

ECONOMIC COMMISSION FOR LATIN AMERICA

**ECONOMIC SURVEY
OF LATIN AMERICA
1965**



UNITED NATIONS
New York, 1967

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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EXPLANATION OF SYMBOLS

The following symbols have been used throughout this *Survey*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—) indicates a deficit or decrease.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate figures partially or wholly estimated.

Use of a hyphen (–) between dates representing years, e.g., 1950–54, normally signifies an annual average for the calendar years involved, including the beginning and end years. “To” between the years indicates the full period, e.g., 1950 to 1954 means 1950 to 1954, inclusive.

References to “tons” indicates metric tons, and to “dollars” United States dollars, unless otherwise stated.

The term “billion” signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Part One

LATIN AMERICA AS A WHOLE*

* The statistical data used in the present *Survey* are those that were available at the end of March 1966. Hence all the 1965 figures are merely provisional and may differ from the official calculations made after that date. Unless otherwise stated, the regional totals given exclude the Cuban economy, for which sufficient or comparable data are not available.

Chapter I

RATE AND CHARACTERISTICS OF DEVELOPMENT

I. THE DEVELOPMENT OF THE LATIN AMERICAN ECONOMY AS A WHOLE

In 1965 the gross domestic product of Latin America as a whole reached a level 6.2 per cent higher than the preceding year's. Thus, the Latin American economies slightly accelerated the relatively rapid growth rate they had attained in 1964, and for the second year in succession showed a considerable rise in their levels of activity (see table 1). This encouraging state of affairs must be evaluated, however, with some reservations, deriving both from previous experience and from special circumstances characterizing the recent course of events.

It should be noted beforehand that the over-all rate of expansion—approximately 6 per cent per annum, or more—which in the case of other economies would imply substantial per capita income increments, loses much of its significance when Latin America's particularly rapid rate of population increase is taken into account. Thus, in terms of the per capita product, the annual growth rate in the last two years works out at slightly over 3 per cent.

Although higher rates than this have been registered in Latin America in the past, it exceeds those that have been established as

objectives or targets for the region's development effort, either in some of the national plans or in international co-operation programmes. Hence the question at issue is whether recent economic growth rates are likely to last or are relatively dependent upon temporary circumstances.

In this connexion, it is worth recalling that marked fluctuations in the rate of development and spurts of progress alternating with recessions, have been of frequent occurrence in Latin America. The expansion of the domestic product in 1964 and 1965 itself represents to some extent a recovery from the unfavourable trends which were, generally speaking, characteristic of the two preceding years. Accordingly, recent growth should be evaluated within a somewhat broader frame of reference.

It will then be seen that during the period 1960–65 the average annual growth rate of the product was only 4.5 per cent, i.e., 1.6 per cent in per capita terms, and was therefore slightly less than the average rate registered in 1955–60 (1.7 per cent) and still lower than that achieved in 1950–55 (see again table 1, and figure I).

A second consideration that should be borne in mind relates to the special trends registered in

Table 1. Latin America: Evolution of total and per capita gross product, 1950–65
(Cumulative annual growth rates)

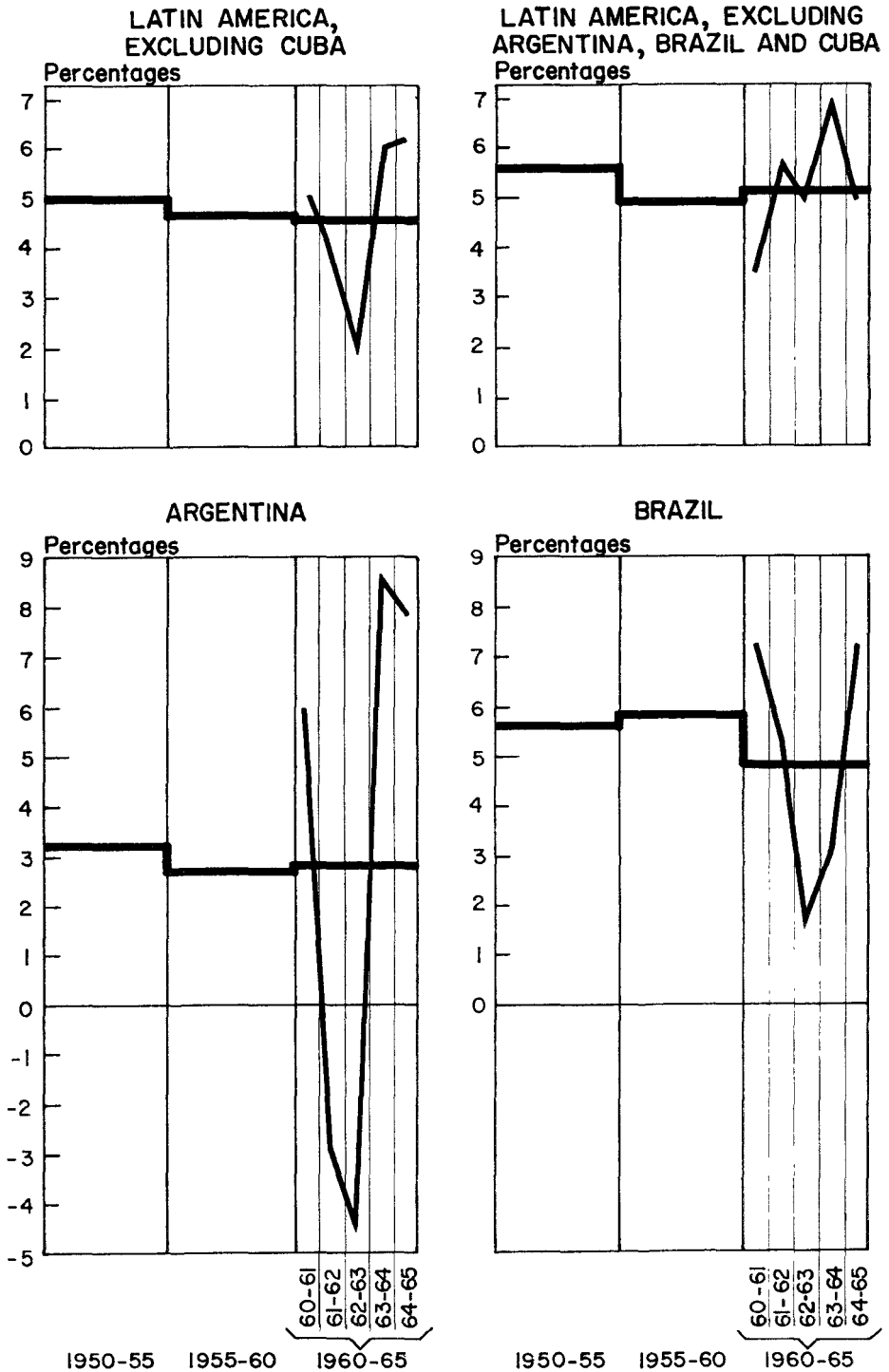
	1950–55	1955–60	1960–65	1960–61	1961–62	1962–63	1963–64	1964–65 ^a
<i>Total gross product</i>								
Latin America, excluding Cuba	5.0	4.7	4.6	5.1	3.8	2.0	6.0	6.2
Argentina	3.2	2.7	2.8	6.0	-2.9	-4.6	8.6	7.8
Brazil	5.7	5.9	4.9	7.3	5.4	1.6	3.1	7.3
Argentina and Brazil	4.5	4.5	4.1	6.8	1.9	-0.8	5.2	7.5
Latin America, excluding Argentina, Brazil and Cuba	5.6	4.9	5.1	3.4	5.7	4.9	6.9	5.0
<i>Per capita gross product</i>								
Latin America, excluding Cuba	2.2	1.7	1.7	2.2	0.9	-0.9	3.1	3.3
Argentina	1.0	0.9	1.0	4.2	-4.7	-6.4	6.8	6.0
Brazil	2.7	2.9	2.0	4.4	2.4	-1.3	0.2	4.4
Argentina and Brazil	1.7	1.7	1.3	4.0	-0.9	-3.6	2.4	4.7
Latin America, excluding Argentina, Brazil and Cuba	2.5	1.8	2.0	0.3	2.6	1.8	3.8	1.9

Source: ECLA, on the basis of official statistics.

