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THE LATIN AMERICAN ECONOMY IN 1967

Excerpt from ECLA survey

Note: This is a preliminary version, which does not include charts or tables. The final version will be distributed during the Committee of the Whole.

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I. GENERAL ECONOMIC TRENDS

Economic growth in 1967

In 1967 the economic development of Latin America as a whole was unsatisfactory, resulting in a per capita growth rate of the product which hovered round 1.5 per cent. The immediate implications of this inertia for the various economic and social aspects of Latin American life will be more clearly apparent if it is borne in mind that its effects are superimposed upon those of the still more unfavourable trends recorded in the preceding year, when the increase in the domestic product barely kept pace with the growth of the population.

Thus, for two consecutive years the economic expansion achieved has been so slight as to cancel out the relatively significant progress made in the years 1964 and 1965 and make the sluggishness of the rate of development during the current decade still more marked, both in absolute terms and in comparison with earlier periods.

The principal changes that have taken place in the economies of the various individual countries of the region are reviewed below. It will be seen that a wide variety of situations exists, so that these introductory remarks are in the nature of a mere generalization, which may be justifiable when Latin America is viewed as a whole, but within which allowance must be made for significant national exceptions to the rule.

Other features of the recent pattern of economic development include the following:

(a) There was a fall in the world market prices of most of the commodities that constitute the bulk of Latin America's exports. Apart from its direct effect on the capacity to import, this further deterioration in the terms of trade means that the slight increase in the domestic product represented an even smaller rise in real income;

(b) The current value of exports of goods and services remained stationary at the level of the preceding year; thus there was a break in the upward trend that had been followed since 1960. In view of the unfavourable evolution of prices, the maintenance of export values implies a considerable increase in the volume of exports;

/(c) Notwithstanding

(c) Notwithstanding these developments, imports continued to rise, exceeding their 1966 level by 4 per cent. This expansion of external purchases despite the stagnation of current export earnings resulted in a balance-of-payments deficit on current account of about 1,600 million dollars, the largest on record in the current decade;

(d) Latin America was more seriously affected than some other regions by the repercussions of the slower growth rate of the world economy and the slackening of international trade, and it lost further ground in world markets;

(e) Progress was made in establishing institutional channels for Latin America's economic integration movement, including sub-regional agreements. In addition, intra-regional trade continued to expand;

(f) The control of inflation has been one of the key objectives of economic policy in recent years. It was pursued in 1967 with varying degrees of success. Some countries made further headway, while others experienced grave setbacks.

Although several of the component features of this over-all picture differ from the characteristics of economic development in 1966, if a broader view is taken the same basic facts are still in evidence. In the last analysis, they are reflected in the lack of drive behind the Latin American economy's efforts to increase employment and productivity. This weakness is imputable both to internal factors and to the rigid pattern of the region's external trade and financial relationships.

External financing

The size of the balance-of-payments deficit on current account in 1967 reflected a net inflow of external financing similar to that received in 1957-62. Thus, the recovery which had begun in 1966 and was intensified in 1967 altered the sharp downward trend observable in external financing during the intervening period. This involved some drain on the foreign exchange reserves which certain Latin American countries had built up in previous years, and a considerable increase in the net inflow of non-compensatory capital - in particular, direct investment - and in short- and medium-term loans.

/Some features

Some features of this revival of external financing are worth noting, because of their influence on recent external-sector trends, and above all because of their predictable effects over the next few years. They relate to the rapid increase in service payments on the external public debt.

The increase in question is mainly attributable to two causes: the excessive medium-term borrowing to which the Latin American economies have had to resort, and the steady rise in rates of interest and other loan costs.

The first of these factors has a good deal to do with the composition of the external public debt by creditors. At the end of 1966, the debt to the external private sector represented only 38 per cent of the total (excluding disbursements payable), but it accounted for 73 per cent of service payments. Hence Latin America's effeorts to reduce its debts of this type and obtain instead longer-term loans such as are usually offered by official external sources.

The second determinant of heavier service payments was the steadily increasing cost of foreign loans, whether from the private or from the public sector. Since 1965, basic rates of interest on the international private capital market have been subject to pressures which have pushed them sharply upwards. Whereas in 1960 the real rate of interest on loans obtained by Latin America from the external banking sector was 6.5 per cent, in more recent operations it has reached 8 per cent.

In the case of the International Bank for Reconstruction and Development (IBRD), the rate of interest on credits to Latin America was 5.75 per cent between 1960 and 1962, and it decreased to 5.5 per cent in 1963-65; thereafter, the higher rates of interest which IBRD had to pay on its own bonds forced it to raise the interest on loans to 6 per cent in 1966 and to 6.5 per cent in 1967. Similar fluctuations took place in the rate of interest charged by the Inter-American Development Bank (IDB), which in 1957 increased to 7.75 per cent on loans to the Latin American private sector (including the Bank's commission).

As regards official loans from the United States Government, the rate charged by the Agency for International Development (AID) dropped from 5.5 per cent in 1960 to only 3/4 per cent in 1963, but thenceforward it

/climbed again

climbed again to 1 per cent for the grace period and to 2.5 per cent for the amortization period. While the Export-Import Bank (EXIMBANK) has not altered its rates to the same extent as the foregoing institutions, its interest rate has increased by 0.5 per cent since 1966.

It should be noted that the bulk of the interest payments made in 1966 and 1967 corresponded to credits obtained some years earlier, when the rates referred to above stood at low levels or had actually declined. Accordingly, from the standpoint of the incidence of external debt servicing on the balance of payments and on the capacity to import, the impact of the rise in rates will be more widely felt during the next two or three years, when interest starts to be payable on loans contracted since 1965.

Exports and imports in 1967

For the first time in the present decade, the current value of exports of goods showed a slight decrease in relation to the previous year, reaching about 10,660 million dollars. As, in general, the volume of sales increased this result was obviously determined by the adverse evolution of prices, particularly of coffee, metals, wool and fish meal.

If Venezuela is excluded, the value of exports from the region will be seen to have decreased by nearly 2.6 per cent, mainly because of the deterioration of sales by Argentina, Brazil and Mexico. Exports also declined in Guatemala and Uruguay; they remained at the same level in Honduras, Nicaragua, Paraguay and Peru; while they rose in Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador and Panama, in addition to Venezuela, and on a somewhat lesser scale in El Salvador and Haiti. In at least four of these countries, however, the increase in exports represented merely a recovery of former levels which had declined in 1966.

In contrast with the evolution of exports, Latin America's imports of goods (in f.o.b. terms) rose by about 4 per cent in 1967, reaching a value of 9,300 million dollars. This increase occurred in all the countries except Colombia, where purchases declined, and in Argentina, Haiti and Peru, where there was no change. Colombia had made heavy purchases in 1966, before imposing the stringent controls that accompanied its currency devaluation.

/The fact

The fact that Latin America's imports rose while current export earnings remained the same meant a reduction in the trade surplus and a greater balance-of-payments deficit on current account, which had increased from 1,080 million dollars in 1966 to 1,600 million dollars in 1967.

Primary commodities and export prices

Although the situation has been radically changed by the stagnation of current export income, this has not come about simply because of new problems, such as the decline in the growth rate of the world economy; it is also largely due to the fact that the long-standing problems in world trade that have been affecting Latin America's salient commodity exports were accentuated in 1967. During that year, adverse price trends were the main difficulty, since world market prices dropped for such products as coffee, fish meal, beef, wool, tin, lead and zinc, which are of special importance to Latin America.

The fall in coffee prices was partly due to the persistence of the wide gap between supply and demand, which the International Coffee Agreement failed to bridge. Latin America's share of the world coffee trade was also heavily reduced in terms of volume (from 73 per cent in 1963 to 64 per cent in 1966) owing to the increasing production of African robusta and the preference of importers for poorer-quality but cheaper coffee. The situation was further complicated by restrictions on the demand side, such as the high taxes levied on coffee by some of the chief importing countries, particularly the European Economic Community and the United Kingdom.

The international sugar market is worsening steadily, owing, among other things, to the glut of sugar since 1964 and the lack of an international agreement to regulate the flow of supplies and broaden the market in the industrialized countries.

Banana prices recovered slightly in 1967, but Latin America still has to deal with a market under the sway of restrictions and discriminatory policies imposed by some of the major importing countries.

As regards cocoa, the difficulties of negotiating an agreement prevented the United Nations Cocoa Conference, which took place at the end of 1967, from discussing more than three of the sixteen items on its agenda.

/Cotton prices

Cotton prices shaded upwards, whereas wool prices dropped even lower. The reduction in stockpiles and the United States' new cotton policy helped to improve cotton trends, but did not, however, lessen the competition from man-made fibres. Moreover, the long-term agreement on cotton goods, which has been extended to 1970, allows the importing countries to impose quantitative restrictions on their purchases abroad in certain circumstances. In so far as wool is concerned, the traditional method of sale by auction has the effect of making prices highly sensitive to any change in the supply/demand ratio.

Wheat prices were a little better than in 1966, and progress was made in regulating the market. The International Wheat Conference, held shortly after the middle of the year, approved a new agreement to replace the old one that had been in force since 1962. The new agreement raises floor and ceiling prices for transactions between participating countries by about 12 per cent, and fixes quotas for their imports and exports. It was also decided to set up an international food fund, to provide 4.5 million tons of grain a year for human consumption.

Average beef prices were lower than in 1966, although they rose slightly in the last few months of the year. They continued to be affected by the protectionist practices of several importing countries and the lack of a satisfactory international agreement. The agreement on frozen beef which was negotiated between Argentina and the European Economic Community during the Kennedy Round has not been ratified, because the amendments made by the Community are inacceptable to Argentina.

Prices of fish meal have fallen steadily owing to the increase in world production followed by heavy stockpiling, and the relatively low prices of substitute products.

Metal prices also dropped considerably in 1967. The United States copper strike brought 90 per cent of copper-refining to a halt and compelled the Government to draw on its strategic reserves. By the end of the year these had sunk to about 225,000 tons, or slightly over 10 per cent of the country's annual consumption. As a result, the price of copper on the United States market rose to 38.7 cents per pound in the third quarter, as against 36 cents during the same period of 1966. The prices on the London

/market were,

market were, however, lower than in the previous year. The Inter-Governmental Conference of Copper-Exporting Countries was held by Chile, the Democratic Republic of the Congo, Peru and Zambia with a view to maintaining favourable market conditions for copper. On the other hand, the expectations of increasing the proportion of refined and processed copper exports, which it was hoped that the Kennedy Round would help to realize, have become even more remote with the subsequent rise in the taxes levied by the United States and Japan on semi-processed copper and by the other industrialized countries on copper products. After a period of production shortages in lead and zinc, fears of a surplus arose, and brought prices down in 1966 and 1967 after two years of relative stability. Tin prices also fell below the high level they had reached in 1965. The third International Tin Agreement has been in force since 1966. This was concluded for a five-year period, and has been mainly concerned with raising the price levels at which the buffer stock, which is the chief device for preventing excessive price fluctuations, will enter into operation.

Recent world economic trends

The adverse impact of the above factors on Latin American exports was aggravated in 1967 by the loss of impetus in world economic growth and, in particular, by the stagnation of industrial output in nearly all countries, disregarding for the time being the industry of the centrally-planned economies. As a result, the rate of growth of world trade also declined: to 9 per cent in the first half of 1967 compared with 11 per cent in the same period of 1966.

In the United States, the first half of the year marked a distinct slackening in the growth of the domestic product, and the results for the whole of 1967 represented a proportionately slower expansion than in earlier periods. The main determinant of this weakening was the behaviour of investment, which reverted practically to the 1965 levels, while the rise in personal consumption and government purchases, especially of military equipment, continued. These trends affected foreign trade, so that imports in the first three quarters of 1967 remained at the same level as in the last quarter of 1966. Moreover, the balance-of-payments deficit rose sharply in the second half of the year, and provisional estimates put it at 3,500 million dollars for the whole of 1967, or almost three times the figures

/for the

for the two previous years. These developments, combined with the drain on gold as a result of the devaluation of the pound sterling, recently led to the formulation of a far-reaching programme of financial austerity, some provisions of which - reduction of foreign investment and credit, and restriction of imports - might affect the economic interests of the Latin American countries.

