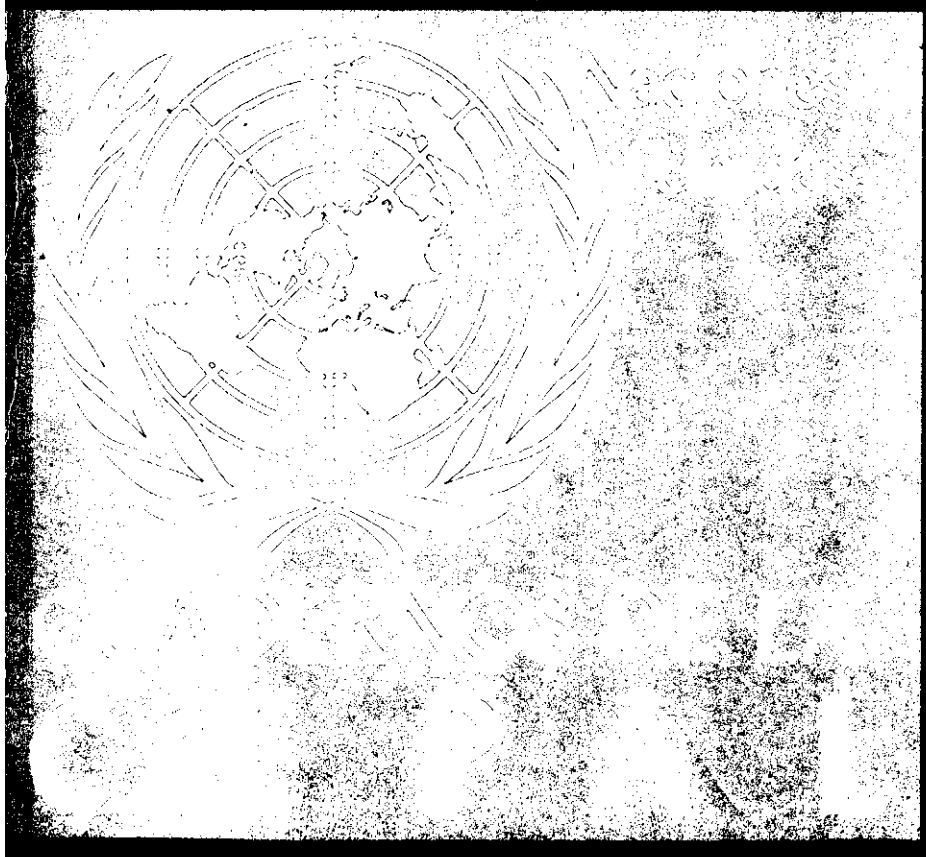


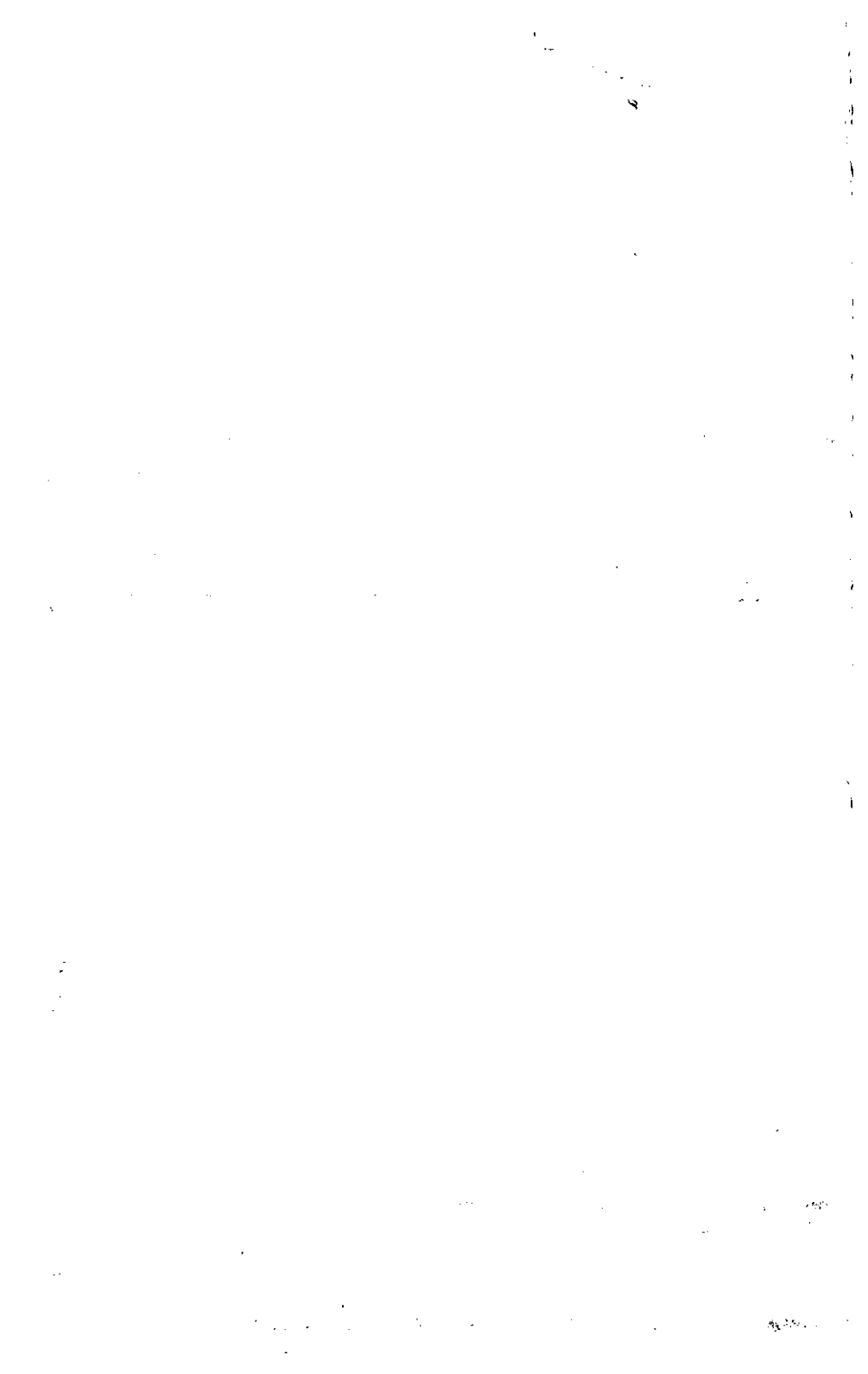
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L A T I N A M E R I C A :
T H E N E W R E G I O N A L A N D
W O R L D S E T T I N G





CUADERNOS
DE LA



CEPAL

L A T I N A M E R I C A :
T H E N E W R E G I O N A L A N D
W O R L D S E T T I N G

Statement delivered by Mr. Enrique V. Iglesias,
Executive Secretary of the Economic Commission
for Latin America, at the Sixteenth Session of the
Commission