^a Provisional data.

Figure I. Latin America: Growth rate of total gross product, 1950-65
(Cumulative annual rates, by periods)

NATURAL SCALE



Source: ECLA, on the basis of official statistics.

the economies of Argentina and Brazil, and to the substantial weight they carry in regional totals. Both these countries have recently shown very high rates of economic expansion, and have thus been able to regain and surpass the 1963 levels, which in their turn were particularly low. In Argentina's case, the aggregate product had fallen by nearly 3 per cent in 1962 and 4.6 per cent in 1963, whereas it rose by 8.6 and 7.8 per cent in 1964 and 1965; in Brazil, the relative stagnation observable in 1963 (the total product increased by 1.6 per cent, which implied a decrease of 1.3 per cent in the per capita product) gave place to over-all growth rates of rather more than 3 per cent in 1964 and 7.3 per cent in 1965. With the exclusion of these two countries, the 1965 result looks much less favourable, for the growth rate of the per capita product then appears as 1.9 per cent, almost the same as in 1963 and far below the 3.8 per cent attained in 1964.

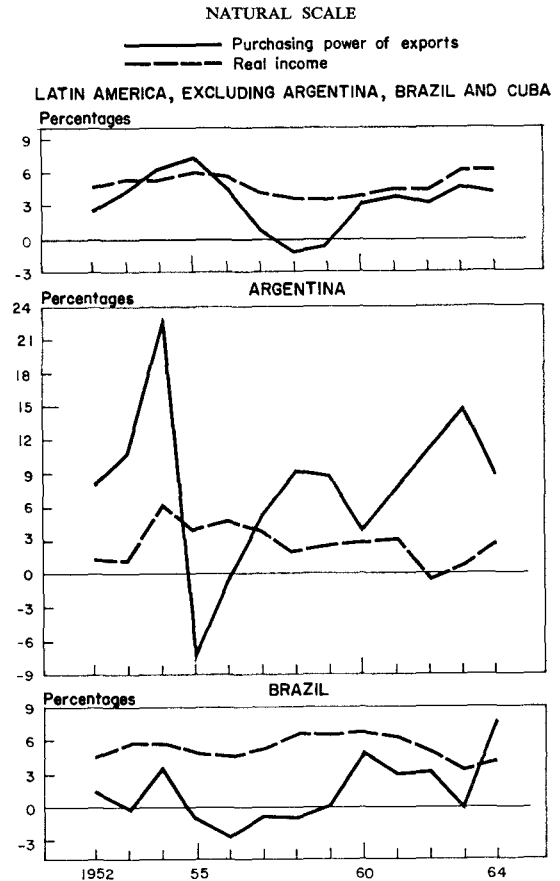
This distinction between Argentina and Brazil on the one hand and the rest of the Latin American countries on the other is meaningful not only because of the scale of their recent development, but also, and above all, on account of other factors, in the light of which a truer value can be placed on the significance of Latin America's economic expansion in the last few years. Briefly, one of the factors in question is of an adventitious nature, consisting in highly propitious weather conditions, while the other is of more vital consequence, relating to patent differences in the extent to which internal development is dependent upon external-sector contingencies. The importance of the former will emerge later, when the characteristics of recent expansion in each individual country are discussed, while the second calls for a few immediate comments of a general nature.

Whenever Latin America is viewed as a whole, and the trends and fluctuations of the domestic product are related to foreign trade contingencies, the conclusion is reached that a significant association exists between these variables. In a general and qualitative sense, this association may also be noted in each of the individual countries of the region, but as the degrees in which it is present differ, it should be studied at lower levels of aggregation. Naturally, any grouping of the Latin American countries from this standpoint will inevitably be arbitrary, and will assemble under one head situations that in their turn may display marked dissimilarities; but at all events, it seems justifiable to devote separate consideration to Argentina and Brazil. This is done in figure II, where the evolution of real income is compared with that of the

purchasing power of exports since the early fifties.

Figure II. Latin America: Evolution of real income and of purchasing power of exports, 1952-64

(Annual percentage variations, movable three-year averages)



Source: ECLA, on the basis of official statistics.

The differences in the mainsprings of development and in the capacity to cope with external vicissitudes which are revealed by these comparisons are of course due to basic structural dissimilarities in the economies concerned. Argentina and Brazil have the biggest domestic markets in absolute terms, since in the aggregate they account for approximately one-half of the total Latin American product (the former for about 20 per cent and the latter for nearly 30 per cent); and this fact alone suffices to give certain problems—such as those relating to industrialization and import substitution—dimensions and characteristics different from those they assume in most of the other countries of the region. Moreover, it is precisely these two

economies whose import coefficients (defined as percentage relationships between imports of goods and services and the domestic product) have come to be the lowest in the region; in other words, in both countries export activities represent a much smaller proportion of the total product, and the satisfaction of internal demand is much less dependent on imports. Lastly, the Argentine and Brazilian economies are also the two with the highest levels of industrialization in the region, as is shown by the share of manufacturing in the total product.

Setting these differentiating features aside, it may be said of most of the Latin American economies that since 1960 their development has been attended by other factors, whose continuing operation would hardly be compatible with the maintenance of the relatively high growth rates registered in the last two years. Foremost among these are investment trends and structural changes in production and productive capacity. Both will be more fully discussed in later sections, so that for the time being only the most significant of the relevant facts need be noted.

Since 1957 the investment coefficient, while fluctuating sharply, has shown a declining trend; the proportion of the domestic product represented by total investment was 17.3 per cent in 1960, but fell to 16.5 per cent in 1965. This decrease suggests that recent development has been partly sustained by more intensive use of the capital available, and that the expansion of production capacity has not kept pace with the growth of the product. Such a situation is satisfactory in so far as it implies that existing installed capacity is being more efficiently utilized, but, in the last analysis, subsequent increases in income must depend upon larger-scale capital formation to extend and facilitate the requisite improvements in production capacity.

It is equally clear that so far the present decade has witnessed fewer changes in the structure of production, with the result that the higher levels reached by the gross product have not been matched by a modification of its sectoral composition at rates comparable with those registered in earlier periods. Thus, for example, the elasticity of industrial growth in relation to the total product increased considerably up to 1955, remained stationary in 1955-60, and thenceforward decreased. This process is partly the outcome of an improvement in the dynamic capacity of certain economic sectors—such as agriculture, for instance—that have traditionally been characterized by marked rigidity, but it could not be carried too far

without ultimately slowing up over-all development, of which, after all, the structural changes in question are an inherent part.

Accordingly, these are two aspects of the situation which must not be overlooked when recent growth is evaluated from the standpoint of its prospects of consolidation. In contrast, a factor making for its continuity is the emergence, in the last few years, of a deliberate intention to define objectives, adopt specific decisions and select instruments within the framework of a properly co-ordinated economic and social development policy. Unquestionably, since 1960 very significant progress has been made in this direction. Planning efforts—formalized in varying degrees, and assigning varying measures of importance to specific approaches and modes of procedure—have helped to rationalize official action and to ensure that the resources available are put to more effective use; regional economic integration programmes, designed to open up new ways of bypassing traditional obstacles, have resulted in substantial and rapidly increasing inter-Latin American trade figures; and basic principles and proposals have been formulated, in co-operation with other developing regions, with respect to world trade. These and other factors are generating forces potentially capable of ensuring the maintenance of a reasonable rate of economic growth, and bringing within reach the other objectives established by development policy, although it must be recognized that many of the activities concerned are only in their initial stages, and that formidable and stubborn obstacles stand in the way of their continuance.