A less vigorous growth of industrial production and foreign trade was also observable in other countries which represent important markets for Latin America, particularly the members of the European Economic Community (EEC) - except Italy - and Canada and the United Kingdom.

In Canada, the slackening in the economic growth rate did not affect imports to the same extent as in the United States; but even so the rate was lower than the previous year. In Western Europe, industrial output remained static during the first half of the year, and in the second quarter this caused a slight contraction in the total volume of imports. At first, the decline was more pronounced in the EEC countries, but later it spread to the members of the European Free Trade Association (EFTA), except the United Kingdom where the purchases which had been deferred until the import tax was removed at the end of 1966 had a countervailing effect. In addition, there was a new drop, sharper than before, in Latin America's share of Western Europe's imports.

In contrast, Japan maintained its rates of economic growth and expansion of imports, while there was no great change in Latin America's share of its external purchases.

The socialist countries in Europe also maintained their high rates of expansion in industry and trade. During 1967 new opportunities were created for trade between Latin America and this group of countries, through agreements concluded by Brazil and Chile with the Soviet Union, under which the latter has undertaken to deliver machinery against repayment in local products (manufactures and semi-manufactures). On the other hand, there was a reduction in sales of other products which in the previous year had represented appreciable values for some countries of the region; consequently, Latin America's total exports to the socialist area diminished in 1967.

/Institutional advances

Institutional advances in Latin American integration

The expansion of reciprocal trade once again somewhat mitigated the adverse effect on Latin America's exports of certain factors which caused a further reduction in the region's participation in world trade flows. Yet the signs of a less vigorous expansion of intra-regional trade, already evident in 1966, should not be overlooked, and they make it all the more urgent to intensify efforts to achieve the economic integration of Latin America.

In this respect, there were a number of outstanding developments in 1967, particularly on the institutional plane. The Meeting of American Chiefs of State, which took place in April, resolved to create progressively, beginning in 1970, a Latin American common market, which should be in operation within a period of no more than fifteen years and would be based on the complete development of the Latin American Free Trade Association (ALALC) and of the Central American Common Market (CACM), accompanied by the progressive convergence of the two systems and action to promote the accession of Latin American countries which are not yet associated with these systems. The Meeting further adopted an Action Programme which lays down the decisions whose implementation depends on appropriate action being taken by both ALALC and CACM, and other decisions which are common to all the Latin American countries.

In essence, it was agreed that ALALC should accelerate the process of its conversion into a common market, and to that end - as from 1970 and within a period of not more than fifteen years - it would eliminate all duties and restrictions on reciprocal trade and establish a common external tariff. The Central American Common Market would carry out a programme of action covering various matters, including full operation of the customs union, the establishment of a monetary union, development of the common market for agricultural commodities, and the promotion of closer links with Panama and the Caribbean countries. Among the measures common to all the Latin American countries it was decided to avoid imposing further restrictions on reciprocal trade and to establish a margin of preference, within the region, for all Latin American products. It was also agreed to set up a committee composed of the executive organs of ALALC and CACM

/to co-ordinate

to co-ordinate the implementation of the above measures, with the aid of ministerial meetings, and to negotiate in due course a general treaty or the necessary protocols for the establishment of a Latin American common market.

The First Meeting of Ministers of Foreign Affairs of the countries belonging to the two systems subsequently set up the ALALC/CACM Co-ordinating Committee and decided on an order of priority for the Committee's future work. The Meeting of the Council of Ministers of Foreign Affairs, in its turn, considered it necessary to proceed with the technical studies on questions related to the liberalization of reciprocal trade, tariff harmonization, and the common front to be adopted by ALALC countries vis-à-vis third countries and international agencies. The adoption of resolutions on the granting of non-reciprocal tariff preferences by the ALALC countries to the Central American States and Panama was deferred, but general principles for concluding sub-regional agreements - such as the bases for a sub-regional agreement among the countries of the Andean group - were approved.

During the seventh regular session of the Conference of ALALC, a new round of negotiations was initiated, with the participation of Bolivia as a signatory State. At this session Venezuela concluded its negotiations with Argentina and Brazil, but those with Ecuador were postponed until the next session. Concessions were accorded for 939 products on the National Schedules. Of these, 832 were included for the first time, and further reductions were granted on the remaining 107, which had already been included in the liberalization programme. Most of the concessions related to chemicals and allied products, electrical machinery, apparatus and supplies, and machine-tools in general. Concessions not open to third parties were accorded for 532 products, 372 for Bolivia and 160 for Uruguay. As there was no agreement on the products to be included in the Common Schedule during the second round, it was decided to continue the negotiations at a special session, to be held in July 1968.

Regulations were adopted for applying the provisions contained in chapter VI of the Treaty, on saving clauses; norms were approved for sub-regional agreements; a complementarity agreement on chemical products

/was negotiated

was negotiated and signed; and negotiations proceeded for restoring the margins of preference affected by the restructuring of tariffs.

The Joint Committee of the group of countries signatories to the Declaration of Bogotá, with the addition of Bolivia, held several meetings, and adopted the bases for the formulation of a sub-regional agreement, which were likewise approved by ALALC. It also decided to set up the Andean Development Corporation, with responsibility for directly promoting the execution of projects of common interest and furnishing technical assistance therefor. A time-table was drawn up for meetings to be held in 1968, and a complementarity agreement was proposed for the petrochemical industry. A list was drawn up of the products on which all duties and restrictions must be removed before 31 December 1973, and commitments were established not only for co-ordinating investment in this sector, but also in connexion with the programme for harmonizing external tariffs, the application of saving clauses, and the rules governing origin and competition.

Internal disequilibria

Over and above their endeavours to speed up the growth of the domestic economy and cope with the vicissitudes of foreign trade, several countries of the region made efforts, as in previous years, to curb inflationary pressures. The strength of these pressures, measured in terms of changes in the corresponding cost-of-living indexes, varied widely from one country to another, and so did the degree of success with which anti-inflationary policies were applied.

Once again the highest indexes were shown by Argentina, Brazil, Chile and Uruguay, but their significance is different in each case if they are viewed in the light of previous trends. In Argentina, prices increased at a slightly lower rate than in the previous year (27 per cent, as against 30 per cent in 1966), which meant that indexes were higher than the average for 1960-65 (23 per cent), but lower than the 1955-60 average (37 per cent). In Brazil, the progress implied by the 26-per-cent rise in 1967 was striking in relation to the preceding year, when the corresponding figure had been 46 per cent, and still more marked in comparison with the situation in 1960-65. In contrast, Chile experienced a setback, since the consumer price index rose by 22 per cent as against 17 per cent in 1966, despite

the fact that several increases were deferred until January 1968, when they pushed up the index by 5.6 per cent. Thus the headway made in relation to earlier periods (1960-65 and 1955-60, when the average annual increases were 27 per cent and 32 per cent, respectively) was not as great as it might have been. In Uruguay, the rate of inflation had been gathering speed for several years, and had reached a high point in 1965. It dropped in 1966, when it was about 50 per cent, but subsequently the inflationary pressures were intensified to such a pitch that in 1967 the increase in internal price levels reached the unprecedented figure of 136 per cent (estimated on the basis of the December-to-December index variations in each case).

The group of countries where the inflationary process is or in recent years has been less rapid - which includes Bolivia, Colombia, Paraguay and Peru - showed varying results in 1967. In Bolivia prices increased slightly faster (by 8 per cent, as against 7 per cent in 1966). Colombia succeeded in appreciably reducing the rate of inflation, which fell from 14 per cent in 1966 to 7 per cent in 1967. Prices in Paraguay remained almost stationary in 1967, after having risen by 7 per cent in 1966. In Peru, on the other hand, the inflationary process quickened its pace, since the price increase was about 15 per cent, whereas it had fluctuated between 8 and 9 per cent in previous periods.

Other countries maintained the virtual price stability by which they are characterized. Thus, in Costa Rica, Ecuador, Honduras, Nicaragua and Mexico, rates of increase still fluctuated between 2 and 4 per cent, and stability was practically restored in the Dominican Republic after the significant price upswing (8 per cent) recorded in 1966.

Progress and setbacks in the provision of social services

In consequence of the sluggishness of over-all economic growth and the lack of major changes in income distribution patterns, the improvement in the levels of living of the population has been very slight. As a result, development policy in recent years has laid emphasis on the rapid expansion of the main social services. It was possible to formulate this objective in simple and politically attractive terms, and they did not encounter such stubborn opposition as is usually aroused by land reform

and income redistribution measures. Smoother and more rapid progress might therefore have been expected in this field than in the introduction of reforms.

In actual fact, the trends observable in the various countries and the different social service sectors are distinctly erratic. Some countries have raised their public expenditure for social purposes to levels that can be maintained only with great difficulty, while others - including some whose rates of increase of per capita income are relatively high - have kept their budget allocations for social programmes far below the amounts they could afford. Attempts to take account of the social sectors in over-all development planning have been attended by only moderate success, and the existing situation is the outcome of the competing pressures exerted by the various sectors of society in face of the instability and limited volume of budget resources. In this conflict of interests, in the region as a whole, social expenditure has fared so ill that it has only just held its ground against other types of outlay, as is suggested by the fact that the ratio between private consumption and public consumption - which latter includes the financing of social expenditure - has remained relatively constant.

In default of efficacious planning, the growth pattern of social programmes has been so strongly influenced by the demands of particular groups that they have been deflected from the pursuit of those aims - social justice and development of human resources - which were their original raison d'être.

To some extent, the demands in question stem from the very groups of professionals and civil servants which specialize in the various social services, as well as from those private enterprises whose markets depend upon sectoral programmes. As these groups have grown stronger they have found it easier to secure more adequate remuneration, while the rapid expansion of secondary and higher education and the private sector's limited capacity to absorb secondary school leavers and university graduates have stepped up pressure to increase the plethora of administrative personnel employed in many social institutions. Hence the frequent complaints that the rigid pattern of personnel expenditure leaves few resources available

/to meet

to meet other requirements which constitute the direct objective of the programmes concerned, and that capital investment for their maintenance and future expansion tends to be deferred. Among the pressures exerted by private enterprises, the most important are usually those deriving from the linkage between the building industry and housing programmes.

Claims are also urged by the social strata which have hitherto been the chief beneficiaries of educational, housing, health, and social security and welfare services. These are almost entirely urban population groups formed by workers and employees in the "modern" sectors of the economy, whose earnings enable them to defray some part of the costs of the services. Under the influence of various factors, including the schooling they have received, their aspirations grow too fast for fulfilment, and their capacity to absorb public-sector aid is almost boundless.

Lastly, there are also those much larger rural and urban strata which have derived only minimum benefits from the social activities of the public sector. In their case, urbanization and the spread of organizational patterns in rural areas are altering the significance of the "deficits" in educational, social security and welfare, housing and health services. As long as towns were small and the rural majorities were under the control of the great estates or of their own community systems, the obvious quantitative deficits were not reflected in real demand which exerted pressure on the public sector; but the commitments assumed by Governments to provide equitable social services for all have helped to bring such demand so much to the fore that it may become overwhelming. This new awareness of social rights has coincided, in the case of sizable population groups, with a real deterioration of levels of living and security of tenure in employment.

The State thus finds itself beset by pressures on two sides: those population sectors which already had access to social service benefits insist that they be increased, while potential recipients demand that they be made universally available. In these circumstances, all the social service sectors are faced by unsolved problems in respect of costs, content, and participation in over-all development policy.

/In the

In the field of education, the momentum gathered by the expansion movements which have been under way for some considerable time has made educational systems a key factor in the current processes of social change. The percentage of the total population enrolled in schools of all kinds has risen appreciably, although it is in higher and secondary education that the rate of increase has been greatest. Consequently, enrolment in primary schools, despite substantial gains, represents a smaller proportion of total enrolment than before. The share of public expenditure on education in total public expenditure and in national income has increased rapidly in some countries. In the meantime, however, there has been scarcely any improvement in the internal efficiency of educational systems, measured in terms of their capacity to retain students; and there is reason to believe that in several cases rates of retention have decreased in secondary and higher education.

Some of the countries where expansion has proceeded most rapidly are reaching a point at which they will be faced with a dilemma. The amount of public funds earmarked for education cannot be increased much further, and external aid has its own intrinsic limitations. Meanwhile, the expansion of primary and secondary education generates irresistible pressures for more higher-education facilities; while for several reasons educational costs may be expected to rise faster than enrolment.