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INDEX

Foreword	7
Introduction	9
I Times of great change: A turning point for humanity?	11
II The new stature and profile of Latin America: The deployment and expansion of its productive forces in the last twenty-five years	18
Evolution and prospects of some dynamic sectors	19
The growing importance of Latin America to the central economies as an importer	22
III The unsolved problem	24
The great social contradiction: something like a third of the population of Latin America is still excluded from the benefits of expansion	24
IV What should be done?	28
Some broad lines for a Latin American strategy	28
1. <i>Is abject poverty and anachronism?</i>	29
2. <i>Regional integration: need for and growing viability of this objective</i>	31
3. <i>International economic relations: a new step towards a more equitable economic order</i>	34
V Problems and immediate prospects of the region	37
How is the immediate balance-of-payments problem to be tackled?	40

- (a) *Protection of intra-zonal trade* 41
- (b) *The establishment of a "safety net" as a form of protection against possible balance-of-payments crises in the countries of the region* 42

FOREWORD

The publication of these ECLA Cuadernos responds to a need which has been making itself felt for some time for a variety of reasons, chief among which has been the considerable demand for ECLA secretariat studies and documents which the usual distribution channels cannot adequately satisfy.

Another reason has been the desire to complement current secretariat publications (which, because of their volume, do not usually lend themselves to wide distribution) with shorter and more flexible publications which allow a more lively and frequent dialogue with the Governments and public opinion of the region.

Equally important has been the wish to make known the diversity of collective and individual works resulting from the daily work of the institution, which have normally not been included in the publications of the secretariat despite the fact that they deal with subjects of importance to the general public or to specialists in economic and social affairs. It is the aim of the Cuadernos to provide an adequate reflexion of the nuances and differences in technical approach which co-exist within the broad framework of institutional consensus.

Finally, there is a lack of knowledge –sometimes relative, often considerable– about much of the work of international organizations. These new publications may do a great deal to shed light on what ECLA is doing in fulfilment of its mandate from its Member States.

The first of these Cuadernos has special significance since it contains the speech given by the Executive Secretary of the Economic Commission for Latin America, Enrique V. Iglesias, at the most recent session of the Commission (Port of Spain, 6-15

May 1975). At that meeting, the Executive Secretary discussed the problems and tasks facing Latin America in the present period of adjustment of the international order, and drew attention to the "profound changes in the political, economic and social map inherited from the post-war period". His words form a fitting introduction to these new publications.

INTRODUCTION

This first meeting held by the Economic Commission for Latin America in an English-speaking Caribbean country is a truly valuable opportunity for ECLA to share at first hand, on the spot, in the life of this dynamic region. The Caribbean, while part of our America, is steeped in common historical, ethnic and cultural traditions which have given it its own identity, with a legitimate pride in its personality and a wealth of experience which must surely be an example to Latin America and the world.

An integral part of its heritage has been the ability to amalgamate cultural groups with very different origins and social, economic and political situations under a single common denominator: the determination to harmonize efforts in the economic and social fields. Caribbean integration is a stimulus to us all. The process of co-operation initiated in Latin America is only a beginning, and it is most rewarding to be able to contemplate from within this dynamic process of change. The Caribbean drive for integration, which has appeared at an early stage in the process of independence of its countries, should be viewed with respect and admiration.

The current trends towards greater concentration of the decision-making processes, the reorientation of values and institutions, and more genuine and meaningful popular participation suggest new directions and a new climate of co-operation and basic discipline for tackling the major goals of development, which will strengthen the spirit of regional unity. This meeting should also enable us to become better acquainted and lead to a closer link between the countries of the Caribbean and the rest of Latin

America. And if, in addition, it gives rise to firmer co-operation among our peoples, ECLA will have amply fulfilled its essential task in its regional role as universal forum for Latin America and meeting-place of peoples joined together by common aspirations for internal and outward unity.

Allow me now to present a summary of the secretariat's thinking and to indicate some fundamental ideas and preoccupations of which we have become conscious in our privileged position as observers of all the countries of the region and, at the same time, active members of the world organization, with concrete commitments in all fields and towards all the basic problems of economic relations.

I shall do this by answering the following questions:

- (a) Are we facing a far-reaching structural turning-point in international economic relations?
- (b) What is Latin America's position vis-à-vis present world economic trends?
- (c) What are the great problems which the marked development of productive forces in the region in recent years has been unable to solve?
- (d) How do we in ECLA see the outline of a possible economic and social strategy for Latin America for the next few years? and, finally,
- (e) What are the urgent problems before us, and what basic ideas could be explored to tackle them in an effort aimed at co-operation within the region and between Latin America and the rest of the world?

I

TIMES OF GREAT CHANGE: A TURNING POINT FOR HUMANITY?

For a number of years, profound changes have been occurring in the political, social and economic map inherited from the post-war period. These transformations have been accompanied by crisis in the economic institutions which are of primary importance in international relations, and there is much searching into the past and projecting into the future to announce changes—sometimes of a downright alarmist nature—of a great significance for the destiny of mankind.

Are we really at a turning-point in the evolution of contemporary society, or is it merely a new transitory development, after which things will return to their former state?

We believe in the former more than in the latter. In the first place, the attempt to patch up the former international economic order by trying to revive the Bretton Woods agreement is clearly breaking down. The crisis in the international monetary system is perhaps the most conspicuous example, but it is not the only one.

This collapse of some of the institutions which have governed post-war international relations has been accompanied in recent years by economic crises in the central countries with which we are all familiar.

At present, the most noteworthy elements of the crisis in the capitalist world are, inter alia, a serious inflationary crisis, a great drop in production and high levels of unemployment, all of which interact with each other. In addition to all this, there has been the dramatic change in the structure of the balance of payments of the central economies brought about by the changes in the world price of petroleum.

Inflationary trends have recently risen sharply in the industrialized countries. The rise in prices was approximately 3 per cent throughout the 1960s, but it increased to 6 per cent in the first years of this decade and reached approximately 15 per cent in 1974. Even though promising signs of a drop in inflation are now appearing, inflation in the countries belonging to the Organization for Economic Co-operation and Development (OECD) will not fall below double figures in the present year.

Inflation, which exceeds the limits considered "tolerable" in the centres, has acquired a very unusual nature because of its persistence and its resistance to conventional remedies.

The reasons for this are debatable. The old internal and external disequilibria in the central economies are well-known and have been pointed out repeatedly. They were recently compounded by the increase in the price of raw materials and food because of economic and climatic circumstances. The rise in the price of oil from the depressed levels of recent decades abruptly halted the subsidizing of domestic energy costs. This whole complex of factors may explain, entirely or in part, the inflationary crisis in the centres.

However, inflation did not come alone. It was accompanied by a sharp recession in all OECD countries. In 1974 growth in those countries was negative and something similar seems to be taking place in 1975. Stagnation and inflation are a somewhat unusual combination according to previous experience of the economic cycles of the centres, and equally unusual is their resistance to the conventional policies applied in the post-war period. Some recent forecasts are less pessimistic and even predict an upswing in the productive cycle by the end of the year. However, unemployment forecasts are not as optimistic; and in any event the problem

varies, and the situation is not the same in each of the OECD countries.