2. MAJOR CHANGES IN AGGREGATE DEMAND

A clearer understanding of some of the above-mentioned general characteristics of recent development can be obtained from a more detailed study of the evolution of demand and other relevant factors, which brings to light significant differences between the years 1964 and 1965 as regards the expansion achieved.

The growth rate of the product was much the same in both years, although slightly higher in 1965. The position was different, on the other hand, with regard to real domestic income, since its rate of increase dropped from 6.5 to 5.9 per cent, in consequence of an unfavourable terms-of-trade trend and a rise in net external factor payments (see table 2). Other contributory causes which made this difference still more marked were the greater expansion of external demand in 1965, measured at constant prices (the volume of exports increased by 5.4 per cent, as against 2.4 per cent in 1964); a substantial

Table 2. Latin America: Real income, investment, consumption and external sector, 1960-65

Concept	Millions of dollars at 1960 prices					Annual growth rates				
	1960	1962	1963	1964	1965 ^a	1960-1962	1962-1963	1963-1964	1964-1965	1960-1965 ^a
Real income . . .	78,115	84,651	86,614	92,220	97,684	4.1	2.3	6.5	5.9	4.6
Total investment . . .	13,545	14,700	13,860	15,594	15,960	4.2	-5.7	12.5	2.3	3.3
Fixed investment . . .	13,108	14,194	13,468	14,600	15,140	4.1	-5.1	8.4	3.7	2.9
Public . . .	4,070	4,159	3,975	4,786	5,080	1.1	-4.4	20.4	6.1	4.5
Private . . .	9,038	10,035	9,493	9,814	10,060	5.4	-5.4	3.4	2.5	2.2
Total consumption . . .	64,508	69,753	71,712	75,750	80,349	4.0	2.8	5.6	6.1	4.5
Public . . .	8,369	9,270	9,670	9,760	10,000	5.2	4.3	0.9	2.5	3.6
Private . . .	56,139	60,483	62,042	65,990	70,349	3.8	2.6	6.4	6.6	4.6
Volume of exports . . .	8,665	9,766	10,108	10,352	10,916	6.2	3.5	2.4	5.4	4.7
Terms-of-trade effect . . .	—	-502	-274	+88	-150					
Net external factor payments . . .	1,193	1,423	1,395	1,584	1,663	9.2	-2.0	13.5	5.0	6.9
Net external financing . . .	1,132	1,225	353	708	288	4.0	-71.2	100.6	-59.3	-24.0
Imports of goods and services . . .	8,603	9,066	8,792	9,564	9,391	2.7	-3.0	8.8	-1.8	1.8

Source: ECLA, on the basis of official statistics; external sector: basic statistics from International Monetary Fund

(IMF), *Balance of Payments Yearbook*.

^a Provisional data.

decline in net external financing, which registered its lowest level since 1960; and a contraction in imports of goods and services, which in the preceding year had expanded by almost 9 per cent.

In relation to 1960, the terms of trade sank to their lowest ebb in 1962, partly recovered in 1963, and in the following year surpassed the levels attained at the beginning of the decade; this trend was then interrupted by a further relapse in 1965, imputable to the rise in import prices, since the unit values of exports, taken as a whole, showed no significant changes. External factor payments, largely determined by remittances of profits by the oil companies operating in Venezuela, continued to increase steadily. The reduction of net external financing was due both to movements of capital and to the import restriction policy pursued by several Latin American countries in 1965.

Owing to all these determining factors, there is a great difference between the figures for 1960 and those for more recent years, especially 1965. At the beginning of the decade, the values of imports and exports of goods and services virtually broke even (at about 8,600 million dollars at 1960 prices), whereas in 1965 there was an export surplus of about 1,600 million dollars, although at higher trade levels; exports amounted to more than 10,900 million dollars at 1960 prices, while imports fell short of 9,400 million.

By and large, the growth rate of domestic

demand in 1960-65 was lower than that of the product, and this disparity too was particularly marked in 1965. Although the differences may not be considered very significant in the aggregate—total domestic demand represented 99.9 per cent of the product in 1960, 99.1 per cent in 1964 and 98.4 per cent in 1965—they become more striking in the light of a break-down of the demand in question (see table 3). The rate of expansion of total consumption since 1960 has kept very close to that of the product (with annual averages of 4.5 and 4.6 per cent respectively) so that the disparity is entirely imputable to the rate of capital formation. Investment increased at an average annual rate of only 3.3 per cent, with the result that its share in the product appreciably declined.

It is also enlightening to note the differing trends followed by the public and private components of consumption. In the early sixties, the chief expansionist role was played by public consumption, whereas in 1964 and 1965 it was private consumption that determined the bigger increment. This evolution seems curious in view of the substantial expansion of social services contemplated in recent development policy, since such aims entail a greater increase in public consumption. The explanation lies in the efforts simultaneously made in several countries to restrict the growth of public expenditure with the object of stabilizing the public sector's budget, as a part of anti-inflationary policy, although the rise in public investment may to

Table 3. Latin America: Real income, investment, consumption and external sector, 1960-65
(Percentages of gross domestic product)

Concept	1960	1962	1963	1964	1965 ^a
Real income	100.0	99.4	99.7	100.1	99.8
Total investment	17.3	17.3	16.0	16.9	16.3
Fixed investment	16.8	16.7	15.5	15.8	15.5
Public	5.2	4.9	4.6	5.2	5.2
Private	11.6	11.8	10.9	10.6	10.3
Total consumption	82.6	81.9	82.5	82.2	82.1
Public	10.7	10.9	11.1	10.6	10.2
Private	71.9	71.0	71.4	71.6	71.9
Volume of exports	11.1	11.5	11.6	11.2	11.2
Terms-of-trade effect	—	-0.6	-0.3	0.1	-0.2
Net external factor payments	1.5	1.7	1.6	1.7	1.7
Net external financing	1.4	1.4	0.4	0.8	0.3
Imports of goods and services	11.0	10.6	10.1	10.4	9.6

Source: ECLA, on the basis of official statistics.

^a Provisional data.

some extent reflect the increased concern for social services.

Still more striking are the changes in the composition of investment. In the first place, fixed investment grew more slowly than total investment—at an average annual rate of only 2.9 per cent in 1960-65—with the result that the proportion of the total product it represented fell from 16.8 to 15.5 per cent between the beginning and end of the five-year period. From another standpoint, a marked difference can be noted between the trends followed by public and by private investment; the former, which contributes about one-third of gross fixed capital formation, expanded at almost the same rate as the total product, while the latter carried the ultimate responsibility for the less favourable evolution of aggregate internal demand. The fluctuations of private investment were very sharp from 1960 onwards, taking the form of a relatively rapid rise in the first year or two, a downward movement in 1963, a recovery in the following year, although at fairly low levels, and a still lower rate of growth in 1965. In the upshot, its average annual rate of increase in 1960-65 was barely 2.2 per cent, making it one of the least dynamic of the factors hitherto operating in the current decade.

The intensification of the foregoing changes in consumption and investment that took place in 1965 was bound to be reflected in the composition of imports as well. The proportion represented by capital goods underwent a significant contraction, which was particularly marked in the case of imports of transport equipment. Although this last development was due not only

to the behaviour of demand, but also to the growth of domestic production of motor vehicles, the downward movement likewise affected machinery and production equipment for industry and other sectors. Much of the decrease in the share of capital goods was absorbed by imports of fuels, raw materials and intermediate products, but in several countries external purchases of consumer goods—especially non-durables—also increased, a fact which widened the gap between domestic production and the expansion of private consumption.

