LATIN AMERICAN DEVELOPMENT IN PERSPECTIVE

AND SOME NOTES IN ITS PROSPECTIVE

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I have been invited to write on the "long-term development prospects of Latin America within the context of international relations. . . ." It is indeed a very broad subject, one that can be analyzed from many different angles.

I will divide this presentation into two parts: the first part will describe the growth and development of the region during the last 30 years and evaluate its advances and shortcomings. Some consideration will be given to the predominant economic thought that presided over the period since this helps to explain the economic policy that has prevailed in most countries.

The second part will explore the Latin American prospective over the next 25 years within two different frameworks: one will be that of the international economy and the ways in which the region may become linked with it. The other will be the study of the internal "future" of the national societies and what economic and political systems may emerge (or are already emerging). Admittedly, this division is a matter of convenience, since both sides are closely related. We can imagine a scenario in which progress is made within the New International Economic Order (NIEO), but at the national level the system remains unchanged; the benefits derived from the NIEO will accrue--probably--to the small ruling elite that still exists in some national societies.

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Before going into the subject, let me give a word of caution: I will talk of the region as a whole. Needless to say, differences among those countries are very big; therefore, what I will say is too general to be applicable to a particular country. I think that it will represent the main trends that have occurred in Latin America, but those may not be applicable to each country in particular.

PART I

1. Overall Patterns of Economic Growth

Intellectuals, especially those in the social sciences, have a tendency to speak almost always in terms of crisis, failure, breakdown, etc. In Latin America, we are no exception. We have been accustomed to speak in terms of dependence, feudal institutions, ever-growing power of the multinationals, rigidities and shortcomings of the economic structures, etc., etc. This may be the reason that the good performance of the Latin American economies, when measured only in terms of economic growth, has often gone unnoted. In fact, during the period 1945-1972 Latin America's economy grew at an annual cumulative rate of 5.42 percent (Table 1), and its gross domestic product at factor costs increased from $36 billion in 1945 to $152 billion in 1972 (1960 U.S. dollars).[1]

This average conceals important differences among countries: Brazil and Mexico had rates over 6 percent, while those of the southern cone (Argentina, Chile and Uruguay) are around 4 percent or less. For this reason, in Table 2 the countries are classified according to their rates of growth and, following ECLA's estimates, the period 1950-1975 has been divided into two subperiods at the year 1966. With regard to major countries, the performance of Brazil for 1966-1973 is remarkable, as is the stability in the growth rate of Mexico over the entire period examined.

The results of these tables are somewhat modified if we take into account increases in population, to which I will return later. For the moment, we see in Table 3 that the region doubled its per capita income in 27 years.[2] Here again, Brazil and Mexico did quite well, with a bigger rate for Brazil due to its smaller increases in population than Mexico. And again, the southern countries present lower rates (with the exception

TABLE 1. Latin America: Gross Domestic Product at Factor Costs (millions of 1960 dollars).

Country \ Year	1945	1950	1955	1960	1965	1970	1972	Cumulative Annual Rates of Growth 1945/1972
Argentina	9,635.9	11,642.0	13,460.6	16,507.2	20,446.2	24,777.8	26,780.3	3.86
Bolivia	473.9	522.3	560.6	542.7	684.6	930.7	1,024.1	2.90
Brazil	7,250.6	9,768.0	13,564.3	18,866.0	23,516.0	33,797.1	41,528.3	6.68
Columbia	2,512.3	3,154.3	4,053.6	4,935.7	6,191.5	8,180.5	9,191.4	4.92
Costa Rica	168.0	247.1	368.5	492.1	675.4	946.0	1,033.0	6.96
Chile	2,254.0	2,596.5	3,125.4	3,826.5	4,887.2	5,903.8	6,613.0	4.07
Equador	448.3	701.1	901.7	1,128.6	1,401.4	1,884.1	2,287.6	6.22
El Salvador	266.3	405.3	506.4	639.0	889.8	1,118.1	1,206.4	5.75
Guatemala	659.8	734.8	823.1	1,067.4	1,378.6	1,823.8	2,044.7	4.28
Haiti	308.7	328.4	354.1	396.4	384.9	421.3	468.2	1.55
Honduras	214.1	262.0	288.8	329.1	429.4	569.0	614.5	3.98
Mexico	7,320.8	9,930.5	13,189.1	17,518.5	24,712.6	34,522.2	38,045.7	6.29
Nicaragua	164.4	222.9	332.5	354.6	577.0	714.6	793.4	6.00
Panama	266.9	273.1	331.6	438.2	653.2	932.2	1,082.4	5.32
Paraguay	302.5	335.5	368.1	426.2	543.8	665.5	729.4	3.31
Peru	1,506.0	1,874.4	2,519.8	3,139.7	4,298.6	5,124.5	5,745.7	5.08
Dominican Republic	245.6	367.9	493.2	640.7	672.6	926.2	1,079.4	5.64
Uruguay	1,108.0	1,440.1	1,774.8	1,770.1	1,840.8	2.051.8	2,041.0	2.29
Venezuela	1,488.5	2,465.1	3,743.2	5,182.4	7,378.3	8,898.0	9,713.0	7.19
LATIN AMERICA	36,594.6	47,271.3	60,759.4	78,201.1	101,561.9	134,187.2	152,021.5	5.42

Sources: ECLA, Producto Interno Bruto de los Paises de America Latina, (E/CN 12/L51-1970).

ECLA, Anuario Estadistico de America Latina - 1973.

TABLE 2. Latin America: Rates of Growth of the Gross Domestic Product (percentages).

1.0 - 1.9	3.0 - 3.9	4.0 - 4.9	5.0 - 5.9	6.0 - 6.9	7.0 and over
			1950-1975		
Uruguay (1.1) Haiti (1.4)	Bolivia (3.5) Argentina (3.8) Chile (3.9)	Honduras (4.1) Paraguay (4.3)	Columbia (5.1) Guatemala (5.1) Equador (5.2) El Salvador (5.3) Peru (5.3) Dominican Republic (5.3) Nicaragua (5.9) LATIN AMERICA (5.5)	Venezuela (6.1) Mexico (6.5) Brazil (6.7) Costa Rica (6.9) Panâma (6.9)	
			1950-1966		
Haiti (1.0) Uruguay (1.2) Bolivia (1.5)	Argentina (3.3) Paraguay (3.7) Honduras (3.9)	Chile (4.3) Columbia (4.6) Guatemala (4.6) Equador (4.6)	Dominican Republic (5.0) El Salvador (5.4) Peru (5.5) LATIN AMERICA (5.2)	Nicaragua (6.0) Mexico (6.2) Brazil (6.3) Panama (6.3) Costa Rica (6.8)	Venezuela (7.1)
			1966-1973		
Uruguay (1.2)	Chile (3.0) Honduras (3.6) Haiti (3.9)	El Salvador (4.1) Nicaragua (4.2) Venezuela (4.6) Argentina (4.9)	Paraguay (5.1) Peru (5.2) Bolivia (5.4)	Guatemala (6.0) Equador (6.1) Columbia (6.4) Mexico (6.4) LATIN AMERICA (6.6)	Costa Rica (7.1) Panama (7.6) Dominican Republic (8.8) Brazil (9.6)

Source: ECLA, El Desarrollo Economico y Social y las Relaciones Externas de America Latina (mimeo, February 1977).

TABLE 3. Latin America: Per Capita Gross Domestic Product at Factor Costs (1960 dollars).

Country \ Year	1945	1950	1955	1960	1965	1970	1972	Cumulative Annual Rates of Growth 1945/1972
Argentina	626	681	712	792	907	1017	1067	1.99
Bolivia	173	173	169	147	166	200	209	0.70
Brazil	157	187	224	268	290	362	421	3.72
Columbia	246	271	300	311	331	368	387	1.69
Costa Rica	234	291	361	399	452	545	563	3.31
Chile	406	429	458	498	562	608	657	1.80
Equador	156	219	243	261	275	313	355	3.09
El Salvador	152	211	229	254	305	325	327	2.88
Guatemala	254	253	247	276	307	345	366	1.36
Haiti	100	97	95	96	83	81	85	-0.70
Honduras	173	189	183	178	197	220	222	0.93
Mexico	321	373	428	486	579	681	698	2.92
Nicaragua	165	197	257	236	331	354	369	3.03
Panama	395	357	376	429	546	663	722	2.26
Paraguay	249	251	241	245	266	275	281	0.45
Peru	207	235	287	313	369	377	397	2.44
Dominican Republic	123	160	185	205	183	213	232	2.38
Uruguay	538	655	750	696	677	710	690	0.93
Venezuela	343	462	584	669	810	827	844	3.39
LATIN AMERICA	274	312	350	391	440	503	538	2.53

Sources: ECLA, Producto Interno Bruto de los Paises de America Latina, (E/CN 12/L51-1970).

ECLA, Anuario Estadistico de America Latina - 1973.

of Haiti, Paraguay and Bolivia).

As this growth took place, of course, it modified the internal economic structure of those societies. The main force behind this growth was the rapid development of the manufacturing sector. During those 30 years, Latin America went through a period of rapid transformation from an agricultural society to a semi-industrialized one. For the period 1936/40 agriculture produced 30 percent of the product. By 1970 its participation was only 15 percent, while the figures for the manufacturing sector moved almost as far in the opposite direction (Table 4). As can be seen in Table 5, there are diverse levels of development for each country.

2. Growth and Development

It is not necessary to point out the difference between growth and development. This distinction, that 10 or 15 years ago would have required clarification, is today a commonplace understanding. Therefore, I will proceed, assuming that the different meanings of those terms in understood.

The region has had economic growth but not development; or, at least the success of development (if any) is far below the impressive growth that I have just described.

While it is correct that the region has a regional product similar to that of Europe in 1950, it is safe to say that the 1950 Europe was developed, while today's Latin America is not.

The reason for this lies in the process of development that has taken place in the region, a process radically different from the road taken by today's rich industrialized countries. This fact is essential to understand the problems that--in spite of its economic growth--are facing the region.

The division into rich and poor countries is a recent phenomenon in the history of mankind. Beginning with the Industrial Revolution, some countries experienced a steady and sustained process of growth. Since the

TABLE 4. Latin America: Gross Domestic Product by Economic Activity (percentages).

Economic Activity	1936/40 average	1941/44 average	1945/49 average	1950	1955	1960	1965	1970	1974
Agriculture, Forestry, Hunting, and Fishing	30.7	29.3	24.8	23.3	22.3	20.2	19.5	15.0	13.3
Mining	4.1	4.0	4.7	3.8	3.9	4.4	4.3	4.5	3.7
Manufacturing Industry	15.0	16.6	18.1	19.8	20.3	21.7	22.6	23.0	24.0
Construction	3.1	3.1	3.8	3.6	3.6	3.4	3.1	5.2	5.6
Services	47.1	47.0	48.6	49.5	49.9	50.3	50.5	52.3	53.4
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: ECLA, Producto Interno Bruto de los Paises de America Latina, 1970.

ECLA, El Desarrollo Economico de America Latina en la Postguerra, 1963.

ECLA, Indicadores del Desarrollo Economico y Social de America Latina, 1976.

Table 5. Latin America: Participation of the Agricultural and Manufacturing Sectors in the Product (percentages of gross domestic product at 1970 prices).

Country	Agricultural Sector				Manufacturing Sector			
	1950	1960	1970	1975	1950	1960	1970	1975
Argentina	16.7	15.6	13.1	12.0	23.2	26.3	30.2	32.2
Bolivia	25.4	24.4	16.9	15.8	12.4	11.6	12.9	13.6
Brazil	20.6	16.5	14.3	12.2	17.9	22.3	24.8	25.6
Columbia	38.2	33.0	28.6	26.8	13.7	16.4	17.5	18.8
Costa Rica	38.4	29.3	25.0	23.2	11.5	12.4	15.1	17.2
Chile	11.2	9.8	7.9	8.3	23.1	24.9	27.2	23.8
Equador	40.8	38.1	29.2	22.1	17.1	17.0	19.0	20.3
El Salvador	41.0	35.7	30.6	28.1	12.9	13.8	17.6	18.1
Guatemala	35.3	32.6	30.1	30.1	10.7	11.7	14.6	14.5
Haiti	52.8	48.8	50.8	45.2	8.3	8.8	9.8	11.7
Honduras	45.2	32.7	34.6	31.7	9.2	15.2	14.0	16.0
Mexico	18.2	16.1	11.8	9.7	18.6	19.2	23.4	24.1
Nicaragua	33.1	26.4	26.3	26.9	10.0	11.9	17.5	17.8
Panama	31.5	25.7	20.7	18.8	7.9	11.6	15.8	13.9
Paraguay	45.8	39.5	34.3	33.0	17.8	15.2	17.3	17.5
Peru	25.3	24.6	19.8	15.3	10.9	13.3	16.8	18.7
Dominican Republic	34.7	33.8	25.8	19.1	12.5	14.6	16.7	17.5
Uruguay	15.4	11.0	12.6	11.6	23.0	24.3	24.2	25.4
Venezuela	7.7	7.3	7.5	7.4	6.9	9.2	11.4	13.4
LATIN AMERICA (19 countries)	20.1	18.2	14.9	13.2	17.9	20.3	23.0	23.9

Source: ECLA, El Desarrollo Economico y Social y las Relaciones Externas de America Latina (mimeo, February 1977).

industrial revolution is also the origin of capitalism, we can infer that it was contemporary with the development of capitalism that the gap among nations originated. It was a widely accepted notion that the differences between rich and poor nations would be resolved through nothing more dramatic than the passage of time, as the poorer nations "caught up."

The predominant thinking after World War II was that as the late-comers started their own process of growth, development would follow almost automatically. Scholarly efforts were dedicated to scrutinizing the way by which developed societies had begun their road to success. It was implied that a similar path would be transited by poorer countries if they were to achieve growth.