From another standpoint, educational systems are often criticized on the grounds that they fail to do their best to promote the increase in production required for the satisfaction of their own growing demands, by providing vocational and professional training more directly in line with priority development needs. There is some relation between this state of affairs and such phenomena as dropping-out, the frustration experienced by secondary school leavers who are unable to obtain admission to the university, and the emigration of technicians and professionals. The inability of the system to distribute enrolment on lines better adapted to development requirements is aggravated by the fact that these requirements are not reflected in clearly-defined labour market demand, nor are they correlated with wages and working conditions.

In the aggregate, the current trends in the educational sector - determined by the inflexibility or instability of available resources - the pressures for expansion and the necessity of making a fuller contribution to development, seem to have positive as well as negative implications. On

the one hand, the quality of education tends to decline as the increasing numbers of pupils competing for school places are admitted at the cost of enlarging classes, establishing several shifts or reducing investment in equipment and textbooks. On the other hand, the tensions set up have stimulated critical analysis of educational objectives and methods, insistence on the problems relating to the internal efficiency of the system, and greater efforts to strengthen the links between educational planning and human resources programming in general. Thus, the stress laid on the expansion of resources is beginning to be superseded by emphasis on their more efficient utilization; the idea of reforming secondary education in order to diversify it and eliminate its pre-eminently academic bias shows signs of gaining ground; and the universities are starting to introduce new structures capable of meeting current development requirements.

Where health services are concerned, the data to hand are insufficient for an over-all evaluation of present trends in relation to the objectives set up at the beginning of the decade. It seems likely, however, that the increase in the expectation of life and the decrease in mortality rates are being maintained. Nevertheless, the rate of variation of the indexes in question has slowed down, as the results most easily obtainable - i.e., those deriving from inoculation measures and vector insect control - have gradually been achieved, and the public health services, with the broadening of their field of action, are coming to grips with the problems created by low nutrition levels and unsatisfactory environmental conditions. The provision of a piped water supply and the application of environmental sanitation measures in low-income urban areas, small towns and villages constitute a new, important and relatively burdensome stage in the campaign against those diseases whose impact on the death rate can be reduced by palliatives such as these, even if living conditions as a whole still leave much to be desired. Continuing features are the very marked concentration of hospitals and medical services in the big towns and cities, and the undue delays in organizing and staffing small clinics to serve rural districts and marginal urban areas.

Furthermore, the importance assigned to nutrition - a basic determinant of health levels - is not yet comparable to that attached to the social services concerned with other components of the level of living. Apart from the factors affecting trends in agricultural production for home consumption, official policy has not yet settled the dispute between pressures to raise agricultural prices

and pressures to keep down the prices of food; nor has it devised effective ways and means of amending marketing systems that are characterized by huge differences between the prices received by producers and those paid by consumers. In addition, the proportion of funds allocated to the maintenance or improvement of nutritional levels through direct distribution of food to low-income households and to the school population is still very small indeed.

As regards housing, in most countries the rate of construction has lagged behind the growth rate of the large towns, and inequitable income distribution still excludes a high proportion of the urban population from the market for such new housing units as are built. Moreover, the aggravation of the general instability of the situation of most of the rural population warrants the assumption that the already low levels of rural housing facilities have deteriorated still further.

Intentions of speeding up planned construction of low-cost housing, in order at least to prevent the housing shortage from becoming worse, were announced at the beginning of the decade, but generally speaking the results achieved seem to have been discouraging. The rate of public construction has fluctuated considerably, according to the status of public income and the intensity of the conflicting pressures which compete for its use, with the inevitable consequences: unfavourable effects on efficiency and employment in the building industry, and a sense of frustration on the part of thousands of households awaiting their turn to secure a dwelling. What is more, the difficulties encountered by housing programmes have deeper roots in the social and economic structures of the region. The urban population strata which are most urgently in need of housing facilities are also those whose income, as a rule, is too small and unreliable to meet amortization payments on "low-cost" housing unless undue sacrifices are made in other branches of consumption. This is one of the reasons why the hopes that a revolving fund for new construction projects could be established under national programmes have been disappointed.

Problems of this kind call for a conscientious re-evaluation of housing policy, with increasing attention to the potential function of millions of households that have tried to meet their own needs out of the limited resources at their disposal.

II. MAJOR SECTORS OF ECONOMIC ACTIVITY

Two main trends are discernible in the evolution of the sectoral product in 1967 for Latin America as a whole: a considerable increase in agricultural activity and a marked loss of dynamism in the manufacturing sector. Both agriculture and mining - including the extraction of petroleum - grew at an average annual rate of a little more than 4 per cent in 1960-65, levelled off in 1966 and picked up again in 1967, when their growth rates were 5.5 and 8.5 per cent respectively. In industry, on the other hand, this trend was reversed: the average annual growth rate of 5.7 per cent in 1960-65 rose to 6.4 per cent in 1966 and - mainly because of the evolution of this sector in Argentina and Brazil - dropped to 3.6 per cent in 1967. In construction, the 6.6 per cent rate obtained in 1967, although lower than the 7.7 per cent recorded in 1966, compares favourably with the average annual rate of 2.4 per cent in 1960-65. In services, where the growth rate was 4.6 per cent, there were no significant changes in relation to the previous five-year period.

1. Agriculture

The upturn in agricultural production in 1967 was largely due to the expansion of crop farming in Argentina and Brazil as a result of favourable weather conditions and a policy of incentives, including the establishment of support prices. An analysis of the situation by countries, however, reveals that there was little uniformity. In Colombia, Chile, Peru and Mexico, for example, the increases in 1967 were so slight that in most cases they failed to keep pace with population growth. The situation was even worse in Uruguay, where weather conditions were so unfavourable in 1967 that they caused a sharp drop both in the gross agricultural product and in the volume of production. In Central America, Costa Rica and Guatemala were the only countries which made any real progress in 1967. In Cuba, to judge by the figures published by the United States Department of Agriculture, there was an increase of as much as 20 per cent in crop farming production as such;

/this increase,

this increase, in conjunction with the relative stagnation of stock farming, would mean that the sector as a whole grew more than 15 per cent.

From the standpoint of individual commodities, in particular, 1967 was a period of recovery for most crops, and for livestock products it represented a continuation of the rising growth trend initiated in 1964. Particularly noteworthy was the expansion in dried pulses and cereals, the marked recovery in roots and tubers and the increase in the production of meat. The aggregate growth of these three groups of products led to a considerable improvement in the supply of foodstuffs in 1967 for Latin America as a whole and, in some cases, to the creation of surpluses.

The downward trend in oil-seeds reflected a sharp contraction after two consecutive years of growth. Production of natural fibres continued to decline, as it had done since 1965, partly as a result of competition from synthetics. Finally, total production of sugar in the region continued to remain stationary at levels well below those recorded in the boom year of 1965.

Despite the extremely competitive nature of the market, coffee and cocoa made a marked recovery from the low levels recorded in 1966, mainly as a result of the increase in coffee production, particularly in Brazil.

2. Mining

Preliminary figures indicate that gross mining production (excluding petroleum) rose slightly in 1967, with increases in sulphur, tin, bauxite and lead. Production of copper and zinc remained more or less the same as in 1966, and production of manganese, iron, gold and nitrate declined.

Among the factors determining this situation - which also affected the prices of some basic minerals - were the slower economic growth rate in certain Western European countries, the effect of certain technological innovations and competition from other producing areas, which took the form of a greater supply, particularly of tin, lead and zinc ore, on the world market. The increase in production was favoured by the continued heavy demand for war materials and the prolonged copper strike

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in the United States (resulting in a reduction of 700,000 tons in United States production of copper by the end of 1967), which also affected the lead and zinc markets.

Continued prospecting in the region led to the discovery of important new depostis: tin in Bolivia, copper in Argentina, sulphur in Guatemala and Mexico, bauxite in Surinam and iron at several places in Brazil and Mexico. In addition, work continued on the implementation of plans for expanding mining and investment, although not always as quickly as had been hoped. In Chile, programmes for developing copper production have been launched with an investment of 70 million dollars - out of a planned total of 500 million, which would double present output by 1972, - as have programmes for developing iron production, with an investment of 40 million dollars. In Peru, work is continuing on vast programmes for expanding copper production (under which it is planned to triple present output by 1974) and lead and zinc production, and is nearing completion as regards the mining of phosphates in the Sechura desert, at an investment cost of 100 million dollars. In Bolivia, work is continuing on the installation of a tin refinery and progress is being made in the production of zinc and sulphur.

3. Manufacturing

The lower growth rate of industry in Latin America in 1967 was also the result of widely varying trends in the different countries. The over-all index is very much affected by the development of industry in Argentina and Brazil, which together account for about 55 per cent of the value of manufacturing production in the region. Chile and Uruguay, two other countries which are relatively far advanced in the process of industrial development, also had somewhat discouraging results in 1967. In Chile, the increase in manufacturing output was very small in comparison with 1966, and in Uruguay absolute levels of production declined.

In both Mexico and Venezuela, where for twenty years industrial development has been steady and vigorous, the industrial growth rate in 1967 was higher than the over-all economic growth rate. These countries together accounted for more than one-fourth of total Latin American industrial production in 1967.

/The manufacturing

The manufacturing growth rate in Peru was slightly lower in 1967 than the average for 1960-65, and in Colombia it was lower than the over-all economic growth rate.

The industrial growth rates for 1967 in the remaining Latin American countries, considered to be economically relatively less developed, were slightly more than 6 per cent in the case of Guatemala and Nicaragua and topped 11 per cent in Costa Rica and the Dominican Republic. Industrial growth was particularly noteworthy in the Central American countries, mainly because of the stimulus provided by the Central American Common Market. However, the trends recorded in these countries have little effect on the rate for Latin America as a whole, since they account for only 7 per cent of total industrial production in the region.

In the different Latin American countries, industrial development varied a great deal from one branch to another. Generally speaking, considerable progress was made in the intermediate goods and metal-transforming industries (mainly the steel, chemical, pulp and paper, and motor-vehicle industries), while there was a tendency towards stagnation in the traditional industries. These were much affected by developments in Argentina, where industry underwent a fairly sizable contraction, particularly textiles, which declined 4 per cent in relation to the previous year.

As is pointed out in the analysis of the external sector, one important feature of industrial development in Latin America in 1967 was the increase in direct foreign investment in this sector, both as regards the establishment of new concerns and as regards increased participation in or purchase of existing manufacturing enterprises.

4. Electric energy

In 1967 generation of electric energy in Latin America totalled 115,000 GWh, which implied an average per capita consumption of 450 KWh. The increase in total generation in relation to 1966 was about 7 per cent, while generation of energy for public utility purposes expanded by 9 per cent, which meant that its growth rate was

relatively faster than that of generation by private plants. This made no difference, however, to the shares of the two groups in round figures, public utilities continuing to account for 80 per cent of total generation.

Generation of hydroelectric energy represented 52 per cent of the total, but in public utilities its relative importance was higher, reaching 59 per cent. Utilization of installed capacity was also greater in hydroelectric plants, where it amounted to about 4,500 hours, than in thermoelectric power stations, where it totalled only 3,300 hours. The corresponding figures vary considerably, of course, from one country to another; the predominance of hydroelectric energy is very marked in Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Peru and Uruguay.

Installed capacity for the generation of electric energy increased by only 3 per cent, mainly in hydroelectric plants. This raised the total to about 31,000 MW. So low a rate of expansion does not reflect a decline in construction, but the fact that relatively quite modest proportions of the new capacity programmed were actually brought into service. To judge from the projects whose construction is well under way, plants with a capacity of more than 5,500 MW will be put into operation between 1968 and 1969, and during the following five years, approximately, between 13,000 and 14,000 MW are scheduled for installation. Thus, within a period of six to eight years, the electric power available for public utility purposes in Latin America should be practically doubled. Since a large proportion of the plants in question - under construction or projected - are hydroelectric, there will presumably be a substantial increase in the preponderance of hydroelectricity.

The expansion recorded in 1967 was effected primarily in Brazil, Colombia and Mexico, and on a smaller scale in Peru and Argentina.

