1966	98.0	61.6	1.3	35.0	19.6	15.4	9.1	0.1	1.1	-	0.6	-	0.5	0.9	-
							Other manufactures (6 and 8)								
1955	77.6	31.6	3.9	42.1	18.4	23.7	17.1	1.3	22.4	1.3	21.1	-	-	-	-
1960	73.7	32.6	5.3	28.8	11.2	13.3	9.5	3.9	19.3	2.4	12.6	-	4.6	6.3	0.7
1965	53.0	22.2	2.6	21.5	10.5	10.7	7.3	2.3	29.4	3.2	13.0	1.9	10.7	8.4	9.2
1966	56.3	23.6	2.4	23.8	11.3	11.3	7.8	3.4	29.3	2.9	13.0	2.1	11.1	8.8	5.6

Source: ECLA, on the basis of table I-46.

/The various

The various developing regions evolved differently, but because of the high rate of growth of Japan's total imports, even those regions whose share declined considerably increased the value of their total sales. For example, Latin America's share declined from 10.6 to 7 per cent, but the value of its sales increased two and a half times. Roughly the same happened with Asia. The deterioration in the position of these two regions was offset, however, by increases in the shares of the Middle East and Africa.

An outstanding feature of the composition of Japan's imports was the developing regions' marked loss of ground with respect to foodstuffs, although the value of their sales doubled, while the share of the industrialized regions (mainly the United States) and mainland China increased. The share of the United States - the main supplier of the industrialized regions - in imports of raw materials began to decline in 1960, while Eastern Europe increased its share, mainland China recovered lost ground and the developing countries maintained their share at around 43 per cent, within which Asia's share shrank while Latin America's share recovered from its decline in 1960. The developing countries increased their over-all share of fuel imports; Latin America's share remained small, the Middle East increased its share, while Asia's share declined.

In the sphere of manufactures, imports from the developing regions gained some ground, although the relative positions of the regions changed somewhat: Asia's share declined, Africa's increased significantly, as did those of the Middle East and Latin America to a lesser extent.

Looking at the situation from the viewpoint of Latin America, it may be concluded that although Latin America's share of the Japanese market is still relatively small, the rapid growth of Japan's imports and the use of a greater number of countries as suppliers hold out hopes of an increasingly rapid expansion of trade between Latin America and Japan.

/2. The

2. The balance of payments and movement of capital

The characteristics of Latin America's foreign trade and its relative position in world trade, discussed in the preceding paragraphs, are basic factors whose operation has had the ultimate result of placing the region in a special situation where its balance of payments is concerned.

The sluggishness of external demand for the products traditionally exported by Latin America in combination with unfavourable price trends, has in many cases prevented the capacity to import from keeping pace with demand for imports. The use of monetary reserves could do little to cover the resulting gap, and that only for a short time, so that in the main it has been bridged by intensive and increasing recourse to autonomous and compensatory external financing. In turn, the commitments deriving from such financing are looming steadily larger in the external transactions picture, and have given rise to an "indebtedness spiral" (as it is commonly called), and to great instability in most countries' balance of payments, by making the capacity to import inordinately dependent upon the inflow of new capital.

The figures for the region as a whole bear eloquent witness to the sharpness of these trends. Between 1955 and 1966, the average annual growth rate of the volume of exports was 4.6 per cent; that of their value was 3.9 per cent, owing to price declines; and that of their purchasing power was only 3.3 per cent, because of the rising trend of import prices. The current value of imports increased in the meantime at an average annual rate of 3.8 per cent.

The pressure exerted by the slow growth of the purchasing power of exports was reinforced by the speed of the upswing in service payments on foreign capital (profits, interest and loan amortization), which increased at an annual rate of 8.9 per cent. To give a better idea of what this implies, it should be recalled that the ratio between service payments and current income from exports of goods and services rose from 20.7 per cent in 1955 to nearly 35 per cent in 1966.

The rise in service payments was accompanied by a decrease in the net foreign capital contribution to the financing of Latin America's imports. In 1955-59, the net annual inflow averaged 195 million dollars;

/this figure

this figure was slightly reduced in the period 1960-64, for which the average was 185 million dollars, and subsequently plunged downward as the rate of increase of service payments speeded up. In 1965 and 1966 there were actually net transfers of resources abroad, amounting to 830 and 360 million dollars, respectively. Although the balance became positive again in 1967 and improved still further in 1968, these trends show how far the capacity to import is influenced by unduly rigid commitments in respect of remittances abroad for capital servicing purposes, and by the marked instability of the inflow of new capital.

International reserves - including the International Monetary Fund position - helped to cushion the impact of these variations on the level of imports. The reserves in question totalled 2,870 million dollars in 1955, and in 1962 dropped to 2,135 million, which was the lowest level recorded in the period under review; but later they had to be reconstituted, at the cost of a reduction of imports, so that by 1966 they exceeded 3,000 million dollars.

Hence a characteristic feature of Latin America's balance of payments has come to be the considerable relative importance of capital transactions in comparison with movements of merchandise proper. A clearer idea of what this means can be formed from the provisional figures for 1968, which are analysed in detail in Part Two of the present Survey. In that year, a capacity for external payments totalling more than 18,000 million dollars had to be obtained from exports of goods and services and gross inflows of foreign capital in order to finance imports whose f.o.b. value was approximately 10,000 million dollars. The difference between these two figures was absorbed by non-financial import services, payments of amortization, interest and profits on foreign capital, and moderate additions to international reserves.

With a view to more comprehensive evaluation of the structure and trends of the balance of payments, the development of each of its components will next be considered, still with reference to the period 1955-66. At the same time, from the data presented it will be possible to see how far the situation in individual countries diverges from the general pattern outlined.

/(a) Balance

(a) Balance-of-payments transactions on current account

(i) Merchandise transactions. From 1955 to 1959, the merchandise account in the balance of payments for the region as a whole showed that exports exceeded imports by approximately 1,000 million dollars (see table I-48). Subsequently, the effect of the increase in outflows other than import payments was to boost this surplus to such an extent that by 1965 it had doubled; from the peak then attained (about 2,100 million dollars), it declined in more recent years as a result of the reactivation of capital inflows. The servicing of these will have fresh implications in the near future and will very probably originate a new upward trend in the export surplus.

With the exception of the exports of Venezuela, Colombia and Haiti, which remained stationary or turned downward, and those of Brazil, Uruguay and the Dominican Republic, which expanded relatively little, the other countries' sales of goods greatly increased in value in relation to 1955-59. This applies particularly to Chile, Peru, Panama, Guatemala, Honduras and Nicaragua.

In Argentina, Chile, Peru and Uruguay the export surplus was considerably strengthened, after the deficit shown on the merchandise account in earlier years. But whereas Argentina, despite the expansion of its exports, practically kept its imports down to a certain approximate level throughout the period in order to improve its external payments position, Uruguay was compelled to reduce its imports for the same motive, in face of the slow growth of its external sales. Exports from Chile and Peru expanded fast enough - especially in Peru's case - to permit of a considerable increase in imports (with slight restrictions to generate surpluses on the merchandise account), supported by the inflow of capital.

/Table I-48

Table I-48

LATIN AMERICA: COMPOSITION OF FOREIGN TRADE

Product	Year	Millions of dollars							Percentage distribution				
		Total Latin America			Inter-Latin American trade	Rest of world			Total Latin America		Inter-Latin American trade	Rest of world	
		Exports	Imports	Balance		Exports	Imports	Balance	Exports	Imports		Exports	Imports
Total	1955	7 970	7 060	910	760	7 210	6 300	910	100.0	100.0	100.0	100.0	100.0
	1960	8 590	7 940	650	680	7 910	7 260	650	100.0	100.0	100.0	100.0	100.0
	1965	11 060	9 320	1 740	1 080	9 980	8 240	1 740	100.0	100.0	100.0	100.0	100.0
	1966	11 660	10 410	1 250	1 180	10 480	9 230	1 250	100.0	100.0	100.0	100.0	100.0
Food (0 and 1)	1955	3 760	890	2 870	360	3 400	530	2 870	47.2	12.6	47.2	47.2	8.4
	1960	3 810	880	2 930	260	3 550	620	2 930	44.4	11.1	38.0	44.9	8.5
	1965	4 870	1 090	3 780	360	4 510	730	3 780	44.0	11.7	33.6	45.2	8.9
	1966	5 090	1 250	3 840	390	4 700	860	3 840	43.7	12.0	33.2	44.8	9.3
Raw materials (2 and 4)	1955	1 540	550	990	145	1 395	405	990	19.3	7.8	19.0	19.3	6.4
	1960	1 590	470	1 120	92	1 498	378	1 120	18.5	5.7	13.5	18.9	5.2
	1965	2 130	660	1 470	175	1 955	485	1 470	19.3	7.1	16.3	19.6	5.9
	1966	2 320	690	1 630	195	2 125	495	1 630	19.9	6.6	16.6	20.3	5.4
Fuels (3)	1955	1 900	640	1 260	175	1 725	465	1 260	23.8	9.1	23.0	23.9	7.4
	1960	2 350	630	1 720	260	2 090	370	1 720	27.4	7.9	38.1	26.4	5.1
	1965	2 740	600	2 140	210	2 530	390	2 140	24.8	6.4	19.6	25.4	4.7
	1966	2 700	670	2 030	230	2 470	440	2 030	23.2	6.4	19.6	23.6	4.8
Chemical products (5)	1955	85	620	-535	14	71	606	-535	1.1	8.8	1.8	1.0	9.6
	1960	110	790	-680	15	95	775	-680	1.3	9.9	2.2	1.2	10.7
	1965	160	1 090	-930	57	103	1 033	-930	1.4	11.7	5.3	1.0	12.5
	1966	200	1 260	-1 060	69	131	1 191	-1 060	1.7	12.1	5.8	1.3	12.9
Machinery (7)	1955	12	2 220	-2 208	5	7	2 215	-2 208	0.2	31.4	0.7	0.1	35.2
	1960	19	3 010	-2 991	6	13	3 004	-2 991	0.1	37.9	0.9	0.2	41.4
	1965	64	3 410	-3 346	50	14	3 360	-3 346	0.6	36.6	4.7	0.1	40.8
	1966	86	3 880	-3 794	61	25	3 819	-3 794	0.7	37.3	5.2	0.2	41.4
Other Manufactures (6 and 8)	1955	660	1 900	-1 240	63	597	1 837	-1 240	8.3	26.9	8.3	8.3	29.2
	1960	689	1 960	-1 280	50	630	1 910	-1 280	7.9	24.7	7.3	8.0	26.3
	1965	1 060	2 300	-1 240	220	840	2 080	-1 240	9.6	24.7	20.5	9.4	25.2
	1966	1 240	2 490	-1 250	230	1 010	2 260	-1 250	10.6	23.9	19.6	9.6	24.5

Source: ECLA, on the basis of official statistics. Classified according to SITC.

/Outstanding among

Outstanding among the countries with a tradition of merchandise-account surpluses is Venezuela. The decline in petroleum prices and the limits set to demand for Venezuelan oil by competition and by the preferential treatment accorded to other geographical areas as suppliers of the leading world markets caused a relative stagnation of exports throughout the period under review. In addition, Venezuela's external payments position was difficult at the beginning of the nineteen-sixties, and outgoings under the head of direct foreign investment income remained high. Consequently, a substantial surplus on the merchandise account had to be maintained on the basis of restriction and reduction of imports. The situation was much the same in Brazil. The fall in coffee prices and the rigidity of demand made for slow and fluctuating export growth rates, which determined a similar behaviour pattern for imports. The surplus was heavily depleted by import requirements in 1960-64, but owing to the persistence of the balance-of-payments deficit it had to be increased again, on a very large scale, towards the end of the period under consideration. Ecuador and Honduras also achieved a surplus on the merchandise account every year, but in contrast to the situation in the foregoing countries, their export trade forged ahead and their imports increased. This was especially true of Honduras.