A good example of this kind of reasoning is given by Rostow in his Stages of Growth.[3] In this perception, growth is a gradual process in which "stages" can be detected and analyzed. If the "right steps" are taken, growth will become self-sustaining. It should even be possible to determine in what moment a society will start this process just by looking at the rate of investment. Rate of investment became a crucial variable, and we recall many theories that were presented around it: "big push," linkage effects of investment (forward and backward), vicious circle of poverty, the Harrod-Domar models (and their subsequent development), Nurkse's theories of capital formation, etc. This way of thinking was fairly good for explaining *ex post facto* the growth process of developed countries, but the assumption was that the *same* process would be followed by late-comers. And it was in this deduction that the theories failed.

It was not possible to have similar processes, precisely because developed countries were developed. In other words, those countries and their successes generated a world system of international economic and political relations that we call the capitalistic system, and those countries were in the "center" of that system. The late-comers, those that were supposed to begin their own development, were in the "periphery" of the system. The first-comers had never been in the periphery of the world capitalistic system--they had started the system.

To believe that the process of growth would be identical if a society was at the center or at the periphery of the system was--to put it mildly--an oversimplification. The kind of development of the first-comers cannot be repeated, if only because the economic relations that they had with "backward" countries were an important factor in their own growth, and today--by definition--this factor cannot be repeated. Today, even though late-comers may have relations with late-late-comers that may be in an even more backward situation, their most important relations will be those with the richer countries. These relationships will generate a completely different set of variables than those that governed the development of today's industrialized countries.[4] This distinction between center and periphery is far from being accepted, but this is not the opportunity to go into this subject.

Once the process of development "took-off," the benefits of the process would spread, would trickle-down to all classes of society. The conventional wisdom of neoclassical economic theory provided a solid explanation by which this would necessarily take place. Moreover, changes in the economic structure, and especially the growth in manufacturing, would lead to a heightened social consciousness that would demand State intervention to improve distribution of income--mainly through taxation and public expenditures.[5]

This way of thinking about development has not proved very accurate in analyzing the Latin American experience. The process has not become self-sustained; benefits are not being shared in a fair way; there has not been any trickle-down phenomenon. Let us examine some of these aspects in some detail to clarify the development process.

3. Population and Labor Force

High rates of population growth have been characteristic of Latin American development during the last 30 years. As we know, this is a distinctive feature of late-comer societies. Advances and discoveries made in developed countries (DC) disseminate toward less developed countries (LDC), lowering their mortality rates while the birth rates normally remain the same. In the region, the growth rate of population began rising steadily in 1940/45 (over 2 percent a year) to almost 3 percent in 1965/70 (Table 6). While there have been differences among countries (see, e.g., the decline of the rate in Argentina and the explosive increase in Mexico), the general trend is not misleading.

It is true that in comparison with other continents, overpopulation is not considered a problem in Latin America. Nevertheless, if the present trend were to continue (which is unlikely), the situation could deteriorate very rapidly. In a recent study using a simulation model, two extreme hypotheses were used: a) minimum growth in which fertility rates drop sharply for 25 years to a zero-growth level; and b) maximum growth in which birth rates are held at their 1970 level for a long period of time. The results of this exercise are presented in Table 7. The author of the study says that even when we use the minimum projection it is quite clear that "the concept of Latin America as an under-populated region, with abundant land and other resources in relation to its population, corresponds to a transitory phenomenon only; in most countries this phase will have passed in less than 50 years' time."[6]

It may be possible that both hypotheses are extreme cases and, therefore,

TABLE 6. Latin America: Rates of Population Growth by Countries, 1920-1975.

Country	1920-1925	1925-1930	1930-1935	1935-1940	1940-1945	1945-1950	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975
Argentina	3.17	2.81	1.86	1.67	1.67	2.11	2.05	1.98	1.58	1.56	1.3
Bolivia	1.06	1.26	1.45	1.62	1.78	1.92	1.97	2.16	2.29	2.41	2.5
Brazil	2.05	2.05	2.05	2.11	2.27	2.55	2.97	3.03	2.86	2.87	2.8
Columbia	1.94	1.96	2.03	2.19	2.36	2.65	3.05	3.27	3.32	3.46	3.2
Costa Rica	1.61	1.82	2.00	2.35	2.98	3.44	3.74	4.13	3.65	3.05	2.8
Cuba	2.66	2.67	1.93	1.58	1.55	2.28	2.13	2.14	2.07	2.00	2.3
Chile	1.54	1.61	1.55	1.50	1.54	1.74	2.41	2.40	2.50	2.26	1.8
Equador	1.14	1.46	1.71	1.91	2.06	2.41	2.83	3.11	3.35	3.41	3.2
El Salvador	2.18	2.09	1.19	1.30	1.23	2.05	2.51	2.90	3.04	3.36	3.1
Guatemala	1.11	2.94	2.42	1.97	3.36	3.10	2.67	2.82	2.93	2.89	2.9
Haiti	1.25	1.39	1.51	1.60	1.78	1.84	1.95	2.15	2.28	2.45	2.5
Honduras	1.94	1.92	1.61	1.73	2.01	2.36	2.62	3.18	3.37	3.43	3.5
Mexico	0.95	1.76	1.75	1.84	2.88	3.12	2.94	3.20	3.45	3.50	3.2
Nicaragua	1.46	1.55	1.74	2.00	2.27	2.55	2.66	3.04	3.06	2.98	3.2
Panama	1.58	1.59	0.86	2.57	2.55	2.53	2.89	2.97	3.23	3.27	2.8
Paraguay	2.35	2.31	2.34	2.37	1.82	2.01	2.60	2.78	3.24	3.46	3.1
Peru	1.47	1.56	1.65	1.72	1.75	1.81	1.98	2.66	3.05	3.12	2.9
Dominican Republic	1.99	2.16	2.28	2.34	2.62	2.84	3.02	3.20	3.25	3.44	3.3
Uruguay	2.06	2.04	1.50	1.18	1.13	1.30	1.48	1.44	1.35	1.23	1.2
Venezuela	1.93	2.17	2.27	2.37	2.84	3.11	3.99	3.92	3.31	3.37	2.9
Average of the 20 countries	1.86	2.03	1.89	1.91	2.22	2.54	2.73	2.85	2.85	2.91	2.8
Other L.A. countries											
Barbados	0.13										
Guyana	0.47										
Jamaica	1.52										
Trinidad y Tabago	0.05										
Average of the other countries	0.88	1.22	1.74	1.82	1.63	1.72	1.97	2.19	2.34	2.13	
AVERAGE OF THE 24 COUNTRIES	1.84	2.01	1.88	1.91	2.21	2.52	2.71	2.84	2.84	2.90	

Sources: CELADE, Boletin Demografico, No. 10, July 1972.
ECLA, Indicators of Economic and Social Development in Latin America, 1976 (mimeo, E/CEPAL/1021, November 1976).

TABLE 7. Latin America: Population Growth in Selected Countries on Maximum and Minimum Hypotheses

	Rate of population increase					Total population (millions)				
	1970	1985	2000	2035	2070	1970	1985	2000	2035	2070
	A. Minimum hypothesis: Birth rates decline to zero growth level by 1995[a]									
Argentina	1.3	0.9	0.6	0.2	0.1	23.8	28.1	31.4	36.3	37.7
Brazil	2.9	2.2	1.3	0.5	0.1	95.2	137.7	177.1	245.8	264.4
Venezuela	3.0	2.7	1.4	0.6	0.1	10.6	16.1	21.4	30.8	34.8
El Salvador	3.3	2.5	1.4	0.5	0.0	3.5	5.3	7.0	9.9	10.5
Latin America[b]						276.7	405.0	520.0	720.0	780.0
	B. Maximum hypothesis: Birth rates remain at 1970 levels									
Argentina	1.3	1.3	1.2	1.2	1.2	23.7	29.0	35.0	53.1	80.6
Brazil	2.9	3.2	3.3	3.2	3.1	95.2	150.2	242.3	730.0	2124.0
Venezuela	3.0	3.5	3.5	3.5	3.4	10.6	17.1	28.9	82.9	310.0
El Salvador	3.3	3.8	3.9	3.9	3.9	3.5	6.0	10.7	40.8	156.0
Latin America[b]						276.7	437.0	704.0	2121.0	6175.0

[a]Fertility rates decline to the point where the gross reproduction rate is 2.2. In a stable population with the death rates which are expected to prevail in Latin America at the end of this century (and which are maintained in the projection) this results in approximately zero population growth.

[b]The figures are for the 20 republics. An independent projection was not made for the regional total; the figures are estimates assuming that the population of Brazil remains a constant proportion of the whole.

Source: Charles Rollins, "Population and the Labour Force in Latin America: Some Simulation Exercises," CEPAL Review, No. 3, First Semester 1977, p. 132, Table 1.

the final outcome may be, by the year 2000, neither 520 million nor 704. Other estimates, working with different fecundity rates, gave figures from 708 to 560 million for the same year. In their view, the most likely assumption would be a population of 611 million people for the year 2000.[7]

It is important to keep in mind that in most such projections only demographic variables are taken into account, and as we all know, changes in the economic structure of societies have an important effect on demographic variables. Therefore, it may be that these projections are far from reasonable. In fact, some global studies, such as the Bariloche model and Leontief model referred to later, work with lower population figures for Latin America in the year 2000.

A study of the labor force is as important as an analysis of population. While these are related, the second depends primarily on the age structure of the population. And this factor presents mounting problems for the next 25 years. The Latin American population is a young one, with almost 50 percent of the people 18 years old or younger. Assuming that rates of population growth will decline, the age structure will become older. This means that the rate of growth of the economically active population (the labor force) will increase at a faster rate than that of the population.

In Europe, the labor force has been expanding at 1 percent per year since World War II. In Latin America, different studies predict an increment of around 3 percent, so that by the end of the century the total labor force will be 2.5 to 2.75 times the 1970 size.

> Historically, during the phase of industrialization in the now highly industrialized countries the labour force was increasing much more slowly, and even so the employment problem was for long periods critical. In much of Western Europe, for example, reasonably full integration has been achieved only in the post World War II years, with their unusually favourable record of growth and structural change. . . .[8]

Undoubtedly, this is one of the great challenges that the region will face (and is facing now[9]) over the next 25 years; even though population may increase at the lower levels, the expansion of the labor force will be at a level unknown in the last 200 years. None of today's developed countries has to absorb a labor force expanding at such a rate.[10]

4. Insufficient Agricultural Output

The important role played in the region by the agricultural sector during the last century and the first half of this century is well known. Whether measured in terms of its participation in total output, or population engaged in its activities, or the percentage of exports coming from the sector, or in terms of any other indicator--the conclusion is very much the same: agriculture was indeed the most important of the economic activities of Latin America. The emergence of industrialization as the main vehicle for development at a later state may explain the relative decline of agriculture in the overall picture of the economy. At any rate, agriculture has been unable to maintain a rate of growth comparable to that of the rest of the economy.

The physical quantum of agricultural production has grown at the following rates: 3.7 percent (1950-1960), 3.0 percent (1960-1970), and 2.5 percent (1970-1975).[11] From this date it is easily inferred that the sector has--precariously--been able to keep abreast of increases in population. But, given the improvements in per capita income already mentioned, we may conclude that agriculture has been unable to sustain the growing needs of the region. This is the reason that in 1972 and again in 1973 Latin America, for the first time, became a net importer of grains.

This trend is also revealed in the declining share of agricultural exports (expressed as percentages of total exports) from 50 percent in 1960 transnational corporations to go into the sector. It will be interesting to see whether the trend continues and in what way the traditional local owners will react to the newcomers. Will they modify their attitudes? Will they sell their land? Will they introduce new techniques to compete with them? Or, are we going to see a takeover in this sector similar to the one in manufacturing?

In most countries increases in agricultural output have been obtained by cultivating new land. Uses of fertilizers, agricultural machinery, and other techniques have appeared only recently. A "frontier" concept has prevailed, and if food prices are "convenient," new land may be incorporated into farming.[15]

Low productivity in agriculture has had several effects in addition to the obvious one of diminishing agriculture's share of the GNP (Tables 4 and 5). It has kept the standard of living in the countryside at low levels, preventing the rural population from becoming an important market for the industrial sector. It has also failed to absorb the large labor force associated with traditional modes of farm production. This failure would become even more severe with the introduction of more new technology. In fact, there has been an impressive exodus to the cities. Rural population has increased in absolute numbers, but its share has been declining as is shown by the different growth rates for rural and urban population (Table 8).

It is not necessary to mention the effects upon nutrition that this failure of agriculture has had. Suffice it to say, per capita food production did not increase at all from 1961 to 1971.[16]

Jo!
Mechanization
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TABLE 8. Latin America: Rural and Urban Population

	Percentage of Population			
	1950	1960	1970	1975
Rural	74.4	67.2	58.9	55.0
Urban[a]	25.6	32.8	41.1	45.0
In cities of more than one million inhabitants	10.4	14.4	18.8	–
In cities of more than 100,000 inhabitants	19.1	24.6	31.2	–

	Rate of Increase		
	1950/60	1960/70	1970/75
Rural	1.9	1.5	1.6
Urban	5.3	5.1	5.1
Total	2.8	2.7	2.8

[a] Defined as the population living in cities of 20,000 inhabitants and over.

Source: CELADE and ECLA, several publications.