3. CAPITAL FORMATION AND THE EXPANSION OF PRODUCTION CAPACITY

One of the basic weaknesses of recent development is that the growth rate of investment does not keep pace with that of the domestic product. As stated above, gross capital formation, whose levels are still too low to ensure satisfactory and lasting development, underwent further setbacks during the past few years, when, as a result of its increasing more slowly than the domestic product, the investment coefficient—defined as the percentage relation between gross investment and the total product—fell from 17.3 per cent in 1960 to 16.3 per cent in 1965.

Significant changes took place in the composition of investment as regards its institutional channelling and sectoral distribution. Broadly speaking, public investment increased considerably, but at the same time the private sector's share in capital formation steadily contracted.

These trends are clearly visible in figure III, in which they can be viewed in a somewhat longer-

term perspective, since their evolution is traced back to 1955. This reveals the persistence of the decline in the coefficient of private investment since 1961, as well as the incapacity of public investment to offset the whole of this decrease.

Table 4 presents data which facilitate the analysis of the process and of the extent to which it has affected the various countries of the region during the last few years. If provisional estimates for 1965 are compared with average figures for 1960-65, it can be seen that in the last year of the period the aggregate investment coefficient dropped sharply in Latin America as a whole, entirely as a result of the decrease in the contribution of private investment, since that of public investment slightly increased.

These indications of regional characteristics

also hold good for Argentina, Brazil, Chile, Colombia and Uruguay, except that in the first and last of these countries the coefficient of public investment was more or less stabilized. Conversely, in Ecuador, Peru and Venezuela, as well as in the Central American countries as a whole, the aggregate investment coefficient was higher, the contribution of private investment expanded, and that of public investment diminished in relative terms. In Mexico, the coefficients of total capital formation and of its components all rose slightly, while in Panama the reduction of the proportion for which private investment accounted was offset by the increase in the share of public investment.

The foregoing trends are sufficiently widespread to be regarded as patently detrimental to

Table 4. Latin America: Coefficients of total, public and private fixed investment for Latin America as a whole, and by country, 1960-65
(Percentages of gross domestic product)

<i>Region or country: fixed investment</i>	1960	1961	1962	1963	1964	1965 ^a	<i>Average 1960-65</i>
<i>Latin America</i>							
Total	16.8	16.9	16.7	15.5	15.9	15.5	16.2
Public	5.2	4.8	4.9	4.6	5.2	5.2	5.0
Private	11.6	12.1	11.8	10.9	10.7	10.3	11.2
<i>Argentina</i>							
Total	22.6	24.2	23.3	20.8	20.4	20.1	21.9
Public	5.4	5.3	4.4	5.2	6.0	5.3	5.3
Private	17.2	18.9	18.9	15.6	14.4	14.8	16.6
<i>Bolivia</i>							
Total	14.4	11.8	17.7	17.1	16.7	...	15.5 ^b
Public	6.2	5.2	9.2	10.5	9.7	...	8.2 ^b
Private	8.2	6.6	8.5	6.6	7.0	...	7.3 ^b
<i>Brazil</i>							
Total	14.7	14.2	14.8	13.1	12.6	11.6	13.4
Public	5.2	4.2	5.4	3.8	4.4	5.1	4.7
Private	9.5	10.0	9.4	9.3	8.2	6.5	8.7
<i>Chile</i>							
Total	10.3	12.9	12.6	12.6	12.2	13.4	12.3
Public	6.0	6.0	6.6	7.0	7.1	8.8	6.9
Private	4.3	6.9	6.0	5.6	5.1	4.6	5.4
<i>Colombia</i>							
Total	18.3	18.8	18.1	16.4	16.8	15.5	17.3
Public	3.1	3.9	3.8	3.1	3.2	2.9	3.3
Private	15.2	14.9	14.3	13.3	13.6	12.6	14.0
<i>Ecuador</i>							
Total	13.3	13.4	12.6	12.5	13.9	14.6	13.4
Public	6.3	6.2	4.7	4.6	4.1	4.0	5.0
Private	7.0	7.2	7.9	7.9	9.8	10.6	8.4
<i>Paraguay</i>							
Total	16.8	16.7	15.7	15.1	15.5 ^a	...	15.9 ^b
Public	4.1	3.6	2.4	3.1	3.2 ^a	...	3.3 ^b
Private	12.7	13.1	13.3	12.0	12.3 ^a	...	12.6 ^b

continued overleaf

Table 4 (continued)

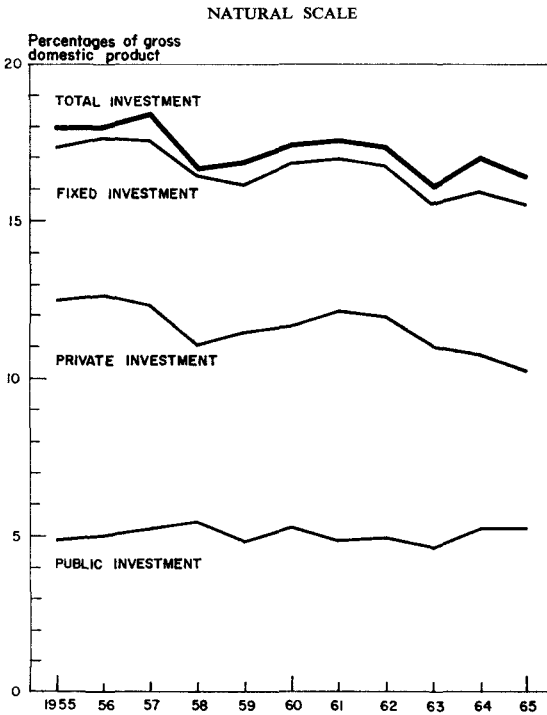
<i>Region or county: fixed investment</i>	1960	1961	1962	1963	1964	1965 ^a	<i>Average 1960-65</i>
Peru							
Total	18.5	21.9	23.1	23.7	24.9	25.9	23.2
Public ^c	2.0	2.9	4.2	4.7	5.7	6.3	4.5
Private	16.5	19.0	18.9	19.0	19.2	19.6	18.7
Uruguay							
Total	15.0	16.2	17.0	14.1	11.8	10.9	14.2
Public	2.4	2.9	2.9	3.1	2.9	2.8	2.8
Private	12.6	13.3	14.1	11.0	8.9	8.1	11.4
Venezuela							
Total	18.7	15.9	15.5	15.3	17.0	17.6	16.7
Public	8.2	5.9	4.6	4.6	5.1	4.8	5.5
Private	10.5	10.0	10.9	10.7	11.9	12.8	11.2
Mexico							
Total	14.9	14.5	13.8	14.6	16.4	15.9	15.0
Public	5.5	5.5	5.6	6.0	7.0	6.3	6.0
Private	9.4	9.0	8.2	8.6	9.4	9.6	9.0
Costa Rica							
Total	17.7	17.8	18.7	18.4	18.4	17.6	18.1
Public	3.3	4.3	4.5	4.0	4.5	4.5	4.2
Private	14.4	13.5	14.2	14.4	13.9	13.1	13.9
Dominican Republic							
Total	9.9	8.6	8.9	7.6	8.9	...	8.8 ^b
Public	5.2	4.5	2.5	1.9	3.2	...	3.5 ^b
Private	4.7	4.1	6.4	5.7	5.7	...	5.3 ^b
El Salvador							
Total	13.3	10.9	9.8	10.6	11.8	12.2	11.4
Public	3.0	3.2	2.4	2.0	2.2	2.2	2.5
Private	10.3	7.7	7.4	8.6	9.6	10.0	8.9
Guatemala							
Total	10.1	10.2	10.1	10.2	11.7	12.4	10.8
Public	2.6	3.0	2.5	2.0	2.5	2.1	2.5
Private	7.5	7.2	7.6	8.2	9.2	10.3	8.3
Honduras							
Total	12.7	10.9	13.9	14.4	14.2	13.2	13.2
Public	2.7	2.5	3.8	3.9	3.6	3.1	3.3
Private	10.0	8.4	10.1	10.5	10.6	10.1	9.9
Nicaragua							
Total	13.0	14.1	16.9	17.4	17.1	16.9	15.9
Public	3.2	3.8	4.1	5.0	5.5	5.1	4.5
Private	10.0	10.3	12.8	12.4	11.6	11.8	11.4
Panama							
Total	14.5	17.0	17.0	17.8	14.9	16.1	16.2
Public	2.9	4.6	4.8	5.0	4.2	4.7	4.4
Private	11.6	12.4	12.2	12.8	10.7	11.4	11.8

Source: ECLA, on the basis of official statistics.