In Central America, and in the countries of the southern zone of South America, the study of electricity interconnexion projects

/continued, and

continued, and they may begin to be put into execution fairly soon. More striking progress has been made in the formation of much bigger networks in some of the other Latin American countries, notably Brazil, Colombia and Venezuela. Public-utility installed capacity in interconnected systems has already reached a relatively high level in several countries, and is expected to increase during the next five years with the addition of major projects thanks to which the work of interconnexion can be promoted or consolidated.

At the present time, the proportion of installed capacity concentrated in public utilities under the form of one main supply system is over 90 per cent in some countries (El Salvador, Nicaragua, Chile, Uruguay) and between 70 and 80 per cent in several others (Costa Rica, Panama, Guatemala, Honduras). In Argentina, the Greater Buenos Aires network accounts for 64 per cent of the total, and in Brazil a similar percentage corresponds to the Centro-Sul system. In Mexico, the central network represents 44 per cent of the national total.

5. Petroleum

In 1967 production of hydrocarbons in Latin America showed an increase of approximately 7 per cent, which was unevenly distributed over the two halves of the year. The hostilities in the Middle East, with their serious repercussions on the world petroleum trade, strongly influenced the position of Venezuela, Latin America's leading producer and exporter. During the first six months of 1967, the production increment was tiny (about 0.5 per cent), but it reached nearly 10 per cent in the second half of the year, giving an average of 5 per cent for the year as a whole.

In the other Latin American countries, in the aggregate, an expansion of more than 10 per cent was recorded for the whole of 1967, although the figures differed from one country to another. For example, the increase in Argentina's production was close to the average; the expansion was very marked in Bolivia and Brazil, and more modest in other countries; while in yet others, in contrast, production remained stationary or declined.

/The increase

The increase in refining of crude oil, both domestic and imported, was normal; up to a point, imports of crude superseded those of petroleum products. External purchases of crude petroleum and petroleum products in the aggregate remained close to their 1966 level, but fell off in certain countries, such as Argentina and Brazil.

The growth of exports was most marked in Venezuela and Bolivia. Other exporter countries have not yet completed major projects for transport facilities to link up the rich oilfields recently discovered with the Pacific coast. The expansion of exports, however, is generally attributable to fortuitous circumstances, as can be seen from an analysis of the markets of destination of shipments from Venezuela. In absolute terms, the volume of Venezuela's exports to the United States remained virtually unchanged, but its sales to the European Common Market countries increased by 34 per cent, and those to Canada by 29 per cent.

Domestic consumption expanded by about 7 per cent; for natural gas alone, the figure is higher still, which indicates how steadily it is replacing other forms of energy.

Exploration and drilling activities were not very brisk. It is worth noting, however, that exploration of the sea-bed off the coasts of many Latin American countries was continued. There are grounds for the belief that these efforts will shortly lead to important discoveries. Work is also proceeding on the demarcation of the oilfields found on the eastern slopes of the Andes.

One of the outstanding events of the year was the promulgation of a new hydrocarbons law in Argentina which earmarked large reserve fields for the State enterprise, while at the same time it introduced a more liberal system for the exploration and development of new areas. In Venezuela, the legislation on hydrocarbons was reformed, with the aim of enabling public bodies to conclude agreements with private firms, including arrangements for the formation of semi-public companies. Further and apparently final efforts were made in Peru to regularize the development of the Brea and Pariñas oilfields, currently in litigation.

/6. <u>Transport</u>

6. Transport

The different branches of transport in Latin America were characterized in 1967 by a number of institutional developments and by the expansion of the infrastructure.

(a) Shipping

The regional shipping companies' plans for pooling their efforts in order to provide joint services on a region-wide basis have failed to advance beyond the stage of talks. A special committee set up by ALALC prepared a draft body of regulations for the Water Transport Agreement concluded between the ALALC member countries at the end of 1966. Owing to differences of opinion among them, Mexico is the only country to have ratified the Agreement so far. However, some regional lines have already begun to expand their services among the signatory nations, in anticipation of its enforcement.

The gross tonnage of the shipping fleets owned by the ALALC countries rose from 4,593,685 tons at the beginning of 1966 to 4,714,697 tons in January 1967, that is, by 2.5 per cent. The increment was greater for dry-cargo boats (3 per cent) than for tankers (2 per cent). The merchant fleets of the different ALALC countries increased as follows: Brazil, 4 per cent; Colombia and Ecuador, 17.2 per cent; Peru, 41.7 per cent; Uruguay, 2.9 per cent; and Venezuela 2.6 per cent. There was a decrease in the fleets of Argentina, Chile and Mexico, while Paraguay's tonnage remained the same. Although the Peruvian shipping fleet has made striking progress, the Latin American merchant fleets as a whole are still too small for any appreciable change to take place in the proportion of reciprocal cargo they can carry.

(b) Land transport

The meeting of American Chiefs of State in 1967 laid renewed stress on the need to complete the preparatory studies and forge ahead with the construction of the international highways (the Darien Gap, the Carretera Marginal de la Selva, the Carretera Transversal Panamericana, and the Amazon-Pacific road link, etc.). Progress was made with national plans for expansion and improvements. In Argentina, for instance, road-building showed a cumulative increase of 9.3 per cent in paved roads (1,357 km) and

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of 6.8 per cent in foundation work and improvement of surfaces (597 km). These are the highest figures achieved under the road plan that was started in 1959. In Colombia, the cumulative increase was 4.2 per cent (1,800 km) in 1966, covering national and departmental highways, and municipal and other roads.

By the end of 1966 Brazil had a federal road network 36,987 km in length, of which 13,603 km were paved. In 1967, a further 2,719 km were built, 1,016 km were paved, and 4,000,163 m^2 were repaired. This indicates that the same tempo of growth was maintained as in past years.

During the first nine months of 1967, 559 km of new road were built in Venezuela, 338 km were rebuilt and improved, and 698 km were paved or repaved. By the end of 1966, there was a road network of 34,976 km, but only 12 km of foundation for motorways had been laid.

In Mexico the growth rate of the road network was much the same as in other years, with the construction of earth works, resurfacing and paving over 7,024 km, mostly of State highways.

(c) Rail transport

In 1967, on the whole, less freight was carried than in 1966, except in Mexico where the volume of goods traffic was the same in absolute terms. The number of traffic units increased in Colombia and Mexico but was reduced in Bolivia. In Bolivia, Paraguay and Uruguay, the average distance covered was greater than in 1966, but in Mexico it was less. Passenger traffic declined, except in Bolivia and Mexico, where the same number of passengers was carried as in 1966. Owing to the serious problems caused by the slowness of the rail services and the operational deficit, the railways are being increasingly integrated with road transport, and more use is therefore being made of containers and the piggy-back system.

(d) Air transport

While in 1966 a growing number of Latin American towns were linked by direct air services to the United States, in 1967 there was an increase in the direct flights by jet plane to such European cities as Lisbon, Madrid and Paris. Two new airlines - PAISA in Panama and SIM in Surinam - were started and tourist rates were introduced on new routes. Demand for air transport in Latin America during 1967 was about 1,420 million ton-kilometres,

/11 per

11 per cent more than in 1966. Work also continued on the modernization of the air fleet; between 1965 and 1967 the proportion of piston-engine aircraft shrank from 90 to 80 per cent, and aircraft of that type were used mainly as domestic carriers. In 1967, the number of jet aircraft was stepped up from 53 to 75 and that of turbo-prop planes from 96 to 106. Mexico, Brazil, Argentina, Cuba and Puerto Rico accounted for the bulk of the purchases, and Costa Rica and Nicaragua added the first jet aircraft to their airlines.

As regards the infrastructure, new airports with modern terminal facilities were built at Jujuy (Argentina), Concepción (Chile) and Cuzco (Peru), and work was completed on the new terminals in the airports of Port-au-Prince (Haiti) and Guadalajara (Mexico). With respect to the flight information services specified for Latin America in the regional plans of the International Civil Aviation Organization (ICAO), air traffic control in the Caribbean area has been completely reorganized.

III. RECENT TRENDS IN SELECTED COUNTRIES

ARGENTINA

The development of the Argentine economy in 1967 was mainly characterized by sizable increases in over-all fixed investment and agricultural production, but manufacturing was inclined to stagnate. In the external sector, imports remained at levels comparable to those of 1966 and international reserves rose considerably. There was also an appreciable increase in tax revenue, while the cost-of-living index climbed 27 per cent. Furthermore, economic policy was reshaped by a number of measures taken at the beginning of the year in tax, tariff, exchange, export promotion and other fields. Finally, the gross domestic product expanded at the rate of about 2 per cent in real terms.

Agricultural activities increased 5.3 per cent as a result of a sharp rise of about 10 per cent in crop production, and a slight drop - 1 per cent - in livestock output. The former was largely due to a 16-per-cent increase in wheat production, following the expansion of the wheat-growing area, and of a 21-per-cent rise in maize output thanks to higher yields. The fishing catch decreased approximately 5 per cent, but mining and quarrying activities were stepped up by 10 per cent, with the emphasis on coal and petroleum. Most of the major branches of manufacturing remained at roughly the same level as in the previous year. There were reductions of 4 and 3.2 per cent in textiles and electrical machinery respectively, but these were counterbalanced in the general index by the increase of 11 per cent in other branches, such as stone and gravel, glass and pottery production. The level of the aggregate index was almost the same as in 1966 (-0.4 per cent).

Public sector trends were distinguished by a sizable increase in tax revenue stemming from a blanket increase in prices, which raised the tax base, higher export duties as a result of devaluation, the establishment of new taxes on urban and rural real estate and non-essential consumer goods, and the improvements in the administrative machinery of tax collection.

/Aggregate consumption

Aggregate consumption rose by 1.9 per cent. In private consumption, sales of household goods increased while those of food, clothing and motor vehicles declined. The gross domestic product went up by 5.2 per cent, with increases of 6 and 10 per cent in private and public construction and of 12 per cent in machinery, but there was less investment in transport equipment.

The value of exports has changed very little since 1963. Provisional Central Bank estimates place the value of goods at 1,485 million dollars. This was 6.7 per cent lower than in 1966 but much the same as in 1965. The decline was mainly due to reduced sales of grains, wool and, to a lesser extent, meat, partly offset by larger exports of maize. Imports remained at their 1966 value, with an increase of round 8 per cent in capital goods and a decrease in fuels owing to the growth of domestic production. Thus, the trade account again closed with a credit balance in 1967 of some 365 million dollars (as against 469 million in 1966), and the current account showed a surplus of 180.8 million dollars after the movement of foreign exchange under the head of invisibles had been deducted. The international reserves were built up to exceptional strength, since, by the end of 1967, the Central Bank's gross holdings totalled 754.2 million dollars, or three times the annual average in 1962-66. Amortization payments that fell due in 1967 on loans to the public and private sector amounted to 410 million dollars. There was a net inflow of 94.7 million dollars in compensatory capital and of 253 million in non-compensatory capital. As regards direct investment, the number of authorized operations increased and large amounts of foreign capital were invested in national concerns.

Wholesale prices rose by 20.6 per cent between the end of 1966 and December 1967, and their main components followed suit, with the exception of imported items, which climbed 31.2 per cent. The cost of living rose still higher (27.4 per cent), owing to the heavy incidence of perishable and seasonal foods, the prices of which rose even higher.

/Important economic

Important economic policy decisions were taken in the course of the year. In the first place, the exchange market was freed, and an official exchange rate of 350 Argentine pesos to the dollar was established. This represented a devaluation of 40 per cent. At the same time, a tax was levied on traditional exports to absorb the bulk of the additional revenue in local currency accruing from the new exchange rate, and tax revenue rose considerably. A tariff reform to reduce the level of import duties was also introduced, with the twofold aim of lessening the impact of devaluation on import prices and of forcing domestic industries to become more competitive. Nominal wages were frozen until the end of 1968, after an adjustment to restore them to the real level they had been fixed at when each wage agreement was last renewed.

BARBADOS

Barbados, which has recorded a steady economic growth of 5 per cent in the last few years, maintained that rate in 1967. This was due mainly to the evolution of the external sector, which plays an important part in the economy.

Sugar exports - which represent about half total exports and whose prices are largely negotiated within the British Commonwealth - rose again in 1967 as a result of the increase of some 200,000 tons in the volume of production. Imports grew more rapidly, as in previous years, and this accentuated the trade deficit. This deficit is being covered mainly with remittances of foreign exchange received from emigrants - which are beginning to decline - and income from tourism.