The deterioration in the balance-of-payments situation in the main centres is no less acute. It is calculated that in 1974 their deficit exceeded 35 billion dollars. With this deficit there was also a change in the traditional balance-of-payments structure of the industrial countries. In the past, those centres enjoyed large current account surpluses with which they financed their foreign investment and international co-operation. But these surpluses have disappeared now, for the time being at least, with the result that the management of capital movements is much more difficult and the economic situation much more insecure.

Despite the spectacular progress of the capitalist world in recent decades, there are signs that some of the dynamic forces behind structural change and economic growth are becoming exhausted. The changes in the basic cost of energy — abundantly used by the industrial economies hitherto — technological ambivalence and the disequilibrium caused by manpower shortages following the absorption of most of the surplus rural population account in part for the disruption of the production model and the expansion mechanisms of the industrial world.

The concept of sustained growth and expansion of production at any cost is being overtaken by events. Eyes are turning towards qualitative rather than quantitative, wasteful consumption patterns are being criticized, and it objective is beginning to be felt that limits should be set on the indiscriminate incorporation of new technology. New criteria for economizing resources raise serious questions about alternatives to the "growth rate" and "consumption of resources", which have never before been asked with such intensity.

— ref.

Thus, some changes are slowly occurring in the styles of growth in the centres, based on new policies for the use of resources and on the application of technologies to save energy and resources.

The so-called "energy crisis" is of course a case in point. Policies to find energy substitutes will discover new resources which by all accounts will be much more costly than those prevailing in the 1960s.

However, these are not the only structural changes which concern us. Very important events are occurring in the economic relations between the West and the East, which will have an effect on our own relationship with the developed world.

Both centres, capitalist and socialist, have seen the advantages of greater economic co-operation and, despite possible fluctuations, this co-operation will tend to be strengthened according to a policy of diversification and consolidation of supplies of raw materials and an exchange of mutually profitable technology.

In sum, all these changes in the centres amount to something more than temporary crisis stemming from inflation and stagnation. They point to a "type" of growth in the post-war period in the capitalist and in the socialist world. A period concerned with "better" rather than with "greater" growth seems to be dawning. In these times of growing interdependence, the underdeveloped world, and most particularly Latin America, cannot ignore these tendencies or fail to analyse every aspect of them which may affect the international relations of recent decades.

In the circumstances, it would not be rash to suppose that in the centres there will be a rather lower growth-rate than in recent decades as a result of all these changes. Growing and sustained expansion in the centres no longer seems to be a reliable working hypothesis on which to plan our development policies.

What to these changes in the central economies signify for the international relations of the peripheral countries? Careful thought must be given to the answer to this question.

According to the foregoing, the international setting of our foreign relations is changing, and it is important to know what those changes are in order to plan our internal development strategies.

Above all, after a long period of stability in international relations, a period of instability and general insecurity is foreseen. Authoritative international bodies predict that —unless something is done to prevent this— the purchasing power of primary producers will fall by 13 per cent in 1975 and, what is even worse, if the trend continues the terms of trade will fall at an annual rate of 2.2 per cent for the rest of this decade. If this is the case, then with the exception of the oil-exporting countries, and perhaps of sporadic temporary surges in the price of some raw materials, we will have before us a period of sharp deterioration in the terms of trade, unless we do something to avoid it.

Secondly, from a climate of permanent expansion we will pass to a period of contraction, or at least of much more moderate growth than the spectacular rate achieved by the industrial centres in recent years. In the face of fluctuating international demand, Latin America's open, growth-oriented strategy may run into difficulties such as have recently affected our meat-exporting countries, which are suffering from restrictions and the loss of markets vital to maintain their rate of economic growth.

Thirdly, it is not surprising that, despite well-intentioned opinions in the developed world, there is a renewal of protectionist tendencies in trade, which at one time were thought to have died out. This is today a source of greater concern than in the past, since Latin America now exports 8 billion dollars, worth of

industrial products and could export much more. Possibly new forms of verticalization of economic relations between North and South may appear, which the generalized systems of preferences were intended to abolish.

Fourthly, all schemes for financial assistance to the developing world are either in crisis or being revised. It is no longer merely a question of demanding fulfilment of the target of 0.7 per cent for the official transfer of resources, which has by no means been attained.

There is great disappointment in the industrial countries, and no less frustration in the Third World countries, in regard to foreign aid, which fell by 2 per cent in real terms in 1974 in the Development Assistance Committee countries and which, according to the same international sources, will be likely to fall from 0.38 per cent of the product in 1973-1974 to 0.29 per cent in 1980.

Furthermore, the plight of the relatively least economically developed countries – few of which are in Latin America, according to the international classification – absorbs and may well continue to absorb an ever-increasing part of this shrunken aid, thus further reducing the volume of concessional aid on which Latin America can rely.

Fifthly, the vigorous flows of private capital to Latin America in recent years may not continue at the same rate or may be concentrated in a few of the most attractive countries. The foreseeable deterioration in the terms of trade and its effects on the balance of payments of the region may reduce the debt capacity of many countries, and as a result the private capital flows will become much more selective and sensitive to the new balance-of-payments crisis.

This account of the immediate outlook should not lead us to excessive pessimism about the international situation, but rather to a realistic approach which will guard us against merely extrapolating from past circumstances which may not reoccur. In any event, it should lead us to meditate on the changes in attitudes and policies which the persistence of the crisis in the centres might bring about.

II.

THE NEW STATURE AND PROFILE OF LATIN AMERICA: THE DEPLOYMENT AND EXPANSION OF ITS PRODUCTIVE FORCES IN THE LAST TWENTY-FIVE YEARS

Latin America is in a very different and unquestionably more favourable situation than in the past to meet the new situation.

Very many Latin Americans —perhaps the majority— fail to appreciate the profound changes which have taken place in this respect in the last 25 years. The transformations have been substantial, both in size and in structure. Let us call to mind a few representative figures in passing.

Around 1950 the total product of Latin America (measured in 1970 dollars, like the other examples given here) amounted to some 60 billions dollars. In 1974, it came to 220 billion dollars: almost 4 times the size of the regional economy in 1950.

What does this mean? On the one hand, that present total production is comparable to European production in 1950, when that region was already one of the most industrialized in the world and some of its larger countries were among the major economic powers. Despite the structural differences which obviously exist between the two types of production, it must be recalled that this was the basis upon which a group of countries carried out its dynamic and fruitful experiment in integration.

Furthermore, the biggest economies in Latin America are now similar in size to the main European economies in 1950.

Let us also look to the future and see what can and should happen if the rate of Latin American development of recent years continues for another ten years. Given the present situation and outlook, we may calculate that by 1985 the size of the Latin American economy will be more than seven and half times that of

1950, and double its present size. In comparative terms, it will reach more or less the size of the European Economic Community in 1960.