5. Industrialization: The Awkward Growth

Industrial growth in Latin America has been difficult, although this has been the fastest growing sector of the region (Table 4). Growth rates have always been over 6 percent per year, and with the exception of 1974, it has been larger than the rate for the gross domestic product (Table 9). The analysis of the process of industrial growth will show a familiar pattern, similar to that of developed economies, as far as the evolution of the internal structure of the sector is concerned. Internal structure can be analyzed by grouping industries in three or four main categories: consumer goods, intermediate goods, capital goods, and other industries. According to several authors,[17] food, leather, textiles, beverages--consumer goods industries--have always developed at the beginning of the industrial processes; later on, intermediate and capital goods (including durable consumer goods such as electrical machinery) will develop. The reason for this pattern is not difficult to perceive: on the one hand, consumer goods industries require small capital, a not very sophisticated technology, and therefore labor would not need to be very skilled; from the point of view of demand, these "basic needs" were the first to attempt to be satisfied. Later, demand grows faster for durable consumer goods, and these new industries because of their faster rate of expansion become more "dynamic" in contrast with the "traditional ones" (consumer goods).[18] Different growth rates for different industrial sectors can be explained generally in this way. From Table 9 it is possible to see substantial variations in the rates throughout the period.

In Table 10 I have attempted to summarize changes in the industrial sectors that have occurred over the last 20 years in Latin America. Consumer goods industries (defined as indicated in the table) accounted for 65 percent

TABLE 9. Latin America: Growth Rates of Industrial Output, 1950-1974.

Industrial growth	1950/60	1960/70	1965/70	1970	1971	1972	1973	1974
Total	6.2	6.7	7.1	7.5	7.9	9.8	9.0	6.1
Food, beverages and tobacco	3.8	4.9	5.5	5.9	2.2	8.8	4.8	5.0
Textiles, clothing and leather	4.1	4.1	4.6	6.7	9.0	6.0	8.1	0.7
Wood and furniture	3.9	5.4	4.6	4.4	0.0	4.5	1.1	-0.8
Paper and printing	7.3	7.0	7.1	7.9	6.0	7.7	5.3	6.6
Chemicals	11.3	8.8	8.3	9.9	8.4	8.9	10.3	5.9
Non-metallic minerals	8.8	6.9	9.7	14.0	8.5	9.4	9.5	9.9
Basic metals	8.7	8.3	6.6	4.1	10.0	10.9	8.0	7.3
Metal products, machinery and equipment	11.6	8.8	8.9	7.0	13.9	14.9	15.7	10.8
Other industries	9.4	6.4	5.4	7.8	-2.1	8.6	4.0	8.3
Elasticity with regard to gross domestic product of industrial sector as a whole		1.23	1.25	1.11	1.24	1.33	1.32	0.93

Source: ECLA, several publications.

TABLE 10. Latin America: Structure of the Industrial Output by Manufacturing Sectors and Group of Countries (1950-1970).

Groups of Countries	1950 A	1950 B	1950 C	1950 D	1950 E	1955 A	1955 B	1955 C	1955 D	1955 E	1960 A	1960 B	1960 C	1960 D	1960 E	1965 A	1965 B	1965 C	1965 D	1965 E	1970 A	1970 B	1970 C	1970 D	1970 E
Group I	63.1	17.9	15.1	3.9	100.0	55.7	21.0	19.3	4.0	100.0	48.0	22.6	25.4	3.9	100.0	42.7	25.6	27.6	4.0	100.0	36.4	27.9	31.9	3.8	100.0
Group II	62.7	22.5	11.4	3.4	100.0	62.4	28.3	6.5	2.8	100.0	54.7	26.5	15.6	3.2	100.0	52.7	26.8	17.0	3.5	100.0	51.7	26.1	18.4	3.8	100.0
Group III	80.5	10.7	7.1	1.7	100.0	85.1	9.7	0.8	4.4	100.0	80.3	13.5	4.0	2.2	100.0	79.8	13.6	3.7	2.9	100.0	67.1	17.8	11.9	3.2	100.0
Group IV	86.0	8.6	3.4	2.0	100.0	74.4	14.5	8.3	2.8	100.0	78.0	13.4	5.5	3.1	100.0	75.4	14.8	6.3	3.5	100.0	67.9	19.2	8.4	4.5	100.0
Latin America	65.1	17.9	13.4	3.6	100.0	57.7	21.9	16.6	3.8	100.0	51.5	22.8	22.0	3.7	100.0	47.4	25.1	23.6	3.9	100.0	41.7	26.2	27.6	3.8	100.0

KEY TO TABLE

Composition of Groups of Countries:
Group I - Argentina, Brazil and Mexico
Group II - Chile, Columbia, Peru and Venezuela
Group III - Bolivia and Equador
Group IV - Other Latin American countries

Industrial Sectors:
A - Consumer goods: food, beverages, tobacco, textiles, clothing, wood and wood products, furniture, and leather products.

B - Intermediate industries: Paper, rubber, chemical and plastic products, petroleum and non-metallic minerals..

C - Capital goods industries: Basic metal industries, metal products, machinery, electrical machinery (appliances), and transport equipment.

D - Other industries: Printing and other manufacturing industries.

E - Total industrial output.

Source: Compiled from statistical data in ECLA, Integracion, Sustitucion de Importaciones y Desarrollo Economico de America Latina (mimeo, March 1974).

of the regional industrial output in 1950 and only 41 percent in 1970, while the intermediate and especially capital goods industries increased their share greatly. These changes are more pronounced in the most industrialized countries, Argentina, Brazil and Mexico.

Changes in the industrial structure, as the industrialization proceeded, were similar in Latin America and the DC's. Table 10 summarizes a development that coincides with the pattern of other regions. But in order to understand the general problems of undeveloped countries, one must remember that many forces behind this industrial development are peculiar to the period in which Latin America began industrialization; and, unfortunately, some of them are disappearing.

These forces are well known. The prevailing style of development up to the 1930's Depression ("outward-oriented growth," to use ECLA's expression) was not particularly congenial to industrial growth. The export sector provided enough foreign currency so as to import manufacturing goods required by small groups of the population who were in a position to demand them. As long as the export sector (primarily raw materials) could meet the requirements on the import side, no real incentive would exist toward internal production of industrial goods. As we all know, it was the Depression first, and World War II afterwards, that created the conditions for Latin America's industrialization. In order to handle their problems with balance of payments, governments of different ideologies imposed severe restrictions on foreign trade, either devaluating or, more often, forbidding or imposing quotas on foreign goods. A "protective wall" was established de facto. It is true that some industrialization already existed in many countries before the crisis, and it was not too difficult to take advantage of the situation. It should also be pointed out that if at the beginning several measures were taken without realizing their full implications (many authors maintain that

that protective measures were a by-product of solving the balance of payments and were not to promote industrialization), later on pressure groups acting upon the State were able to get measures enacted for specific purposes. This is how the so-called industrial import substitution process began.

Without going into detail, suffice it to add that this import substitution started with those goods whose substitution was "easier"; most of them belong in the consumer goods category. Since "basic industries" were required so that the process should not lose its momentum, the State provided—during the 1940's—steel, electricity and oil.[19] Therefore, industrialization at an earlier stage was the outcome of external forces and an expanding role for the State. It is fashionable today to emphasize the influence of ECLA on implementing this policy. While not denying the role played by that institution, it happens that by 1948 (when ECLA was created by the United Nations) the pattern of industrial growth in the region was well underway. What ECLA can be accountable for is that through its publications it provided <u>ex post facto</u> rationalization for the process. The center-periphery theory, deterioration of the terms of trade, the international division of labor, etc., became different angles of a general model that was pushing for rapid industrial growth. In this way, ECLA was performing the same role that most economists have played: providing a rational, "scientific," framework for emerging economic ideas.[20]

Import ~~institutions~~ substitution alone were not enough to promote industrial growth. Several reasons accounted for this:

1) Industries that develop first—as was pointed out—required small capital, low technology, and unskilled labor. Intermediate and capital goods industries implied larger capital, skilled labor and technological know-how.

2) Intermediate and capital goods industries required bigger markets

because of the economy of scale.

3) Latin American markets were relatively rural, not only in terms of population and their lower per capita income (compared with DC's), but also because of their uneven distribution of income.

When these problems become acute, two ways (not mutually exclusive) are attempted: 1) to broaden the markets by integrating the Latin American Economies, and 2) to tolerate the dominance and the takeover of many firms by the multinational corporations.

By the middle 1950's it is clear that import substitution, at least in its "easy stage," was approaching an end. Governments established the Latin American Free Trade Association and the Central American Common Market, the latter being more successful.[21] In 1967 the Andean Group was created by five (Venezuela joined later) Andean countries. This integration scheme was very ambitious, trying to impose common by-laws with regard to foreign investment, taxation, import of technology, etc., in addition to promoting trade and deciding to establish new industries among themselves. But, to what extent does agreement in such issues have as a pre-requisite the existence of homogeneous political regimes? This question has been a cause for controversy, and at the time of this writing the Andean Pact is going through a critical period that jeopardizes its very existence.

The appearance of multinational corporations (MNC's) in the region is a phenomenon of the last decade. The process of industrialization that we have been describing was primarily the work of local entrepreneurs. Foreign investment was confined to the export-oriented or utilities sectors of the economy. It was during the 1960's that MNC's began to buy or to establish new firms in manufacturing. They realized that inside the Latin American countries was a market for their products, but that because of the prevalent mood (or the economic ideas) they would be unable to export to them. It was necessary, therefore, to produce from within the countries themselves. This represents an attitude different from that of the older foreign investor: the MNC's are interested in the internal market. Thus, by 1967, out of a total foreign investment of $18 billion in Latin America, 37 percent was located in the industrial sector, of which more than 50 percent belonged to United States firms.[22]

The significance of MNC's in Latin America has been growing; in some cases, and especially in areas where technology is important, they are the dominant factor.[23] Let me attempt to sum up the effects that this industrial development has had.

1) While the process of industrialization has been viewed as a way to strengthen economic independence, in most cases there is a shift from the import of finished goods to importing intermediate ones. As I have said,

> It often happens that terminal industries requiring the importation of a large number of parts and components are established in the developing countries. Whatever the net savings may be, ~~it~~ amounts only to the value added in the host country and not to the total value of the substituted import. This kind of "growth" usually creates rigidities in the balance of payments, because it is difficult to eliminate and/or reduce the importation of the intermediate goods necessary for the manufacture of final products, due to the economic and social consequences implied by such a measure.[24]

In some cases this has actually increased dependence: when only consumer goods were involved, a country could forbid their import without noticeable effects; but, to forbid the import of capital goods or the raw materials needed for production can generate severe unemployment. The flexibility of these economies has been curtailed.

2) Industrial concentration and, in most cases, the emergence of monopolistic markets is a result of their small size. In any case, monopoly and oligopoly are the predominant markets in the industrial sector.[25]

3) Industrial development has been incomplete due to a lack of capital goods industries. This factor has importance consequences since such

industries can produce for large markets and with labor-saving machinery. The DC has a complete economic system that produces both consumer and capital goods (and the latter ones according to their needs, as defined by their availability of factor of production).

4) Because of capital goods that are imported, and the incomplete or haphazard system of capital goods production, industrial growth has not absorbed the increasing labor force.

5) The need for new internal markets, if industrialization is to continue, is crucial. So far, as we shall see, the redistribution of income that would open up these markets is not occurring very much. One alternative has been to explore manufacturing exports in other countries, including the DC's. This may be a promising path, but to walk on it depends more on the attitude of the DC's than on the will of the LDC's--a further reminder of the dependence of the LDC's.

6. Style of Development and Its Social Consequences

We opened this paper with a summary of development theory prevalent at the end of the 1940's. Those ideas, rooted in the economic thought of North Atlantic circles (primarily England and the U.S.), were to some extend "adapted" to Latin American reality. The views of the Economic Commission for Latin America (ECLA) became very important in this process. It was believed that through the process of industrialization, State planning of economic activities, and by integrating the Latin American economies to enlarge their markets, the region could reach a stage of "self-sustained growth," and--very importantly--the benefits derived from growth would be shared equitably by all social classes. Even more, via the role of the State, measure could be taken to <u>redress</u> the uneven distribution of income. Unfortunately, plans were usually not carried out because successive governments proposed new plans; integration, as we have seen, failed, and industrialization was not the panacea that it was supposed to be.

The fruits of the growth process were not shared very fairly. On the contrary, because of the market system and the role played by the State, incomes were concentrated in favor of those social groups that were able to take part in the growth process. There are few data on income distribution to test this hypothesis, but the available information seems to show that the poorest 20 percent have had no change in their income (Table 11). This group is composed of the unemployed and those working in backward agricultural sectors; that is, they are confined to those economic sectors in which growth and modernization are unknown.

Distribution of income influences the types of goods available in a society and the prices for these. In the case of Latin America, 50 or perhaps 70 percent of the population in the lower income group are forced to concentrate their demand on basic items such as food and clothing. Unless this income distribution changes, demand for "sophisticated" consumer goods will be restricted to the top 10 or 20 percent of the population. Table 12 gives a rough idea of this: 87 percent of durable consumer goods are bought by the upper 30 percent. In extreme cases, such as purchase of motor vehicles, 85 percent of them are made by the top 10 percent.

In other words, when distribution of income does not change, the development is concentrated in satisfying the needs of the upper income group in order to keep the economy growing. Table 11 shows us that in absolute terms, the highest 5 percent rose more in per capita income (325 dollars) from 1960 to 1970 than did any other socioeconomic strata. The fastest growing per capita income group was the 20 percent below the top 10 percent, which can probably be called the "middle class." Ultimately, that upper

TABLE 11. Latin America: Per Capita Income in 1960 Dollars and Changes in the Shares of the Different Socio-Economic Strata in Total Income of the Region.