Among the countries whose trade balance deteriorated, El Salvador and Nicaragua showed surpluses on the merchandise account based on the steady strengthening of their export trade, which likewise enabled them to expand their imports; but in 1966, with the stagnation of exports and the continued growth of imports, the surpluses were transformed into deficits, financed by means of bigger capital inflows. In the case of the Dominican Republic, the political events by which it was affected in 1965 marked the close of a period in which exports had exceeded imports. The recovery of the export trade in 1966 was slight and the value of external purchases high, with the result that there was a fairly large deficit on the merchandise account, financed by the inflow of capital. In Colombia, external rigidities and the downward trend of coffee prices were reflected in more or less constant export levels. This, in combination with the fluctuations of capital flows, meant that the evolution of both imports and merchandise-account balances was very uneven.

/Lastly, there

Lastly, there were some countries that showed a chronic deficit on the merchandise account. Among these, Mexico, Bolivia, Paraguay, Haiti, Panama and Costa Rica, were also characterized - except for Haiti - by a dynamic export and import trade and a substantial inflow of capital. In the case of Mexico and Panama, deficits on the merchandise account were offset by favourable balances on non-financial service transactions, in particular travel and tourism, and miscellaneous services. Elsewhere, deficits on aggregate service transactions and on external factor payments were superimposed on the imbalance on the merchandise account, thus widening the gap and augmenting external financing requirements. In due course this would mean that increasing capital servicing commitments would lead to the restriction of imports, if the growth rate of exports were not speeded up to a greater extent. Bolivia and, in a lesser measure, Paraguay, were able to alleviate their payments position by virtue of the transfer payments received. Although similar resources were available to Haiti, imports were restricted because of the limited expansion of exports, largely imputable to internal supply problems. In Costa Rica, the growth of exports and a considerable inflow of capital allowed the high rate of increase of imports to be maintained.

The sluggish development of Latin America's export sector was partly due to the deterioration of prices and the rigidity of demand for coffee and petroleum. These factors particularly affected the countries which are among the leading world suppliers of the products in question: Venezuela and Colombia, and, in a lesser degree, Brazil. In other countries (Haiti and Uruguay, for example), unfavourable external factors were combined with internal supply difficulties.

Import restrictions were also applied in the same group of countries, as well as in Argentina. In almost all of them (the exception being Haiti) the predominant need was to increase and maintain or create merchandise-account surpluses by curtailing imports, in order to improve the external payments position or prevent it from deteriorating still further. In the other countries, the growth of imports outstripped or kept pace with that of export earnings, which were supplemented by increasing inflows of capital.

/(ii) Freight,

(ii) Freight, insurance and other transport transactions, travel and miscellaneous services. Latin America's position as a net importer in relation to these services as a whole is determined by deficits on transport and miscellaneous services, partly offset by surpluses on the travel account. With the exclusion of Mexico and Panama, and, in recent years, Uruguay, the other countries of the region show a negative balance on total transactions under these heads, which tended to decrease up to 1965, as a result of the import restriction policy pursued by some countries. In 1966, however, further increases in the deficit are observable (see table I-49).

The aggregate net deficit on these services absorbed an appreciable proportion of the surplus on the merchandise account, although their share dropped from 77.2 per cent in 1955-59 to 46.6 per cent in 1966, with the corresponding reduction of their relative importance in the external deficit on current account.

Freight, insurance and other transport transactions, in respect of which all the countries are net importers, are the most important items in the body of services under discussion, and determine the trend followed. Freight charges are closely linked to import values, and in so far as imports were restricted by some countries, expenditure on freight did not increase. Influence was exerted in the same direction by the progress of the Latin American countries' own merchant fleets and the degree to which they gradually gained control of external freight traffic in countries such as Argentina, Brazil, Chile and Colombia where certain levels of development had been attained.

Latin America is also a net importer of miscellaneous services (general government and other services), notwithstanding the surpluses obtained under those heads by Mexico, the Dominican Republic, Panama, Costa Rica and Guatemala. These only partly offset the deficits shown by the other countries.

/Table I-49

Table I-49

LATIN AMERICA: FREIGHT, INSURANCE AND OTHER TRANSPORT TRANSACTIONS, TRAVEL AND MISCELLANEOUS SERVICES

(Annual averages in millions of dollars)

Country	Credit				Debit				Balance			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	93.7	86.5	96.0	99.0	483.3	363.9	423.0	418.0	-389.6	-277.4	-327.0	-319.0
Mexico	480.6	660.8	826.0	904.0	262.6	392.3	502.0	558.0	218.0	268.5	324.0	346.0
Argentina	124.8	151.8	163.0	191.0	254.5	364.8	336.0	398.0	-129.7	-213.0	-173.0	-207.0
Brazil	154.6	122.2	151.0	134.0	404.2	326.6	339.0	400.0	-249.6	-204.4	-188.0	-266.0
Chile	41.8	78.5	99.4	121.2	83.1	158.2	148.8	178.0	-41.3	-79.7	-49.4	-56.8
Peru	43.9	64.9	87.3	105.1	90.3	132.0	192.4	218.0	-46.4	-67.1	-105.1	-112.9
Colombia	70.0	101.6	117.5	128.1	120.7	164.9	222.9	227.2	-50.7	-63.3	-105.4	-99.1
Uruguay	27.8	44.0	56.2	57.5	41.8	52.6	45.2	45.0	-14.0	-8.6	11.0	12.5
Ecuador	8.9	11.8	19.5	17.6	35.2	41.3	45.8	47.7	-26.3	-29.5	-26.3	-30.1
Bolivia	1.5	6.6	10.3	8.9	23.8	25.8	35.1	35.4	-22.3	-19.2	-24.8	-26.5
Paraguay	4.5	5.5	5.6	9.8	9.8	12.5	19.4	16.2	-5.3	-7.0	-13.8	-6.4
Haiti	11.1	12.3	7.1	7.7	10.5	15.2	19.6	18.2	0.6	-2.9	-12.5	-10.5
Dominican Republic	17.5	19.0	22.7	22.4	27.9	45.9	46.4	55.6	-10.4	-26.9	-23.7	-33.2
Panama	65.3	107.1	133.1	153.3	26.8	40.7	47.8	54.2	38.5	66.4	85.3	99.1
Costa Rica	15.7	20.5	28.1	29.2	19.2	25.8	39.1	39.0	-3.5	-5.3	-11.0	-9.8
El Salvador	10.5	13.7	22.8	19.9	26.2	32.7	43.6	51.1	-15.7	-19.0	-20.8	-31.2
Guatemala	11.3	19.6	34.0	29.2	27.2	35.6	50.6	60.8	-15.9	-16.0	-16.6	-31.6
Honduras	4.8	6.3	9.5	12.1	12.0	13.0	21.7	26.3	-7.2	-6.7	-12.2	-14.2
Nicaragua	14.8	17.3	22.6	29.0	28.0	37.3	54.8	60.8	-13.2	-20.0	-32.2	-31.8
Total	1 203.1	1 550.0	1 911.7	2 079.0	1 987.1	2 281.1	2 633.2	2 907.5	-784.0	-731.1	-721.5	-828.5

Source: ECLA, on the basis of official statistics.

/In contrast

In contrast, surpluses were achieved on the travel account which partly counteracted the negative balances recorded for the two preceding items. The decisive influence, however, was that of Mexico's net earnings under the heads of tourism and border trade, although smaller contributions were made by the travel surpluses shown in Uruguay, Haiti, Panama, Costa Rica and Guatemala. In recent years, Guatemala and Haiti have become net importers where travel is concerned, whereas Chile, Ecuador and Paraguay obtained net income from this source which they had not previously enjoyed.

In the last analysis, net positions were affected by different factors in each country. In Venezuela, Argentina, Brazil and Colombia, the fluctuations of the aggregate deficit on the services accounts in question has its explanation in import trends and the restriction of expenditure on travel and miscellaneous services. In Mexico and Panama, the surpluses on these services offset the deficits on the merchandise account, and in Uruguay surpluses under both heads jointly provided means of meeting external commitments. Despite the expansion of Chile's imports, its net expenditure on non-financial services was kept down by virtue of the increase in tourism or travel earnings, and the same was true of Ecuador and Paraguay. In Haiti, on the other hand, with the reduction of its income from travel, the services deficit increased, and the same thing happened in the Central American countries, with the exception of Costa Rica.

(iii) Investment income. Over and above the external pressures on the balance of payments deriving from adverse trade situations, indebtedness and the international reserves position came to aggravate the existing rigidities. The chief effect of borrowing was the rapid increase in payments under the head of foreign investment income: profits, dividends and interest (see table I-50). Since these payments expanded faster than exports, countries where the pressures they generated were severe had to strengthen their surplus on the merchandise account, usually by restricting imports.

/Table I-50

Table I-50

LATIN AMERICA: RECEIPTS AND DISBURSEMENTS UNDER THE HEAD OF INVESTMENT INCOME

(Annual averages in millions of dollars)

Country	Credit				Debit				Balance			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	14.4	16.9	32.0	36.0	698.2	619.9	738.0	718.0	-683.8	-603.0	-706.0	-682.0
Mexico	-	-	-	-	136.5	244.3	339.0	373.0	-136.5	-244.3	-339.0	-373.0
Argentina	10.4	23.4	6.0	11.0	34.7	103.8	59.0	163.0	-24.3	-80.4	-53.0	-152.0
Brazil	3.6	3.0	10.0	7.0	136.4	185.2	269.0	291.0	-132.8	-182.2	-259.0	-284.0
Chile	0.4	-	-	-	68.9	87.1	118.0	184.8	-68.5	-87.1	-118.0	-184.8
Peru	0.1	1.4	4.3	4.0	34.4	66.6	90.5	121.7	-34.3	-65.2	-86.2	-117.7
Colombia	0.3	0.6	-	-	32.9	60.8	79.2	86.1	-32.6	-60.2	-79.2	-86.1
Uruguay	1.6	0.1	0.3	-	6.7	9.3	15.7	20.0	5.1	-9.2	-15.4	-20.0
Ecuador	0.3	0.1	-	-	21.4	20.5	25.0	28.5	-21.1	-20.4	-25.0	-28.5
Bolivia	-	0.2	0.8	3.7	3.0	1.7	4.4	4.5	-3.0	-1.5	-3.6	-0.8
Paraguay	-	-	0.1	0.3	1.0	1.9	3.1	4.4	-1.0	-1.9	-3.0	-4.1
Haiti	-	-	-	-	2.5	4.9	5.2	3.7	-2.5	-4.9	-5.2	-3.7
Dominican Republic	0.7	0.4	1.0	1.0	9.0	18.0	18.0	21.0	-8.3	-17.6	-17.0	-20.0
Panama	1.9	2.7	2.5	2.5	17.9	10.4	17.7	20.6	-16.0	-7.7	-15.2	-18.1
Costa Rica	0.4	0.3	0.5	0.8	6.0	6.5	14.2	16.4	-5.6	-6.2	-13.7	-15.6
El Salvador	0.5	0.6	1.6	2.1	3.5	5.7	9.4	9.6	-3.0	-5.1	-7.8	-7.5
Guatemala	0.9	1.0	2.7	2.6	3.5	8.4	13.9	21.8	-2.6	-7.4	-11.2	-18.6
Honduras	0.7	0.8	1.4	2.0	5.3	2.6	14.2	17.5	-4.6	-1.8	-12.8	-15.5
Nicaragua	0.2	0.7	2.3	2.9	4.2	4.1	15.1	18.6	-4.0	-3.4	-12.8	-15.7
Total	36.4	52.2	65.5	75.9	1 226.0	1 461.7	1 848.6	2 123.6	-1 189.6	-1 409.5	-1 783.1	-2 047.7

Source: ECLA, on the basis of official statistics.