To evaluate the structural transformation which such changes represent, let us examine what has happened to some key factors. The value of manufacturing production, for example, in 1950 amounted to some 11 billion dollars. In 1974 it was almost five times higher. Its share of the total product rose from 18 per cent in 1950 to 24 per cent in 1974. Industrial exports in 1950 represented 6 per cent of total exports and were limited to a few specialized products. In 1974, however, they accounted for 18 per cent of export earnings and covered a wide range of manufactures.

Looking at the situation 10 years hence, it may be assumed that manufacturing production will be about eleven times greater than in 1950 and will represent 27 per cent of the total product. In other words, at current rates of growth, the increment of a single year at the end of the next decade will be comparable to the total production in 1950.

Let us now look at investment. Its share of the total product rose to 23.5 per cent in 1974. If it continues to rise in this way until 1985, the entire capital stock of Latin America in 1950 can be created in approximately one year and a half. In other words, another economy, of a size similar to that existing in 1950, could be reproduced in that amount of time.

EVOLUTION AND PROSPECTS OF SOME DYNAMIC SECTORS

If we narrow our field of vision and look at the behaviour of some basic sectors of the productive system —which have been and will be in the near future the main sources of its dynamism—

we find the same combination of profound change and auspicious prospects. One aspect which must be taken into account in this brief survey is the change in the figures for certain significant items of production in the region, which in themselves reveal the growth in production, and also, for reasons which we will give later, the changes in imports from outside the area.

First, let us examine what happened to production in the quarter of a century between 1950 and 1975 in specific sectors, as well as what might occur by 1985 if recent trends continue.

- Steel production, the symbol of industrial capacity, grew over 15 fold in those 25 years, and will reach 22 million tons in 1985.
- Energy production increased eight-fold and cement more than six-fold.
- Motor vehicle production, which was almost insignificant, now exceeds 1.6 million vehicles per year.
- Production of plant and machinery has risen almost nine-fold. Imports are still high, but for some years there has been a considerable flow of exports. The region has become self-sufficient in durable goods, so that if present trends continue there will be an extremely promising outlook for these products.
- Finally, let us take the traditional sectors: food, textiles and clothing. Here, production grew more rapidly than population, but at lower rates than in the more dynamic sectors mentioned above, so the relative importance of these sectors fell substantially. This would seem to indicate two things: that there is large installed capacity and potential to expand production of light consumer goods to meet higher demand from the Latin American general public, and that, given the rates of growth of

the more dynamic sectors, the chances of real structural progress in Latin American industry are very great.

This progress in the Latin American economy has a number of limitations which cannot be overlooked. The first and most important, no doubt, is that this process of great expansion took place in the context of an expanding world economy, particularly in the developed world.

This does not detract from the region's merit in achieving such rapid progress—greater by far than that of other developing regions—but it should alert us to the difficulty of maintaining this rate of growth if world expansion is declining.

The second and equally important limitation, of a domestic nature, is that this expansion of the productive forces in Latin America was economically very unbalanced, and the external sector remained very vulnerable, although protected in recent years by the exceptionally favourable balance-of-payments position due to the high prices of certain primary products and the vigorous growth and diversification of non-traditional exports.

What must really be emphasized is the existence in Latin America of an enormous growth potential, stemming from its experience and the capital, resources and technology available, and also from the "critical mass" of the size of the market and production in Latin America, which enables industrial ventures to be embarked upon which would have been impossible given the state of those factors in the past. This presupposes the integration of markets so that full advantage can be taken of the "critical mass".

THE GROWING IMPORTANCE OF LATIN AMERICA TO THE CENTRAL ECONOMIES AS AN IMPORTER

The other aspect of the great changes which have taken place in the size and structure of the regional economy is its growing importance as an importer of inputs and equipment from the central countries, i.e., of the necessary ingredients for its own diversification, which are at the same time one of the main channels for the transmission of technological progress.

At first sight, it might seem strange that this point should be stressed after the emphasis placed above on the extent to which the level of regional self-sufficiency in various basic sectors has risen. There is no contradiction between these two points, however. What is more, the fact that they are both valid shows that internal development and diversification – generically sometimes called substitution industrialization – is neither in intention nor in fact a trend towards national or regional autarky or towards the underestimation of foreign relations in terms of exports or imports.

On the contrary, internal development and diversification at both the national and regional levels, far from signifying any kind of isolation, implies greater integration in the world economy. It does, however, on other grounds and in another context, reject what ECLA has called the former order of the international division of labour in favour of a different model of external integration stemming precisely from the structural transformation of the Latin American economies.

The importance of dynamic industrial and non-traditional exports in this process of external readjustment is well known. What must happen as regards the volumes and composition of imports, from the central countries is also clear. Both flows must grow and change with time, in the appropriate direction.

What we wish to point out now is that this continuously increasing demand for inputs — which is one of the great problems to be solved now and in the future— also represents inestimable *negotiating power* whose value is not always fully recognized in transactions with the economies which supply the region.

The importance and potential of the situation may be judged from some figures taken from recent ECLA studies. For exports of capital goods, consumer durables and chemical products from the United States, Latin America is a market three times bigger than Japan and almost as big as the European Economic Community.

For European sales of the same products, Latin America is equal to three-quarters of the United States market and it is more than four times the size of the Japanese market.

Exports to Latin America of such goods from the United States, the EEC and Japan together amounted to 11 billion dollars in 1973.

This means that, thanks to the expansion achieved by the Latin American economy and its openness to foreign trade, the region is today a major purchasing power in the developed markets, and therefore its capacity to act and negotiate is a valuable element which should not be overlooked in the future regional economic development strategy.

III THE UNSOLVED PROBLEM

THE GREAT SOCIAL CONTRADICTION: SOMETHING LIKE A THIRD
OF THE POPULATION OF LATIN AMERICA IS STILL EXCLUDED
FROM THE BENEFITS OF EXPANSION

All that has been said above is tangible evidence of the extraordinary development of the productive forces of the region over the last quarter of a century.

However, it should not be thought that we are ignoring one aspect which casts a dramatic shadow on these achievements and prospects: namely, the fact that a major part of the Latin American population has not been able to take part in that process, either as an active element of change or as a beneficiary of the advances won by other groups. In contrast, the high-income groups have been able to copy and enjoy consumer patterns which the industrialized nations took a long time to reach, and then only after much higher average incomes had become the norm.

This is the world of massive, critical poverty, of the underprivileged and the destitute. This is the negative balance of growth, the reality which is tugging at the "critical conscience" of the region.

Of the increase of 100 dollars in the average per capita income during the 1960s, only two dollars reached the poorest twenty per cent of the population. This is clear enough proof that we cannot be proud about what has been happening in the distribution of the benefits of progress. Today there are rather more than

300 million Latin Americans. Of that number, about 100 million live in extreme poverty, and of these, some 65 million are in rural areas, cut off from markets and lacking even the minimal culture which would enable them to glimpse the possibilities of a different way of life from that which they have followed for generations.

Broad groups of the Latin American population are completely marginal for ethnic and cultural reasons, and great efforts must be made to integrate them into society. Those that have come to the city, for their part, although they have received some of the leftovers of the benefits of modern society, have for the most part been relegated to belts of poverty which contrast sharply with the luxury of the major urban centres that have grown up over the length and breadth of Latin America.