^a Provisional data.^b Average for 1960-64.^c Including inventory changes.

the region as a whole. Moreover, they carry implications for the structure of production capacity. The priority given by public investment to infrastructure projects and social services, in combination with the relative sluggishness of private investment, may seriously hold

Figure III. Latin America: Investment coefficients, 1955-65



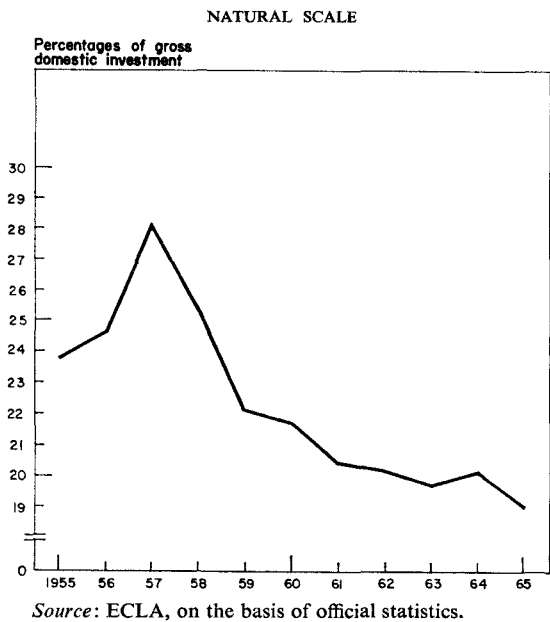
up the channelling of resources into the expansion of basic industries and of other sectors producing goods.

The data available are insufficient to show how far the allocation of investment resources by sectors of activity has altered, but there are one or two indirect pointers to the qualitative significance of such changes at least. One indication is the relatively dynamic development registered in the past few years by construction activities in the fields of infrastructure and, more particularly, housing. Another is implicit in figure IV, which is based on statistics relating to the share of imports of capital goods in total gross domestic investment. The decline shown is largely imputable to the replacement of such imports by domestic production (a process which has gained particular momentum in specific countries of the region), but it also partly reflects the decrease in the proportion of total investment

represented by machinery and equipment, a trend which in its turn reveals that the expansion of direct production capacity has fallen off.

In the light of these data, it may be concluded that the economic growth achieved in recent years is partly attributable to the development

Figure IV. Latin America: Evolution of imports of capital goods, 1955-65



of infrastructure projects and to more intensive utilization of existing production capacity. The first of these factors was particularly operative in the case of agricultural expansion, which stemmed from the enlargement of the area under cultivation—by virtue of improved communications and land reclamation—rather than from technical advances and more rational use of the land already being farmed. The influence of the second was especially strong in the manufacturing sector, where very wide margins of idle capacity were available in specific branches of industry at certain times.

Viewed from this latter standpoint, the state of affairs looks promising—as mentioned before—in so far as it reflects more efficient use of available capital in given sectors. What is disquieting is that the savings potential thus released has not been completely channelled into new investment projects to strengthen production capacity and expedite its diversification. Unless this ploughing-back takes place, subsequent growth possibilities will inevitably be jeopardized, and the defects referred to in the

context of sectoral development and the structure of Latin America's domestic product will not be rectified in time.

It must be recognized, however, that the unsatisfactory evolution of the rate of investment during the past few years does not necessarily mean that domestic saving is no longer increasing, but is due, up to a point, to the fact that internal and external saving have followed opposite trends.

In 1961, a sustained upswing in external saving culminated in its financing over 9 per cent of the region's gross investment, to a total of 1,300 million dollars. Thenceforward, the expansion of domestic saving was increasingly counter-balanced by a contraction in net external financing, until by 1965 the former accounted for 98 per cent of total investment.

This point can be more justly appreciated in the light of the data presented in table 5. As can be seen, the regional trend described is greatly influenced by what took place in Argentina, Brazil and Venezuela. The first two countries obtained balance-of-payments surpluses on current account in 1964 and 1965, after showing deficits for continuous periods, while in Venezuela the petroleum industry acted as a net exporter of capital. The remaining sixteen Latin American countries—i.e., all those

of the region, except the three just mentioned, and Cuba—kept external saving at relatively high but not rising levels during the period 1960–65, with an annual average of about 800 million dollars, or enough to finance approximately 15 per cent of their gross domestic investment.

The significant fact remains that since 1961 the share of domestic saving in the financing of regional investment has been steadily increasing in Latin America as a whole: a trend which is influenced in turn by the region's critical payments position, resulting from the levels reached by external borrowing. The restrictive policies which this state of affairs has made essential are reflected, together with the repercussions of other factors, in a decrease in the deficit on current account, which, after reaching 1,300 million dollars in 1961, dropped to less than 300 million in 1965. The reduction took place mainly in Argentina, Brazil, Uruguay and, to a lesser extent, Chile.

As will be seen later, the net external financing situation in 1965 points up the seriousness of the present position as regards the piling-up of external commitments, which is likely to be aggravated in the course of the next few years. The composition of external co-operation has also changed a good deal, essentially in the

Table 5. Latin America: Domestic saving,

Year	Latin America			Argentina			Brazil		
	Total investment	Net external financing	Domestic saving	Total investment	Net external financing	Domestic saving	Total investment	Net external financing	Domestic saving
	<i>Millions of dollars</i>								
1950 .	7,320	-361	7,681	2,245	-114	2,359	1,310	-109	1,419
1955 .	11,140	+419	10,721	2,584	+198	2,386	3,014	+34	2,980
1960 .	13,545	+1,132	12,413	3,790	+205	3,585	3,549	+561	2,988
1961 .	14,396	+1,327	13,069	4,110	+598	3,512	3,782	+298	3,484
1962 .	14,740	+1,225	13,515	3,747	+275	3,472	4,315	+484	3,831
1963 .	13,860	+353	13,507	3,222	-245	3,467	3,672	+214	3,458
1964 .	15,594	+708	14,886	3,788	-34	3,822	3,971	-40	4,011
1965 ^a .	15,960	+288	15,672	3,888	-44	3,932	3,911	-193	4,104
	<i>Percentage</i>								
1950 .	100.0	-4.9	104.9	100.0	-5.1	105.1	100.0	-8.3	108.3
1955 .	100.0	+3.8	96.2	100.0	+7.7	92.3	100.0	+1.1	98.9
1960 .	100.0	+8.4	91.6	100.0	+5.4	94.6	100.0	+15.8	84.2
1961 .	100.0	+9.2	90.8	100.0	+14.5	85.5	100.0	+7.9	92.1
1962 .	100.0	+8.3	91.7	100.0	+7.3	92.7	100.0	+11.2	88.8
1963 .	100.0	+2.5	97.5	100.0	-7.6	107.6	100.0	+5.8	94.2
1964 .	100.0	+4.5	95.5	100.0	-0.9	100.9	100.0	-1.0	101.0
1965 ^a .	100.0	+1.8	98.2	100.0	-1.1	101.1	100.0	-4.9	104.9

Sources: ECLA, on the basis of official statistics; IMF, *Balance of Payments Yearbook*.

direction of a loss of relative importance on the part of direct private investment, which, after playing the major role during the preceding decade, declined considerably, and was largely replaced by long-term loans from international financial institutions and from the United States.