The expansion of the main economic sectors is still too modest to absorb the increasing number of inhabitants of working age, a particularly significant fact if it is considered that the 1960 census showed an unemployment rate of 12 per cent. The situation has been aggravated recently by the slowing down of emigration owing to the restrictions imposed by the United Kingdom, the United States and Canada on the entry of immigrants from Barbados.

BOLIVIA

The steady economic growth rate Bolivia had maintained since the beginning of the decade (an annual increase of 5 to 6 per cent in the gross domestic product) continued in 1967. Its significance in terms of real income, however, was less than in previous years owing to the decline in prices of tin and other metals, following the striking improvement they had been showing.

From a different standpoint, it was also the result of opposing factors in both domestic production and the external sector. Adverse weather conditions, which particularly affect the traditional crops of the Altiplano and the valleys, caused a contraction of agricultural output. Conversely, manufacturing expanded considerably, and construction even more. The favourable evolution of industry was the result of improvements and expansions effected since the promulgation of the Investment Law, and of the larger volume of resources channelled through the Investment Development Institute and the Bolivian Development Corporation. The upturn in construction was due to the fresh stimulus given to private building, after a long period of semi-stagnation, by means of housing programmes financed by savings and loans associations and the National Housing Corporation, and to the continuation of a number of government-financed infrastructure works.

In the external sector, the drop in tin prices was more than offset by the upsurge of petroleum exports, which can be largely ascribed to the expansion of the activities of foreign enterprises. Moreover, two new oilfields were discovered, and a start was made on the exploitation of the substantial gas deposits. Imports rose once again, though more slowly than exports. Even so, the balance-of-payments deficit on current account was bigger than the previous year (about 45 million dollars), but this time it was largely due to remittances of profits by foreign firms (15.9 million dollars in 1967 compared with less than 1 million in 1966), a fact which is closely associated with the sharp rise in petroleum exports. The deficit was covered by means of larger inflows of foreign capital, official transfer payments (lower than in 1966) and drawings on international reserves.

/Price increases

Price increases continued at much the same pace as in previous years (about 8 per cent annually), the sharpest rise being in food prices (11.2 per cent at La Paz). Under the consequent pressure to improve wage levels, the Government has endeavoured to make wage increases conditional upon increases in productivity.

A noteworthy feature of long-term development policy is the progress achieved in linking Bolivia with the Latin American economic integration systems. At the end of January, the Government deposited the instrument of accession to the Montevideo Treaty, whereby after thirty days Bolivia became the eleventh Contracting Party of ALALC. It also joined the ranks of the States signatories of the Declaration of Bogotá (Chile, Colombia, Ecuador, Peru and Venezuela) and the River Plate Basic Group (Argentina, Brazil, Paraguay and Uruguay).

BRAZIL

An over-all review of the trends followed by the Brazilian economy in 1967 reveals the following main developments: a significant increase in agricultural and mining output, the relative stagnation of industry, a sharp reduction in the rate of price increases, a deficit once again in external transactions, and a deterioration in the financial position of the public sector. The economic policy aims of the new Government which assumed power in May 1967 seem to involve a somewhat new approach in anti-inflationary strategy and to place more emphasis on the fundamental objective of boosting economic activity.

According to very provisional estimates, the gross domestic product increased by about 5 per cent in 1967. This reflects a high rate for agriculture (9.6 per cent) and a relative stagnation in manufacturing (1.8 per cent). Thus, once again, contrasting changes have taken place in agriculture and industry, the global rate in 1966 being the result of a recession in agricultural activities and a decided increase in manufacturing. The extractive industries continued to expand vigorously (by over 12 per cent), the increase in construction was much the same as in the previous year (about 6 per cent) and production of electric power went up by little

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over 5 per cent, that is, more slowly than in 1966. The favourable evolution of agricultural output, determined mainly by crop farming proper, was largely due to highly propitious weather conditions, especially in the Nordeste and Centro-Oeste areas, and the minimum price policy established in September 1966. Conversely, the metal-working industry reflected contractions in the main dynamic sectors (metallurgy, metal-transforming and production of transport equipment), a virtual standstill in the manufacture of electrical equipment and in the chemical industry, a sluggish growth of production in the consumer goods sector (slower than the population growth in the case of textiles) and a sustained rate of increase in the output of paper. The high index for mining is determined primarily by a 20-per-cent increase in petroleum output; the production of coal also expanded appreciably, while that of iron ore, and more especially manganese, contracted.

Steps were taken to give a fresh impetus to industry, in particular, to raise the depressed levels of activity recorded in the first quarter of 1967, through a policy of monetary expansion. In contrast with the trend in 1966, the means of payment increased more rapidly than prices, and the more fluid liquidity position greatly benefited the private sector in the form of an increase in real credit.

It was possible to combine this expansionist policy with really positive results in the efforts to contain inflationary pressures, since the rise in the cost-of-living index dropped from a rate of 30.8 per cent in 1966 to 17.5 per cent in 1967, and that of the wholesale price index from 25.1 to 14.4 per cent. Wage policy followed the same pattern as the year before: in direct negotiations between employers and employees, or when national labour laws were invoked, upward adjustments which averaged not more than 20 per cent were authorized. Government employees had already been given the same increase at the beginning of 1967 and are expected to receive a similar pay rise in 1968.

As regards the fiscal position, the expenditure deferred from the previous financial year and the over-estimation of current revenue - especially from income tax - led to a marked disequilibrium. The budget deficit in 1967, which had been estimated at slightly over 800 million new cruzeiros (at 1966 prices), was already 1,200 million cruzeiros in August and would be even higher for the whole year, despite the reductions introduced during the course of the year amounting to some 600 million cruzeiros.

/In 1966

In 1966 current external transactions, which had closed with a surplus in the two preceding years, showed a deficit of 70 million dollars, and this rose to 310 million in 1967. The situation in the past year is attributable to a drop of about 6.4 per cent in exports (from 1,741 million to 1,630 million dollars) and to a rise of 7.4 per cent in imports (from 1,303 million to 1,400 million dollars). Exports, which had expanded vigorously in 1965 and 1966, owing mainly to increased volumes of non-traditional items, were affected in 1967 by the fall in the unit prices of coffee and by a severe contraction in the sales of products such as cotton and rise, although exports of manufactures continued to rise. Imports, on the other hand, which had been at very depressed levels up to 1965, increased substantially in 1966 and continued to expand in 1967. This was the result of a more liberal import policy, and probably, in particular, the linear reduction of customs duties imposed by the new tariff of March 1967. The capital account shows declines in direct foreign investment (from 170 million dollars in 1966 to 130 million in 1967) and in credit from foreign financing agencies (from 260 million to 180 million dollars). Debt service payments were also lower (447 million dollars in 1966 and 369 million in 1967), but there were increases in the balance of other liquid capital movements (from 43 million to 282 million dollars) and in drawings on international monetary reserves (from 43 million to 91 million).

The broad lines of Brazil's economic policy were defined in a document published by the Ministry of Planning in July 1967, the declared aim being to maintain a minimum annual growth rate of 6 per cent for the gross product. In the initial phase, it is hoped to attain that rate by making better use of existing capacity, and in the ensuing phase by intensifying investment in priority sectors, improving production methods and strengthening human resources. The specific lines of action for the private sector are based on an increase in the liquidity of enterprises, a slowing up of the growth of costs and an expansion of demand, and for the public sector, on careful investment programming, increased efficiency and a cut in government expenditure.

CENTRAL AMERICA

In 1967 the over-all growth rate of the Central American economy slowed down for the second year running, mainly because of the drop in exports and the stagnation of agricultural production for the home market in most of the countries in the area; in contrast, a relatively high rate of industrial production was maintained and intra-area trade continued to expand rapidly. Preliminary estimates indicate that the gross domestic product for the area as a whole rose little more than 4 per cent, as against 5 per cent in 1966. In four of the Central American countries the increase in the gross domestic product barely exceeded population growth, with a consequent levelling off of real per capita income. This contrasted with the relative boom enjoyed by most of the Central American countries in the first half of the decade, when the gross domestic product for the area had a cumulative annual growth rate of nearly 7 per cent.

The decline in output of cotton and coffee in the crop year 1966/67 and the 11-per-cent drop in coffee prices resulted in a reduction of more than 6 per cent in the total value of Central American exports to the rest of the world in 1967, despite the slight recovery in the price of cotton (2.3 per cent) and an appreciable increase in the volume of banana exports.

The downturn in the external sector was most apparent in the cotton-producing countries, particularly Guatemala and El Salvador, where the volume of fibre exports dropped considerably. In Nicaragua the decline in cotton exports in 1967 was only slight, but because of the drop in 1966 the total value of cotton exports in 1967 was 15 per cent less than in 1965.

The greater volume of coffee exports helped to offset the drop in prices, except in Guatemala, where the price reduction coincided with a substantial decrease in the volume of sales. This, together with the smaller cotton exports, meant that the drop in the total value of Guatemala's exports to the rest of the world (22 per cent) was the largest in Central America.

In Honduras the increase in exports in 1967 was only slight, and this slowed down the high rate of growth in the previous three years brought about by the expansion of banana production. Although small, the

/increase in

increase in banana exports in 1967, together with the greater exports of meat, was sufficient to make up for the foreign exchange lost as a result of the decline in the volume of cotton exports and the drop in coffee prices. The weakening of exports and the decline in agricultural production for the home market were the factors determining the slow growth of the Honduran economy, which in 1967 did little more than keep pace with the increase in population.

In contrast with the rest of Central America, Costa Rica enjoyed favourable weather conditions, and this gave rise, for the third year running, to a considerable increase in agricultural production, both for export and for the home market. The greater volume of banana and coffee exports more than made up for the drop in prices of both products. In addition, private investment, stimulated by the increase in income and in intra-area trade, rose almost 10 per cent. The result was that the Costa Rican economy grew more than 8 per cent in 1967, which is double the growth rate for Central America as a whole.

Intra-area trade maintained its high growth rate in 1967 (25 per cent) and thus helped to attenuate the depressive effects of the weakening of the external sector in most of the countries. The expansion of demand and the process of import substitution in each country continued to provide a powerful stimulus to manufacturing. The growth of the manufacturing product in Central America was about 8 per cent, which was similar to the rate recorded in 1966. The rates of growth were satisfactory in all the countries, although in El Salvador and Nicaragua the downturn experienced in 1966 persisted.

As a result of the decline in foreign exchange earnings, there was a further weakening of capital formation. It is estimated that in Central America as a whole gross investment grew less than 6 per cent in 1967, as against 7.5 per cent in 1966 and 10 per cent in 1965. This reflects a slight downturn in private investment, apparently due to a contraction of building activities in some countries and to reduced investment in the cotton sector. Investment in manufacturing, on the other hand, seems to have remained as dynamic as in previous years in almost all the countries of the area.

/Public investment

Public investment declined in 1967 for Central America as a whole, as a result of the contraction in El Salvador and, to a lesser extent, in Nicaragua. In the rest of the area, the fact that greater external financing was available to the public sector made it possible to improve on the low levels of investment of previous years.

Apart from the limitations of external financing, there seems no doubt that the main factor restricting public investment in recent years has been the inability of the tax systems in the different countries to generate sufficient domestic savings. Despite the measures adopted in some of these countries, the fiscal situation has deteriorated in the last two years as a result of lower export earnings. In four countries the savings generated by the Central Government have dropped well below the 1965 levels, while in Costa Rica tax revenue is still insufficient to cover current government expenditure.

In view of the ineffectiveness of the tax instrument, the policy of curbing domestic consumption and imports relied, in most of the countries, on monetary or credit measures. All the countries, except Guatemala, succeeded in moderating the increase in imports from the rest of the world. In Guatemala, increased purchases abroad accentuated the deterioration in the balance of payments on current account caused by the drop in exports.

The other Central American countries also had a larger deficit on current account as a result of the decline in traditional exports, the deterioration of the services account and intra-area trade imbalances. Net capital inflows were sufficient to finance most of the deficit, except in Nicaragua and El Salvador, which were forced to draw heavily on their international reserves.

COLOMBIA

The growth pattern of the Colombian economy during the year 1967 was characterized by the progress made in reducing foreign trade imbalances, improving public finances and controlling inflationary pressures. These stabilization efforts did not preclude a moderate increase in the domestic product, which rose by a little over 4 per cent.