These figures, impressive as they are in themselves, become even more significant if one stops to think what it means to be extremely poor. To be extremely poor in Latin America means not having the food necessary for a family to develop normally. It means children suffering from malnutrition and condemned from childhood —if they survive, that is— to a position of inferiority for the rest of their lives. It means not having access to elementary education or, at most, completing the first years of primary education only to become illiterate later through lack of practice. It means having no health protection and thus being vulnerable to disease and early death. It means living in unhealthy, overcrowded dwellings in the worst kind of promiscuity. It means being doomed to unemployment or being able to choose only the menial, temporary and lowest-paid jobs. In other words, it means being on the sidelines of the material and spiritual wealth modern society provides.

All this, of course, is not the result of lack of resources. Latin America has the human and material means to palliate critical poverty within a reasonable period of time. But we must recognize that there has not been the political will to challenge with daring and imagination a state of affairs which prevents the creation of the conditions of solidarity needed to achieve just and sustained progress.

Extreme poverty is an immutable problem: that is, all the characteristics mentioned above are found in families living under conditions of critical poverty. Moreover, it is a vicious circle, because anyone who has lived in extreme poverty generally creates a new family in which the deficiencies suffered by him and his forbears are passed on.

Despite the fact that critical poverty has been a cause for concern for humanitarian, political and economic reasons in most countries of the region, we must recognize that very little has yet been done to speed up its eradication.

We think that one of the reasons for the meagre progress so far made lies in the fact that there has not yet been sufficient study of the special characteristics of the problem, which has so far been approached with traditional instruments that, in practice, have proved ineffectual.

For example, about half the extremely poor population is under 20 years of age. A good many children of school age either do not attend school or drop out prematurely. This problem has not been resolved even in countries where the education service has expanded significantly, thus showing that there are problems specific to extremely poor children which prevent them from availing themselves of the education service. These problems may be due to considerations of economy, motivation, or the family, etc., but at all events they require a solution specific to this social

group. Otherwise, the effort that the community is making to broaden educational opportunities does not benefit those whose most need it in order to emerge from their poverty.

This example can also be applied to the housing problem, to job opportunities and even to aspects of the provision of goods and services and the prices charged for them to the poorest communities.

Progress has been made in labour and social security legislation, but only exceptionally has such progress benefited the men and women living under conditions of critical poverty, since they are often not on any permanent payroll, are not covered by any social security scheme, and have no organization to defend the rights theoretically enjoyed by them under the law.

To sum up, the problem of extreme poverty requires urgent attention. A hundred million Latin Americans live in conditions that should arouse shame and concern among those of us who belong to the relatively privileged remaining two hundred million, because a society with such a deep division cannot go forward in peace and harmony; because such a state of affairs represents a waste of human ability and economic potential which could give new impetus to our economies; and finally, because our human and material resources are more than sufficient to feed, educate, protect and employ those who today do not have the minimum that society can and must offer them.

IV WHAT SHOULD BE DONE?

SOME BROAD LINES FOR A LATIN AMERICAN STRATEGY

The ideas expressed above raise some major questions about future action in Latin America which apply to almost every country, despite their differences, although, of course, with different nuances and emphasis. These questions could be placed on three levels, according to the relative weight of internal or external circumstances on national decisions in each case.

In the first place, there is concern and disagreement in the individual countries on account of the contradiction between the obvious development of productive potential and the persistence of the unsatisfactory living conditions of large segments of the population. Concern is naturally greatest where the differences are most extreme.

Secondly, in view of the changing international scene, the desire to establish deeper and wider intra-regional co-operation is gaining force, both as a means of continuing the changes in the structure and size of the Latin American economy and as a creative approach to the international situation.

Thirdly, there are signs of efforts to find a new place for each country and for the region as a whole in the newly emerging international situation, nebulous and uncertain though this still is.

It is superfluous to point out that we do not have answers to these problems, and it would be audacious—and even a piece of effrontery—to claim that we had.

However, ECLA's role and practical experience enables us to assemble some basic ideas which appear to have been emerging

from major decision-making groups and circles in Latin America, although of course this overall view may not correspond to certain individual views.

1.

IS ABJECT POVERTY AN ANACHRONISM?

In the light of the foregoing it seems clear that the level of development reached by the region ought to enable it to make substantial progress in reducing, if not totally eradicating, the problem of abject poverty within a reasonable time, although, of course, not immediately. This, by the way, is one of the most obvious differences with respect to other areas of the periphery.

Once again, it is clear that we are dealing with different national situations. The countries best placed to take up this challenge are also those which face the problem under less critical circumstances. This does not invalidate the general argument, however. It only means that the lengths of time needed will vary, and can be reduced insofar as we can assume that the integrated development of the region will contribute to the achievement of this objective.

But apart from these reservations, it is clear that in order to deal with this major problem the existing concern must first be translated into effective decisions, while traditional policy on income redistribution must be radically changed so as to ensure that a suitable approach to the type of abject poverty found in Latin America is adopted.

In order to translate the existing concern into effective decisions, the social achievements of the current growth styles adopted in the region must first be evaluated in the light of consumption, production, technological or educational patterns. Only such a general approach to our styles of development will

enable us to understand why, although we have created a society much richer in material goods and services, and with greater ability to grow through more rational and efficient economical policies, we have nevertheless failed to find an adequate answer to the problems of abject poverty.

Moreover, the prevailing system in the region has shown signs of being played out on the economic side. The main dynamism or driving force of the economic system has in the past fundamentally been the consumption of high and middle income groups of society. This has its limits, however, and tends to dry up.

The incorporation of the masses in the production and consumption process is bound to establish a new dynamism with side and cumulative effects on the system as a whole. And it is this incorporation of the poor in the production process which will help to solve a social and economic problem. This is the major challenge to each society and each country, taken separately and from the point of view of its own domestic policy options.

To make a radical transformation in traditional income distribution policies means to accept that the conventional policies of mere distribution of the product are not sufficient to reach to the lowest strata of the social spectrum. New policies which adopt a special approach are required, and among these the most urgent are those connected with the agricultural sector.

The greatest poverty of the region is concentrated in the Latin American agricultural sector. Moreover, there is no doubt that this sector has great potential for productive expansion and the growing of staple foods. Bringing Latin American agriculture up to higher levels than those traditionally achieved would be a means of attacking one of the most obvious strongholds of mass poverty, by incorporating this sector in the productive process not as an act of charity but because of its productive efforts.

REGIONAL INTEGRATION: NEED FOR AND GROWING
VIABILITY OF THIS OBJECTIVE

It is superfluous to repeat what has already been said and written on the imperative reasons for regional integration. What we should emphasize here is that the need for agreements and complementarity in Latin America is greater now than ever, and that the possibilities of achieving these aims are also greater at this time: certainly much greater than when our integration projects were first designed.