Socio-economic strata	Share of each stratum in total income		Per capita income[a] (1960 dollars)		Rise in per capita income		Total rise by all strata (millions of 1960 dollars)	Rise of each stratum as percentages of total rise
	1960	1970	1960	1970	Percent-age	1960 dollars		
Poorest 20%	3.1	2.5	53	55	3.8	2	107.6	0.4
Next 30%	10.3	11.4	118	167	41.5	49	3,919	15.4
Poorest 50%	13.4	13.9	92	122	32.6	30	4,025	15.8
Next 20%	14.1	13.9	243	306	25.9	63	3,359	13.2
20% below the top 10%	24.6	28.0	424	616	45.3	192	10,237	40.3
Top 10%	47.9	44.2	1,643	1,945	17.7	292	7,785	30.7
Top 5%	33.4	29.9	2,305	2,630	14.1	325	4,332	17.1
Totals/Averages	100.0	100.0	345	$ 440	27.5	95	25,406	100.0

N.B.: The average distribution for Latin America in 1970 was estimated on the basis of information Argentina, Brazil, Chile, Columbia, Honduras, Mexico, Paraguay and Venezuela.

[a]Per capita personal income.

Source: ECLA, Tendencias y Proyecciones a Largo Plazo del Desarrollo Economico de America Latina (mimeo, E/CEPAL/1027, March 1975).

TABLE 12. Share of Different Population Strata in Total Consumption, by Type of Consumption, Around 1970[a].

Type of consumption / Population strata	Poorest 20%	Poorest 50%	20% below the richest 10%	Richest 10%
Food, beverages and tobacco	5	23	29	29
Meat	2	12	34	41
Cereals	8	32	24	19
Other foods	5	25	28	28
Beverages and tobacco	5	22	29	30
Wearing apparel	2	14	32	42
Clothing	2	13	32	44
Footwear	3	16	32	36
Housing[b]	2	15	29	44
Transport	1	5	25	64
Personal care[c]	2	15	31	41
Domestic service	–	1	16	82
Other personal services	1	4	25	67
Recreation and amusement[d]	–	3	20	75
Durable goods	1	6	26	61
Motor vehicles (purchase)	–	1	13	85
Houses and apartments (purchase)	2	9	29	54
Furniture	2	5	16	74
Electrical and mechanical appliances	1	5	37	50
Share of total consumption	3	15	28	43

[a]Estimated average on the basis of data from Argentina, Brazil, Chile, Columbia, Honduras, Mexico, Paraguay, Peru and Venezuela.

[b]Housing includes: rents, textile articles for the home, fuels, electricity, gas, water and household goods.

[c]Personal care includes: toilet articles, drugs and medicines, medical services, hairdressing and suchlike.

[d]Recreation and amusement includes: holidays and tourism, recreation, newspapers and magazines, dues to social clubs and suchlike.

Source: A. Pinto, "Styles of Development in Latin America, CEPAL Review, No. 1, First Semester 1976, p. 114, Table 4.

30 percent will define the "needs" of society through their market demands so that "development" will satisfy the upper income group, the only ones with enough purchasing power to influence its course.

> In other words, given the level of average income in the region and in the individual countries, if the present style of development is to work and progress, then income and expenditure must be concentrated in those strata, so as to sustain and increase demand for the favoured goods and services. If this is done, then the productive apparatus will adjust itself primarily to the satisfaction of such demand.[26]

The theory that as an economy grows, distribution of income becomes more equitable has not proven true in Latin America. Kuznets used to say that ". . . the major offset to the widening of income inequality associated with the shift from agriculture and the countryside to industry and the city must have been a rise in the income share of the lower groups within the non-agricultural sector of the population."[27] From Table 11 we reached the opposite conclusion: 50 percent of the population had a per capita income of 92 dollars in 1960; it rose ~~to~~ by 30 dollars by 1970, while the average increase in that period was 95 dollars. On the other side, a declining rate of increase of per capita income of the top 10 percent (as compared with the average rate of increase) explains the slight drop of the share of this stratum in total income (from 47.9 percent to 44.2 percent).

The last two columns of Table 11 represent an attempt to measure the growth in purchasing power of each stratum, given the rise in national income of $25 billion, of which one third went to 10 percent and 71 percent went to the upper 30 percent. The increments achieved by this group lead us to believe that it has defined the style of development.

Table 12 shows that the lower 50 percent devoted their $4 billion of the $25 billion mainly to food and clothing. Here we see why the inefficient behavior of the agricultural sector is so crucial. If any redistributive policy is to succeed, it must address the matter of agrarian growth. Otherwise, redistribution will mean inflation or rationing.

In short, the style of development of the region during the last 30 years has been income-concentrating; critical poverty has remained unaffected by the process of growth. This uneven distribution of income has defined a particular pattern of development where net investment is devoted to produce goods for the upper ten to thirty percent income groups. Attempts to introduce changes in income distribution have failed because the economy cannot adapt to the new consumptive patterns that would derive from that distribution. Agricultural products and other non-durable consumer goods--whose demand increases rapidly with small changes in income of the lower-income strata--should grow at an expanding rate. Such a measure is difficult to implement in the short run because it would require basic changes in economic structures, and these can be implemented only in the long run.

Satisfying the needs of those who can pay for it requires more differentiation and sophistication of manufactured goods. Patterns of consumption are those of industrialized countries (for instance, TV sets and audio equipment), and these needs cannot be met by local entrepreneurs. This is another explanation of why the MNC's have been successful in the Latin American market.

But this pattern of development is difficult to sustain in the long run, because of the accompanying social developments. At the same time that benefits of growth accrue mainly to the upper strata of society, other changes are taking place: urbanization, growing numbers of industrial workers, development of trade unions, and--via the expanding role of the State during some periods--improvement in education and health. These and other changes will raise "social consciousness" of the lower income strata, or at least of those strata that are participating in these changes. They will expect to share some of the "fruits" of development. To some extent, improvements in the division of income that some strata achieved from 1960 to 1970 (Table 11) can be accounted for by this "social consciousness."

Some authors[28] have explained the emergence of authoritarianism regimes as the answer of the ruling classes to those demands; for such demands can jeopardize the processes of capital accumulation, investment, and growth. It is necessary to keep social demands within some specific boundaries to keep the style of development functioning.[29]

Those groups whose participation in the process has been precluded account for the well documented critical poverty of the region. Those 20 percent with per capita income of 55 dollars in 1970 (no matter--they rose from 53 dollars in 1960!!) are indeed below the poverty line. They have not been benefited by the trickle-down theories of development and their very existence demonstrates the shortcomings of this process.

To sum up in the words of Prebisch,

> Two high hopes of some decades ago have been frustrated in the subsequent course of peripheral capitalism. It was once believed that if the latter were left to be carried along by its own dynamic impetus, the penetration of technology from the industrial centres to the periphery would gradually disseminate its fruits throughout all strata of society; and that this would help to further and consolidate the democratization process.[30]

7. Latin America and Its Place in the World Economy

Up to now, I have made only passing reference to the relations of Latin America with the rest of the world. It is well known how important those relations have been in shaping and influencing Latin American economies. What function does Latin America fill in the world economy?

Economic ideas usually emerge <u>following</u> particular economic conditions. Smith's division of labor is the consequence of and also a coherent explanation of the early industrial revolution; Keynes's <u>General Theory</u> is an attempt to explain and to solve the conditions that led to the unemployment and the depression of the 30's. However, any theory must go beyond the particular conditions that inspired it, if it is to claim universal applicability. We can understand why Smith and Keynes proposed the solutions they did, and how the "center-periphery" theory to explain what had happened in Latin America by the end of the 40's grew out of those solutions. This theory divided Latin American development into two stages, with the 1930 Depression as the turning point: stages of outward-oriented and inward-oriented growth.

In the first stage, during the 19th and early 20th centuries, peripheral economies were limited to the role of providing raw materials for the development of capitalism taking place in the center. For the first time in history, a global system of international trade emerged, and this trade increased at a faster rate than did the growth of either the central or the peripheral national economies. Growth in the periphery was determined primarily by the expansion of exports, which in turn depended on the growth rate of the central countries. These exports were sufficient to provide foreign exchange for importing manufactured goods from center to periphery. When this model foundered in the 30's, peripheral countries turned to import substitutes. Import substitution, especially during the first 25 years, was the work of local entrepreneurs. But international linkages maintained their strength and versatility. Exports of raw materials and imports--now--of intermediate goods (see section 5), and the recent emergence of MNC's, etch a new and more profound pattern of dependence.

This process was not geared to autarchy. As Sunkel has said,

> . . . the nature of the dependence . . . changed. The traditional foreign links related to the primary export sectors have lost importance and suffered significant changes, while the new external links related to industrial development have become important and added

new elements of foreign dependence: the foreign industrial subsidiaries, joint enterprises, foreign aid, various ways of securing technology and qualified personnel, etc.[31]

Latin American participation in world trade has been declining since World War II (Table 13), due to increasing trade among the DC's, especially in manufacturing. This is a part of the growing process of integration of national economies in the center. In fact, growth rate for exports and imports[32] doubled the rate of GNP of their economies and this was mainly the product of manufacturing. Table 14 shows the structure of world trade by commodity classes and regions. For instance, 71.5 percent of U.S. exports in 1969 were manufacturing products, a figure that declines to 63.7 in 1973. With regard to Latin America the figures were 18.5 percent and 19.4 percent, respectively. Note the increase in machinery from 1.8 to 3.9 in Latin America, in spite of the fact that increased oil prices should produce a distortion in an opposite direction (fuel exports increased from 23.5 to 27.5 during those years).

We get a different picture when we analyze the other side, that is, destination of exports (Latin American imports). Here Latin America receives exports in manufacturing that represent in 1973 68.4 percent of the total.

What is the participation of Latin America in world exports by commodity classes? The answer is found in the third and fourth line for each region. Thus, while exports of machinery for the U.S. represented (in 1973) 17.2 percent of total world export, Latin America's participation was only 0.7 percent.

This figure provides an idea of the degree of integration among developed economies. But, given the new phenomenon of the MNC's traditional means of compiling data on international trade conceal a sizeable part of the whole picture. Recent studies show[33] that 25 percent of world trade is done between head offices of the MNC's and their subsitiaries, or else among the subsi-

TABLE 13. International Trade (millions of dollars).

Year	Imports CIF World (1)	Imports CIF USA (2)	Imports CIF Latin America (3)	Imports CIF (3)/(1)	Exports FOB World (1)	Exports FOB USA (2)	Exports FOB Latin America (3)	Exports FOB (3)/(1)
1938	25,400	2,180	1,940	7.6	22,700	3,064	2,010	8.9
1948	63,500	7,183	7,440	11.7	57,500	12,545	7,460	13.0
1958	114,500	13,298	10,490	9.2	108,600	17,755	9,600	8.8
1963	162,900	17,072	10,790	6.6	154,600	23,104	11,290	7.3
1968	252,400	33,066	14,950	5.9	239,800	34,199	13,850	5.8
1970	328,700	39,756	18,870	5.7	314,000	42,590	17,160	5.5
1972	429,800	55,282	23,360	5.4	417,600	38,968	20,640	5.0
1974	849,700	107,112	52,820	6.2	848,700	97,144	51,270	6.0

Source: Calculated by the author from data taken from United Nations, Yearbook of International Trade Statistics, 1975.

TABLE 14. Structure of the World Trade by Regions and Commodity Classes (percentages).

Region	SITC Sections / Year	Origin of exports: Totals	Origin: Primary products: Food, beverages, etc.	Origin: Primary products: Raw materials excl. fuels	Origin: Primary products: Fuels, etc.	Origin: Manufactures: Chemicals	Origin: Manufactures: Machinery and transport equipment	Origin: Manufactures: Other manufactures	Destination of exports: Totals	Destination: Primary products: Food, beverages, etc.	Destination: Primary products: Raw materials excl. fuels	Destination: Primary products: Fuels, etc.	Destination: Manufactures: Chemicals	Destination: Manufactures: Machinery and transport equipment	Destination: Manufactures: Other manufactures
		0-9	0+1	2+4	3	5	7	6+8							
World	1969	100.0	13.4	10.9	9.0	7.1	28.4	29.2	100.0	13.4	10.9	9.0	7.1	28.4	29.2
	1973	100.0	13.4	10.1	11.0	7.0	28.7	27.8	100.0	13.4	10.1	11.0	7.0	28.7	27.8
World totals	1969	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	1973	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	1969	100.0	11.9	10.4	3.0	9.0	43.8	18.7	100.0	14.4	9.8	7.7	3.2	29.2	34.8
	1973	100.0	18.4	12.9	2.4	8.2	39.7	15.8	100.0	12.4	7.4	15.2	3.2	31.2	29.6
	1969[a]	13.8	12.2	13.0	4.6	17.5	21.2	8.8	13.0	13.9	11.6	11.1	5.9	13.3	15.4
	1973[a]	11.8	12.1	14.2	3.5	14.2	17.2	7.0	13.3	13.0	11.0	13.6	6.3	14.2	15.2
Europe, developed countries with market economies	1969	100.0	10.3	5.9	3.2	10.0	33.6	36.0	100.0	14.7	11.8	9.5	7.7	23.3	31.5
	1973	100.0	10.8	5.5	3.7	10.2	33.9	34.9	100.0	14.2	10.2	11.0	7.7	25.3	30.6
	1969[a]	43.5	33.4	23.6	15.2	61.5	51.3	53.5	45.1	49.4	48.6	47.6	49.0	36.9	48.7
	1973[a]	45.0	36.0	24.4	15.0	65.4	53.1	56.5	46.5	49.1	46.7	46.3	51.2	41.1	51.2
Latin America	1969	100.0	39.0	18.7	23.5	2.4	1.8	14.3	100.0	10.4	5.0	10.6	10.9	37.5	23.6
	1973	100.0	36.3	15.2	27.5	2.6	3.9	12.9	100.0	11.8	4.7	12.4	11.0	35.5	21.9
	1969[a]	5.6	16.3	9.6	14.6	1.9	0.4	2.8	5.9	4.6	2.7	7.0	9.1	7.8	4.8
	1973[a]	5.1	13.7	7.6	12.6	1.9	0.7	2.4	5.3	4.6	2.5	6.0	8.3	6.5	4.2

[a]Percentages of the world total. These percentages will not add vertically to 100 because other regions of the world upon which these figures are based are not included in this table.