Latin America receives some income from its assets in the rest of the world, but the amount is insignificant in comparison with the sums it has to pay out to meet its external liabilities deriving from direct investment and from foreign loans. These service payments rose from 1,226 million dollars in 1955-59 to 2,124 million in 1966 - i.e., by 73 per cent, or twice as fast as exports of goods during the same period - even though in Venezuela external investment income remained virtually constant, fluctuating around 600 to 700 million dollars. Its relative importance within total service payments decreased from 57 per cent in 1955-59 to 33 per cent in 1966.

Thus, the rapid growth of external investment income payments, was concentrated outside Venezuela, in particular in Mexico, Argentina, Brazil, Chile, Peru and Colombia, where the figures were significant in absolute terms. Elsewhere, although the sums concerned were much smaller than in the foregoing group of countries, the increases recorded were bigger in relative terms, except in Ecuador, Bolivia, Haiti and Panama.

A break-down of external investment income shows that profits on direct investment lost some of their relative importance, which declined from 86.6 to 71.5 per cent between 1955-59 and 1966; the proportion represented by interest on loans, on the other hand, rose from 13.4 to 28.5 per cent during the same period, in consequence of the more important role which loans were gradually assuming in the financing of the external deficit on current account. Even so, the relative position of profits was still the determinant of the level attained by external investment income, mainly because of Venezuela's situation. With the exclusion of Venezuela, the share of profits in total investment income would fall from 69.4 to 58.5 per cent between 1955-59 and 1966, and that of interest would increase from 30.6 to 41.5 per cent in the same lapse of time.

If foreign investment income payments are related to income from exports of goods and services, it can be deduced that the ratio between them climbed from 13.4 to 16.2 per cent between 1955-59 and 1966, while if amortization and other service payments are included, the corresponding proportions work out at 25.2 and 34.7 per cent.

/Up to

Up to 1962, net external investment income payments amounted to more than the surplus on the merchandise account. From 1963 to 1965 the latter increased sufficiently to offset the payments in question and reduce the gap, but in 1966, when the surplus once again diminished, it fell below the level of external investment income.

(iv) Private transfer payments. The negative balance shown by the region as a whole, under the influence of the large transfer payments effected by Venezuela, became favourable in 1966 as a result of the more rapid increase in transfer payments received. These increased from 43 to 150 million dollars between 1955-59 and 1966, while outward transfers rose from 118 million dollars to 148 million during the same period (see table I-51).

The private transfer payments received were strongly concentrated in Brazil and Haiti; their value followed an upward trend, but at a lower level, in Mexico, the Dominican Republic, El Salvador and Guatemala; and they decreased in Chile, Peru and Colombia. In the other countries, with the exception of Uruguay, they showed relatively significant increases, but here again the figures were smaller in absolute terms.

The largest proportion of outward private transfer corresponded to Venezuela (immigrants' remittances) and next, in order, but a long way below, came Mexico and Panama. These three countries and Uruguay were the only ones with net deficits in the region as a whole, since Argentina, which also traditionally recorded negative balances, transformed them into surpluses by drastically reducing its debts. In the other countries, the deficits on current account were lessened by surpluses deriving from private transfer payments received.

(v) Balance-of-payments positions on current account. The goods and services transactions to which reference has been made resulted in different kinds of pressures on Latin America's aggregate balance on current account. As long as the surplus on the merchandise account increased to a greater extent than the deficit on services (financial and non-financial), the external imbalance on current account dwindled steadily. These trends, consequent upon the policy pursued by the monetary authorities in certain countries with a view to improving the balance-of-payments situation, were particularly marked between the years 1963 and 1965.

/Table I-51

Table I-51

LATIN AMERICA: RECEIPTS AND DISBURSEMENTS UNDER THE HEAD OF PRIVATE TRANSFER PAYMENTS

(Annual averages in millions of dollars)

Country	Credit				Debit				Balance			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	-	2.0	5.0	5.0	66.4	83.9	96.0	94.0	-66.4	-81.9	-91.0	-89.0
Mexico	3.6	6.3	10.0	10.0	5.4	18.9	16.0	15.0	-1.8	-12.6	-6.0	-5.0
Argentina	0.9	6.7	2.0	3.0	3.6	12.2	6.0	2.0	-2.7	-5.5	-4.0	1.0
Brazil	11.0	20.2	41.0	55.0	23.8	14.8	2.0	10.0	-12.8	5.4	39.0	45.0
Chile	5.9	7.0	9.8	5.1	1.1	-	-	-	4.8	7.0	9.8	5.1
Peru	10.1	5.1	5.4	7.1	-	-	-	-	10.1	5.1	5.4	7.1
Colombia	2.5	6.6	7.2	3.8	1.3	2.5	3.0	4.0	1.2	4.1	4.2	-0.2
Uruguay	0.1	0.5	0.1	0.1	2.3	0.6	0.7	0.8	-2.2	-0.1	-0.6	-0.7
Ecuador	0.6	2.0	2.3	3.4	0.1	-	-	-	0.5	2.0	2.3	3.4
Bolivia	0.7	1.3	1.1	1.3	-	-	-	-	0.7	1.3	1.1	1.3
Paraguay	0.4	2.1	1.6	1.9	0.3	0.4	0.5	0.5	0.1	1.7	1.1	1.4
Haiti	1.6	7.5	10.9	18.9	0.7	4.7	6.2	6.0	0.9	2.8	4.7	12.9
Dominican Republic	1.3	6.7	10.8	7.5	3.9	3.4	2.4	-	-2.6	3.3	8.4	7.5
Panama	1.7	3.5	3.9	4.7	7.2	10.5	9.7	10.8	-5.5	-7.0	-5.8	-6.1
Costa Rica	1.1	2.4	2.5	2.3	0.2	0.2	0.1	0.2	0.9	2.2	2.4	2.1
El Salvador	0.3	3.6	11.6	9.1	0.5	1.4	1.9	2.5	-0.2	2.2	9.7	6.6
Guatemala	0.4	2.5	5.0	7.8	0.1	1.3	1.5	1.6	0.3	1.6	3.5	6.2
Honduras	0.5	0.6	1.4	1.4	1.1	1.0	1.0	1.0	-0.6	-0.4	0.4	0.4
Nicaragua	0.2	1.1	2.3	2.4	-	-	-	-	0.2	1.1	2.3	2.4
Total	42.9	88.1	133.9	149.8	118.0	155.8	147.0	148.4	-75.1	-67.7	-13.1	1.4

Source: ECLA, on the basis of official statistics.

/Hence the

Hence the deficit on current account was reduced from 1,030 million dollars in 1955-59 to 420 million in 1965. In 1966, when some countries relaxed their restrictions, largely because of the improvement in exports and the increase in the net inflow of capital, external purchases once again expanded faster than sales, with the result that the surplus on the merchandise account decreased. This circumstance, in combination with the larger negative balance on the services account, raised the deficit on current account to about 1,100 million dollars, and sparked off a new trend towards the expansion of net external financing (see table I-52).

The decrease in the deficit on current account was at first attributable to Venezuela's surplus (1960-64), to which those of Argentina, Brazil and Uruguay were then added, together with substantial reductions of the deficits shown by Chile and Colombia (1965), in which countries payments difficulties arose and the monetary authorities applied stringent measures to improve their net position. Generally speaking, the improvements achieved were based on import restrictions, except in Chile, and in Argentina, Brazil and Chile, on the expansion of exports, which boosted the surplus on the merchandise account. In another group of countries (Bolivia, Haiti, Paraguay, Panama and Guatemala), pressures were counteracted by assistance received in the form of grants and donations.

In Ecuador the deficit on current account stood at a constant proportion of export earnings, but at a fairly low level.

The other countries (Mexico, Peru, the Dominican Republic, Costa Rica, El Salvador, Honduras and Nicaragua) show trends towards increasing use of external financing, supported by the expansion of their exports of goods and services - except in the case of the Dominican Republic - and the inflow of non-compensatory capital. In 1966, when the external deficit on current account once again increased, pressure in that direction continued in the last-named group of countries, as well as in Brazil and Colombia and to a lesser extent in Venezuela and Chile.

/Table I-52

Table I-52

LATIN AMERICA: TOTALS FOR GOODS, SERVICES AND PRIVATE TRANSFER PAYMENTS, AND BALANCE-OF-PAYMENTS POSITION ON CURRENT ACCOUNT

(Annual averages in millions of dollars)

Country	Credit				Debit				Balance			
	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966	1955-59	1960-64	1965	1966
Venezuela	2 453.0	2 570.3	2 569.0	2 482.0	2 639.9	2 184.2	2 598.0	2 527.0	-186.9	386.1	-29.0	-45.0
Mexico	1 270.9	1 578.9	1 982.0	2 142.0	1 422.4	1 859.6	2 379.0	2 509.0	-151.5	-280.7	-397.0	-367.0
Argentina	1 106.1	1 388.8	1 664.0	1 798.0	1 290.9	1 548.8	1 444.0	1 541.0	-184.8	-160.0	220.0	257.0
Brazil	1 533.2	1 490.6	1 798.0	1 937.0	1 728.2	1 780.4	1 551.0	2 004.0	-195.0	-289.8	247.0	-67.0
Chile	487.5	583.8	797.2	992.6	534.3	788.7	835.7	1 075.7	-46.8	-204.9	-38.5	-83.1
Peru	364.1	621.5	781.6	902.7	445.6	643.0	942.6	1 085.9	-81.5	-21.5	-161.0	-183.2
Colombia	658.5	622.6	715.7	665.8	646.0	757.0	735.5	942.7	12.5	-134.4	-19.8	-276.9
Uruguay	189.1	205.9	252.9	246.2	232.8	242.2	184.7	210.8	-43.7	-36.3	68.2	35.4
Ecuador	140.4	161.9	202.5	208.2	154.1	179.6	226.0	228.9	-13.7	-17.7	-23.5	-20.7
Bolivia	73.8	78.8	127.7	147.0	102.6	115.6	166.1	178.7	-28.8	-36.8	-38.4	-31.7
Paraguay	41.3	49.0	68.1	65.6	49.4	59.1	76.0	79.4	-8.1	-10.1	-7.9	-13.8
Haiti	49.1	57.9	55.8	61.3	56.8	68.7	73.6	70.2	-7.7	-10.8	-17.8	-8.9
Dominican Republic	147.3	190.1	160.4	168.9	155.4	199.7	187.5	237.1	-8.1	-9.6	-27.1	-68.2
Panama	111.4	172.3	232.1	263.7	141.2	203.4	267.7	303.3	-29.8	-31.1	-35.6	-39.6
Costa Rica	96.6	117.1	143.0	169.0	112.1	139.6	213.9	216.8	-15.5	-22.5	-70.9	-47.8
El Salvador	128.6	155.1	226.0	220.9	126.4	169.4	241.0	264.7	2.2	-14.3	-15.0	-43.8
Guatemala	123.5	158.3	233.8	268.3	155.2	185.1	272.1	285.4	-31.7	-26.2	-38.3	-17.1
Honduras	73.5	87.8	141.1	162.2	81.7	94.4	150.2	183.1	-8.2	-6.6	-9.1	-20.9
Nicaragua	87.5	110.4	176.4	176.2	92.9	120.4	202.7	230.0	-5.4	-10.0	-26.3	-53.8
Total	9 135.4	10 401.7	12 357.3	13 077.6	10 167.9	11 528.9	12 737.3	14 173.7	-1 032.5	-537.2	-420.0	-1 096.1

Source: ECLA, on the basis of official statistics.

/(b) Capital

(b) Capital account

(i) Financing of the current deficit. As mentioned above, the balance-of-payments deficit on current account - the equivalent from a different standpoint of net external financing - which Latin America maintained from 1955 to 1966 followed an uneven course during that period: it remained at a relatively high level up to 1962, dropped sharply in 1963-65 and increased again in 1966.