/Current income

Current income from exports of goods and services was higher than in the preceding year, although the 1964 and 1965 levels were not regained. This improvement is attributable to a considerable increase in the volume of coffee exports - which offset the continued downward trend of coffee prices - and to the favourable evolution of what may be termed minor exports. Nevertheless, the effort to reduce the deficit on current account, which had been sizable in previous years, was reflected in a curtailment of imports, based on the exchange control régime brought into force in November 1966. In consequence of this economic policy, the foreign exchange situation was considerably eased, since the export earnings surrendered to the central bank increased, and so did the inflow of capital - partly through the repatriation of deposits held by Colombians abroad -, while short-term credit liabilities were reduced.

The exchange law promulgated in March 1967 established two types of markets - one for exchange certificates and one for capital - instead of the three that had previously existed. In the first of these, export earnings are exchanged for a certificate which is freely negotiable, although for the time being it can be endorsed only by authorized credit institutions. Transactions on the capital market relate to imports brought in through free ports, invisibles, purchases of gold, external loans not assigned to the exchange-certificate market, and imports of capital. It is hoped that through this machinery the exchange problem can be solved without recourse to an abrupt devaluation, by gradually establishing a better-balanced exchange rate. Thus it is hoped to prevent the flight of capital, encourage foreign investment and make efficient use of the foreign exchange available, through various mechanisms for which provision is made in the law, such as an export promotion fund.

The tax reform - decreed with the primary aim of controlling evasion and fraud - helped to boost public revenue, which was 15 per cent higher than in the preceding year, to judge from the figures for January-September. Public expenditure increased at a similar rate, but there was a marked shift in favour of investment outlays.

/Despite the

Despite the relatively slow growth of domestic supply and the decrease in exports, the rate at which prices rose was considerably reduced, falling to 7 per cent, which compared favourably with the 14 per cent of the previous year.

The determinants of the increase in the product were growth rates of 4.5 per cent in agriculture and about 4 per cent in industry and services. Lower rates of expansion were recorded in mining and construction.

The crop farming situation was adversely affected by the damage to the coffee crop resulting from the exceptionally heavy rains at the end of 1966, and the development of stock farming was relatively modest; on the other hand, in the case of staple items in the consumption of the lower-income groups - maize, wheat, potatoes, rice and sugar - harvests were satisfactory, and this helped to keep the upward movement of prices within reasonable bounds. Generally speaking, trends in mining were unfavourable. Petroleum production declined slightly in relation to the previous two-year period, but a policy of incentives was applied, and it is reported that sizable reserves have been discovered near the Ecuadorian border. It should be added that the contraction of imports had a restrictive effect on industrial expansion, and that construction hardly expanded at all, notwithstanding the increase in public works and the incentive to house-building afforded by the issue of adjustable bonds at constant value.

CHILE

Compared with the two preceding years, the characteristics of the Chilean economy in 1967 were a lower rate of growth and increased inflationary pressures. The domestic product rose by 3 per cent, as against 5 and 6.6 per cent in 1965 and 1966, while the cost-of-living index, which had risen by 17 per cent in 1966, climbed by 21.9 per cent.

These trends were partly due to the difficulty of maintaining the former rates of growth when the gains made in the external sector were being whittled away and the other development policy measures took the form of long-term projects which could not be expected to yield full results for some time.

/The first

The first factor is clearly reflected in the foreign trade figures. Between 1964 and 1966, exports of goods and services rose in current value from 680 to 990 million dollars, thereby considerably expanding the capacity to import. In 1967, the increase in their value was very slight. Copper exports rose because the effects of the strike in the United States offset the anticipated reduction in demand in the industrialized countries. Although quotations dropped on the London market, the average price of copper was higher than in 1966, when it was brought down by some sales at the price prevailing on the United States domestic market. However, part of the increase in copper earnings in 1967 was cancelled out by the decline in other Chilean exports, including processed goods (mainly fish meal and copper products).

In contrast to the relative stagnation of export trade, imports increased again under the spur of domestic demand, although less than in previous years (round 6 per cent). The bulk of the increase consisted of capital goods, mainly for the development of large-scale copper mining, since imports of raw materials and consumer goods remained at much the same level as in 1966. The result of the expansion was an increase in the deficit on current account. Coupled with larger transfers of profits from foreign companies - which amounted to over 215 million dollars as against 185 million in 1966 - this made it necessary to step up net external financing and to draw nearly 30 million dollars net from the country's international reserves.

Side by side with the weakening of the external sector, the growth rate of certain domestic sectors of activity also slackened off. That of agriculture, which was particularly important because of its repercussions on prices, rose by only 3 per cent in comparison with 7.6 per cent in 1966. This reduced the pace at which domestic supplies of basic consumer goods had been expanding in the preceding two-year period, largely owing to imports, whereas wages and salaries continued to rise. The inflationary pressures that were set up as a result acquired added impetus from the devaluation of the exchange rate, - which, although it was effected by easy stages, amounted to nearly 32 per cent for the year as a whole - and to some extent from the policy of incentives for agricultural production, which aimed at improving the real prices of various commodities.

Control of the price spiral thus became the main concern of short-term economic policy. Monetary policy became more restrictive, and public

expenditure, which had risen by leaps and bounds in 1965 and 1966, was also curtailed somewhat.

The loss of buoyancy in domestic demand, the stockpiling that had taken place in previous years and long-standing labour disputes were also factors that affected manufacturing; the volume of production rose by only 2 per cent, in comparison with 7.5 per cent in 1966. One of the most adverse factors was the fresh reduction in house-building, which meant that the building materials industry was hard hit. Employment figures, which had risen by 54,800 between July-October 1966 and November 1966-February 1967, dropped by 12,000 between the latter period and March-June 1967. The relative importance of these changes should, however, be assessed in the light of the decrease in the number of workers in the 12 to 19 age-groups in the labour force, owing to the fact that those age groups are staying longer at school.

Despite the immediate difficulties, noteworthy efforts were made to lay the foundation for future structural changes in the country's development pattern by means of projects which, by their very nature, are slow to yield results. They were concerned, in particular, with agricultural policy and land reform, the growth and diversification of exports and the development of social services, particularly education.

In 1967 the land reform act was passed. This will facilitate and continue a process whereby, up to the end of the year, 1.25 million hectares had been expropriated and more than 8,000 farm workers' families settled on the land. Other restrictions and incentives are also being applied to expand or reorganize agricultural production, including the establishment of a limit on cattle slaughtering and support for livestock products of different kinds, in order to build up the herds.

Strong encouragement was given to investment in large-scale copper mining programmes aimed at substantially increasing production. In addition, the country was encouraged to participate fully in the schemes for Latin American economic integration, and particularly the sub-regional agreement between the Andean countries, whose first specific result was the creation of the Andean Development Corporation (Corporación Andina de Fomento).

Expenditure on education grew by 66 per cent in real terms between 1964 and 1967, with the result that there was a substantial rise in enrolment. Steps were also taken to improve the efficiency of the educational system, and there was an increase in State aid to universities.

DOMINICAN REPUBLIC

The economy of the Dominican Republic, having made up in 1966 most of the sharp declines in the indexes of economic activity resulting from the political situation in 1965, has once more resumed a slow rate of growth, the absolute levels in 1967 being generally comparable to the 1964 levels. Thus, 1967 was a period of readjustment and re-establishment of normal economic relationships, in contrast with the pronounced fluctuations of the previous years, particularly as regards the fiscal situation, the external sector and inflationary pressures.

Public expenditure, which had increased by 36 per cent in 1966, rose only 5 per cent in 1967. There was also a downward trend in current expenditure, as a result of the restrictions imposed on the purchase of goods and services and of the reduction in transfer payments. These income and current expenditure trends made it possible to increase the surplus on current account and to expand central government investment.

In the balance of payments there was a reversal of the 1966 trend, with a slowing down of the growth rate of imports and an increase in that of exports. There was a growth of more than 12 per cent in exports increases, being recorded in exports of sugar - mainly to the United States market - and cocoa, and a decline in those of coffee. Imports grew barely 6 per cent, as against 33 per cent in 1966, as a result of restrictions on the use of suppliers' credit and the imposition of customs duties on certain foodstuffs formerly imported duty free.

Despite the slower growth of imports and the small increase in agricultural production, the rise in domestic prices was held down to a considerable extent by means of an anti-inflationary policy which included such measures as the restriction of credits to the public and private sectors.

The results were not quite so favourable as regards the growth of the domestic product, which was probably as little as 3 per cent.

/One of

One of the reasons for this was the drop in production of certain major agricultural items. This decline was most pronounced in production for the home market, since there was a drop in the production of maize, potatoes, yuca, sweet potatoes and peanuts, but little change in that of the other products, while in production for export there were declines in cocoa and tobacco but increases in sugar and coffee.

The industrial sector, on the other hand, once again underwent rapid growth and surpassed the figures reached in 1964, progress being particularly pronounced in the food-processing and beverage, textile and metallurgical industries. This improvement was achieved by greater use of installed capacity and greater public investment, which had far-reaching effects in this sector. In 1967 there was also greater activity in mining, electricity and services in general, but less in construction, one of the sectors which was most affected by the 1965 crisis and which reached its peak recovery levels in 1966.

ECUADOR

The reactivation of the external sector and the expansion of public-sector activities were salient features of Ecuador's economic development in 1967. Through the operation of these and other factors, the domestic product increased by approximately 6 per cent. The progress made in the preceding year was thus improved upon and the slow growth rate recorded in 1960-65 was far outstripped.

In 1966, exports of goods and services had expanded very little (by 2 per cent in terms of current values) and imports had undergone a slight contraction, owing to the relative stagnation of external purchasing power and to the restrictions applied with a view to stabilizing the balance of payments. The year 1967 witnessed an increase in sales of Ecuador's three staple export products - coffee, cocoa and bananas - and in other non-traditional export lines that have been gradually developed in recent years, although their share in total exports is still small. As a result, current income from exports of goods and services rose from less than 205 million dollars to over

230 million. Encouraged by some relaxation of the restrictive policy pursued in the preceding year, imports increased on a similar scale. These variations caused a balance-of-payments deficit on current account; movements of capital, however, not only wiped this out but in addition once again augmented Ecuador's foreign exchange reserves.

These was an appreciable improvement in the financial position of the public sector, which had been a matter of particular concern to the economic policy-makers in 1966, when public expenditure had been virtually frozen. As a result of the expansion of the external sector, more efficient fiscal administration and the yield obtained from new taxation, there was a substantial rise in public revenue. Thanks to this and to increased use of external credit, the level of public investment was about 14 per cent higher than in 1966, and current expenditure also expanded considerably, although at a lower rate (about 7 per cent).

Agricultural production showed good results for the second year in succession, after a long period of virtual stagnation. This was one of the factors contributing to the expansion of exports. In 1967, the main improvements were achieved in respect of coffee, maize, sugar, wheat, cotton and - to a lesser extent - bananas; production of rice and cocoa, on the other hand, declined. Output of beef increased slightly.

The industrial sector, which had attained growth rates of more than 6.5 per cent in 1960-65, regained similar momentum in 1967, after the recession of 1966. This favourable trend reflects the impact of the industrial promotion policy which the authorities have been applying for several years past, and the contribution made by credit operations through specialized institutions, partly on the basis of external financing.

There was also a revival of mining and energy production activity, which had fallen to relatively low levels in the preceding year. In the case of the energy sector, an outstanding event in 1967 was the start made on the development of large oilfields in the north-eastern region.

/In short,

In short, by virtue of the growth of external purchasing power, easier access to supplies of imported goods, and the incentives deriving from public-sector activities, conditions were created that made for the expansion of the various sectors of production and for an increase in private investment, and also for the control of inflationary pressures.

GUYANA

The economy of Guyana grew at a moderate pace in 1967, which in some degree reflected the end of the process of recovery that had taken place in the two preceding years. The economic recession in 1963, which was caused by serious internal disruptions, was followed by a period in which the gross product increased by over 9 per cent annually at current prices, i.e., about 6.5 per cent at constant prices, although the rate declined somewhat in 1967.

The rapid growth attained in recent years was based on a large-scale programme of public works, which gave considerable impetus to the public sector and construction - both of which expanded by about 60 per cent in the three-year period 1963-66 - and on the impact this had on other economic activities. Moreover, the four primary products which account for about 80 per cent of Guyana's exports - bauxite, manganese, sugar and rice - attained peak production figures in 1965 and 1966.