First, there is the need, in view of the external situation, to find new forms and more successful levels of regional integration in order to offset the possible drop in the dynamism of international trade as a result of the flagging expansion of the central economies. Each Latin American country can find in its own region wider markets for its non-traditional exports and sources of supply for its import needs. All this —let us repeat— without prejudice to the opportunities offered in this connexion by countries outside the region and particularly the industrialized countries.

Secondly, the possibilities and viability of this objective are clear, in view of the larger size and greater diversification of the Latin American economic spectrum. Although in the mid-1950s —when the integration projects were launched— the productive structures perhaps lagged behind the possibilities opened up, the present situation is quite different, and the actual facilities are fully in keeping with these objectives.

Furthermore, there can be no doubt that the political, institutional, and cultural conditions —and the image of integration

itself— have changed radically in favour of the Latin American project.

This conviction does not underestimate existing difficulties, nor the disappointment of some who believed that the road would be more rapid and direct. These factors, however, do not diminish its importance vis-à-vis the incidence of the circumstances described.

It is not possible to go into details about what should be done, but some of the substantial principles of the integration strategy may be recalled here and now, in particular the criteria of reciprocity: namely, that all should participate in and benefit from the process, although of course some countries will naturally play a more important role than others in integration or outside of it for various well-known reasons.

As we have seen above, the prospects of dynamic development in the next decade provide opportunities for all our economies. The problem is to identify and link them. From this standpoint, it seems fitting for me to recall what Dr. Prebisch said some time ago during the early stages of the integration efforts. Returning from a visit to the region, he said: "I found great enthusiasm everywhere about the possibilities of exporting to the region, but not much was said about importing from the region."

Let us admit it: a kind of mercantilist attitude continues to persist. Indeed, it even has some aggravating factors, since there is certainly no lack of persons who would like to increase their sales within Latin America, but use their earnings to buy outside Latin America.

We have already said, and we repeat, that the extra-regional market will continue to be indispensable for our countries. There is not the slightest doubt, however, that export and import flows within the region must be brought into some kind of equilibrium

—not necessarily country by country and year by year, but on the whole or in the context of sub-regional agreements.

This brings us to the need for creating, expanding or activating adequate financial machinery for these increased trade flows. I shall come back to this point later with some specific proposals on this and other matters.

What could the new lines for the expansion of regional integration be?

The industrial expansion described above contains sizeable gaps. The most obvious of these are to be found in some dynamic sectors, particularly capital and intermediate goods and chemical products, which are lagging far behind.

It is very important to note that if the regional production process does not make progress the goods which at present account for 65 per cent of Latin America's industrial imports will in ten years' time account for 75 per cent of these imports. There is thus a vast area for regional action.

Why should Latin America not set itself ambitious production objectives and develop strong fertilizer, petrochemical, capital and intermediate goods industries? What prevents a region which has achieved its present levels of development in industry from crossing these new frontiers of industrial expansion with the valuable assistance of its natural resources, its technical experience, its human resources and, more recently, its own financial resources?

Flexible agreements and procedures are required to achieve a type of industrial development open towards the rest of the world but internally integrated so as to increase its efficiency and critical mass. The countries should all make the best possible use of existing regional integration machinery, suitably revitalized by converging agreements between all or some of these countries.

Some current endeavours —especially those which have been unfolding within the Andean Group— are of special importance in this connexion. The need for significant progress in the motor-vehicle agreement, for example, is not only vital for the advance of the Andean industrial process, but also a very important model for other major regional endeavours. It is also an extremely important stimulus to the hope which the relatively less developed countries of the region may cherish of really sharing in the new international distribution of labour at the regional level. This explains the economic and political importance of the agreements in progress in the Andean Group, and the interest with which the entire region awaits the high-level political decisions which will make it possible for the respective agreements to materialize.

This new concept of regional development, with firmly-based integration of the currently incomplete critical sectors of regional industry represents one of the main lines for the future expansion of Latin America.

In referring to the high priority of regional integration, I want to emphasize the valuable example given in this respect by the Caribbean sub-region, which has shown the political decision-making ability and the economic wisdom to create and set in motion such a viable, efficient and dynamic process as CARICOM.

3.

INTERNATIONAL ECONOMIC RELATIONS: A NEW STEP TOWARDS A MORE EQUITABLE ECONOMIC ORDER

Recently, crises in post-war international economic relations, developments in the situation of the industrial centres and concern about an uncertain future have pointed up the need to review the

international economic order and to establish new rules of the game.

The Latin American countries should strive together towards that new order, in accordance with their internationalist attitude, and should consider their position within it. Of all the efforts being made, one is crucial for the developing world and for our region in particular, namely the long-standing problem of raw materials.

If the post-war economic order failed from the standpoint of the third world, it was because of its inability to solve the problem of markets and prices for primary products, which are still the mainstay of our exports. No new order can be firmly established unless it offers a solution to that problem.

There are many activities underway or under study at the level of the United Nations or of groups of countries such as the non-aligned countries. Discussions are underway concerning global approaches to the problem --you will remember the recent UNCTAD proposal-- and operational approaches such as those being considered by GATT; protective machinery is being established --in the form of producers' associations, for example-- and the idea has been mooted that a primary products bank should be set up.

All these steps should lead to significant changes in the way these problems are dealt with. We believe that this awareness not only exists in the under-developed countries but has also emerged in the developed countries. It is therefore necessary to adopt a new and realistic approach to the problem.

In view of the relevance of this subject to the short and long-term development of Latin America --and if governments so desire-- ECLA could make an immediate contribution by organizing a meeting in the latter half of the year to discuss at the

technical level both the problems concerning primary products of particular interest to the region and possible alternative solutions to those problems, and possible ways of dealing with the balance-of-payments difficulties caused in Latin American countries by the fluctuation of these exports.

PROBLEMS AND IMMEDIATE PROSPECTS OF THE REGION

The problems mentioned above and some of the broad lines of a long-term strategy discussed earlier come up against one practical and awkward fact: the gloomy prospects of the region's external sector over the next few years.

The reports submitted by the secretariat show that recent years witnessed extraordinary trends in the region's balance of payments: exports rose, not so much in physical quantity but as a result of better prices; the balance of payments was affected by a large inflow of external resources which financed a considerable deficit in the trade balance, and there was an exceptional boom in non-traditional exports.

The export euphoria and higher prices made possible a correspondingly spectacular surge in imports. Unimpeded development could thus take place. In recent years, each unit of growth in output required an increase in imports between 1.2 and 1.9 times as much, according to the country. The higher per capita income of Latin America is changing the structure of demand, and this increases the need for imported intermediate and capital goods. The lack of industrialization in the region, which is lagging behind in the production of these goods, means that more imports are needed. Even though there may be a margin of compression, the expansion of the domestic product will continue to depend mainly on a steady and more than proportional increase in imports.

But the export euphoria is over now. As the secretariat pointed out at the time, the recent boom in the external sector has to be treated with some scepticism. In many instances, there

was merely a nominal increase in the value of exports, which was accounted for by the higher cost of imports and offset the drop in the purchasing power of certain hard currencies.