In any event, the contribution made by external funds to the expansion of total investment resources can only be supplementary, important though they may be for the promotion of specific projects, or even as a means of temporarily buttressing the capacity to import. The vital problem, therefore, is still that of boosting private saving and investment, or of distributing larger-scale public investment in such a way that both the satisfaction of social needs and the expansion of the production system receive their fair share. But to push up public saving yet further is no easy task, in view of the persistence and legitimacy of the pressures for continuing increases in specific items of current expenditure.

4. DEVELOPMENT BY COUNTRIES

The foregoing analysis—relating to Latin America as a whole or to a very comprehensive group of countries—reflects differing conditions in individual countries; in some instances, these individual situations are completely at variance with the picture suggested by regional charac-

teristics. Some supplementary data are therefore needed with respect to the intensity and patterns of recent growth by countries, a topic which is more fully dealt with in Part Two of the present *Survey*.

As regards the average rate of development in the last two years, seven countries managed to increase their per capita product at an annual rate exceeding 3 per cent. Since four of them—Argentina, Honduras, Mexico and Venezuela—do not show an equally high rate for the period 1960–65 as a whole, this means that their progress has been faster of late than in the immediately preceding years, except for the falling-off in Mexico in 1965; the other three—El Salvador, Nicaragua and Panama—simply maintained a rate that had also been rapid in the first two or three years of the decade. Of the five countries whose per capita product increased in the two-year period 1964–65 by 2 to 3 per cent, two—Brazil and Paraguay—speeded up their growth rate in the last couple of years, Bolivia kept it more or less unchanged, and Peru and Guatemala registered a downward trend. The rates attained by Colombia and Ecuador (between 1 and 2 per cent in per capita terms) were much the same throughout the period 1960–65 as in its two closing years. In Chile and Costa Rica, the per capita product decreased in the middle

et external financing and total investment, 1950–65

Latin America excluding Argentina and Brazil			Venezuela			Latin America excluding Argentina, Brazil and Venezuela		
Total investment	Net external financing	Domestic saving	Total investment	Net external financing	Domestic saving	Total investment	Net external financing	Domestic saving
<i>t 1960 prices</i>								
3,765	-138	3,903	796	-16	812	2,969	-122	3,091
5,542	+187	5,355	1,283	-11	1,294	4,259	+198	4,061
6,206	+366	5,840	1,367	-395	1,762	4,839	+761	4,078
6,504	+431	6,073	1,335	-391	1,726	5,169	+822	4,347
6,678	+466	6,212	1,448	-351	1,799	5,230	+817	4,413
6,966	+384	6,582	1,470	-447	1,917	5,496	+831	4,665
7,835	+782	7,053	1,639	-199	1,838	6,196	+981	5,215
8,161	+525	7,636	(1,800)	-258	2,058	6,361	+783	5,578
<i>mposition</i>								
100.0	-3.7	103.7	100.0	-2.0	102.0	100.0	-4.1	104.1
100.0	+3.4	96.6	100.0	-0.9	100.9	100.0	+4.6	95.4
100.0	+5.9	94.1	100.0	-28.9	128.9	100.0	+15.7	84.3
100.0	+6.6	93.4	100.0	-29.3	129.3	100.0	+15.9	84.1
100.0	+7.0	93.0	100.0	-24.2	124.2	100.0	+15.6	84.4
100.0	+5.5	94.5	100.0	-30.4	130.4	100.0	+15.1	84.9
100.0	+10.0	90.0	100.0	-12.1	112.1	100.0	+15.8	84.2
100.0	+6.4	93.6	100.0	-14.3	114.3	100.0	+12.3	87.7

^a Provisional data.

years of the period, so that the greater expansion achieved in 1965 resulted in development rates which, although positive, fell short of 1 per cent per annum for the period as a whole. Lastly, in the Dominican Republic, Haiti and Uruguay the absolute level of the per capita product declined in the last two years, and, if 1960 is taken as the benchmark, remained stationary or also followed a downward trend (see table 6).

It is not easy to find common factors which account for the gains or losses in the relative position of the various countries from the standpoint of the intensity of their recent growth. Particularly favourable weather conditions helped to strengthen economic expansion in Argentina, Brazil and other countries. The fall

in coffee prices somewhat affected Colombia, El Salvador and Guatemala in 1965, when their rate of development was lower than in 1964; in turn, the improvement in export prices for mining products contributed to the more rapid progress made by Chile and Peru, whereas it was not sufficient to prevent Bolivia's growth rate from slowing down. There seems no room for doubt that the relatively high place taken by the Central American countries is to some extent attributable to the dynamic effects of their regional integration process.

To these factors whose influence extended to specific groups of countries must be added others which in the last analysis defy any attempt at generalization, except for the relatively stronger

Table 6. Latin America: Annual growth rate of gross product, by country, 1962-65
(Percentages)

Countries grouped according to average annual growth rate of per capita gross product, 1964 and 1965	Total gross product				Per capita gross product			
	1960-65	1962-63	1963-64	1964-65 ^a	1960-65	1962-63	1963-64	1964-65 ^a
I. Over 3 per cent								
Argentina	2.8	-4.6	8.6	7.8	1.3	-6.1	7.1	6.3
Honduras	6.4	3.1	6.6	10.6	2.9	-0.4	3.1	7.1
Venezuela	5.4	5.7	7.0	7.0	1.9	2.2	3.5	3.5
Mexico	6.0	6.4	10.1	5.2	2.6	3.0	6.6	1.8
El Salvador	7.2	4.9	9.5	5.1	4.0	1.7	6.3	1.9
Panama	8.0	8.7	5.8	8.1	4.9	5.6	2.7	5.0
Nicaragua	8.9	7.0	10.9	8.6	5.4	3.5	7.4	5.1
II. Between 2.1 and 3 per cent								
Brazil	4.9	1.6	3.1	7.3	2.0	-1.3	0.2	4.4
Bolivia	4.7	6.3	5.6	4.1	2.4	4.0	3.3	1.8
Peru	6.3	3.7	5.4	6.0	3.3	0.7	2.4	3.0
Paraguay	4.3	3.5	6.3	4.9	1.7	0.9	3.7	2.3
Guatemala	6.0	12.6	5.9	5.5	3.1	9.7	3.0	2.6
III. Between 1.1 and 2 per cent								
Colombia	4.5	3.3	5.3	3.9	1.7	0.4	2.5	1.1
Ecuador	4.2	2.6	6.5	5.0	1.0	-0.6	3.3	1.8
IV. Between 0 and 1 per cent								
Chile	3.7	1.7	2.5	4.1	1.3	-0.7	0.1	1.7
Costa Rica	4.4	6.6	1.1	7.6	0.4	2.6	-2.9	3.6
V. Negative								
Uruguay	0.3	-1.0	1.1	1.0	-0.9	-2.2	-0.1	-0.2
Haiti	1.8	2.7	0.6 ^b	0.3 ^b	-0.5	0.4	-1.7 ^a	-2.0 ^b
Dominican Republic	3.4	6.6	5.5 ^b	-10.0 ^b	0.0	3.2	2.1 ^a	-13.4 ^b
Latin America	4.6	2.0	6.0	6.2	1.7	-0.9	3.1	3.3
Latin America, excluding Brazil	4.5	2.2	7.3	5.7	1.7	-0.6	4.5	2.9
Latin America, excluding Argentina and Brazil	5.1	4.9	6.9	5.0	2.0	1.8	3.8	1.9

Source: ECLA, on the basis of official statistics and unpublished national data.