Naturally, this trend was largely determined by balance-of-payments difficulties in several countries. Notwithstanding the differing situations in the various countries, a feature common to them all was the intensive use they made of external financing in order to stabilize the current account; this measure was all the more necessary inasmuch as export earnings were increasing at a slower pace than the servicing of foreign capital itself. At certain times, great efforts were made to lessen the disequilibrium by means of import restriction policies, but these were kept within the limits and were necessarily of a temporary nature because of the requirements of the domestic economies.

External financing was used with varying intensity according to country or period. Therefore, the over-all picture is best reflected in the cumulative figures for the movements of capital which helped to cover the deficit on current account over a certain number of years (see table I-53). It is thus concluded that Latin America's cumulative net external financing in the years 1955-66 amounted to 11,365 million dollars. Excluding Venezuela, which showed a net external dissaving during that period, the total for Latin America was 12,287 million dollars; 78 per cent of this sum was concentrated in Mexico, Brazil, Chile, Argentina, Colombia and Peru, the first two of these countries absorbing 54 per cent; the rest of Latin America accounted for 22 per cent, two thirds of which went to Bolivia, Panama, Guatemala, Costa Rica and Uruguay.

/Table I-53

Table I-53

LATIN AMERICA: BALANCE-OF-PAYMENTS POSITION ON CAPITAL ACCOUNT, 1955-66

(Millions of dollars)

	Mexico	Brazil	Argentina	Chile	Venezuela	Peru	Colombia	Uruguay	Bolivia	Guatemala	Panama	Costa Rica	Dominican Republic	Ecuador	Nicaragua	El Salvador	Paraguay	Honduras	Haiti	Latin America
Net external financing	2 924.8	2 244.0	1 247.5	1 380.1	-922.0	858.9	905.8	296.5	397.7	345.0	379.7	308.9	184.3	201.1	157.5	119.4	112.5	104.5	119.3	11 365.5
Net external capital	3 595.3	3 354.0	1 914.6	1 669.4	1 347.2	1 266.9	1 257.4	540.4	530.6	452.3	425.9	347.4	309.3	263.4	253.9	213.6	137.4	123.7	112.7	18 115.4
External non-compensatory capital	3 613.7	2 993.0	1 664.4	1 360.6	1 317.6	1 264.6	1 107.4	293.9	520.3	427.6	423.2	292.8	237.9	248.3	241.4	188.1	142.2	115.5	104.3	16 556.8
Direct investment	1 431.8	1 590.0	1 064.1	222.2	1 175.1	301.5	170.0	22.1	104.4	131.7	143.3	74.9	25.6	80.2	58.0	47.8	25.9	4.4	5.4	6 678.4
Long- and medium-term loans	1 531.9	925.0	696.2	805.7	-40.9	648.0	592.1	111.7	118.6	111.9	93.9	117.9	96.9	105.2	66.2	70.8	53.0	54.8	28.1	6 187.0
Short-term liabilities	644.9	260.0	-303.0	186.2	183.6	238.0	279.5	123.2	41.2	65.0	101.3	50.1	7.1	7.7	80.5	47.1	31.4	17.8	10.5	2 272.1
Official transfer payments	5.1	218.0	7.1	146.5	-0.2	77.1	65.8	36.9	256.1	119.0	84.7	49.9	108.3	55.2	36.7	22.4	31.9	38.5	60.3	1 419.3
Net compensatory external capital	-18.4	361.0	250.2	308.8	29.6	2.3	150.0	246.5	10.3	24.7	2.7	54.6	71.4	15.1	12.5	25.5	-4.8	8.2	8.4	1 558.6
Balance-of-payments loans and deferred import payments	-	434.0	295.0	235.5	29.0	0.3	87.7	131.0	-	9.7	-	34.6	44.8	-	0.8	-1.8	-2.0	0.1	-	1 298.7
IMF loans	-41.4	56.0	118.0	97.6	-	-	63.7	14.0	-2.0	11.6	2.7	21.7	26.6	17.2	11.2	20.0	-0.6	7.6	8.2	432.1
Other liabilities of the monetary authorities	23.0	-129.0	162.8	-24.3	0.6	2.0	-1.4	101.5	12.3	3.4	-	-1.7	-	-2.1	0.5	7.3	-2.2	0.5	0.2	-172.2
Net domestic non-compensatory capital or assets	-397.3	-273.0	-124.1	-256.9	-962.9	-194.8	-144.1	-0.4	-12.0	-7.5	-47.3	-35.7	-30.0	-38.9	-23.1	-19.6	-6.9	-20.3	-48.7	-2 643.5
Gross movements of international reserves (increase -)	-279.2	-123.0	200.3	-128.6	-290.4	-93.1	128.1	66.7	-27.6	-29.4	-2.7	-6.3	8.7	-28.4	-49.1	-18.7	-8.8	-5.9	7.4	-697.3
Errors and omissions	6.0	-714.0	-743.3	96.2	-1 015.9	-120.1	-335.6	-310.2	-93.3	-70.4	3.8	3.5	-103.7	5.0	-24.2	-55.9	-9.2	7.0	47.9	-3 409.1
Gross inflow of compensatory and non-compensatory capital	6 474.9	9 089.0	5 120.4	3 486.8	3 973.5	1 867.8	2 825.9	860.9	715.5	630.1	477.8	489.2	583.6	411.3	350.6	326.5	205.4	203.8	164.3	38 257.3
Gross inflow of capital as a percentage of current foreign exchange income	35.2	48.2	32.1	48.8	13.2	28.2	36.3	34.8	68.9	32.9	25.0	35.4	28.9	21.4	26.1	17.5	35.1	18.4	25.2	31.1
Net inflow of capital as a percentage of current foreign exchange income	19.6	17.8	12.0	23.4	4.5	19.2	16.1	21.8	51.1	23.6	22.2	25.2	15.3	13.7	18.9	11.5	23.5	11.1	17.3	14.7
Net external financing as a percentage of current foreign exchange income	15.9	11.9	7.8	19.3	-3.1	13.0	11.6	12.0	38.3	18.0	19.8	22.4	9.1	10.5	11.7	6.5	19.2	9.4	18.3	9.2

/Since the

Since the distribution of net external financing is influenced by the absolute size of each of the national economies, it would be as well to consider it also in relation to the countries' respective current foreign exchange earnings (credit for exports of goods and services and private transfer payments). This ratio for the region as a whole over the entire period was 9.2 per cent. Only El Salvador, Argentina, the Dominican Republic and Honduras recorded lower percentages, while Venezuela showed a negative ratio on account of its net external dissaving, and the rest showed higher ratios. Some countries considerably exceeded the overall average for Latin America, reaching very high coefficients. This is true of Bolivia, with 38.3 per cent, followed by Costa Rica with 22.4 per cent, and Panama, Chile, Paraguay, Haiti and Guatemala with ratios ranging from 18 to 20 per cent. In Mexico the average was 15.9 per cent, and in Peru, Uruguay, Brazil, Nicaragua, Colombia and Ecuador it ranged from 10 to 13 per cent. With the exception of Chile, the highest coefficients for the use of net external financing were recorded by the relatively less developed countries; but this did not result in external payments pressures, partly because of the volume of official transfer payments received and of loans granted on easier terms. Those recording the lowest ratios, however, were also - except for Argentina and Venezuela - the relatively less developed countries, which relied more on their export capacity to finance the increases in imports. This was the position of El Salvador, Honduras, Ecuador and Nicaragua, although the trend was to increase the volume of net external financing towards the end of the period. The remaining countries came somewhere between these two extremes, but they also had to face external payments pressures owing to the existing conditions of their financing, generally short- and medium-term, with repayments growing faster than both exports and gross capital inflows. The situation became particularly critical when exports and capital inflows remained stationary or declined. Despite the coefficients recorded by Venezuela, Argentina and Chile, their external payments pressures were similar to those affecting the last group of countries, although Venezuela's position has been somewhat alleviated by the accelerated amortization of its external obligations and an increase in its gross international reserves.

/In addition

In addition to the net external financing required to cover the deficit on current account, there were other negative flows consisting mainly of net movements of domestic autonomous or non-compensatory capital or assets, the gross movement of international reserves, and errors and omissions (see table I-53). If these items are taken into account, it will be seen that the net balance of total external capital amounted to some 18,100 million dollars during the period under review. In other words, the net inflow of capital exceeded the volume of net external financing required, thus enabling most of the countries to increase their gross international reserves 3/ and to cover other net outflows of domestic capital or assets recorded in the balance of payments, and of unidentified funds included in the errors and omissions account.

From an even more general standpoint, if amortization and service payments, which amounted to 20 thousand million dollars, are added to the net inflow of external capital, it will be noted that the gross inflow of compensatory and non-compensatory capital during the period amounted to nearly 38,300 million dollars, 52.6 per cent of which had to be used for amortization payments.

Venezuela, Brazil and Argentina, in particular, had to effect amortization and service payments amounting to about 65 per cent of the gross inflow of capital. In Colombia and Chile the proportion was over 50 per cent, and in Mexico 45 per cent. Except for Panama, in the remaining countries it ranged from 30 to 45 per cent. In general, the gap between gross and net inflows of capital in these countries and the size of this gap in some of them help to explain why accelerated payments had to be made to alleviate balance-of-payments pressures.

Of Latin America's total net inflow of capital, 91 per cent were movements of autonomous capital and 9 per cent of compensatory capital. A major proportion of net external non-compensatory capital (78 per cent)

3/ As indicated later, the increase in gross international reserves (697 million dollars) was more than offset by the increment in compensatory capital (1,558 million), which affects the monetary authorities' liabilities, so that the net position of the monetary authorities deteriorated by 861 million dollars over the whole period.

/was in

was in the form of direct investment (40 per cent) and medium- and long-term loans (38 per cent), and the remaining 22 per cent comprised short-term liabilities and official transfer payments. Net inflows of compensatory capital consisted mainly of resources deriving from trade arrears and their refinancing - balance-of-payments loans, deferred import payments and swaps - and, in a lesser proportion, IMF contingency loans, whose repayment terms - generally short-term - determined the position with regard to compensatory financing.

Mexico and Brazil together absorbed 38.4 per cent of total external autonomous and compensatory capital; Argentina and Chile received 19.8 per cent; Venezuela, Peru and Colombia, 21.4 per cent; Uruguay, Bolivia, Guatemala and Panama, 10.7 per cent; Costa Rica, the Dominican Republic, Ecuador, Nicaragua and El Salvador, 7.6 per cent; and Paraguay, Honduras and Haiti, 2.1 per cent.

If the net inflow of funds is broken down into autonomous and compensatory capital, other characteristics are revealed. In Uruguay, for example, the high proportion of compensatory capital is one of the causes of its present external payments difficulties. In Chile, Argentina, Colombia and Brazil, the share of compensatory capital was also fairly substantial, and it combined with medium- non-compensatory loans to create external payments pressures. This happened also in Venezuela, whose accelerated payments are noticeable only if the gross capital inflow is contrasted with the net movements. Besides these countries, the Dominican Republic, Costa Rica and El Salvador also record a relatively high proportion of compensatory financing.

As stated above, external autonomous or non-compensatory capital was mainly in the form of direct investment. According to the balance-of-payments entries, these flows were concentrated strongly in Brazil and Mexico (45.2 per cent), to a lesser extent in Venezuela and Argentina (33.5 per cent) and Peru, Chile and Colombia (10.4 per cent), that is, nearly 90 per cent was absorbed by these seven countries. Direct investment is at present channelled towards the more industrialized countries like Brazil, Mexico and Argentina, since that received by Venezuela constituted the last of the major oil investments for the period 1955-59. Among the

/relatively less

relatively less developed countries, those recording a sizable volume of direct investment were Panama, Guatemala, Bolivia, Ecuador and Costa Rica, where it accounted for a fairly high proportion of total external non-compensatory capital, as occurred also in Nicaragua, El Salvador and Paraguay, but at lower absolute levels.