The fact is that those who believed that the problems of the external sector had been solved have come to see the situation drastically reversed in recent months. The well-known problem of terms of trade has returned with a vengeance: while the prices of the vast majority of our primary export products are rapidly declining, the large industrial centres are transferring their domestic inflation to our countries by pushing up the cost of the goods they export to us. The figures speak for themselves and are a cause for serious alarm, especially as the situation is getting worse.

In the non-oil-exporting countries of the region, the trade balance deficit rose from a little over 600 million dollars in 1973 to about, 8,700 million dollars in 1974. If the net payment of interest and dividends on foreign investment and other non-factor services is added, the total balance-of-payments deficit on current account amounted to 13,000 million dollars in 1974, more than half the value of exports. In some cases, the deficit was well over half the value of the country's exports —an indication of the magnitude and gravity of the problem.

At the same time, the accumulated external debt continues to have serious repercussions on the balance of payments and to absorb a large share of export earnings.

It can be assumed that balance-of-payments problems will become increasingly serious in 1975 and 1976. Some people forecast new increases in the prices of certain products following the refloating of the industrial economies and the contained demand for some products. Nobody, however, expects a period

of sustained improvement in the terms of trade in the medium term.

ECLA estimates for 1975 indicate that the trade deficits of most non-oil-exporting Latin American countries will range in value between 30 and 100 per cent of exports. This alone shows how serious the problems ahead of us are.

In almost every country in the region, a high growth rate of imports must be maintained at least in the medium term, to sustain a domestic growth rate similar to that recorded in recent years. The ability to meet the social requirements of the population, employment and the very social and political stability of a country ultimately depend on the growth of the product. Hence, the importance of the familiar, long-standing problem of the external behaviour of the economy, which has arisen once again.

In many of our countries, the dilemma is as follows: either solutions to the balance-of-payments deficit are found in the next few years or the growth rate must be sacrificed.

Unless appropriate machinery can be found, the region may face an extremely frustrating situation:

- having made a great effort to boost its exports —especially non-traditional exports— inadequate prices may force it to relinquish its markets or cut back production considerably.
- having made a similar effort to control its external indebtedness by reorganizing the structure and level of the external debt, the countries could find themselves obliged to accept inorganic and badly-structured debts at a much higher cost to the development process.

If to these problems are added the reappearance of declining trends in the prices of primary products, the difficulties experienced in gaining access for such products to the markets of the developed countries and the rapid increase in the prices of

imports, the outlook is bleak and must continue to be a cause for deep concern.

HOW IS THE IMMEDIATE BALANCE-OF-PAYMENTS PROBLEM TO BE TACKLED?

First, a warning: there are marked differences among the problems of the various countries. Some countries are better protected than others thanks to their ability to attract external resources in the capital markets, or owing to the particularly favourable composition of their exports.

Whatever the short-term solution may be, it soon ceases to be a solution and becomes merely a financial illusion unless at the same time long-term solutions are devised for the problem of primary product prices and the continuing expansion of our exports ensured.

It would be of little value to have recourse to the sedative of instant finance unless suitable solutions can be devised at the world level to reverse the trend in the terms of trade, and unless suitable internal measures are taken to continue the expansion and diversification of exports and to absorb the effects of abrupt changes in the world economy.

The reversal of the trend in the terms of trade is a fundamental subject of international discussion on this matter. The region must become actively mobilized both to hold consultations on the protection of its commodities in international markets and to participate in the active review of international relations in the field of raw materials which we mentioned earlier.

Each country must also review its domestic policies with a view to adopting monetary, fiscal, exchange or production policies which incorporate into the domestic system the necessary

adjustments stemming from changes in some basic prices in the world economy, as in the case of energy products.

However, in any event, even with such limitations, we believe that solutions will have to be found to ensure the protection of our rate of expansion through urgent measures aimed at the acute balance-of-payments problems which the majority of countries will have to face.

Two suggestions could be studied by Governments with the full assistance ECLA can provide in co-operation with other international agencies.

(a) Protection of intra-zonal trade

A primary preoccupation is that the present imbalances in the payments capacity of the region could affect the gains made in intra-zonal trade.

We are faced with a specific situation. With all its ups-and-downs, intra-zonal trade has reached high levels in certain items which could be affected by direct or indirect payment restrictions.

We believe that it would be very regrettable if this should occur, thereby aggravating the difficulties and the problems of the external sector of our economies.

There is some intra-zonal trade which cannot be diverted to other regions and can only take place through the existing marketing channels in the region. This is true of trade in some agricultural products and more particularly of non-traditional manufactures which in recent years have found a ready regional market.

The time is ripe not only for suitable consultations between Governments but also for the expansion and substantial improve-

ment of the payments and supporting machinery for dealing with transitory liquidity difficulties, provided for in the multilateral compensatory agreement on reciprocal balances and credits and in the Santo Domingo Agreement.

Our region is fortunate in having these financial instruments, but undoubtedly it would be an advantage at this time of short-term balance-of-payments needs to consider new possibilities of increasing their scope and making their form of operation more flexible.

(b) The establishment of a "safety net" as a form of protection against possible balance-of-payments crises in the countries of the region

The establishment of a regional safety net to provide an alert for the imminent balance-of-payment crises could prove to be in the common interests of both the countries of the region and the international community, particularly the industrialized countries which maintain close trade and financial relations with Latin America.

From the standpoint of the region, the establishment of special machinery, in the present circumstances, seems to be fully justified: the international compensatory financing machinery to offset losses in income from reductions in export earnings was conceived to cope with situations limited in scope and duration which differ from the present one.

At present, it is to be feared, and with good reason, that the reduction in such earnings will in many cases last for several years and that the factors responsible for this reduction are such that they will affect many products and many Latin American countries.

- The private external financial markets are not displaying the aggressivity and fluidity characteristic of the early years of the decade. Faced with new uncertainties and risks, the markets are today reviewing their earlier growth and the structure and composition of their assets and liabilities. As our countries' debt capacity tends to deteriorate as a result of the balance-of-payments crisis and the increased debt burden, obstacles to a substantial financial flow which could alleviate the present situation, at least in the foreseeable future, begin to emerge. It is paradoxical that Latin American countries should obviously be in need of external financing just when their credit worthiness is increasingly restricting the possibilities of obtaining it.
- Official economic assistance to the region has been declining in recent years, and it is not to be expected that the atmosphere of international economic recession will provide an incentive for such assistance or for actual direct foreign investment.

The very nature of the problem requires a multi-faceted solution, covering trade, trade financing granted for various periods, financing on concessional terms, access to foreign capital markets and investment.

No less important are domestic and regional efforts in the terms described above.

The traditional multi-faceted approaches do not appear to be sufficient in view of the magnitude and acuteness of the problem, and efforts to find solutions based on regional co-operation and assistance from all disposed to provide it would therefore appear to be in the direct interest of the region in the immediate future.

But it is also of interest to the international community to seek solutions which minimize the need to reduce Latin American imports, and which will therefore contribute to financing them on terms consistent with the nature of the problem, its duration

and the overall external payments situation of the countries affected.