Source: Calculated by the author from data found in United Nations, Yearbook of International Trade Statistics, 1975.

diaries themselves. In measuring this so-called "captive trade," prices become meaningless as indicators of international trade. Needless to say, when an important part of a country's exports or imports is captive trade, most tools for regulating international trade are futile. For instance, we learn that total utilities, dividends, and interests remitted to the U.S. from its MNC's in 1970 amounted to $5,400 million, while "captive trade" was $18,900 million.[34] If MNC's overprice no more than 10 percent their profits may be increased by one third without increasing their taxes or facing further rules about remittances. It is also important to point out that captive trade grew at a faster rate (17.1 percent) than did world manufacturing exports (13.3 percent) during the period 1966-1970,[35] so that it will continue to be a significant factor in world trade. Captive trade generates a deficit for the host countries because their imports are bigger than their exports. In the region, firms belonging to MNC's imported $1,314 million either from parent companies or similar subsidiaries, and exported only $234 million to them.[36]

A major feature of the region's exports and imports over the last 30 years has been their enlarged diversification. With regard to exports, Table 15 illustrates this point. Agricultural raw materials represented 54 percent of total exports in 1955, declining their participation to 42 percent in 1973; while machinery, transport equipment and other manufactured goods increased theirs from 1.9 percent to 12.7 percent. This growth took place during the last 8 years and was more significant in the bigger countries as can be seen in Table 16. Note the rapid evolution in the case of Argentina, Brazil and Mexico. This fact is, indeed, one of the most promising with regard to future trade prospects for the region. Several factors account for this increase. To begin with, industrialization has reached significant proportions in some countries, so that they can compete in world markets. This increase took

TABLE 15. Latin America: Trends of Exports by Commodity Classes (1970 prices in millions of dollars).

Commodity classes according to SITC	1955		1965		1973	
	Value	Percentage	Value	Percentage	Value	Percentage
Food (0+1+22+4)	4,434	46.1	6,015	43.3	7,318	38.9
Raw materials of agricultural origin (2-22-27-28)	826	8.6	1,117	8.0	640	3.4
Subtotal	5,260	54.7	7,132	51.4	7,958	42.3
Fertilizers and minerals, metalliferous minerals and scrap (27+28)	542	5.6	1,033	7.4	1,839	9.8
Fuels, mineral oil and similar products (3)	2,727	28.3	3,934	28.3	4,419	23.5
Non-ferrous metals (68)	786	8.2	1,053	7.6	1,287	6.8
Subtotal	4,056	42.2	6,020	43.4	7,549	40.1
Chemicals (5)	81	0.8	192	1.4	659	3.5
Iron and steel (67)	43	0.4	129	0.9	270	1.4
Subtotal	124	1.3	321	2.3	929	4.9
Machinery and transport equipment (7)	21	0.2	81	0.6	801	4.3
Other manufactured articles (6+8-67-68)	162	1.7	330	2.4	1,579	8.4
Subtotal	183	1.9	411	3.0	2,380	12.7
TOTAL	9,622	100.0	13,883	100.0	18,811	100.0

Source: ECLA, El Desarrollo Economicio y Social y las Relaciones Externas de America Latina (mimeo, February 1977).

TABLE 16. Participation of manufacturing exports in total exports in some countries, 1965-1973 (percentages.

Country	1965	1970	1973
Argentina	9.6	23.8	32.0
Brazil	14.9	21.2	27.0
CARIFTA[a]	8.2	10.7	13.2
Central America	19.4	28.7	19.0
Chile	4.9	7.4	7.5
Mexico	16.3	33.8	48.7
Paraguay	40.1	32.8	37.8
Uruguay	16.2	13.8	15.7
Venezuela	0.9	2.2	1.3

[a]Caribbean Free Trade Association

Source; ECLA, Indicadores del Desarrollo Economico y Social de America Latina (mimeo, February 1976).

place in countries where the rate of exchange was floating, or at least it was fixed at a "high" level so as to promote exports. It should be mentioned also that MNC's have played a role since some of their subsidiaries are exporting to other countries using the host country as a base to cover a particular region. Recent estimates[37] point out that 43 percent of total manufactured exports in Brazil came from MNC's in 1969.

Since part of those manufactured exports went to developed countries, two elements in this connection were important: some liberalization in their policies with regard to imports, and the healthy conditions that prevailed in those DC's with market economies up to 1973.[38]

When we turn our attention to imports we see changes due to the process of growth that we have been describing. Import substitution is reflected in the drop (in relative terms) of consumer goods from 22.8 percent of total imports to 14.0 percent from 1948-1973, and an increase in imports of raw materials and intermediate products (from 31 percent to 41) (Table 17).

Flows of international trade have not presented radical departures from the established patterns during the last 15 years. Or, those departures are such that would be expected, given the general trend in world markets, such as the increasing importance of the Japanese economy for the region (Table 18).

8. Foreign Investment and External Financing

Foreign investment in the region reflects the changing importance of industrialized countries in the world economy. Up to 1914 the main foreign investor was the United Kingdom; afterwards, the U.S. became the leading country. By 1967 the U.S. had 65 percent of the total foreign investment in the region (Table 19). This percentage declines to 55 when only investment in manufacturing is considered. Nevertheless, because of nationalizations—especially in Venezuela's oil and Chile's copper—this percentage would be

TABLE 17. Latin America: Evolution of Imports by Commodity Classes (CIF prices in millions of dollars).

Commodity classes	1948		1955		1960		1973	
	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
Consumer goods	1,243	22.8	1,256	18.5	1,347	17.5	3,352	14.3
Fuel	461	8.5	740	10.9	669	8.7	1,984	8.5
Raw materials and intermediate products	1,690	31.0	2,407	35.4	2,656	31.9	9,674	41.3
Construction material	327	6.0	379	5.6	321	4.2	535	2.3
Capital goods	1,686	31.0	1,987	29.2	2,645	34.4	7,786	33.2
TOTALS	5,443	100.0	6,800	100.0	7,694	100.0	23,447	100.0

Source: Compiled by the author from ECLA, America Latina Importaciones Clasificadas Segun su Uso o Destino Economico (mimeo, E/CEPAL/1043, August 1977), Tables 2 and 3.

TABLE 18. International Trade by Regions
(annual average in millions of dollars)

Trade measurements	1960/70 average	1970	1973
EXPORTS	11,242.6	14,862.5	25,641.3
USA	4,061.0	5,137.7	8,319.9
EEC	3,236.7	4,240.0	6,442.1
Japan	508.8	838.4	1,272.1
Socialist countries	274.0	329.9	827.7
Other countries	3,162.1	4,316.5	8,679.5
IMPORTS	10,795.0	15,360.1	25,007.0
USA	4,415.6	6,130.9	9,000.3
EEC	2,745.4	3,777.8	6,017.8
Japan	477.1	896.4	1,897.6
Socialist countries	147.9	161.1	277.3
Other countries	3,009.0	4,393.9	7,814.0
TRADE BALANCE	447.6	- 497.6	634.3
USA	- 354.6	- 993.2	- 680.4
EEC	491.3	462.2	424.3
Japan	31.7	- 58.0	- 525.5
Socialist countries	126.1	168.8	550.4
Other countries	153.1	- 77.4	865.5

Source: Compiled by the author from data found in ECLA, Indicadores del Desarrollo Economico y Social de America Latina (mimeo, February 1976).

TABLE 19. Latin America: Total Direct Investment and Major Investor Countries in the Manufacturing Sector, 1967.

Investor countries	Millions of dollars			Percentage of investor country in total investment in Latin America		Share of Latin America in the world investment of the investor country (in percentages)
	Total dollars	Manufacture				
		Dollars	Percentage	Total	Manufacture	
United States	11,572	3,616	31	65	55	20
Western Europe	4,613	2,521	55	26	38	12
United Kingdom	1,607	476	30	9	7	10
Holand	793	210	27	4	3	42
Federal Republic of Germany	756	705	93	4	11	26
France	442	368	83	2	6	8
Switzerland	406	198	49	2	3	10
Italy	392	366	93	2	6	19
Belgium	113	108	96	1	2	5
Other European countries[a]	104	88	85	1	1	5
Canada	1,319	157	12	7	2	36
Japan	403	292	72	2	4	28
Total	17,906	6,586	37	100	100	18

[a] Austria, Denmark, Norway, Portugal and Sweden.

Source: ECLA, La Precencia de las Empresas Multinacionales en la Industria Manufacturera de America Latina, 1975.

expected to decline in later years. I will not go into the familiar arguments on the advantages vs disadvantages of foreign investment. As Carlos Diaz-Alejandro has written, "The Methodological choice often reflects the student's bias: those out to show the foolishness of direct-foreign investment opponents tend to start from non-historical competitive models; those interested in exposing direct-foreign-investment evils find history more congenial."[39]

It is important, however, to place direct foreign investment in perspective with regard to its importance to the host economy. In Latin America, internal savings account for more than 90 percent of total investment.[40] This is why, according to Ffrench-Davis, to raise the growth rate of the gross domestic product in Latin America by 1 percent would require an injection of capital two and a half times the present rate.[41] This indicates that, while foreign investments may be important in some areas, on the whole their contribution is not an important strategic variable; instead, internal domestic effort is the crucial factor and foreign investment is a complement to this. If Latin America is to increase its growth rate, there must be additional efforts at capital accumulation on the national level.

Since this is a political decision and political stamina has been lacking, the region has gone over in the last 10 or 15 years to external financing. Foreign debt--either public or private--has expanded at rates that, without exaggeration, can be termed astonishing (Table 20).[42] During the last ten years it has increased five times, and within the last five year period it has more than doubled.

"The combined external debt of Latin America has maintained its upward trend, rising from an annual average rate of increase of 11 percent in 1961/65 to around 22 percent in 1972/73. It increased 23.7 percent in 1975 over the 1974 level, reaching $50,062 million."[43] By 1974, 84 percent of the region's

TABLE 20. Public External Debt (millions of dollars).

Year	Argentina	Brazil	Mexico	Latin America
1929	1,202.4	1,059.9	826.2	4,054.1
1935	1,281.0	1,186.1	362.9	3,916.3
1945	900.0	432.7	540.0	2,911.5
1950	400.0	409.4	509.1	2,213.3
1955	600.0	1,380.3	478.9	4,046.5
1960	1,478.1	1,823.9	1,038.4	6,631.4
1965	1,929.0	3,202.0	2,260.0	12,140.0
1970	5,677.3	5,295.2	4,291.0	24,640.6
1973	6,366.4	12,571.5	7,405.3	39,167.0
1975	6,977.8	21,171.4	14,607.7	62,439.1

Sources: ECLA, El Desarrollo Economico y Social y las Relaciones Externas de America Latina (February 1977).

ECLA, El Financiamiento Externo de America Latina, 1964.

debt was concentrated in seven countries: Argentina, Brazil, Chile, Columbia, México, Perú and Venezuela (Table 21).

This phenomenon is not restricted to Latin America, but is true for all LDC's. In fact, the region has 30 percent of the LDC indebtedness, but about 40 percent of the total debt service. This means that Latin America has access to external financing with shorter terms than does the rest of the LDC's.[44]

Impressive as this is, it should be interpreted with caution. During the last decade, the ratio of external debt to total product has remained at a constant level (about 18 percent). But what is arousing concern is that the ratio of external debt to exports has been increasing from an average of 21.9 percent during last decade to 27.9 in 1974 (Table 22). If a distinction is made between oil-exporting and non-oil-exporting countries, then the picture is much darker.[45]

Another feature that should be mentioned is the changing composition of external financing. In the early 1960's about one fifth of the credits were provided by private banks. Their participation rose to around 40 percent in 1974, and this trend will probably continue in the future.[46] Government and credit suppliers, on the other hand, have become less significant. This trend is part of what has been called the "internationalization of the Latin American economy."[47] The region has developed closer links with the cetner of international finance, as well as with the MNC's. There has been an increasing openness of the economies, import diversification, exports of manufactures, and greater access to private international sources of financing (although usually this access requires a green light from the IMF).

TABLE 21. Latin America: Annual Rate of Growth of the External Public Debt,[a] by Countries, 1961-75 (percentages).

Country	1961-65	1966-70	1971	1972	1973	1974	1975[b]
1. Principal Debtor Countries[c]	10.2	11.2	16.7	21.7	22.2	29.7	22.8
Argentina	8.7	5.4	20.6	16.0	4.6	31.1	1.9
Brazil	4.4	10.3	20.6	32.4	19.9	36.5	42.9
Chile	15.3	17.9	7.2	19.4	8.8	23.5	- 1.4
Colombia	21.0	13.3	14.5	12.3	15.2	0.8	7.6
Mexico	12.9	12.3	11.4	13.7	51.7	41.0	31.6
Peru	21.0	11.5	9.4	22.7	34.2	39.6	15.2
Venezuela	8.2	11.4	47.6	31.3	10.6	- 5.4	-15.6
2. Rest of Latin America	16.8	13.1	14.1	18.5	25.3	28.5	28.9
3. LATIN AMERICA	11.0	11.5	16.3	21.2	22.6	29.5	23.7

[a]Including the undisbursed portion at year's end.

[b]Preliminary data.

[c]Countries that accounted individually for at least 5 percent of the total debt of Latin America in each of the years 1971 through 1973. The other countries included in "Rest of Latin America" each accounted for 2.6 percent, or less, of the total regional indebtedness.