The net inflow of medium- and long-term non-compensatory loans mainly benefited Mexico, which absorbed 24.8 per cent of the total owing to somewhat longer repayment periods than those extended to Argentina and Brazil, where accelerated amortization aimed at reducing payments pressures reduced the net inflow of such loans. In Venezuela, a rise in the already high rate of debt amortization led to a net disinvestment. This was not the case in Chile, Peru and Colombia, which received one-third of the net non-compensatory loans to Latin America, although in recent years they have been facing the same payments pressures as Brazil, Argentina, and Venezuela. Net disbursements of loans to the economically relatively less developed countries amounted to 16 per cent of the regional total, with Bolivia, Costa Rica, Guatemala, Uruguay, Ecuador, the Dominican Republic and Panama receiving the largest net flows. Among this group of countries, net non-compensatory loans are coming to form a significant part of total external financing in Honduras, Ecuador, the Dominican Republic, Costa Rica, Uruguay, El Salvador and Paraguay. The same is true in Chile, Peru and Colombia.

The flow of short-term non-compensatory capital (residents' net foreign liabilities) also was mainly to Mexico (28.4 per cent of the total), despite which Mexico experienced no payments pressures, possibly because of the stability of its currency and the dynamism of its domestic growth and exports, particularly tourism. This was not the case in other countries and Argentina recorded net outflows, while in Uruguay, Colombia, Brazil, Chile and Venezuela payments pressures combined with other pressures resulting from the compensatory external financing. Short-term liabilities in Peru, especially those deriving from trade arrears, had to be refinanced at the end of 1967 when Peru devalued its currency and are still exerting pressure on payments. Among the other countries of the region, Panama, Nicaragua and Guatemala, and to a lesser extent Costa Rica, El Salvador, Bolivia and Paraguay, also had some recourse to this kind of financing; Panama was the only one of these countries which was not subject to any pressure, which was due to the nature of its monetary system.

/Under the

Under the head of foreign compensatory capital, official transfer payments used to complement the external financing of all countries attained high absolute or relative levels in some of them, with the exception of Venezuela and to a lesser extent Argentina. In some cases they helped to prevent payments pressures (Bolivia, Guatemala, the Dominican Republic, Haiti, Panama and Costa Rica) while in others (Brazil, Chile, Peru and Colombia) they reduced pressure, and in others (Ecuador, Honduras, Nicaragua and Paraguay) they filled gaps in other forms of financing.

Contrasting these capital flows with current foreign exchange receipts, it is found that, of all the countries of the region, Bolivia relied most heavily on external financing, the gross and net figures (which were 68.9 and 51.1 per cent respectively of its current foreign exchange income), without experiencing serious payments pressures owing to the volume of the official transfer payments it received over the period 1955-66. At the opposite end of the scale, Venezuela relied least on external financing, which represented 13.2 per cent (gross) and 4.5 per cent (net) of its foreign exchange receipts. Nevertheless, it encountered payments pressures arising out of accelerated debt repayments and the need of the monetary authorities to improve their net position. The corresponding gross figures were approximately 48 per cent for Chile and Brazil; 36.3 per cent for Colombia; round 35 per cent for Costa Rica, Mexico, Paraguay and Uruguay; some 33 per cent for Guatemala and Argentina; 28 per cent for the Dominican Republic and Peru; approximately 25 per cent for Nicaragua, Haiti, and Panama; and between 21 and 18 per cent for Ecuador, Honduras and El Salvador.

The different levels of amortization and other capital payments and the different terms of external financing must be set against these gross figures in each country, when it will be seen that the countries are ranked in a different order according to the net figures. Besides Bolivia, the countries that came highest were Costa Rica, Guatemala, Paraguay and Chile, with close to 25 per cent; for Panama and Uruguay the figure is approximately 22 per cent; for Mexico, Peru and Nicaragua, 19 per cent; for Brazil and Haiti, 17 per cent; for Colombia and the Dominican Republic, 16 and 15 per cent respectively; and for Ecuador, Argentina, El Salvador and Honduras, between 14 and 11 per cent.

/In general,

In general, payments pressures were most acute in the countries which relied most on short- and medium-term compensatory and non-compensatory external financing to cover their current deficit on the balance of payments. The deficit was mostly due to the decline in prices and the contraction of demand, which reduced the value of exports. Without going into all the reasons, it should be noted that international financing was on the whole somewhat inflexible and costly. This was due to short repayment periods and high interest rates for loans, and to heavy remittances of profits on direct investment, all of which are factors that weigh heavily in the present structure of the region's balance of payments.

(ii) The net inflow of foreign capital and the incidence of capital servicing. A clear view of this topic will be gained by comparing the volume and sign of the net inflow of foreign capital and the incidence of capital servicing with the value of exports of goods and services (see tables I-54 and I-55).

The inflow of foreign capital has generated a counterflow of services payments - amortization and interest on debts, and profits and depreciation in respect of direct investment - which has grown so rapidly and steadily that the net result has become an outflow rather than an inflow. This was the case in 1965, owing to the debts incurred in earlier years; as the inflow of new capital declined in volume, servicing commitments actually led to an outflow of capital amounting to nearly 1,000 million dollars. The increase in the gross inflow in subsequent years helped to lower this figure, although the net inflow remained a negative amount (410 million dollars in 1966 and 500 million in 1967). Unless there is a very steady and rapid increase in the inflow of new capital, there will inevitably be great ups and downs in the net inflow of external funds; the net figure will be high when the inflow increases sharply, and low when it declines and the servicing commitments in respect of earlier inflows consume a larger share.

The problem becomes more acute if the increase in the service payments on foreign capital is not accompanied by a similar increase in exports, since such servicing is absorbing a growing share of current income from exports of goods and services. There has been a very marked trend in this direction in Latin America since the mid-nineteen-fifties.

/Table I-54

Table I-54

LATIN AMERICA: NET INFLOW OF FOREIGN CAPITAL

(Millions of dollars)

	Gross inflow of foreign compensatory and non-compensatory capital			Amortization and other capital payments			Net inflow of foreign compensatory and non-compensatory capital			Profits on direct foreign investment and interst payments on foreign loans			Net inflow of foreign capital		
	1965	1966	1967	1965	1966	1967	1965	1966	1967	1965	1966	1967	1965	1966	1967
Argentina	322.0	379.0	383.0	-588.0	-484.0	-357.0	-266.0	-105.0	26.0	-59.0	-163.0	-133.0	-325.0	-268.0	-107.0
Bolivia	63.5	60.0	60.7	-11.2	-28.0	-20.2	52.3	32.0	40.5	-4.4	-4.5	-18.1	47.9	27.5	22.4
Brazil	934.0	778.0	728.0	-920.0	-663.0	-638.0	14.0	115.0	90.0	-269.0	-291.0	-313.0	-255.0	-176.0	-223.0
Chile	374.0	382.0	398.0	-284.0	-258.0	-219.0	90.0	124.0	179.0	-121.0	-172.0	-214.0	-31.0	-48.0	-35.0
Colombia	184.5	435.8	359.6	-216.9	-143.8	-224.9	-32.4	292.0	134.7	-79.2	-86.1	-106.4	-111.6	205.9	28.3
Ecuador	52.4	56.3	59.0	-12.5	-12.0	-13.7	39.9	44.3	45.3	-25.0	-28.5	-26.3	14.9	15.8	19.0
Mexico	613.0	970.0	1 177.0	-384.0	-499.0	-479.0	229.0	471.0	698.0	-339.0	-373.0	-493.0	-110.0	98.0	205.0
Paraguay	21.8	30.8	38.5	-7.3	-7.5	-9.6	14.5	23.3	28.9	-3.1	-4.4	-6.0	11.4	18.9	22.9
Peru	311.0	328.0	282.2	-58.0	-101.0	-63.0	253.0	227.0	219.2	-95.0	-122.0	-149.0	158.0	105.0	70.2
Uruguay	81.2	98.5	18.9	-72.2	-101.9	-46.7	9.0	-3.4	-27.8	-15.7	-19.6	-22.0	-6.7	-23.0	-49.8
Venezuela	193.0	232.0	212.0	-42.0	-76.0	-62.0	151.0	156.0	150.0	-738.0	-718.0	-736.0	-587.0	-562.0	-586.0
Haiti	11.6	10.8	7.0	-3.2	-6.7	-1.1	8.4	4.1	5.9	-5.2	-3.7	-2.9	3.2	0.4	3.0
Panama	64.0	90.4	52.7	-7.1	-7.6	-30.0	56.9	82.8	22.7	-20.4	-24.2	-15.5	36.5	58.6	7.2
Dominican Republic	96.1	72.1	63.6	-49.7	-24.5	-19.6	46.4	47.6	44.0	-13.0	-21.0	-23.2	33.4	26.6	20.8
Costa Rica	111.2	105.8	85.2	-45.8	-51.2	-31.6	65.4	54.6	53.6	-14.2	-16.0	-18.9	51.2	38.6	34.7
El Salvador	39.7	71.4	37.2	-13.2	-22.4	-6.8	26.5	49.0	30.4	-9.4	-9.6	-10.7	17.1	39.4	19.7
Guatemala	101.8	73.1	100.9	-28.2	-62.6	-42.7	73.6	10.5	58.2	-13.9	-21.2	-22.6	59.7	-10.7	35.6
Honduras	26.4	28.2	39.3	-6.3	-6.0	-10.3	20.1	22.2	29.0	-14.5	-17.5	-23.0	5.6	4.7	6.0
Nicaragua	56.7	64.3	46.9	-6.4	-7.4	-21.3	50.3	56.9	25.6	-15.1	-18.6	-20.9	35.2	38.3	4.7
Latin America, excluding Cuba	3 657.9	4 266.5	4 149.7	-2 756.0	-2 562.6	-2 296.5	901.9	1 703.9	1 853.2	-1 854.1	-2 113.9	-2 354.5	-952.2	-410.0	-501.3
Latin America, excluding Cuba and Venezuela	3 464.9	4 034.5	3 937.7	-2 714.0	-2 486.6	-2 234.5	750.9	1 547.9	1 703.2	-1 116.1	-1 395.9	-1 618.5	-365.2	152.0	84.7

Source: ECLA, on the basis of data in International Monetary Fund, Balance of Payments Yearbook, vols. 19 and 20.