Public expenditure, especially capital expenditure, pursued its rapid upward trend in 1967, within the context of a programme of public investment which is expected to total 200 million Guyanese dollars, over the period 1966-72. Further increments in exportable output are unlikely. In fact, incomplete figures show that the production of bauxite and manganese has diminished slightly compared with 1966, and the same is true of rice as a result of adverse weather conditions. Although the area under sugar has increased in the last few years, special emphasis has been laid on soil improvement, which has led to increased yields and thus helped to increase the sugar harvest by 19 per cent.

/All these

All these factors continued to deepen the gulf between imports and exports, and in 1967 the trade deficit amounted to 36 million Guyanese dollars. The deficit has been offset by increasing inflows of capital in the form of direct investment (some 20 million Guyanese dollars) and by official transfer payments.

HAITI

The Haitian economy, which had been following a downward trend that had already resulted in a reduction of the domestic product in real terms in 1966, showed no signs of recovery in 1967, when it seems to have made virtually no progress in relation to the preceding year. As a result, the present levels of the product are lower than those recorded in 1962, even in terms of gourdes at current prices. The weakening of certain components of over-all demand - such as consumption, particularly in the private sector, and public investment - and the stagnation of exports and imports of goods and services, were among the factors responsible for these results.

No appreciable variations are observable in the agricultural production and per capita food supply indexes. Output of sugar-cane and maize declined, while other branches of production remained stationary, except for slight improvements in respect of coffee, sorghum, milk and butter. Contractions took place in the mining and industrial sectors, including, in the latter case, decreases in production of sugar, cotton, flour, edible oils, footwear, soap and carbonated beverages. There was also a falling-off in various inputs and services, particularly those supplied by the energy sector.

Government revenue which chiefly derives from customs duties, dropped by about 4 per cent in 1967, in consequence of the reduction in imports of goods and services and the stagnation of exports. In contrast, public expenditure - mainly on salaries and wages, including the remuneration of the defence and police forces - increased by approximately 15 per cent. These divergent trends resulted in a total deficit of about 19 million gourdes, exclusive of amortization payments.

/The balance-of-payments

The balance-of-payments deficit on the goods and services account was about the same as in the preceding year, since no very marked changes took place under these heads. As regards income from private transfers, the negative balance on current account amounted to somewhat more than 8 million dollars in 1967 - slightly less than in 1966 - and as the inflow of capital did not suffice to finance the deficit, there was a further drain on international reserves.

JAMAICA

According to provisional estimates, the growth rate of the Jamaican economy was relatively high in 1967, although lower than in 1964-66 (about 6 and 8 per cent, respectively, in terms of current prices).

A number of different factors were responsible for the less favourable results achieved in 1967. One of these was the decline in agricultural production for export, since in the case of sugar-cane it contracted by approximately 10 per cent and in that of citrus fruits and bananas by about 5 per cent. Mining output continued to expand as in previous years. Production of bauxite reached the levels programmed, and the alumina refining plant came to operate almost at full capacity. The completion of mining expansion projects which had been in process of execution implied a decrease in foreign private investment.

This situation was aggravated by other factors of internal origin. The reduction of the area under sugar-cane, the slackening of impetus in the introduction of mechanized farming, and a falling-off in construction activities, all testify to a certain contraction of domestic saving. The growth of the manufacturing sector was slower than in previous years, partly in consequence of the foregoing developments. In particular, sugar-refining decreased, and cement production dropped by almost 7 per cent. In other sectors of activity - including generation of electric energy and transport - results were more favourable. In certain new lines of agricultural production

/bigger harvests

bigger harvests were obtained, the volume of exports of finished products, though still modest, expanded somewhat, and once again considerable increases were recorded in income from tourism.

These and other changes were reflected in the balance-of-payments position. While exports of goods declined, imports continued to increase, at a slower pace than in previous years. As there were no significant changes in payments under the head of foreign companies' profits and other external factor payments, or in movements of non-compensatory capital, the chief items that offset the deficit were income from tourism and, in some measure, the foreign exchange reserves that Jamaica had built up.

MEXICO

In 1967 the Mexican economy maintained the relatively high rates of growth that have come to distinguish it. Provisional estimates, based on indexes for the first ten months of the year, indicate that the gross domestic product expanded by more than 6 per cent.

Investment expenditure played a particularly dynamic part in 1967, since it increased about 13 per cent in real terms as the result of a sizable expansion in public and private investment. The main source of public investment was a higher rate of capital formation in State enterprises, while private investment was influenced by the construction of hotels, commercial buildings and ancillary industrial buildings. At the same time, credit policy was tightened up to limit house-building, and thus free the domestic supply of building materials from some of the pressure it has been under since investment was stepped up in other sectors. Other economic policy measures, designed to curb the expansionist trends of consumer expenditure, succeeded in reducing the inflationary pressures that had emerged early in 1967, and kept domestic prices from rising more than 2.9 per cent over the year as a whole.

This trend in demand coincided with changes of varying intensity in domestic supply and imports. Growth was moderate in the agricultural

/sector (2.6

sector (2.6 per cent), with a smaller increase in crop production, a rather larger increment in the livestock industry and a particularly marked advance in forestry and fishing. Viewed from another angle, the trend of farming for the home market was more encouraging than that of production for export. Mining production grew by less than 2 per cent, with decreases in the output of silver, copper and lead but slightly better results for non-metallic minerals. Petroleum extraction and refining achieved an increase of over 11 per cent, and gas production climbed even higher. Prospecting was stepped up on the continental shelf in the Tuxpan-Tampico area, and work began on the construction of a new lubricants plant in the Salamanca refinery. In manufacturing, which recorded a growth rate of 8 per cent, the food and non-durable consumer goods industries made particularly good headway, while the steel industry made the country virtually self-sufficient in primary processed products, and certain materials, special products for the building industry, the railways and certain mining and petroleum installations. The emphasis is now being placed on production of special steels. Output of copper and petrochemical products also increased by leaps and bounds.

The growth of investment made it necessary to import much more machinery and equipment. Hence, although imports of consumer goods remained steady and those of raw materials and intermediate goods increased only moderately, the total value of imports of goods came to some 1,750 million dollars, which was 9 per cent more than in 1966. The trend of exports, on the other hand, was discouraging. A sharp drop in sales of cotton and, to a lesser extent, of coffee, only partly offset by an increase in the volume of exports of sugar, maize and other minor agricultural commodities,

reduced aggregate exports of goods to approximately 4 per cent below their 1966 level. Income from border trade continued to rise rapidly, although at a slower rate than formerly. As a result, the total inflow of current income from exports of goods and services was slightly larger than in 1966.

These changes in export and import trends led to an appreciable increase in the balance-of-payments deficit on current account: from about 370 million dollars in 1966 it rose to over 500 million in 1967. In addition, amortization of the external debt siphoned off more than 430 million dollars. Even so, however, the capital inflow was large enough to cover all requirements and to add nearly 40 million dollars to the gross official holdings of gold and foreign exchange. Medium- and long-term credits rose from 557 to 648 million dollars, mainly because bigger official loans were granted to finance imports of machinery and equipment for State enterprises. Bonds worth 85 million dollars were floated, and direct foreign investment remained at approximately 160 million dollars.

PANAMA

In Panama the growth rate of the domestic product, which has been relatively high since the beginning of the current decade - over 8 per cent per annum -, was maintained in 1967. As in previous years, the expansion achieved was closely linked to external-sector trends; exports of goods and services rose by 9 per cent, and imports by a little more than 6 per cent. By virtue of this additional increase, exports more than doubled their 1960 value, and in the end their annual growth rate outstripped that of the domestic products.

The special structure of the economy of Panama, and the fact that its operation is so strongly influenced by developments in the external sector, help to explain why the relatively high and steady growth rate of the domestic product was not accompanied by a more rapid diversification process, with the result that basic problems still exist which are strikingly reflected in urban unemployment. Certain other developments that characterized the Panamanian economy in 1967 are therefore particularly significant.

In the first place, there was a considerable increase in public investment levels, which rose from 23.4 million balboas (at current prices) in 1966 to 45.6 million in 1967. Although a large proportion of the financing of the projects for which these resources were used came out of external funds, public saving on current account also soared in relation to the preceding year, and played a much more important role. Generally speaking, the biggest increases took place in investment in infrastructure projects and specific services. Between 1966 and 1967 budget appropriations rose from 2.6 million to 7.1 million balboas for electric power projects; from 3.1 million to 9.2 million for transport projects; from 4.1 million to 11.1 million for housing programmes; and from 3.3 million to 8.1 million for public buildings.

Other favourable symptoms can be discerned in the growth pattern of industrial production, which expanded in 1967 by nearly 11 per cent. Halfway through the year, a cotton textile mill serving 10 per cent of

domestic demand entered operation in the free zone of Colon. In addition, a tyre factory was installed in 1967. Petroleum refining also expanded, but output of petroleum products contracted as the result of a temporary standstill in the industry for the purposes of maintenance operations.

Agriculture, too showed favourable trends, with a production increment of nearly 9 per cent. This was mainly due to increases of 16 per cent and 15 per cent in output of coffee and tobacco, respectively, and to the incorporation of new banana-growing areas in Bocas del Toro. Furthermore, work was virtually completed on the rural cadastral survey, which covers 40,000 square kilometres, and is important not only because it provides information on the cultivable area, but also because it affords a basis for allocating ownership of land to agricultural workers.

All this expansion of economic activities was facilitated by a plentiful supply of credit. During the first half of the year, bank deposits exceeded the figure for the corresponding period in 1966 by 13 per cent, and as at 30 June bank credit amounted to 32 million balboas (or 25 per cent) more than on the same date in the preceding year.

Two matters of special importance for Panama's subsequent economic development are still under consideration: i.e., the negotiations relating to the signing of the new Canal treaty, and the prospects for Panama's entry into the Central American Common Market.

PARAGUAY

The development pattern of the Paraguayan economy was relatively favourable in 1967. The domestic product once again increased at the moderate rate which had characterized its growth in previous years, but has decreased in 1966 owing to adverse conditions that reduced agricultural production.

In 1967 there were no serious weather disturbances, and the agricultural sector was able to raise its production levels to an appreciable extent. The increases achieved were in some measure linked with the efforts which had been under way for several years past in

respect of land settlement and the promotion of specific projects - for example, the wheat programme and the pest-control campaign -, and which were supplemented in 1967 by the establishment of a national anti-foot-and-mouth disease service (Servicio Nacional de Lucha contra la Fiebre Aftosa). On the other hand, some agricultural exports - meat in particular - were affected by the price decline.

Output in manufacturing industry and mining was more than 8 per cent higher than in the preceding year. This aggregate result was the outcome of unequal variations in the traditional branches of industry - where some contractions occurred, as, for instance, in production of tannin - plus the contributions made by new lines of activity, including the manufacture of petroleum products and the canning industry.

The evolution of the external sector displayed several features which, apart from their immediate effects, may influence future economic development prospects. They include, in the first place, the relative stagnation of exports, which for the second year in succession fell short of their 1965 level, notwithstanding significant increases in income from invisibles (travel, transport and other services). Imports, on the other hand, expanded considerably, reaching their peak value for the present decade (about 84 million dollars). This sharpened the previous trend towards a cumulative balance-of-payments deficit on current account. In 1967 the deficit was more than 20 million dollars. The maintenance of relatively high import levels despite the stagnation of current export earnings is explained by the increasing use made of external financing. Net loans amounted to 15 million dollars in 1967, i.e., a great deal more than in 1966 and almost three times as much as in 1964.

In the public sector too there were signs of fairly serious imbalances. After the steep upswing in tax revenue in 1965, public income rose more slowly, while current and capital expenditure went on expanding. Hence, in the first eleven months of 1967 the fiscal deficit was in the neighbourhood of 200 million guaranies, in marked contrast with the surplus of 130 million recorded in the corresponding period in 1966; and Central Bank financing, through the issue of bonds and net short-term advances significantly increased.

/On the

On the other hand, the expansion of domestic supply and the larger quantities of imports available kept prices relatively stable, despite the incidence of higher passenger transport rates on the consumer price index.