Source: IDB, Economic and Social Progress in Latin America, 1976 Report, Table III-20, p. 93.

TABLE 22. Latin America: Ratio between Annual Service of Foreign Debt and Total Exports (percentages of exports of goods and services).

Country	Decade of 1960: Entire decade	Decade of 1960: Second half of decade	1970	1971	1972	1973	1974	1975
Argentina	31.3	31.8	29.0	48.4	33.8	29.6	31.3	32.5
Barbados	3.5	3.3	4.9	2.7	2.8	7.8	11.6	4.8
Bolivia	19.7	17.4	15.4	24.8	30.2	28.1	19.5	4.8
Brazil	41.5	38.6	40.2	40.8	43.1	44.4	39.5	46.9
Columbia	31.5	31.9	32.2	30.5	30.5	30.6	26.0	32.0
Costa Rica	23.6	25.5	13.2	16.7	18.1	23.4	22.6	25.0
Chile	31.3	26.9	26.1	32.1	45.9	40.6	24.5	47.1
Equador	13.4	14.2	17.8	19.6	21.7	11.6	8.1	6.4
El Salvador	9.2	9.7	11.2	13.4	16.2	12.7	16.6	19.8
Guatemala	18.7	22.5	22.3	15.9	14.9	11.3	9.7	7.6
Guyana	5.3	5.7	5.0	6.8	5.5	11.4	5.5	9.2
Haiti	10.0	10.1	8.9	6.0	7.7	5.4	6.2	3.8
Honduras	6.1	5.6	6.1	11.2	8.1	10.3	11.5	13.3
Jamaica	4.0	3.6	2.6	6.3	4.6	7.4	9.6	10.5
Mexico	27.9	31.4	30.2	28.1	26.7	30.4	24.1	34.5
Nicaragua	11.1	12.4	16.7	13.6	18.4	12.1	13.6	20.3
Panama	5.7	6.8	13.3	17.7	21.5	34.2	60.6	53.3
Paraguay	15.3	16.7	17.1	25.6	20.4	16.8	18.4	40.0
Peru	17.5	22.1	30.7	38.8	29.6	46.4	30.0	54.4
Dominican Republic	17.1	16.3	17.2	11.4	14.1	14.9	14.0	14.9
Trinidad and Tabago	1.8	2.1	3.6	4.1	2.0	5.4	8.3	8.2
Uruguay	29.8	37.0	29.1	43.5	31.0	37.5	25.7	43.6
Venezuela	5.2	2.8	2.9	3.9	5.1	4.1	4.9	4.9
LATIN AMERICA	21.9	22.3	23.4	26.1	25.7	27.2	21.4	27.9

Source: ECLA, El Desarrollo Economico y Social y las Relaciones Externas de America Latina (mimeo, February 1977).

9. Some Conclusions

I have sketched the main trends in the development of the region: a reasonable overall rate of economic growth, with different degrees of success, either in terms of countries or sectors of economic activity; agricultural output was low while manufacturing was the most dynamic. Access to the benefits of this growth process was not shared equally by the rapidly increasing population of the region. In fact, optimistic visions for development proved to be erroneous with regard to distribution of income. This remained as uneven as in the past for the lowest stratum, with some minor improvements in middle income groups at the expense of the upper income level. Attempts to speed up development by enlarging the markets via integration of the national economies were not models of success, MNC's appeared on the scene--especially those of countries with bigger internal markets--and today account for a substantial proportion of industrial output. As this process was taking place, Latin American trade was in a process of growing diversification (with promising exports in industrial goods to the "center"). Increasing links with the international economy were being developed, not only through MNC's and foreign investment, but because of a rapidly expanding external debt, which in some countries was reaching dangerous proportions of their GNP or their total exports.

I have tried to convey the idea of a more mature regional economy, but the shortcomings are still impressive: masses living in extreme poverty; social indicators such as access to health or education are underdeveloped; unemployment and disguised unemployment has reached extremely high proportions of the economically active population. These social ills account for the unrest that prevails in the region, unrest that in most cases has been "erradicated" with authoritarian regimes.

PART II

10. Latin America in the International Scenario

Now let me turn to the analysis of some prospects that may face Latin America on the international scene. I emphasize the word "some" because several aspects will not be considered.

It may be useful to begin by recalling the 1974 and 1975 recession in the DC's and its effect upon Latin America (Table 23). The region was able to resist the effects of the worst depression of the last 40 years to a degree that would have been unthinkable 25 years ago. During 1974 the region was able to keep its growth rate above 7 percent, and the setback of 1975 was still not as profound as the negative growth rate experienced by the OECD countries. This fact shows that the region, because of its development, is less dependent than it was in the past upon the economic conditions of center countries. There has been an improvement in the "defensive capacity" of Latin America. Enrique Iglesias has summed up some factors accounting for this phenomenon:

- -The greater structural solidity of the economies of the region, due in the main to the diversification of its production system by virtue of industrialization;
- -The more diversified composition of exports and, in particular, the increase in exports of manufactures;
- -The domestic potential for producing intermediate and capital goods which could previously be obtained only through imports;
- -The greater access to international financing, especially of a private nature, even at times of acute disequilibrium in the balance of payments of some countries;
- -The limited, but significant, transformation of agriculture, and particularly of an appreciably dynamic modernized sector.[48]

In short, this improvement in the defensive capacity is the outcome of the same growth process that has taken place during the last 30 years. The region has become less dependent on what is happening in the center.

But there is also an improvement in the defensive capacity in another

TABLE 23. Gross National Product by Regions, 1974-1976 (percentages).

Regions	Annual change in GNP		
	1974	1975	1976
OECD countries	0.5	-1.2	5.0
OPEC countries	9.1	3.5	n.a.
LDC's, non-oil exporters	5.3	1.4	n.a.
Latin America total (excluding Equador and Venezuela)	7.2	2.4	4.7

Source: Inter-American Development Bank, Economic and Social Progress in Latin America, 1976 Report, Table I-1.

sense. Latin America has become an important market to DC's in some specific areas. Because of the growth process, the region is no longer a negligible consumer of certain manufactured goods produced in industrialized countries. This is a new element that deserves some detailed analysis.

I have presented in Table 24 world trade statistical data on exports by commodity classes and region in order to give a general picture of Latin America's position. Since it is useful to have figures for the Latin American Free Trade Association, I have created a separate region to summarize LAFTA's activities.

The increase in world trade from 1970-1974 is very impressive (figures in the table cover 1970-1974 but are not totalled). It grew from $312 billion to $835 billion, while the region increased from $18 to $55 billion.

While at the world level Latin America does not represent a very important market since it imports under 10 percent of world exports overall (the only class approaching 10 percent is chemicals), at a disaggregated level we find a different perspective. Thus, with reference especially to the U.S., almost 12 percent of its total exports in food went to Latin America from 1970-1974; chemicals were over 22 percent, machinery and transport equipment about 20 percent. Similar figures hold for other manufactured goods; textiles, yarn and fabrics; and iron and steel. In order to present an example of the way this data differs when finer disaggregation is performed, Table 25 provides a good illustration. In some specific products, Latin America represents up to 63.9 percent of total U.S. exports (railway-track material). In other areas such as food processing machinery, Latin America represents 34.5 percent; paper processing machinery, 31.4 percent; ships, 33.2 percent; bicycles, 40.9 percent; weighing machinery, 29 percent.[49] In agricultural products a similar picture is found for many products.

TABLE 24a.

World Trade by SITC Commodity Classes and Regions (millions of dollars, FOB).

Exports from	Year	Total trade (0-9) World	Total trade (0-9) Latin America	Food, beverages and tobacco (0+1) World	Food, beverages and tobacco (0+1) Latin America	Cereals (041--045) World	Cereals (041--045) Latin America	Crude materials (excl. fuel) (2+4) World	Crude materials (excl. fuel) (2+4) Latin America	Oil, seeds and nuts (22) World	Oil, seeds and nuts (22) Latin America	Textiles and Fibers (26) World	Textiles and Fibers (26) Latin America
World	1970	312,733	18,549	41,220	1,887	6,972	501	32,893	983	2,209	36	5,883	133
	72	415,498	23,705	54,499	2,479	8,616	648	39,036	1,049	2,889	44	7,855	153
	74	835,560	55,721	94,596	5,255	22,477	2,155	74,853	2,613	6,255	173	12,549	329
Europe	1970	137,535	5,513	13,999	380	1,239	7	7,965	101	-	-	1,241	16
	72	188,319	7,152	20,287	528	1,781	8	9,583	126	-	-	1,632	17
	74	336,810	12,741	32,414	809	3,644	32	18,967	276	-	-	2,694	39
USA	1970	42,590	6,477	5,058	585	2,399	222	5,098	374	1,263	28	543	17
	72	48,979	7,203	6,569	764	3,289	360	5,538	375	1,653	24	751	20
	74	97,144	15,659	15,233	2,060	9,991	1,384	12,358	1,135	3,819	141	1,782	56
Latin America	1970	17,446	2,983	6,906	524	653	132	3,043	295	-	-	649	56
	72	20,632	3,829	8,166	664	421	136	3,118	302	-	-	790	73
	74	48,752	9,559	14,186	1,230	1,606	184	5,918	580	-	-	1,137	130
LAFTA	1970	12,683	2,346	4,700	410	570	132	2,210	217	-	-	513	51
	72	15,065	2,976	5,872	509	388	107	2,333	230	-	-	643	70
	74	33,813	7,853	9,481	938	1,564	160	4,590	517	-	-	903	128

Source: Compiled by the author from data found in United Nations, Yearbook of International Trade Statistics, 1975.

TABLE 24b.

World Trade by SITC Commodity Classes and Regions (millions of dollars, FOB).

Exports from	Year	Crude fertilizers and minerals (27)		Metalliferous ores and metal scrap (28)		Animal and vegatable oils & fats (4)		Mineral fuels (3)		Chemicals (5)		Machinery and transport equip. (7)		Passenger road vehicles & parts (10)	
		World	Latin America	World	Latin America	World	Latin America	World	Latin America	World	Latin America	World	Latin America	World	Latin America
World	1970	2,382	95	8,080	90	2,244	167	28,579	1,976	21,912	2,037	89,729	6,837	11,595	365
	72	3,153	109	7,739	81	2,591	176	43,796	3,193	29,183	2,604	125,009	8,806	18,275	522
	74	5,775	262	15,627	303	7,182	498	170,193	13,943	63,747	6,211	205,859	15,450	25,522	792
Europe	1970	750	9	886	1	662	26	4,614	88	13,401	867	47,186	2,686	7,227	153
	72	871	11	822	1	781	35	6,333	125	18,511	1,155	65,948	3,561	10,620	198
	74	1,394	18	2,333	4	2,319	64	16,546	326	41,458	2,729	105,904	5,156	13,809	241
USA	1970	316	41	939	52	493	79	1,595	3	3,826	827	17,882	2,847	842	101
	72	344	42	508	51	508	78	1,552	5	4,133	985	21,533	3,214	1,332	140
	74	665	95	1,475	158	1,423	333	3,444	15	8,819	2,374	38,188	6,007	2,349	236
Latin America	1970	-	-	1,544	30	-	-	3,838	1,215	430	188	383	185	-	-
	72	-	-	1,435	22	-	-	5,512	1,640	618	245	657	320	-	-
	74	-	-	2,853	117	-	-	18,881	4,973	1,433	500	1,842	809	-	-
LAFTA	1970	-	-	929	11	-	-	3,145	1,207	216	78	252	119	-	-
	72	-	-	915	2	-	-	3,756	1,367	312	139	606	292	-	-
	74	-	-	1,836	108	-	-	11,419	4,166	845	329	1,713	760	-	-

Source: Compiled by the author from data found in United Nations, Yearbook of International Trade Statistics, 1975.

TABLE 24c.

World Trade by SITC Commodity Classes and Regions (millions of dollars, FOB).

Exports from	Year (Exports to)	Other manufactured goods (6+8)		Textiles, yarn & fabrics (65)		Iron and steel (67)		Non-ferrous metals (68)		Other manufactured metal products		Clothing (84)	
		World	Latin America	World	Latin America	World	Latin America	World	Latin America	World	Latin America	World	Latin America
World	1970	90,666	4,402	12,391	469	17,066	992	12,246	372	6,247	492	6,267	182
	72	116,420	5,014	16,999	542	20,134	1,059	11,761	400	8,216	536	9,726	259
	74	213,251	11,315	27,699	1,012	46,435	3,982	25,170	1,044	15,027	948	15,002	444
Europe	1970	48,559	1,399	7,108	119	9,296	296	4,455	66	4,098	211	3,255	34
	72	65,383	1,660	9,725	140	11,519	292	4,744	99	5,447	233	4,934	51
	74	117,908	3,527	15,638	226	26,145	1,282	10,076	282	9,865	354	7,148	70
USA	1970	7,662	1,357	603	110	1,269	236	964	118	771	177	227	88
	72	8,103	1,352	779	126	826	174	660	73	855	162	249	115
	74	16,532	3,121	1,795	288	2,560	803	1,500	237	1,694	338	418	196
Latin America	1970	2,564	553	186	72	188	92	1,370	107	-	-	-	-
	72	2,504	641	290	89	227	93	958	106	-	-	-	-
	74	6,244	1,430	740	186	473	206	2,899	309	-	-	-	-
LAFTA	1970	1,909	307	111	18	129	53	1,165	102	-	-	-	-
	72	2,140	425	212	38	213	80	934	101	-	-	-	-
	74	5,602	1,121	631	111	366	187	2,854	303	-	-	-	-

Source: Compiled by the author from data found in United Nations, Yearbook of International Trade Statistics, 1975.

TABLE 25. Exports of Semi-finished and Finished Steel Products (thousands of metric tons).