/Table I-55

Table I-55

LATIN AMERICA: FLOWS AND SERVICING OF FOREIGN CAPITAL IN RELATION TO THE VALUE OF EXPORTS

(Millions of dollars)

	Exports of goods and services and private transfer payments			Profits on direct investment and interest payments on loans			Amortization and other capital payments			Total servicing and its relation to the value of exports					
	1965	1966	1967	1965	1966	1967	1965	1966	1967	1965	Percentage	1966	Percentage	1967	Percentage
Venezuela	2 569.0	2 482.0	2 623.0	738.0	718.0	736.0	42.0	76.0	62.0	780.0	30.4	794.0	32.0	798.0	30.4
Mexico	1 982.0	2 142.0	2 192.0	339.0	373.0	493.0	384.0	499.0	479.0	723.0	36.5	872.0	40.7	972.0	44.3
Argentina	1 664.0	1 798.0	1 709.0	59.0	169.0	133.0	588.0	484.0	357.0	647.0	38.9	647.0	36.0	490.0	28.7
Brazil	1 798.0	1 937.0	1 915.0	269.0	291.0	313.0	920.0	663.0	638.0	1 189.0	66.1	954.0	49.2	951.0	49.7
Chile	798.0	987.0	998.0	121.0	172.0	214.0	284.0	258.0	219.0	405.0	50.7	430.0	43.6	433.0	43.4
Peru	781.0	906.0	900.0	95.0	122.0	149.0	58.0	101.0	63.0	153.0	19.6	223.0	24.6	212.0	23.6
Colombia	715.7	665.8	718.1	79.2	86.1	106.4	216.9	143.8	224.9	296.1	41.4	229.9	34.5	331.3	46.1
Uruguay	252.9	248.8	223.5	15.7	19.6	22.0	72.2	101.9	46.7	87.9	34.8	121.5	48.8	68.7	30.7
Ecuador	201.0	208.4	223.5	25.0	28.5	26.3	12.5	12.0	13.7	37.5	18.7	40.5	19.4	40.0	17.9
Bolivia	127.7	147.0	171.4	4.4	4.5	18.1	11.2	28.9	20.2	15.6	12.2	32.5	22.1	38.3	22.3
Paraguay	68.1	66.2	64.8	3.1	4.4	6.0	7.3	7.5	9.6	10.4	15.3	11.9	18.0	15.6	24.1
Haiti	55.8	61.3	59.4	5.2	3.7	2.9	3.2	6.7	1.1	8.4	15.0	10.4	17.0	4.0	6.7
Dominican Republic	158.9	170.9	191.6	13.0	21.0	23.2	49.7	24.5	19.6	62.7	39.5	45.5	26.6	42.8	22.3
Panama	232.5	251.0	281.5	20.4	24.2	15.5	7.1	7.6	30.0	27.5	11.8	31.8	12.2	45.5	16.1
Costa Rica	143.0	169.8	182.9	14.2	16.0	18.9	45.8	51.2	31.6	60.0	42.0	67.2	39.6	50.5	27.6
El Salvador	226.0	220.6	240.7	9.4	9.6	10.7	13.2	22.4	6.8	22.6	10.0	32.0	14.5	17.5	7.3
Guatemala	233.8	268.3	243.8	13.9	21.2	22.6	28.2	62.6	42.7	42.1	18.0	83.8	31.2	65.3	26.8
Honduras	140.5	160.0	174.4	14.5	17.5	23.0	6.3	6.0	10.3	20.8	14.8	23.5	14.7	33.3	19.1
Nicaragua	176.4	177.3	187.4	15.1	18.6	20.9	6.4	7.4	21.3	21.5	12.2	26.0	14.7	42.2	22.5
Latin America, excluding Cuba	12 324.3	13 077.4	13 300.0	1 854.1	2 113.9	2 354.5	2 756.0	2 562.6	2 296.5	4 610.1	37.4	4 676.5	35.8	4 651.0	35.0

Source: As for table I-54.

/During the

During the period 1955-59, remittances of profits and interest, and amortization and other payments on foreign capital represented approximately 25 per cent of the current value of exports of goods and services. This proportion rose to an average of around 33 per cent during the period 1960-64 and climbed to above 37 per cent in 1965, falling slightly in 1966 and 1967.

Despite the more favourable trends of these last two years, these proportions are very high and have appreciable repercussions on the structure and stability of the regional balance of payments. The proportions vary from country to country within the region. Compared with the average of 35 per cent in 1967 for the region as a whole, in at least four countries (Brazil, Colombia, Chile and Mexico) the proportion was above 40 per cent; in three (Argentina, Uruguay and Venezuela) it was close to or slightly above 30 per cent; in seven (Peru, Bolivia, Paraguay, the Dominican Republic, Costa Rica, Guatemala and Nicaragua) it was between 20 and 30 per cent; in three (Ecuador, Honduras and Panama) it fluctuated between 15 and 20 20 per cent; and only in Haiti was it below 10 per cent.

In 1968 these proportions may have dropped again to some extent, both because of the increase in the gross inflow of external capital and because of the rise in exports of goods and services. At the same time, however, these short-term variations imply greater liabilities in the future, and they do nothing to modify the structure of the regional balance of payments, which will probably remain one of the basic problems of the external sector in the coming decade.

Chapter IV

THE PUBLIC SECTOR

The general lines followed by development policy since the beginning of the current decade have laid a heavy burden of responsibility on the public sector, in respect of both its direct action and its sphere of indirect influence. The objectives pursued - the acceleration of economic growth, the introduction of reforms in several basic aspects of the economic and social structure, the expansion of social services on a considerable scale and the promotion of more equitable income distribution, the establishment of bases for an integrated Latin American economy, etc. - presuppose action on the part of the public sector, in its role as an agent of development, which extends far beyond the scope of its traditional functions. Accordingly, in drawing up a balance of some of the characteristics of the region's economy at the close of the nineteen-sixties, it seems appropriate to take into account the extent to which the public sector is equipped to formulate and apply development policies.

In the following pages an attempt is made at organized presentation of some of the relevant data available, with reference to three aspects of the question which seem especially important: first, the resources channelled through the public sector, the size and sources of its income and the composition of its expenditure: secondly, the institutional organization of the public sector, and guiding principles and procedures for reforms in its administrative structure; and, thirdly, its capacity to implement planning decisions, either through planning machinery and instruments proper, or through the traditional media of economic policy.

The background data and evaluations that can be presented in this connexion are fragmentary and often conjectural. Notwithstanding the obvious importance of the topic, relatively little progress has been made in systematizing a continuous and comprehensive flow of data on the public sector. In many cases, difficulties are encountered even in evaluating its size in terms of the resources it uses, since the orderly presentation of data is confined to the central Government, and nothing of the kind is

/done in

done in relation to the regional and local authorities, autonomous agencies and public enterprises. In other instances, data deriving from the public sector accounts are classified by institutions and are not broken down to a low enough level of aggregation for their economic or social significance to be apparent. Such factors as these suggest the need for a more energetic drive to improve reporting systems in the fields under discussion, so that the requisite statistical data can be obtained with punctual regularity, and a periodic balance can thus be drawn up, suitable for the purposes of economic analysis, and comparable to those which are now systematically prepared for other aspects of the operation of economic systems (for example, the recording of external transactions in balance-of-payments accounts).

1. Resources channelled through the public sector

The ratio between public expenditure [1/] and the total domestic product varies widely from one Latin American country to another (see table I-56). In three countries - Brazil, Chile and Uruguay - it reached or exceeded 30 per cent in 1966; it fell between 25 and 30 per cent in Bolivia, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru; and in El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Paraguay it was less than 20 per cent.

For illustrative purposes, it is worth mentioning that the ratios in the first two groups are comparable to those generally shown by the industrialized economies - between 30 and 40 per cent in the countries of Western Europe and about 30 per cent in Canada and the United States - while the corresponding figures for the third group are far lower.

The public sector's percentage shares in the product are the result of heavy and increasing pressures for expansion of expenditure and of the no less formidable rigidities and obstacles that stand in the way of a corresponding improvement in income. Hence it is that in many countries - including Argentina, Bolivia, Colombia, Ecuador, Guatemala, Panama, Peru and Venezuela - the ratios in question underwent no very marked changes between 1955 and 1966; on the other hand, they increased significantly elsewhere, for example, in Brazil, Chile, Costa Rica, Honduras and Mexico.

1/ For the purposes of the present comparison, the concept of "public expenditure" includes general government expenditure on current account (excluding that of public enterprises) and capital outlays of the consolidated public sector. Data on a sufficient number of countries are not available for any year later than 1966.

/Table I-56

Table I-56

LATIN AMERICA: PERCENTAGE SHARE OF PUBLIC SECTOR a/
IN GROSS DOMESTIC PRODUCT

Countries	1955	1966
Argentina	27	28
Bolivia	..	23
Brazil	24	33
Chile	23	35
Colombia	20	21
Costa Rica	17	21
Dominican Republic	..	25
Ecuador	21	23
El Salvador	..	18
Guatemala	13	14
Haiti	..	10
Honduras	12	16
Mexico	15	22
Nicaragua	..	17
Panama	21	22
Paraguay	..	18
Peru	19	21
Uruguay	26	30
Venezuela	28	26

Source: ECLA, on the basis of official statistics.

a/ Comprising total general government expenditure (including that of autonomous agencies) and capital outlays of public enterprises.

/(a) Rigidity

(a) Rigidity of public sector income

In addition to the fact that tax machinery is not equal to the task of keeping tax yields abreast of the increases in the total product, various other determinants have been responsible for the somewhat restrictive trends of public sector income.

One of these factors, to which great significance attaches in several countries of the region, derives from the steady decline of the external sector's relative importance in the economy as a whole, and from the changes in the composition of foreign trade in general and of imports in particular. As long as the external sector accounted for a relatively high proportion of the product, the amount of resources provided by export taxes was also relatively large, especially as the transactions concerned are easy to keep under supervision; but the significance of these resources has decreased in the same proportion as the over-all coefficient of exports, and also in so far as efforts to diversify the composition of exports have had to be accompanied by tax incentives applicable at least to the new lines of production. Much the same thing has happened in the case of import duties, the incidence of which has weakened as the over-all import coefficient has declined and the substitution process has gradually confined the composition of imports to essential consumer goods, intermediate products and capital goods, which lend themselves less readily to the application of high duties than consumer goods of a non-essential or definitely luxury type.

In some cases, not only has the relative importance of external-sector taxation decreased, but in addition instruments such as multiple exchange rates, which at certain times have represented a valuable source of funds, have been eliminated.

Elsewhere, and particularly in the Central American countries, the expansion of intra-regional trade, based on procedures for reducing or abolishing duties on imports from within the area, has likewise weakened the significance of taxation on external transactions.

A better idea of the scale of the process can be obtained from the following figures: between 1960 and 1966 the proportion of total tax revenue corresponding to taxes on the external sector contracted from

/37 to

37 to 25 per cent in Argentina, from 12 to 9 per cent in Brazil, from 34 to 33 per cent in Chile, from 46 to 32 per cent in Guatemala, from 27 to 16 per cent in Mexico, and from 82 to 77 per cent in Venezuela.

Owing to these and other similar factors, the partial loss of such sources of public sector income has had to be offset by increased internal taxation, which in its turn has necessitated more complex machinery for the application of tax provisions and controls, especially in the case of direct taxes. Thus, "tax reform" has become one of the salient objectives of economic policy, especially during the nineteen-sixties. In practice, there have been continual modifications of the tax system, which in such countries as Brazil, Chile and Mexico - precisely those in which public expenditure has gained most in relative importance - have signified appreciable changes; but even so, generally speaking, no radical metamorphosis of the existing systems has taken place.2/

In several instances, the relative decline in taxation on foreign trade has been counterbalanced by a relative increase in the proportion of indirect taxes, and in a very few cases by a real expansion of the share of direct taxes. In 1966, current income from sources other than taxation represented relatively small proportions of total current income - less than 10 per cent in Chile, Guatemala, Mexico and Venezuela, although the corresponding figures for Brazil and above all Argentina were higher.

Tax revenue in the aggregate has been prone to lag behind public expenditure requirements, and current savings have not sufficed to finance capital outlays. Hence there has been a growing tendency to resort to financing by means of internal and external credits. Although the figures usually vary a good deal from one year to the next, the situation in 1966 may be considered fairly representative. In that year, the proportion of capital expenditure financed out of current savings amounted to approximately 60 per cent in Brazil, Chile, Colombia and Venezuela, and to about 40 per cent in Ecuador, Mexico, Paraguay and Uruguay, while in other countries (Argentina, Costa Rica, the Dominican Republic, Peru) it was much smaller.

2/ See Economic Survey of Latin America 1967 (United Nations publication, Sales No.: E 69.II.G.1), where experience in this respect in Argentina, Brazil, Chile, Guatemala, Mexico and Venezuela is analysed in fuller detail, with reference to the period 1960-66.