Although the factors making for instability and disequilibria which can be noted in the recent evolution of the Paraguayan economy have had no adverse effects on the rate of growth and the level of domestic prices, they highlight the importance of the efforts that are being made in the conduct of development policy. In this connexion, the Development Plan for 1967-68 was put into effect, and during the year headway was also made in the institutional field, as well as in major programmes. A public administration accounting and auditing act was passed; a national council for educational planning (Consejo Nacional de Planeamiento de la Educación) was set up; a national industrial development council (Consejo Nacional de Desarrollo Industrial) was established; more than 56,000 hectares were incorporated into the national land settlement programme; and work proceeded on the construction of the Acaray dam.

PERU

The satisfactory growth pattern of the main sectors of internal economic activities, and an aggravation of balance-of-payments deficits which led to the adoption of important decisions in the field of exchange policy, were two of the outstanding features of Peru's economic development during 1967.

The first of these was reflected in a growth rate of the domestic product of over 5 per cent, which, although lower than in previous periods, indicated that dynamic factors were still in operation, despite the relatively adverse situation in the external sector.

Agricultural production showed better results than in 1966, when it had been affected by unfavourable weather conditions. In 1967 - again in contrast to 1966 - the most significant increases were achieved in

production for domestic consumption (primarily potatoes and rice), while output of cotton fell off sharply. Further steps were taken to support more rapid agricultural development by means of infrastructure projects and the provision of incentives. In the latter connexion, mention should be made of the promulgation of an agricultural promotion law (Ley de Promoción Agropecuaria) under which small- and medium-scale farmers were accorded better credit facilities and were granted tax privileges and exemptions.

The volume of production in the mining sector, which had diminished in the preceding year, increased in 1967, although the rate of expansion was relatively low. This represented a resumption of the slow upward trend followed by the sector since the upswing in levels of activity consequent upon the entry into production of the Toquepala copper deposits.

The rapid development of the fishing industry continued, with a further expansion of about 15 per cent. Probably, in view of the less favourable world market situation, domestic consumption is absorbing an increasing share of the larger volumes of production.

The growth rate of manufacturing was slower than in previous years, but even so a considerable expansion was achieved (about 7 per cent for the sector as a whole). Some branches, such as production of fish meal, showed particularly marked increases, and in others sharp fluctuations took place in the course of the year. This was especially true of the motor-vehicle assembly industry. Up to the month of August, the number of units assembled had risen by 50 per cent in relation to the corresponding period in the previous year, but thenceforward serious difficulties were encountered, the causes of which included the downward trend of demand and the rise in prices of imported inputs. Meanwhile, existing industrial production capacity was further expanded and new capacity was installed. In the course of the year, new plants were established in the industrial estate at Arequipa (Parque Industrial de Arequipa), the blast furnace at the Chimbote steelworks (with a daily capacity of 500 tons) was put into operation, and the La Pampilla petroleum refinery was opened.

/The evolution

The evolution of the external sector contrasted with these trends. Owing to the fall in world market prices for some of Peru's staple export products, current income from exports of goods and services remained at virtually the same level as in the preceding year. On the other hand, various factors generated pressure on imports, including the maintenance of the exchange rate for a period of eight years, during which time domestic prices rose by 70 per cent. By the end of August, these pressures - combined with unduly heavy demand for dollars for other purposes - had resulted in a volume of imports which already implied a trade-balance deficit of 80 million dollars and a reduction of official foreign exchange supplies amounting in that month alone to 39 million dollars. The Central Bank then decided to suspend sales of foreign exchange and to devaluate the currency, setting the exchange rate 45 per cent above its previous level. These and other measures did something towards stabilizing the trade balance, and, eventually, the end-of-year deficit was not more than about 62 million dollars.

Furthermore, remittances of profits and interest abroad once again exceeded 100 million dollars, and the net inflow of non-compensatory capital was a good deal smaller than in 1966. Hence, for the second year in succession, international reserves decreased (by about 50 million dollars) despite a 40-million-dollar loan granted by a group of United States bankers and a stand-by credit of 42.5 million dollars negotiated with the International Monetary Fund prior to the devaluation.

The restriction of imports and the scale of the devaluation sharpened the upward trend of domestic prices, which had risen 21 per cent by the end of the year. In addition, these developments had repercussions on the estimates for the 1968 budget, which was scheduled to be put into operation in April of that year. Its adjustment to the new situation gave rise to differences of opinion - not yet settled at the time of writing - between the Executive and the Legislature.

TRINIDAD AND TOBAGO

Trinidad and Tobago maintained a moderate rate of economic growth in 1967, despite the relatively unfavourable evolution of the external sector.

The value of exports of goods and services, rose by only 2 per cent, as the result of various changes in its principal components. Sugar-cane production dropped by nearly 6 per cent and cocoa output fell even more sharply (14.5 per cent), but this decline was partly offset by the improvement in prices. Conversely, coffee exports increased (from 44,000 to 69,000 sacks), and there was a boom in petrochemical products, with a rise of 45 per cent in exports.

Imports declined from 838 million to 807 million Trinidad and Tobago dollars at current prices, mainly because of a reduction in imports of crude petroleum, which in previous years had accounted for half the total value of imports. Consequently, the balance-of-payments deficit on current account, which had been diminishing since 1965, was further reduced.

A main feature of the evolution of domestic activity was the increase in petroleum output (from 55.6 million barrels in 1966 to 63 million in 1967), as a result of the fresh impetus given to the exploitation of an important oilfield rather than the discovery of new ones. In agriculture, there was a significant increase in production for the home market. This progress was consolidated through the policy of incentives, the Crown lands programme for bringing new land under cultivation, and the establishment of the Central Marketing Agency, which is concerned with organizing markets and guaranteeing crop prices. The considerable expansion in manufacturing largely reflected the impetus given to the petrochemical industry and some light industries (including those producing foods and, to a lesser degree, clothing and furniture).

Unemployment, which is one of the most serious problems besetting the country's economy, showed no great change and the proportion of unemployed remained at about 14 per cent of the labour force.

/Devaluation of

Devaluation of the pound sterling brought about a parallel devaluation of the national currency, which brought the value of the Trinidad and Tobago dollar down to 50 United States dollar cents. Devaluation is expected to yield positive results in terms of improving the position of the export markets, stimulating import substitution and increasing government revenue. In the short term, it will push up domestic prices, which rose by only 3 per cent from November 1966 to November 1967, but by 1.7 per cent in December 1967 alone.

URUGUAY

For the past ten years the growth trend of the Uruguayan economy had been levelling off, and in 1967 the situation was aggravated by marked reductions in agricultural output and exports, a decline in real income for the bulk of the population and a heavy deficit in the public sector. The most striking consequences of this situation were a decrease of about 5 per cent in the gross domestic product and an upswing in prices, which rose as much as 136 per cent for the consumer. Parallel with this unfavourable economic trend, was the increasingly desperate social struggle to maintain real income.

The immediate cause of Uruguay's deepening economic depression was the unfavourable evolution of agriculture which was affected by a serious drought in the first five months of the year, followed by floods and frost up to September, and another drought in the remaining two months. As a result, yields fell drastically and output of crops declined by an average of 24 per cent in volume and that of livestock products by 13 per cent.

As might have been expected, the contraction of agricultural output had a heavy impact on exports and domestic supply.

Current income from exports of goods and services dropped 12 per cent, despite a significant rise in income from tourism (11 per cent more than in 1966). The value of exports of manufactures fell by 17 per cent, first because less was sold abroad, and secondly because the unit prices of several export items deteriorated.

/At the

At the same time, there was a shortage of food supplies on the home market which pushed up prices, while other increases stemmed from successive rises in the exchange rate. During the first part of the year, exchange policy contrived to prevent a wider gap between quotations on the official and "parallel" markets, by increasing the former from 76.20 to 85.90 pesos to the dollar in March, 88.50 in May and 99 in August.

Imports were unable to compensate for the domestic supply shortage in view of the steadily deteriorating position of the external sector, which was also influenced by external payment commitments and the growing demand for dollars. Thus, although imports did not follow the same trend as exports and even rose slightly over the previous year, they remained below the 1964 level.

The rise in domestic prices triggered constant wage demands and heightened the social tensions. The partial adjustments conceded during the year created further inflationary pressures and in the end were insufficient to sustain the real income of wage-earners. The ensuing contraction of domestic demand and the obstacles to exports of meat and wool, in their turn, caused a decline in manufacturing. The situation was aggravated by an even sharper downward turn in construction as a result of higher costs and the lack of medium- and long-term financing.

These and other factors had a severe impact on the public sector. The central government deficit represented 23 per cent of total expenditure. It was necessary to resort to Central Bank credit and the sale of Treasury bonds to cover most of this deficit.

Economic policy was thus faced with the task of, as far as possible, maintaining a relative equilibrium in the fiscal sector and the balance of payments, while endeavouring to contain the social pressures. The frequent reshuffling of the authorities directly responsible for implementing this policy prevented continuing action. The new Government which assumed office in March secured congressional approval of an Emergency Act which emphasized fiscal questions, inasmuch as it created new taxes, raised

the rates of public facilities, abolished subsidies for staple articles and set some price ceilings. The features of the import policy during the first six months were its comparative liberalization and the exchange adjustments referred to above; between then and the beginning of November there was a ban on all imports except fuels, raw materials and medicines; and the last two months witnessed a violent plunge in the value of the currency, which was devalued from 99 to 200 pesos to the dollar, while the "parallel" market rate was 135 pesos to the dollar, and imports of fuels, agricultural inputs, foods and raw materials were exempted from customs duties.

VENEZUELA

The increase in petroleum production, the considerable expansion of agricultural production and greater industrial activity were the main factors responsible for the Venezuelan economy's return to a higher rate of growth in 1967. Provisional estimates indicate that the domestic product rose by 6 per cent, which compares favourably with the rate of 4 per cent in 1966.

Petroleum production, which had dropped by nearly 3 per cent in 1966, was up 5 per cent in 1967. This was largely due to the situation created in the world petroleum market by the Middle East conflict, which made it easier for Venezuela to step up its exports to Western Europe. Moreover, although the problems stemming from the restrictions imposed on imports of Venezuelan petroleum into the United States remained unsolved throughout the year, the United States Congress rejected a bill proposing further restrictions. Meanwhile, the construction of desulphurization plants was negotiated with a number of petroleum companies, and this should greatly facilitate access to the United States market. Negotiations were also initiated with socialist countries regarding the sale of certain special petroleum products which they do not produce locally.

/Agricultural production

Agricultural productions rose almost 7 per cent in relation to 1966, thus strengthening a trend which over several years has led to self-sufficiency in a whole series of products, and even to the creation of exportable surpluses in some cases. The most notable increases in 1967 were in the production of rice, maize, yuca and bananas, while the increase in livestock products was less pronounced.

Among the other sectors of economic activity, particularly noteworthy is the 6.7-per-cent increase in manufacturing production, which is a relatively high rate of increase but which is nevertheless somewhat less than in previous years. Substantial progress has been made, on the other hand, in the projects relating to petrochemical plants, undertaken as a joint venture by the State and foreign companies. The aluminimum plant which was under construction in Guayana entered into operation, and substantial investment in the steel industry for the manufacture of flat steel products is now under discussion. Mining production fell about 4 per cent, because of the problems of marketing iron ore. Construction increased by only 3.3 per cent, despite the strengthening of mechanisms for financing housebuilding.

External sector trends were relatively favourable. Provisional estimates indicate that exports amounted to 2,460 million dollars, and although imports rose 6 per cent Venezuela's international reserves climbed to a level of 872 million dollars by the end of 1967.

With regard to public revenue, there was an increase of 507 million bolívares in revenue from the petroleum tax, which represents an increase of 10.4 per cent over 1966. This, together with other tax reform effects, made it possible to draw up a fiscal budget of about 10,000 million bolívares for 1968.

UNITED NATIONS

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ECONOMIC COMMISSION FOR LATIN AMERICA

THE LATIN AMERICAN ECONOMY IN 1967
EXCERPT FROM ECLA SURVEY

Corrigendum

Page 7, column 2, lines 16-20 — Replace the words "have become even more remote with the subsequent rise in the taxes levied by the United States and Japan on semi-processed copper and by the other industrialized countries on copper products" by the words "have been disappointed, since the taxes levied by the United States and Japan on semi-processed copper and by the other industrialized countries on copper products have been kept in force, although at a lower level".