It is for this reason that mention was made above of the importance of Latin America's purchasing power in international markets. It is not only in the interest of Latin America but also in the interest of its traditional suppliers to maintain this power.

The convergence of interests could open the way to joint examination of co-operation aimed at a new approach to the overall external payments situation of the countries affected.

A collective safety net comprising a special compensatory financing fund for the countries of the region would make it possible to meet those requirements.

With regional and extra-regional contributions, the fund would be in a position to give assistance to Latin American countries requiring assistance and desirous of applying for it. The administration of the fund, which could be made the responsibility of some of the existing bodies with experience in this field, should be simple. It would operate on as automatic a basis as possible, as regards both drafts and payments, although some assessment would inevitably have to be made of each specific case.

The terms, magnitude and repayment periods of the loans could take into account the danger that the serious situation might persist for some years and the need for the borrowing countries to adopt the necessary internal measures to make the best possible use of the resources obtained.

Thus financing would not be a mechanism for delaying the necessary process of adjustment but would, on the contrary, facilitate a smooth and longer-term adjustment.

The nature, magnitude and persistence of the problem and the possible solutions which could be proposed fully justify the

region's making a special effort, to be carried out jointly with the countries that have trade relations with it.

The exact figures for financial requirements should naturally be based on precise studies carried out with the participation of the appropriate international and regional agencies. However, it can be assumed that the safety net should amount approximately to at least 4,000 million dollars. This figure represents about one-third of the average balance-of-payments deficit on current account of the non-oil-exporting countries of Latin America according to provisional ECLA estimates for the period 1974-1976.

This figure of 4,000 million dollars also represents half of the increase in the balance-of-payments deficit of those countries for 1973 –the last year before the abrupt change in the international economic system– and the average for the three-year period 1974-1976.

A special meeting on the region's export earnings and raw materials would be the proper place to tackle the many facets of the problem, and to study and agree on the features of a special fund such as that proposed, as well as other possible solutions, all of which would go to make up the collective safety net which our region requires.

This kind of solution, adapted to our situation and geared to the nature of our problems, would help to maintain the pace of world economic activity at the level of our potential and would be a further step in addition to those already planned by the developed countries along with some developing countries, to meet conjunctural situations.

Although our region anticipates serious difficulties in financing recent high levels of imports, it is equally true that it is in the interest of the industrialized economies that this problem be

solved as one of the means of reactivating their growth rates and easing their balance-of-payments situations. It should not be forgotten that Latin America is importing goods worth more than 30,000 million dollars each year. To maintain or increase this figure through a forward-looking policy which includes the aforementioned safety net would not only benefit Latin American growth but also lead to an expansion of the trade of the countries with which this region maintains close economic relations.

The principal role of ECLA consists precisely in anticipating the problems and helping to find solutions. That is why we are submitting these ideas for international and regional co-operation.

We ought not to forget that a distinctive feature of ECLA is that it is a regional institution and also part of a global system.

Finally, in guise of general conclusions, I should like to set out some general opinions which sum up my ideas on the present occasion.

- No action should be undertaken at the regional or international level without a clear idea of the major changes which have taken place in the region in recent years. These changes have created a picture of Latin America in its economic, social and political aspects, which is far more complex and chequered than at the end of the 1960s. Any attempt to interpret Latin America's current phenomena by applying categories or concepts from the 1950s is liable to deteriorate into an ingenuous or irresponsible simplification.
- If the situation as a whole has changed, its individual components have done so even more. Each country today constitutes an independent situation which must be analysed in a particular context. Although the common denominators cannot be ignored, to make general proposals without examining each particular case may be equally unrealistic or perilous.

- It is true that there has been a major deployment of the productive forces of the region and tremendous progress in producing goods. Social contrasts, however, have been aggravated to a perilous extent. This is even more painful when one is perfectly well aware that the region is capable of solving these problems within the lifetime of the present generation by means of structural changes and adequate policies. This is the major challenge facing us, that of achieving a better and fairer society on a basis of greater solidarity for the great masses of Latin America who today are shut away from progress and social and economic participation.
- Today, as in the past, the region cannot disassociate itself from what is happening in the rest of the world. The well known relationship between the centres and the periphery adopted by ECLA as an analytical category for getting to know and interpreting many of our problems is more relevant today than ever. The degree of our interdependence with the rest of the world has increased, and this means that knowing what is going on in the world, and being acquainted with the changes in the setting of our international relations is basic for our inclusion in the rules of the game, many of which are imposed on us by international relationships.
- We must beware of analyses which, by investigating the past, attempt to anticipate the future with wild predictions. If the decade just elapsed has taught us anything, it is that we should be mistrustful of imaginative extrapolations and excessive generalizations, and of verborrhea and the absence of down-to-earth action. The world has entered a period —perhaps a long one— of groping in the dark and improvisation. This is the most notable feature of these times of economic, social and political upheavals. In the face of such a situation, we are

convinced that what is needed is considerable flexibility in order to adapt to changing circumstances, and a more down-to-earth pragmatism.

- None of this should allow us to lose sight of the urgent need to reform the existing international order by means of structural changes in international relations, and in the rules of the game which make for unjust relations among nations. A first endeavour to lay the moral bases for this change was the Charter of Rights and Duties of States. Now we have to apply its principles. Not only is this task not an easy one, but it will not be brief. Latin America has the obligation and the responsibility of playing an active role, going beyond the stages of denunciation, which are doubtless necessary, but an inadequate lead into action. The possibility of action is right there in the different fora, up against the different situations requiring a solution.

I have great faith in the capability of the region as a united whole to undertake the stages of co-operation and collaboration which will open new horizons to Latin America. Suffice it to recall some initiatives recently elaborated by some countries in the region to illustrate the great capacity, imagination and political valour of our countries, which are adopting forms of co-operation which a few years ago were unimaginable. I believe that this is within our grasp for the most part, if we can count on the necessary political decision-making. In the face of the problems already referred to, we should not be considering our relative role in the world order nor our weak bargaining position. For the most part, the region has the solutions in its own hands. At a time when many of the development strategies applied in recent years will be put to the test, regional co-operation may be an answer and a major challenge. This is the purpose behind the appeals and

the ideas which we have referred to in the present statement with the simple aim of stimulating reflexion and action.

Finally, the analysis of past achievements should not lead us to a simplistic complacency with what has been achieved, nor should present action submerge us in an unimaginative involvement with the immediate present without long-term objectives.

The flexibility and pragmatism required at the present moment for our navigation in troubled waters should not reduce our capacity to continue questioning our development models and putting forward projects for a better society.

We should therefore continue to establish clear images of the Latin American society we want to build up, of what its permanent values should be and the best means of consolidating and strengthening the relations of equity and justice which are the values cherished by the Latin American society since its independence.

ECLA expresses a sincere hope of finding in the deliberations of the Sixteenth Session new mandates and new lines of action for co-operating with the member Governments with a view to international dialogue and co-operation.