^a Provisional data.

^b Estimates.

repercussions of the Central American common market. A cursory account of the main developments in the individual countries will give a better idea of how far recent stimuli and obstacles have been peculiar to each.

In 1965, for the second year in succession, *Argentina* registered a relatively high rate of expansion. The real gross product increased by 7.8 per cent, which implied an increment of 6 per cent in the per capita product and a level of activity 8 per cent higher than that attained prior to the recession in 1962 and 1963.

The maintenance of the industrial growth rate and the expansion of agricultural production, by virtue of which exceptionally high export levels were reached, played a decisive part in this favourable over-all evolution. The development of manufacturing industry was sustained by more intensive utilization of available installed capacity, the larger volumes of agricultural production found a sale on external markets, and better prices were obtained for beef exports. Other encouraging factors were the upward movements in demand for durable consumer goods, for housing, and for industrial products with a view to inventory-building.

The propitious situation with regard to the expansion of the productive sectors during 1965 had favourable repercussions on employment levels. The unemployment rate decreased, and, generally speaking, the rate at which the active population was absorbed in the non-agricultural sectors outstripped that of demographic growth.

As far as economic stability was concerned, the fiscal deficit was substantially reduced, chiefly in consequence of an upswing in real tax revenue, the maintenance of current expenditure at the same level, and a slight falling-off in investment. Nevertheless, inflationary pressures continued to make themselves felt, and in the course of the year pushed up retail price levels by 28.6 per cent. Only part of this increase is attributable to the rise in the exchange rate, which averaged 22 per cent in relation to 1964.

Bolivia witnessed a slackening of the growth rate its economy had shown in the two preceding years. From an average of over 5.5 per cent in the previous two-year period, the rate of increase of the gross product dropped to 4.2 per cent in 1965. This evolution was linked to a virtual stagnation in the value of exports in the last-named year, as against increments of 20 and 30 per cent in 1963 and 1964. In these two years the relatively high level of annual exports (about 110 million dollars) had enabled the country to cope with a decline in external financing and at the same time improve its position with regard to reserves.

The structural factors which have been influencing recent trends in the Bolivian economy have been combined with others of a fortuitous nature that help to account for the relative falling-off in the rate of development in 1965. Among them may be mentioned the labour problems that affected the development of the mining sector; weather conditions, which were unfavourable for agriculture; and a certain attitude of caution on the part of private enterprise until the new investment legislation was passed at the end of the year.

Four major events stand out in the general economic picture presented by *Brazil* in 1965:

(a) After two years of relative stagnation, the gross product registered an upswing of about 7 per cent, which was a bigger increase than had been achieved in any year in the preceding decade. So noteworthy an expansion was largely determined by the 1965 harvests, which, owing to very favourable weather conditions, were 20 per cent larger than those obtained in 1964. If the agricultural sector is excluded, the growth rate for the gross product of the rest of the economy works out at only 2.4 per cent; it would be 4 per cent if all that was discounted were the share of coffee, output of which doubled, amounting to 36 million bags in 1965;

(b) The external sector of the economy showed a marked improvement, which reversed some of the preceding trends. Exports surpassed the high levels reached in 1953-54—a peak period for coffee—owing to increases in the exportable surpluses of a number of agricultural commodities and also, as a result of the relative contraction in internal demand, in the supplies of certain manufactured goods and other products available for export. Imports, in their turn, were further reduced, dropping to their lowest level since 1950. In consequence of these trends, the foreign trade balance closed with a surplus of 600 million dollars, after having shown a deficit for 15 consecutive years (with the sole exception of 1961);

(c) The rate of increase in the cost of living was 34 per cent in 1965, or half that registered in the two preceding years. This was the result of a stabilization effort initiated in mid-1964, whereby the aim of bringing prices down was reconciled with development objectives. During 1965 the restriction of wage adjustments, the control of monetary expansion and the improvement in the fiscal situation did much to keep the upward trend of prices within bounds. At the end of the year, however, and above all in the early months of 1966, there were signs of a recrudescence of inflationary pressures;

(d) Lastly, improvements took place in the field of public income and expenditure, in the shape of a steady increase in the former during the last three years, together with a change in the composition of public expenditure, which, at the same time, expanded less rapidly and in real terms actually decreased during 1965. The first of these developments is attributable to the emergency tax reform put into effect in 1964, while the second was largely due to the freezing of public employees' salaries and the reduction of transfers to public utility enterprises. An increase in the relative importance of the public sector's capital outlays brought its share in total investment up to 60 per cent. Thanks to these trends, for the first time in recent years a surplus was registered on the Central Government's current account, enabling it to finance 45 per cent of its capital expenditure.

The outstanding feature in the evolution of *Central America* during 1965 was its relatively high rate of economic growth, which signified the continuance of a steady process covering the last five years. The increase in the area's gross product is estimated at 6.8 per cent; this rate compares favourably both with that of 6.6 per cent attained in 1964 and with the annual average for 1960-65 (6.4 per cent).

As in previous periods, the economy's prime mover was the dynamism of exports, which expanded by 7.3 per cent. Although this increment was based on traditional products—especially bananas and cotton—it was further strengthened by a 34-per-cent increase in intra-area trade, which reached a figure exceeding 140 million dollars, and thus came to represent one-fifth of Central America's total export trade.

Rates of development and their determinants varied from one country to another. In *Costa Rica*, the 1965 growth rate was 7.5 per cent, contrasting with the stagnation registered in the preceding year, when the eruption of the Irazú volcano had caused serious damage to crops. Much of the dynamism characterizing the year 1965 was attributable, in its turn, to the evolution of the agricultural sector, in which the banana harvest was unusually good, and production of some other crops reached high levels, but also to the boom in the industrial sector, where the establishment of new industries and the expansion of others were encouraged by Costa Rica's recent accession to the Central American common market.

In *El Salvador*, on the other hand, after a very prosperous year, in which exports had thrived and public and private investment had shown a no less dynamic rate of increase, in 1965 the economy displayed certain symptoms of weak-

ness which reduced the growth rate of the product to about 5 per cent, as against 9.5 per cent in 1964. This falling-off was due partly to a loss of impetus in the export sector, mainly imputable to a poorer cotton crop and partly to an accompanying decrease in the rate of expansion of public and private investment.

The rates of economic development registered in *Guatemala* in the last three years were favourable, although within a declining trend. During that period, exports expanded vigorously, revealing increased diversification of both products and markets of destination, while investment although likewise following an upward trend, underwent sharp fluctuations, particularly in the case of the public sector. The expansion of domestic production for the home market failed to keep pace with that of internal demand. The widening gap was bridged with imports, which increased at an annual rate of 17 per cent in the period under discussion. This process resulted in an unprecedented balance-of-payments deficit on current account in 1965, which was financed by means of an exceptionally large inflow of long-term private capital.

Honduras enjoyed an economic boom for the second year in succession. The remarkable increase in the gross product in 1965—10 per cent—was largely the result of a bumper harvest, which brought exports up to record levels. The foreign exchange income generated by banana sales shot up by 40 per cent, while coffee and cotton export earnings also surpassed previous figures. Public expenditure, in contrast, did not play the same expansionist role in the later as in the earlier years of the period. Meanwhile, further steps were taken to promote the diversification of the economy's productive base and the integration of the home market, the most noteworthy including road-building, completion of a major hydroelectric project, the special treatment granted to Honduras by the other signatories of the Economic Integration Treaty in respect of the establishment of new industries, and, generally speaking, the progress made in the field of economic planning.