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Of the credits which bridged the gaps in the same year, the percentages that came from internal and from external sources varied widely. For instance, whereas in Argentina the proportion of internal credits was very high, in the Dominican Republic, Paraguay and Peru one-third or more of the deficit was covered by external loans.

(b) Composition of public expenditure

In face of the relative inelasticity of income, pressures for the expansion of public expenditure affected its different components in widely differing degrees, according to the economic structure, institutional organization and over-all economic policy of the various countries. Hence it is hardly possible to generalize on the composition of public expenditure by purposes in relation to Latin America as a whole.

A very broad picture of the situation in 1966 is afforded by the figures for thirteen Latin American countries appearing in table I-57. As can be seen, the share of current expenditure ranged from a little over 50 per cent (Colombia) to about 80 per cent (Dominican Republic), standing at approximately 70 per cent in most cases. As a counterpart capital outlays accounted for significant proportions of total public expenditure - some 30 per cent as a rule, although in individual countries figures as low as 20 per cent or as high as about 50 per cent may be noted.

Great differences are also observable in breakdowns of current expenditure by consumption items - primarily for the administrative, economic and social services supplied directly by the public sector - and transfer payments, in which the major weight is carried by official contributions to social security systems (Argentina, Chile, Mexico, Uruguay), and other forms of current subsidies (Brazil), together with interest payments on the public debt. In the course of the nineteen-sixties, pressure for the expansion of each of these types of expenditure has become stronger. Social betterment objectives, reflected in some instances in specific targets for the expansion of particular services (health and educational services, for example) have presented a greater drain on national budgets, a development which, in the last analysis, implies that a serious responsibility is incumbent on this public sector function as a mechanism for the more equitable distribution of real income. The shortage

/Table I-57

Table I-57

LATIN AMERICA (SELECTED COUNTRIES): COMPOSITION OF PUBLIC EXPENDITURE, 1966

(Percentages of total) a/

Country	Current expenditure	Consumption	Transfer Payments	Capital Expenditure	Real Investment		Financial Investment	Debt servicing
Argentina	70.8	40.4	28.9	29.2	25.2		1.4	2.6
Brazil	69.6	41.3	28.3	30.4		29.2		1.2
Chile	66.8	39.5	27.6	33.2	22.1		7.8	3.3
Colombia	52.8	40.6	9.0	47.2		34.8		12.4
Costa Rica	70.2	47.5	17.0	29.8	19.6		4.3	5.9
Dominican Republic	78.7	69.6	8.8	21.3	15.2		2.4	3.7
Ecuador	70.8	53.9	16.9	29.2		22.4		6.8
Guatemala	69.1	56.3	12.8	30.9		18.7		12.2
Mexico	60.9	31.1	29.8	39.1		27.7		11.4
Paraguay	57.1			42.9	25.6		9.0	8.3
Peru	68.3	60.6	7.7	31.7	13.7		11.8	6.2
Uruguay	65.0	31.5	33.2	35.0	19.4		9.8	4.6
Venezuela	57.2	49.8	4.7	42.8	25.9		2.6	5.5

Source: ECLA, on the basis of official statistics.

a/ The percentages given do not add up to 100 in all cases because some minor items have not been taken into account. The capital expenditure of Venezuela does not include transfers of capital to public agencies and enterprises (non-consolidated), which represent from 8 to 9 per cent of the total.

of employment opportunities, especially in the case of population sectors which have had access to some form of secondary education, has exerted another kind of pressure on the volume of expenditure on general administrative services; although total manpower absorption in the public sector has not far outstripped the growth of the product and of the economically active population, it has constituted, in relative terms, an obstacle to the transfer of resources from administrative services to others of higher priority. In many countries, the social security systems still benefit comparatively small segments of the labour force, and the authorities are consequently faced with persistent demands for their extension to the groups not yet covered. In others, where the systems are more comprehensive and have been in operation longer, the absolute level of the resources required for their maintenance is high, while at the same time the possibilities of temporarily using them as sources of funds for investment purposes are steadily decreasing, with the transition - de jure or de facto - from capital formation systems to distribution systems. Lastly, the incidence of interest payments on the public debt is also becoming heavier, in so far as governments have had increasingly intensive recourse to borrowing.

Demands for the expansion of capital expenditure derive both from the general rule that over-all investment coefficients are relatively low, and from the public sector's responsibility for augmenting specific components of the national stock of capital, primarily infrastructure, in addition, demand for the provision of housing facilities and allied services has been considerably stepped up in recent years, especially where low-cost housing is concerned.

Clearly, in 1960-66 the growth rates of public investment in most of the Latin American countries exceeded those of private investment, whatever the levels and trends of the over-all investment coefficient. Thus, in some countries (Argentina, Brazil, Chile, Colombia, Uruguay) the more dynamic evolution of public investment made up for the sluggish growth or the decline of private investment, while in others (Bolivia, Costa Rica, El Salvador, Mexico, Paraguay, Peru) the expansion of public investment was accompanied by similarly significant increases in private investment, and both helped to speed up the rate of capital formation.

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There were also some countries - including the Dominican Republic, Ecuador, Guatemala, Nicaragua, Panama and Venezuela - in which these trends were reversed; over the same period, public investment increased slightly less than private investment, largely because the pace at which the latter rose was unusually fast.

The outcome of all these trends was that in most countries public investment came to represent much larger proportions both of the product and of total investment. In other words, the allocation of a considerable share of the resources mobilized for capital formation fell within the province of direct official decisions, although in many cases appreciable inroads were made upon these funds by the servicing of the cumulative public debt (see again table I-). Most of the resources in question were used for real investment, while a smaller proportion - which, however, acquired significance in 1966 in certain countries, including Chile, Paraguay, Peru, Uruguay and Venezuela - represented financial investment, i.e., funds for capital formation which were transferred through various channels to other institutional sectors.

The lack of a systematic flow of data makes it difficult to give a fairly accurate account of the destination of public investment by purposes and by sectors of economic activity. Broadly speaking, the biggest proportion goes to investment in infrastructure, including generation of electric power and, principally, transport and communications. In some countries, and in certain years, the public investment channelled into the fuels sector has attained relatively high levels. Again as a general rule, only modest shares fall to agriculture and manufacturing, although it must be borne in mind that in some cases, in addition to the funds allocated to agriculture, considerable amounts are invested in the construction of dams and irrigation works (Mexico) and in specific regional development programmes (Peru). The proportion of social investment varies substantially from one country to another and from one year to the next, especially in the case of housing programmes, since investment in the expansion of basic facilities for the provision of educational and public health services is usually more steadily maintained.

This over-all picture shows how little reliance can be placed on any generalization as to either the aggregate relative importance or the composition of public sector income and expenditure. Even so, from the

particular angle that is of interest here - that is, the ability of the public sector to formulate and apply specific development policies - a few general conclusions can be drawn. One of these relates to the all-too-well-known difficulties of reconciling the steadily increasing demand for expansion of public expenditure with the structural and institutional rigidities which hamper the public sector's efforts to raise its income. In some countries, this incompatibility has been keeping the relative importance of total public expenditure stationary during the nineteen-sixties, while in others the obstacles have been overcome and the ratio between public expenditure and the aggregate domestic product has risen to a remarkable extent. In the latter group in particular, appreciable changes have been introduced in tax systems; but even there no substantive tax reform can be said to have taken place, especially if other questions, such as the impact of taxation on income redistribution, are taken into account. Within total public expenditure, relatively more dynamic trends have been shown by capital outlays, of which considerable proportions have been financed in some cases out of non-tax resources that imply increasing indebtedness. In several countries these trends in public investment have offset a relative decline in private investment or have combined with the latter to raise the over-all investment coefficient. As a result of the trends in question and of the ratios formerly prevailing, the proportions of resources channelled through the public sector vary widely at present from one country to another. In general terms, however, it may be concluded that public institutions have broadened their sphere of direct action and, therefore, their possibilities of significantly influencing the use of resources to promote some of the basic objectives of development policy.

2. The institutional organization of the public sector

The proportion of resources channelled through the public sector is one of the factors which determines how effective the State is in promoting and directing development. It is not the only factor, however, since the effectiveness of the State also depends on the way in which such resources are used. It may be appropriate here to consider a particular aspect of this question and to look at the background of the institutional organization of the public sector in terms of the nature of the organs responsible for distributing resources.

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Some of the fragmentary information available covering a number of countries in the region is summarized for purposes of illustration in table I-58, which shows the proportions of public spending attributable to the Central Government, state or provincial governments, municipalities, autonomous bodies and public enterprises.

Logically enough, the proportion of resources channelled through the Central Government as such is very much dependent upon the political and administrative structure of each country, and being much higher in countries with unitary systems than in those with federal systems. In 1966, for example, the proportion of current expenditure attributable to the Central Government was relatively low in Argentina and Colombia (34 and 42 per cent respectively) and very high in Costa Rica and the Dominican Republic (56 and 77 per cent respectively). In Argentina and Colombia, the proportion attributable to provincial and stage governments is quite large: over one-quarter of total current expenditure for Argentina and almost one-sixth for Colombia, while in all four countries the proportion attributable to municipalities is relatively small. With the exception of the Dominican Republic, however, in all the countries listed the proportion of current expenditure attributable to autonomous bodies represents more than one-third of total expenditure, and in Chile the proportion is close to 60 per cent, which explains the small proportion for the Central Government despite the fact that Chile is a country with a unitary system.

Under capital expenditure, however, the proportion attributable to the Central Government - or to the state or provincial governments in federal systems - is relatively much lower, while that of the autonomous bodies and public enterprises is greater.

The way in which resources are channelled through the various components of the public sector is of particular importance when considering how effective planning machinery is in redirecting public spending to conform with specific development policy objectives. Since this question will be discussed more fully in the following section, the components of the public sector will be described in some detail here.

/Table I-58

Table I-58

LATIN AMERICA (SELECTED COUNTRIES): CHANNELLING OF PUBLIC EXPENDITURE BY TYPE OF PUBLIC ENTITY, 1966

(Percentages)

Country	Central government	State or provincial government	Municipalities	Autonomous bodies	Public enterprises
			Current expenditures a/		
Argentina	33.9	26.0	4.2	35.9	
Chile	41.7	...	...	58.3	
Colombia	41.9	14.9	8.2	35.0	
Costa Rica	55.9	...	4.5	39.6	
Dominican Republic	76.8	...	8.4	14.8	
			Investment		
Brazil	12.0 b/	8.8	10.1	33.8	35.3
Chile	28.6	...	...	46.3	25.1
Colombia	20.5	3.3	24.2	52.0	
Costa Rica	15.6	...	2.7	81.7	
Dominican Republic	46.1	11.3		42.6	
Mexico	34.0 b/	10.8		55.2	
Peru	40.3	...	...	29.3	30.4

Source: ECLA, on the basis of official statistics.

a/ The current expenditures of public enterprises were not analysed.

b/ Federal government.

/The number

The number of decentralized or autonomous bodies has increased rapidly since the Second World War in most Latin American countries, as has their sphere of action. In many cases new responsibilities led to the establishment of special organs to fulfil the new functions required, and this trend was strengthened by efforts to eliminate the rigidities (in procedures, recruitment methods, wage and salary systems, etc.) of the traditional public administration. The result has often been a multitude of autonomous or semi-autonomous bodies which have been grafted on to an administration without enough effort being made to modernize it and equip it to meet its new responsibilities.

These decentralized bodies are sometimes regional and sometimes sectoral in scope and their aims are very diverse, ranging from the provision of specific services to the execution of public works, and even the management of credit funds. Such bodies have made it easier to give special attention to particular problems and their efforts have enjoyed some degree of continuity, since they are relatively untouched by the political vicissitudes to which the central administration is usually subject. On the other hand, they have probably made it more difficult to co-ordinate and revise priorities at the national level because of their large degree of independence of the Central Government and because of their natural wish to retain control over their own activities.