Product	Exports of United States: To Latin America (1)	To World (2)	(1)/(2)
Ingots and semis	447.4	732.8	61.1
Railway-track material	94.7	148.2	63.9
Heavy sections	64.6	333.0	19.4
Light sections	200.1	683.6	29.3
Wire rods	4.5	59.8	7.5
Strip	139.6	351.4	39.7
Plates	172.4	388.0	44.4
Sheets	507.8	1,318.4	38.5
Steel tubes and fittings	224.0	830.0	27.0
Wire	14.5	42.3	34.3
Tinplate	232.5	450.0	51.7
Wheels, tires and axles	3.2	6.0	53.3
Total of products listed	2,105.3	5,343.5	39.4

Source: United Nations, Statistics of World Trade in Steel (New York, 1975).

When this type of analysis is made over a period of time, the general trend indicates that for some products the importance of the region has been increasing. And there is no reason to believe that this trend will be reversed. At the very least, the region will maintain its current position, unless some import substitution takes place. Should this happen, imports of intermediate products or raw materials will then increase, since Latin America is not self-sufficient. The important point is that despite the diminishing participation of Latin America in world trade since World War II (due mainly to intensification of trade among DC's), Latin America is an important customer in world trade with regard to particular products.

This peculiar situation can be used for the region as an important tool in international economic negotiation. But, to be effective, the region should speak with one voice. As we all know, this requires an enduring political outlook which, unfortunately, the region has lacked up to now. Nevertheless, a realization of how important this tool is could increase the defensive capacity of the region enormously.

Another reason to believe that Latin American countries will retain their participation as consumers of certain products in world exports is that, during the last 5 years, the region as a whole has improved its participation in world trade. Several factors account for this. As Latin American trade became more diversified, it began to participate at an increasing rate in the expansion of world trade. Manufacturing exports represent only 15 percent of total exports of the region, but it is plausible to argue that this will increase in the future.[50] Of course, this will depend to a great extent on the commercial policies of the DC's. If the present tendencies toward protectionism previal in such countries, then the prospects for Latin America are not very good. This is a matter for firm negotiation in their own interests by Latin American countries. As a spokesman of a Latin American country said recently, "We want trade, not aid."

But if the export of manufactures is important, incentives must be chosen carefully. Some countries are exporting goods at the expense of diminishing the purchasing power of socioeconomic groups in their own countries. Anti-inflationary policies that rest mainly on reducing real wages are having this unwanted (is it really unwanted?) effect. On the other hand, with nondiscriminatory incentives to promote exports we may have a situation similar to the much criticized incentives to promote import substitution; that is, promoting exports through artificial means rather than through an increase in productivity.

Another point that should be mentioned is the increasing importance of intraregional trade. In spite of the low success rate for schemes of integration, intrazonal trade has increased from 7.6 percent in 1962/64 to 12.3 percent in 1975. In five of the eleven LAFTA countries, intrazonal exports constituted more than 25 percent of these exports in 1974 (Table 26). Similar increases--but at a declining rate during the last years--have occurred in the Central American Common Market.

Where the region has had least success is in diversifying their trade flows. U.S. and Europe are still the "center." It remains to be seen if redressing the flow to other areas will be possible. Here again, political stamina and political constraints will have their effect. But unless some diversification is possible, the defensive capacity of Latin America will be greatly diminished.

It is not necessary to point out changes that have taken place in the structure of international trade and the emergence of a multipolar world that have increased the defensive capacity of the region. The U.S. is not the predominant nation that it was following World War II. Therefore, Latin America

TABLE 26. LAFTA: Total and Intra-LAFTA[a] Exports, by Countries, 1962-63, 1974, 1975 (millions of dollars).

Country	Annual average 1962-64 Total	Annual average 1962-64 Intra-LAFTA	Annual average 1962-64 Percentage Intra-LAFTA	1974 Total	1974 Intra-LAFTA	1974 Percentage Intra-LAFTA	1975 Total	1975 Intra-LAFTA	1975 Percentage Intra-LAFTA
Argentina	1,330	196	14.7	3,931	929	23.6	2,961	755	25.5
Bolivia	93	3	3.3	645	218	33.8	522	185	35.4
Brazil	1,350	99	7.3	7,951	918	11.5	8,670	1,197	13.8
Chile	567	50	8.8	2,134	409	19.2	1,494	391	26.1
Colombia	486	9	1.9	1,417	203	14.3	1,247	216	17.3
Ecuador	125	8	6.4	1,124	189	16.8	1,050	188	17.9
Mexico	832	33	4.0	2,850	264	9.3	2,859	278	9.7
Paraguay	41	12	29.3	170	53	31.2	174	62	35.6
Peru	583	58	9.9	1,521	156	10.3	1,315	216	16.4
Uruguay	166	13	7.8	382	139	36.4	381	110	28.9
Venezuela	2,678	143	5.3	15,206	475	3.1	11,117	461	4.1
Total	8,253	624	7.6	37,331	3,953	10.6	31,790	4,060	12.3
Total excluding Venezuela	5,575	481	8.6	22,125	3,478	15.7	20,673	3,599	17.4

[a]Bolivia and Venezuela began to participate in LAFTA in 1968. To facilitate a comparison of figures, the value of trade flows maintained by those two countries with the rest of LAFTA prior to 1968 have been included.

Source: Inter-American Development Bank, op. cit., Table IV-1.

should use this new situation to its own advantage. Up to now, this has not been possible, but we should expect a change in our favor over the next 25 years.

So much for defensive capacity. I did want to present a picture of what I consider "assets" of the region vis a vis those of other regional groupings. But, this does not in any way mean that Latin America has been able to overcome its structural weakness with regard to trade. That, is, the well known asymmetry that exists with exports and imports which have different growth trends. Because income-elasticity of food and raw materials is low and the protective measures of the DC's, Latin American exports have a long-term growth rate lower than that of imports (whose income elasticity is higher because of the products that are imported). In many cases, especially during recent years, countries have been able to overcome this problem by applying recessive measures upon their economies, with the subsequent reduction of imports.

Given this asymmetry, in which Latin America's dependency has become so accute, governments have only two alternatives for short-range solutions: the already mentioned recession, or increasing foreign indebtedness. We all know that the first alternative is a hard one, especially if there is a democratic government where social protest can be expressed.

Another aspect that will have to be tackled in the future is the need to establish a code of conduct for the MNC's. Given their size and the fact that they operate beyond the limits of the economic policy of any State, they have so far avoided regulation. There is no need for a polemic against their various practices--such as their methods of inforcing their will upon some States--to make a case for collective, international action about them. This subject has often been classed as just one more Third World complaint, but it is now becoming clear to many countries that because of the MNCs' position they can further endanger the flow of international trade. The amount of international reserves that they can mobilize is becoming common knowledge. It is only a matter of time before some measures will have to be taken to halt the disruption they are creating in financial markets through speculative movements of those reserves. At that point, not only Third World countries will have an interest in negotiations.

In a similar fashion—and related to the asymmetry of imports and exports already mentioned—we may see more developments like those that followed the jump in oil prices. For many years the LDC's have asked for dialogue about prices of raw materials. The standard answer has been that there is little to discuss because prices are regulated by the market. It was only after the oil price increase of 1973 that—suddenly—everyone realized that market mechanisms were not working quite as smoothly as economic theory teaches us, and that some dialogue was in order. As is usual with human beings, only when a problem hits close to home can we see it with the same eyes as those who were already being affected by it.

With regard to the mounting problem of external indebtedness of the region, it is difficult to conjecture on the prospects. Historically, foreign debts have been used to solve one of three situations: 1) fiscal deficit,[51] 2) balance of payments deficit, or 3) a need for capital investment. The first two cases are rooted in the economic structure of the region. It is difficult to see how that structure can be changed without radical transformations of their economies. Therefore, the trend toward an increasing indebtedness in the region will probably continue in order to maintain its growth rate. Only if economic growth declined would it be possible to diminish the balance of payments deficit (imports will drop and exports may increase) and the fiscal deficit (public expenditure will drop).

Nevertheless, in some countries of the region there has been an

> . . . accumulation of such considerable debts and such a structure of maturities that the very servicing of the debt requires resort to additional foreign financing—a genuine vicious circle. It is this aspect—the overbearing and implacable necessity to obtain foreign financing—which finally sums up the situation of dependence; this is the crucial point in the mechanism of dependence. . . .[52]

Given the level of external indebtedness of some countries that have already reached the situation described by Sunkel, unless some rescheduling of the maturities is obtained, either default or increasing dependence are the alternatives.

More important than the absolute level of foreign debt is understanding its dynamics. That is, it is necessary to compare it with increases in national product or total exports. As long as foreign debt is increasing at rates similar to those of other economic indicators, the debt is within manageable limits. The problem begins when the rate exceeds them. This is the case in some countries where debt servicing amounts to 40 percent of total exports, and refinancing in unavoidable. Unfortunately, there is an apparent trend in this direction.

This structural weakness of the region, in spite of the developments I have presented in this paper, is what places Latin America among the Third World nations. There have been many occasions on which the idea of a "middle class" among the nations has been espoused. I cannot resist the temptation to quote the following sentences of a lecture given in 1965 at the National Military College in Argentina by Aurelio Peccei:

> One fact of capital importance has . . . arisen, and it is of primary importance to the object of our theme. I refer to the progressive emergence of Latin America, where the realization that the key to the future lies in economic integration has produced growing regional cohesion and a parallel relaxation of ties with the Afro-Asians. The Inter-Latin-American fabric daily heightens the value of geographical-economic and historical-cultural individuality of that continent; and,

> even if the sceptical can point to the enormous difficulties still to be overcome, it remains an incontestable fact that Latin-America has practically cut itself off from other developing regions and has entered its candidature, as a homogeneous area, for a higher place in the world [emphasis mine].
>
> We are talking here of an irreversible movement which tends to detach increasingly from the true third world.[53]

This quotation represents the view or perhaps the wishes of many people. Nevertheless, Latin America's place in the international scenario is a fact created by the links and the functions that it performs within the capitalistic system. It may be possible that in terms of per capita income, or gross domestic product, or any other indicator, that Latin America is closer to the "upper income group" than to the "lower income group." But this is not how groupings are determined. They are defined primarily by their functions, by the roles that they play within the system. The kind of challenges that the region is facing are similar to those of other Third World regions. Therefore, to think that a prospect exists for Latin America's separation from other Third World countries appears to be, for the moment, wishful thinking.

This is not to say that the region does not have particular interests, to which it might give more emphasis than would other Third World regions. For instance, if a NIEO is in the making and some "allowances" will be made to LDC's, Latin America might prefer concessions with regard to exports of manufactures, while other regions might not attach much importance to this. In other words, within a general strategy, it is reasonable to consider the specificity of the regions according to their economic structures. But these specificities and particular interests cannot prevent Third World countries from presenting a common front in seeking changes in economic international relations that would narrow the gap between DC's and LDC's.

11. Prospects for National Societies

Progress can be made at the level of international economic relations over the next years. Whether this progress will trickle-down through national boundaries to the people will depend on the economic system that prevails in those societies. This is why it is important, in our view, to have some idea of possible scenarios of those national societies, in spite of the fact that it is foolhardy to make predictions at this level, especially when referring to such a diverse region as Latin America.

To begin with, there is a crisis in regaining the momentum of development for the region. It is clear that the pattern or style of development predominant over the last 30 years has exhausted its possibilities. The so-called inward-oriented growth model is coming to an end. From the production side, import substitution faces mounting problems, since output of goods "easy" to substitute has been completed. If we take the investment side, we see that capital accumulation is harder to achieve because social benefits have been expanding; real wager, among other things, have been increasing as a consequence of rising expectations (and rising demands) of those sectors that are being incorporated into the development process. Local entrepreneurs, as a source of change and development, are being replaced by MNC's. From the demand side, the process has maintained a trend toward concentration of income and this has meant that those industries geared to satisfying the demand of upper income groups are the only ones to grow rapidly. These are the main factors that account for the exhaustion of this style of development.

I can see two alternative strategies to replace the old ones. I will call them, tentatively, the "authoritarian-laissez faire model" (ALF) and the "democratic-egalitarian model" (DE). Let me sketch these models briefly.

The ALF may seem to represent a contradiction in terms--authoritarianism and laissez-faire--but it does not. Those two words emphasize the main characteristics of the model. It is authoritarian in the sense that the State uses its force to prevent social unrest, which is essential if the model is to work. Because of the style of development that is implicit in the ALF, and the radical departure that it represents from the process of growing participation of new sectors in modernization, the model has to rest on the naked force of the State. If rising expectations are kept under control, it may be possible to deny new (or to take away old) social benefits, especially those related to the wage level. Capital accumulation may begin to take place at the expense of labor.

While this decline in real wages may produce a recession in the short run, because demand will drop in the labor sector of the economy, in the long run it is expected to counterbalance that factor via an increase in investment. This should come from higher internal profits (real wages down) or because of foreign investment. Here MNC's should play a crucial role. But, since demand for consumer goods will shrink, those new investments would be export-oriented goods or luxuries for the upper income groups.

An important aspect of the ALF is that it relies on the "invisible hand" of Adam Smith. It is an open market economy in which the openness with regard to foreign trade is complete. The overall view is that the model will--in the long run--incorporate new sectors into the small elite that can afford higher levels of consumption. Until that time, authoritarianism should be maintained. The role of the State in economic control is nil; free market forces and private enterprise are expected to take of the economy. This constitutes the laissez-faire aspect of the model.