In contrast, local governments, especially municipalities, have probably tended to lose some of their importance as channels for public resources. Changes in the structure of the economy, and, most of all, the trend towards the geographical concentration of economic activity, and also the fact that many components of the infrastructure are becoming increasingly larger in scale, are all factors which have led to a gradual reduction in the sphere of action and responsibilities of local governments. The fact that local governments have little real opportunity of making investments

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on their own, and their declining ability - because of their political status - to influence the decisions of the central State bodies or public enterprises in any significant respect, have meant that their functions have been restricted to representing a region in a very broad political sense and to administering strictly municipal public services (street-lighting, sanitation, maintenance of rural roads and sometimes the administration of urban or suburban transport services). So far the link between local governments and the new planning bodies has been flimsy, or even non-existent, and hence the resources received have not been sufficient to promote development. In the case of municipalities, progress is usually confined to the preparation of what are termed "regulatory plans" for a few cities which aim at rationalizing the location of certain urban activities, improving the provision of local services and defining the function of the city and its sphere of influence within a wider regional context - all this, however, confined to physical planning. Only the few municipalities in the largest cities are able to plan action on a larger scale and mobilize a significant amount of resources.

Given the increased stress laid on improved regional distribution of economic activity in national development policy in recent years, conditions are potentially ripe for a revival of the role of local governments. However, as occurred with the traditional administrative structure onto which new bodies were grafted, this concern has led to the establishment of new machinery for promoting regional development, with wide-ranging regional responsibilities. In some cases this machinery acts in more than an advisory capacity and is specially responsible for the co-ordination and even the direct execution of the principal development projects in a region. This is the case, for example, with the Department for the Development of the Nordeste (Superintendencia de Desenvolvimento do Nordeste - SUDENE) in Brazil, the Venezuelan Corporation for the Guayana

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area (Corporación Venezolana de Guayana), the Cauca Valley Corporation (Corporación del Valle del Cauca) in Colombia, the Centre for the Rehabilitation of the South (Centro de Reconversión del Austro) in Ecuador, etc. These are generally more or less technical bodies and are relatively independent of local governments, which act mainly in an advisory capacity in relation to these bodies; in addition, the technical bodies may often have direct decision-making powers in economic matters regarding either infrastructure or agricultural or industrial production.

Because of their nature, public enterprises require a delegation of authority and flexibility of operation which are difficult to reconcile with the usual procedures of the traditional forms of administration; so much so, in fact, that they often have to operate in accordance with private rather than public law. The extent and nature of their functions vary depending on the special features of each country, with the provision of public services, especially transport and electricity, accounting for the major share. In many cases, public enterprises have had a significant part to play in particular branches of manufacturing, as part of a deliberate policy to promote development, or have sometimes been formed as a result of quite fortuitous circumstances.[3/]

3/ This was the case, for example, with some public enterprises in Argentina which were formed as a result of the nationalization of German enterprises towards the end of the Second World War, and also with some in the Dominican Republic, which were formed when certain industrial concerns were taken over by the State after the political changes of 1961.

A recent study on the thirty largest enterprises in each of six Latin American countries gives some idea of the relative importance of public enterprises and of the range of activities that they now cover.4/ It appears from the study that the assets of public enterprises are equivalent to approximately one-third of the total capital of the thirty largest enterprises in each country. Of the seventy-one public or semi-public State-controlled enterprises in the list, eighteen carry on financial or banking activities, thirteen produce and distribute electric energy, seven run railways, six are producers of iron and steel, four of petroleum, four provide telephone services and carry out municipal works, and a smaller number are concerned with sugar production, preparation of chemical products, distribution of goods, ports and shipping fleets, tourism, airlines, gas supply and mining.

To some extent, the growth of public enterprises is a consequence of technological progress, which necessitates large-scale production units and substantial investment. Since private entrepreneurs in Latin America do not have enough capital, in practice, new development projects can be financed only with the help of public funds or foreign investment. Illustrative in this connexion is a recent compilation of data on fifty of the largest enterprises in Argentina - enterprises with sales totalling more than 7,000 million pesos annually - from which it appears that one-third of the total value of sales of these enterprises is attributable to State enterprises, approximately half to foreign enterprises and one-sixth to Argentine private companies.5/

In short, the traditional administrative apparatus of the Central Government, and in some cases that of state or provincial governments and local governments, on to which a whole complex of autonomous bodies

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4/ Frank Brandenburg, The development of Latin American private enterprise (Washington, National Planning Association, May 1964). The countries covered by the study are Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. Excluded from the study are enterprises holding petroleum contracts in Argentina and all the petroleum enterprises of Colombia and Venezuela.

5/ Julián Delgado, "Industria: el desafío a la Argentina", Primera Plana (Buenos Aires, issue of 3-9 September, 1968), pp. 69 and 71.

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with specific functions or with sectoral or regional responsibilities and a growing number of public enterprises have been grafted, now forms an extremely complex public sector in most Latin American countries. Inasmuch as this has not been the outcome of an over-all plan but rather of the necessity of meeting needs as they arise, it is inevitable that there should be quite a high degree of overlapping of functions, duplication of responsibilities, lack of communication between bodies influencing certain aspects of the economy, and difficulty in co-ordinating action and allocating resources in line with a common approach to a clearly defined development policy.

All this experience does not seem to have been analysed in sufficient depth with a view to developing an approach on the basis of which the institutional structure could be reorganized in line with current development needs. Hence, although there has been widespread acceptance in recent years of the need for administrative reform, there has been little actual progress towards it. Because no approach of this kind exists, efforts have tended to focus in the main on auxiliary functions relating to the internal methods and procedures of the public administration and much less on equipping the administration to deal with the substantive tasks it must undertake.

Substantial progress has been made in such matters as personnel administration, procurement of supplies, accounting systems, systems for settling internal disputes, and improvement of organization and methods, and it is clear that progress must continue. In other words, some advance has been made in rationalizing the administration by improving the way in which auxiliary tasks are performed, but there has been no similar advance in equipping the whole administrative structure to carry out its substantive functions more effectively, and thus there are still obstacles in the way of the decision-making process, objectives are ambiguous, the powers and functions of each body are not clearly defined, and there is still a shortage of information and a lack of communication between those responsible for implementing decisions.

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Hence, it would appear that a more thorough analysis still needs to be undertaken of the way in which resources are allocated and decisions taken, and of their effects on the public sector as a whole, and also on the private sector; but this is probably much more a problem of political science than of administrative reorganization in the strict sense of the word.

3. The capacity for planned decision-making

This is an important question - among others of equal importance - underlying Latin America's difficulties in consolidating an effective planning machinery to facilitate the definition and application of consistent development policies, which constitutes the most fundamental of the efforts to rationalize the substantive action of the public administration.

In the course of the present decade, practically all the Latin American countries have established special planning mechanisms and have prepared development plans which differ both in nature and in scope. The experience gained, in terms of the positive results they have achieved and the identification of factors which limit their efficacy and prevent them from becoming fully effective, has been carefully evaluated at different times.[6/] For example, the United Nations Committee for Development Planning, composed of experts from the different parts of the world, has highlighted, as some of the positive results achieved so far, the preparation of technical bases and the training of larger numbers of skilled planning personnel; the contribution to the definition of over-all development policies and the adoption of more rational criteria in the allocation of resources, especially in the public sector; and the

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6/ The Economic Bulletin for Latin America, vol. XII, N° 2 (October 1967) contains three supplementary articles on this subject: a study by the ECLA secretariat on the present state of planning in Latin America, the pertinent part of the report of the second session of the United Nations Committee for Development Planning (held at Santiago, Chile, in April 1967), and a brief account of the discussion on planning in Latin America at ECLA's twelfth session, together with the resolution on this subject then adopted. Other considerations on the subject are set forth in ILPES, Discusiones sobre planificación (Mexico, Editorial Siglo Veintiuno, S.A., 1966).

fact that planning has become a widely accepted principle. The Committee identified what in its view were the main deficiencies and obstacles, distinguishing between "the weaknesses of planning itself" and "external obstacles to plan implementation". Under these two heads, as well as in the final recommendations, attention is drawn to questions relating to the administrative organization of the public sector and the procedures for adopting and implementing decisions, the general sense of which is given briefly below.

First, it is recognized that some of the shortcomings derive from the difficulty of incorporating planning in the administrative structure, which is partly due to the inertia of the structures themselves and the sluggishness of the efforts to modernize them. According to the Committee, "even planning itself has neglected this essential aspect of change, and plans that have explicitly outlined a policy of administrative reform are few and far between. Such steps as have been taken to reorganize the administration have very seldom made allowance for the specific requisites of organization for planned development policy". 7/

Another question brought into focus in this connexion is the lack of basic mechanisms to complete the planning system, both from the standpoint of the plans formulated - in particular the need for annual operational plans - and from that of the establishment and operation of effective machinery for the periodic review, control and evaluation of the practical implementation of plans.

Thirdly, the Committee states that the isolated position of planning agencies with respect to the whole national administrative system is due to "the superimposition of modern institutions on machinery that is, as a rule, unsuitable for the implementation of development policy". It is therefore necessary to make greater efforts to modernize the whole administration, and to redefine the functions of planning machinery and consider in the light of each country's circumstances, what place should be given to planning in the administrative structure.

7/ ECLA, "Planning and plan implementation in Latin America", Economic Bulletin for Latin America, vol. XII, N° 2 (October 1967), p.24.

The progress and limitations of planning have a basic influence on the public sector's ability to rationalize its action, not only the allocation of resources for which it assumes direct resposibility, but also its indirect action through the various instruments of economic policy.

As noted previously, public investment has come to represent a high proportion - which varies from country to country - of total capital formation. It might therefore be assumed that the public sector today has a fairly broad sphere of responsibility in channelling investment, since the allocation of such resources is fully compatible with development plans. In practice, however, the real scope of that responsibility is confined, in most cases, to the Central Government proper, mainly as a result of the fairly widespread introduction of performance budgeting; but thus far it has not extended equally effectively to decentralized agencies and public enterprises, through which a substantial part of public capital expenditure is channelled. A somewhat similar situation arises, although on a lesser scale, in relation to current consumption expenditure.

In any event, the decisions regarding the bulk of the resources are taken by the private sector, and in this respect the effectiveness of the guidelines of national development policy depends on whether or not planning efforts are faithfully reflected in the handling of various economic policy instruments. In this connexion, the lack or inadequacy of short-term operational plans is one of the main limitations still observable in the planning process in Latin America. Hence, the development patterns deriving from longer-term plans are not translated into specific monetary, exchange, financial, credit and other measures; and ultimately there is little or no relation between medium- and long-term guidelines and the economic policy measures which the ministries, central banks and other administrative bodies are constantly having to adopt. This cleavage means a loss of consistency and efficiency in both types of action; on the one hand, the potential feasibility of over-all policies is reduced by the lack of specific measures for the attainment

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of their objectives; on the other, short-term policies remain outside their over-all context and tend to respond to pressures of the moment rather than contribute to overcoming the basic development problems.

All this not only weakens the public sector's ability to influence the allocation of resources channelled by the private sectors, but also makes for the overlapping of functions in various public bodies or prevents them from effectively pooling their efforts to deal with specific problems. Thus there are striking inconsistencies or frank contradictions in the effects of the provisions adopted by different government bodies responsible for handling economic policy. In other cases where a given objective is sought in a particular field, the difficulty is to bring to bear on that objective the activities and measures of a great many relatively independent decision-making centres, which are not operating normally under a sufficiently clear-cut system of common guidelines.

The persistence of such limitations must be noted however, without losing sight of the outstanding improvements that have been achieved during the comparatively short time that planning has been in effect. Subsequent improvements in planning will represent further progress in the public sector's ability to define and apply effective development policies such as those that seem to be required for the next decade.