I am the first to agree that this may be a simplistic stereotype of what is going on in some Latin American countries; but many of the features described in the ALF are today present in the economic and political systems of many countries in Latin America. Since in my view this ALF has been carried out in several countries, it would be a good exercise to see what are its prospects of becoming the predominant style of development in the region; but I cannot go into this exercise. I will only express my doubts (my own wishful thinking) that an authoritarian rule can be successfully implemented in the long run. Social forces that are born through the growth process itself cannot be kept under control forever. It is true that in some cases the ALF is dismantling the industrial sector (because of the reliance on principles of free trade and the inability of the industrial sector to compete with foreign products), so that an important factor of social unrest--an organized working class--is disappearing. In extreme cases like these, the ALF is producing changes in the very structure of those societies that may succeed in the long run.

The DE, unlike the ALF, is not being applied in any country. Nevertheless, it can be argued that there have been attempts to implement some of its features in some countries.

The DE model accepts the necessity to "rethink the development thinking"; the DE does not accept as a goal of development the striving for the way of life characteristic of today's DC's. Questioning of the way and quality of life in the DC's is a recent phenomenon that has arisen not only in the periphery but also within the center. Many factors have influenced this questioning, especially ecological issues such as limits to growth and concern over waste of natural resources and pollution.

The DE is democratic in the sense that it requires active participation of society in implementing its own development; it is egalitarian because it has as its main goal the satisfaction of basic human needs within the society. As has been said recently:

> These needs are nutrition, housing, education, and health, and their satisfaction is a prerequisite if a person is to take a full and active part in his social and cultural environment. This is a necessary condition for an egalitarian and free society but it is not in itself sufficient. . . . The main function of the economic system is to allocate capital and manpower between the five sectors [nutrition, education, housing, capital goods, and consumer goods, and other services] so as to obtain an optimum distribution.[54]

In other words, the DE does not believe in a market economy as the best way to allocate resources to satisfy basic needs; rather, in the process of allocating resources, there should be participation of all those that are concerned. This is why a democratic system is required.

Capital accumulation will be performed mainly through taxation by the State. Increase in demand will result from the new requirement that basic needs be satisfied; a new structure of production will emerge fitted to those demands that in the past were ignored. A production process geared to satisfying basic needs is usually not too sophisticated. Construction sector, non-durable consumer goods sector, and improvements in agriculture do not present great challenges in development. Therefore, imports of new technology do not have high priorities. And, since these sectors are not those that normally interest MNC's, it can be assumed that they will not play an important role.

It is clear that DE implies a resignation to a particular way of life on the part of a small sector of society, but

> In the end, it is always a question of priorities: more foreign exchange to import private cars, or more buses; luxurious governmental offices, or improvements in illegal settlements; a new generation of jet planes for the air force, or a new generation of children that will survive their fifth birthday. No government can do everything. To govern is to make choices. But poverty will persist and increase if the decision is too often in favor of unnecessary luxuries and does not address critical needs.[55]

Although the ALF and DE models are only abstractions, it is clear that two grand alternative strategies of development will be available for the region. Each one will induce a completely different economic and political structure upon Latin American countries.[56]

If the rate of growth of 1960-1974 world continues up to 1990, then the gross domestic product would be 10 percent higher than that of the 1970 EEC (without the United Kingdom) and its industrial output would be only 10 percent lower; but the gross value of output of machinery would be a little higher than that of the EEC.[57] These figures are subject to criticism from different angles. I have shown them only to indicate the great growth potential that the region has. But equally as important as growth is to decide <u>how to grow and for whom</u>. The way in which each Latin American society answers this question will define their development prospects.

FOOTNOTES

1. It may be useful to know that this regional product is comparable with that of the Europe of 1950. Se Enrique Iglesias, "Latin America: The New Regional and World Setting," Cuadernos de la CEPAL, No. 1, 1975. This growth rate is close to the y percent target established by the International Development Strategy for the Second United Nations Development Decade.

2. The growth rate of per capita income for the period was 2.5 percent; that is lower than the 3 percent target of the International Development Strategy. According to the World Bank the figure is 2.6 percent (using per capita gross national product) for Latin America; 1.8 percent for Southeast Asia; 2.0 percent for Africa (south of Sahara); 5.0 percent for Northern Africa and the Middle East; and 4.9 percent for Southern Europe (which the Bank considers a developing region). The average growth rate for developing countries was 3.7 percent. See the Statement of R. S. McNamara, President of the World Bank, before the Board of Governors (Washington, September 27, 1977).

3. W. W. Rostow, "The Take-Off into Self-Sustained Growth," Economic Journal, Vol. LXVI (March 1956), pp. 25-38; and The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge, England: Cambridge University Press, 1960).

4. Since I cannot go further in this matter, I recommend the enlightening article of Raul Prebisch, "A Critique of Peripheral Capitalism," CEPAL Review, No. 1, First Semester 1976, pp. 9-76.

5. A good example of this thesis is given by Simon Kuznets in "Economic Growth and Income Inequality," American Economic Review, Vol. XLV, No. 1 (March 1955), pp. 1-28. In his presidential address to the American Economic Association, he expresses the view that as economic growth takes place, after a period of increased concentration of income, economic and social forces will produce an opposite trend toward a steady improvement in the distribution of income. Kuznets presents detailed statistical data to support his thesis.

6. Charles Rollins, "Population and the Labour Force in Latin America: Some Simulation Exercises," CEPAL Review, No. 3, First Semester 1977, p. 128.

7. Jorge Somoza, América Latina: Situación Demográfica Alrededor de 1975 y Perspectivas para el Año 2000 (Santiago: CELADE, 1975).

8. Rollins, op. cit., p. 173.

9. The U.N. Regional Program of Employment for Latin America and the Caribbean (PREALC) estimates that around 1970, 28 percent of total active population was unemployed either openly or in the form of disguised employment. See PREALC, El Problema del Empleo en América Latina y el Caribe: Situación, Perspectivas y Políticas (Santiago, 1975).

10. That this problem is aggravated by the labor-saving technology incorporated into the capital goods imported by the region will be demonstrated later in this paper.

11. ECLA estimates based on FAO Anuario de Producción, 1974.

12. ECLA, Indicators of Economic and Social Development in Latin America, 1976 (mimeo, E/CEPAL/1021, November 1976), p. 57.

13. For an interesting analysis of what has happened in Chile after the agrarian reform of Presidents Frei and Allende, see Hugo Villela, Authoritarianism and Land Tenure in Chile, 1973-1976, Vienna Institute for Development, Occasional Paper 77/75 (Vienna, 1977).

14. James H. Street, "The Internal Frontier and Technolological Progress in Latin America," Latin American Research Review, Vol. XII, No. 3, 1977, p. 41.

15. Harvest land increased more than 34 percent between 1959/61 to 1974 (from 69 million nectares to 93 million), ECLA, El Desarrollo Latino Americano y la Coyuntura Económica Internacional (mimeo, February 1975), Table 28.

16. ECLA, Anuario Estadístico de América Latina 1973. See Agriculture, Quantum Indexes of Agricultural and Food Production.

17. Probably the first to present this analysis was W. G. Hoffman, The Growth of Industrial Economies (New York: Macmillan, 1958), first edition in German in 1931. See also, A. Maizels, Industrial Growth and World Trade (Cambridge, England: Cambridge University Press, 1973); H. B. Chenery, "Patterns of Industrial Growth," American Economic Review, Vol. LI, No. 4 (September 1960).

18. Maizels has estimated income-elasticities for some industries: food and beverage, 0.8; textiles, 0.8; machinery and transport equipment, 1.5 to 2; chemicals, 2.1; durable consumer goods, 2.7. Total income elasticity for manufacturing goods (excluding food, beverages and tobacco) will be around 1.4 and 2.0. Maizels, op. cit., p. 41ff and Table 2.1.

19. It is worth mentioning that quite different ideologies inspired and influenced governments during that period; nevertheless, all of them considered that it was a "duty" of the State to establish those industries if the private sector could not or was unwilling to do so.

20. Neoclassical thinking is, after all, the best, "scientific," "value free," theory to justify capitalistic systems, or, for instance, to explain why free trade is the "right" policy in foreign economic relations.

21. It was successful in its early years. Presently, the Central American Common Market is also facing several problems.

22. ECLA, La Presencia de las Empresas Multinacionales en la Industria Manufacturera en América Latina (Santiago, 1975).

23. For a complete and exhaustive analysis of MNC's in one country (Mexico) in the industrial sector, see F. Fajnzylber and T. Martínez Tarrago, Las Empresas Transnacionales (México: Fondo de Cultura Económica, 1976).

24. R. Lagos, "Latin America and the International Economy," Journal of Inter-american Studies and World Affairs, Vol. 18, No. 1 (February 1976), pp. 103-104.

25. For an analysis of the industrial concentration in a Latin American country, see my La Industria en Chile: Antecedentes Estructurales (Santiago: Instituto de Economía, 1966), especially Chapters IV and V.

26. A. Pinto, "Styles of Development in Latin America," CEPAL Review, No. 1, First Semester 1976, p. 117. Emphasis appears in the original.

27. Kuznets, op. cit., p. 17.

28. Cf. G. O'Donnell, Modernization and Bureaucratic-Authoritarianism (California: Institute of International Studies, 1973).

29. I will return to this later.

30. R. Prebisch, op. cit., p. 9.

31. O. Sunkel, "Underdevelopment in Latin America: Toward the Year 2000," in J. N. Bhagrvati (ed.), Economics and World Order From the 1970's to the 1990's (New York: Free Press, 1972), p. 207.

32. For the period 1950-1975, export growth rate was 11.7 percent and import rate was 11.4. For Latin America they were 6.8 percent and 8.2 percent, respectively. ECLA, El Desarrollo Económico y Social y las Relaciones Externas de América Latina (E/CEPAL/AL 17012, February 1977), p. 175.

33. Fajnzylber and Martínez Tarrago, op. cit., p. 79ff.

34. Ibid., p. 80, Table 16.

35. Ibid., p. 81, Table 17.

36. Ibid., p. 85.

37. W. G. Tyler, Manufactured Export Expansion and Industrialization in Brazil (Tubingen, 1976). See also, G. K. Helleiner, "Manufactured Exports from Less Developed Countries and Multinational Firms," Economic Journal, Vol. 83, No. 329 (March 1973).

38. There was an important decline in manufactured exports from Latin America during the recessive years of 1974 and 1975. See B. A. de Vries, "Exports in the New World Environment: The Case of Latin America," CEPAL Review, First Semester 1977, esp. p. 99ff.

39. C. Diaz Alejandro, "Direct Foreign Investment in Latin America," in C. P. Kindleberger (ed.), The International Corporation (Cambridge: MIT Press, 1970), p. 319.

40. Gross domestic saving was 93, 96 and 91 percent of total investment during 1950/52, 1964/66 and 1971/73, respectively.

41. See R. Ffrench-Davis, article in V. Urauidi and R. Thorp (eds), Latin America in the International Economy (New York: John Wiley and Sons, 1975).

42. Perú has been mentioned as one country in the region that is having difficulties managing a huge external debt. ". . . it has exhausted its reserves of foreign currencies and can no longer pay its foreign creditors, including the Soviet Union, without a major refinancing of its hugh external debt," and there have been comments about an eventual default. New York Times, December 17, 1977.

43. Inter-America Development Bank (IDB), Economic and Social Progress in Latin America, 1976 Report (Washington, D.C.: IDB, n.d.), p. 93.

44. Ibid., Table III-19.

45. Nevertheless, a conspicuous banker like R. McNamara believes that up to now the situation should be viewed with optimism. See his statement already quoted.

46. For instance, in June 1976 according to The New York Times, op. cit., $210 million were provided to Peru by 17 bankd, including the largest ones such as Citibank, Chase Manhattan, Bank of America, Morgan Guaranty and Trust, etc.

47. Cf. E. Iglesias, Statement before the Seventeenth Session of the Economic Commission for Latin America. Reproduced in CEPAL Review, No. 3, First Semester 1977, pp. 246-79.

48. E. Igesias, Statement before . . ., op. cit., p. 261.

49. Therein tabulated around 100 products (SITC code with 4 or 5 digits) that normally represent 20 percent or more. Data taken from United Nationa, Bulletin de Statisques du Commerce Mondial des Produits des Industries Mechaniques et Electriques (New York, 1975).

50. A recent study has said, "Estimated in 1970 prices, the share of manufactured products in world trade turnover would increase from 62 percent in 1970 to 79 percent in 2000, the share of agricultural goods and minerals would decrease from 38 to 21 percent." Wassily Leonteif et al., The Future of the World Economy (New York: Oxford University Press, 1977), p. 8. This is why it is so important for Latin America to participate in this expanding trade.

51. Throughout this paper I have not given much space to the role of the State. As we all know this has been a considerable one, intervening in the economy more openly and deeply than conventional economic theory would recommend. With regard to fiscal deficits this is an old problem, arising from elastic expenditures and rigid revenues. This is due,

mainly, to an outdated taxation system that cannot cope, especially when high rates of inflation prevail as is often the case in most countries.

52. O. Sunkel, "National Development Policies and External Dependence in Latin America," Journal of Development Studies, Vol. VI, No. 1, pp. 23-46. For an example of this circle, see Footnote 42.

53. A. Peccei, "The Challenge of the 1970's for the World Today: A Basis for Discussion" (mimeo, Lecture given at the National Military College, Buenos Aires, September 27, 1965), pp. 9-10.

54. A. Herrera et al., Catastrophe or New Society? A Latin American World Model (Otawa: International Development Research Centre, 1977), p. 8. There is already a French edition: Un Monde Pourtous: Le Modele Mondial Latino-Americain (Paris: Presses Universitaires de France, 1977).

55. R. S. McNamara, op. cit., p. 30. My translation from the Spanish version of the original.

56. For some projections, especially with regard to income distribution, see A. Pinto, op. cit.

57. E. Iglesias, Statement before . . ., op. cit., pp. 249-50.