In *Nicaragua*, the favourable economic conditions which have made its development remarkably dynamic during the past decade continued to prevail in 1965, when the gross product increased by 8.6 per cent and exports by 9.3 per cent. Despite an interruption in the last year of the period, the upward trend of the public sector's capital expenditure on infrastructure projects has provided substantial support for the development of internal economic activity. Official action has also played a leading part in the noteworthy expansion registered by

the production of cotton—the country's principal export item—through an energetic credit policy.

The economic evolution of *Colombia* was characterized by sharp fluctuations during the five-year period just ended. The biggest increment in the gross product was achieved in 1964 (5.3 per cent), but in 1965 the rate of increase fell again to 3.9 per cent. In the latter year there was no recurrence of the favourable external situation created in 1964 by the rise in coffee prices. The value of exports was slightly reduced by a contraction of over 10 per cent in the volume of coffee shipped abroad and a small decrease in the prices it fetched, which the significant increases in exports of cotton, petroleum and bananas did not suffice to offset. At the same time, imports were drastically curtailed in 1965, chiefly as a result of government measures designed to stabilize the balance of payments and to ease the pressure on international reserves, which had sunk to very insecure levels. In this way, despite a smaller inflow of foreign capital, a balance-of-payments surplus of 100 million dollars was obtained, by means of which it was possible to augment the country's gold and foreign exchange reserves.

A variety of circumstances, producing equally varied effects, attended the economic development of *Chile* in 1965. Provisional data suggest that after two years in which the growth rate of the gross product barely kept pace with that of the population, in 1965 it rose a little above 4 per cent, while, by virtue of the improvement in copper export prices, real income expanded by 5 per cent. Concurrently with the increase in the rate of development, an amelioration of the chronic instability of the economy was reflected in a slowing-up of the rate of inflation and a reduction of the fiscal deficit, notwithstanding the big increase in public expenditure. The financial situation in the external sector also improved, for while exports expanded, imports contracted slightly.

Domestic investment increased in 1965, owing to an increment of over 28 per cent in capital formation on the part of the public sector, partly attributable to reconstruction work in the areas affected by the earthquakes that occurred early in the year and by the storms and floods which followed later. Conversely, private investment decreased, and the rigidity of agricultural production persisted.

Economic and social policy was channelled along new lines in 1965, and the degrees of importance attached to former guiding principles underwent considerable alteration. The principal change occurred in the sphere of wage and salary

policy, with the adoption of the general principle of nation-wide increases in accordance with the rise in the cost of living, and the establishment of preferential percentages to benefit the less privileged groups, such as wage-earners in the agricultural sector.

The economy of *Ecuador* seems to have lost impetus in 1965, largely owing to the increasing difficulty it found in selling its staple export commodity on external markets. The leading purchaser of Ecuadorian bananas had already reduced its operations at the end of 1964, and this trend not only persisted in 1965, but was aggravated in some months of the year by the dock hands' strike in the United States, and by a gradual decline in real sales prices. According to estimates, in the course of the whole year the value of banana exports dropped by 20 per cent. Thanks to the increase in exports of coffee and cacao, foreign exchange income remained at virtually the same level as in the preceding year.

The slackness of external demand was counterbalanced by an increase in industrial investment and by the more intensive execution of infrastructure projects whose impact on the internal dynamics of the economy was considerable. For these purposes, recourse was had to imports, which expanded by over 20 per cent, but, in view of the low level of external sales and the increasingly heavy incidence of remittances abroad, were responsible for an unprecedented balance-of-payments deficit on current account.

Mexico's rate of economic growth was still relatively rapid in 1965, although slower than in the preceding two-year period (10 per cent in 1964 and 6.3 per cent in 1963). Internal factors—in particular, weather conditions that were less favourable to crop farming, and the stabilization of public expenditure, together with other measures designed to relieve the pressures on price levels and on the balance of payments—chiefly accounted for the smaller increase in the rate of economic activity.

Both the Federal Government and the State enterprises reduced their investment, partly because the available supply of external credit diminished; and an attempt was made to restrict current expenditure, while at the same time new tax measures brought in additional revenue. By this means the budget deficit was substantially lessened.

Despite the deterioration in average prices for *Mexico's* export commodities, the value of its external sales increased, thanks to the development of the cotton industry under the aegis of official measures, and the sale of large maize and wheat surpluses on foreign markets. The

agricultural sector thus helped to sustain the growth of internal economic activities.

Panama's relatively rapid rate of economic expansion was maintained in 1965, when the total gross product increased by 8 per cent. Investment, which had undergone a contraction in 1964 as a result of political events early in the year, fully recovered in 1965, especially in the field of public and private construction (mainly road-building).

The trade balance regularly shows a heavy deficit, which was aggravated in 1965 by the smallness of the scale on which exports expanded and the marked increase in purchases abroad. By virtue of the 1965 tax reform, public revenue considerably increased, and expenditure was restricted, so that the Central Government was able to balance its current account.

Special attention was devoted during 1965 to the negotiations between Panama and the United States on the future of the Canal, with reference to the revision of the 1903 Treaty and the project for constructing a new canal at sea level. Both matters of course involved decisions of supreme importance for the future development of the Panamanian economy.

Since 1960, *Paraguay* has been registering a moderate rate of growth, which speeded up in the last two years under consideration. This recent expansion was due to conditions favouring the export sector, whose production capacity was increased as a result; on the other hand, dynamic factors linked to domestic demand are still few and far between.

The launching of the economic and social development plan for 1965-66, with external financial co-operation, facilitated larger-scale investment, which has been strengthening the production infrastructure with a view to more complete integration of the internal economic system. At the same time, domestic credit resources have been augmented, and to an increasing extent are being officially channelled into agricultural and industrial development.

After weakening in 1963, the economic growth rate of *Peru* regained the dynamism which has characterized it since 1960. Up to 1964, the expansion of exports (23 per cent) was the chief determinant of the high levels of activity attained; in 1965, on the other hand, when the value of external sales remained stationary, the upward trend was sustained by internal factors making for expansion.

The falling-off in the anchoveta catch in the last quarter of the year, combined with the stagnation of cotton exports and the drastic con-

traction of sugar shipments, resulted in a decrease in the total volume of exports, although thanks to the rise in world prices for fish meal and for the mining products exported by Peru, total foreign exchange income was not reduced.

Among the sectors of internal demand, public investment increased by 16 per cent in 1965, maintaining the rapid upward trend registered in previous years. Private investment, which has followed a more vacillating course, soared in 1965, partly as a result of official policy designed to attract foreign capital. This was invested mainly in the installation of assembly plants for motor vehicles and certain durable consumer manufactures (electrical appliances). In response to the increase in domestic demand, imports expanded greatly, their 1960 value being doubled in 1965.

The economy of the *Dominican Republic* was severely affected in 1965 by the political and military disturbances which lasted for several months. The repercussions of this situation made themselves felt in many aspects of economic activity, particularly foreign trade, industry and services; and the critical state of affairs was further aggravated by the steady decline in the prices of the country's principal export commodities. All these circumstances combined to determine a sharp contraction of the gross product—according to very rough estimates, about 10 per cent—and a marked increase in unemployment, particularly in the capital city.

The various sectors of production felt the impact of these events in differing degrees. Agriculture was probably the activity that suffered least, but even so its volumes of output are estimated to have decreased in absolute terms, partly owing to the abrupt drop in sugarcane production.

One of the salient features of the economic development of *Uruguay* in 1965 was the intensification of inflationary pressures, whose effects were aggravated by the long process of economic stagnation that had begun in 1957. During the last four years of the period under discussion, prices climbed steadily, reaching very high levels in 1965. Moreover, various difficulties hampered the over-all growth of the product, including the temporary suspension of imports in consequence of the critical situation in the external sector; the sharp increase in domestic prices; the increased social pressures which found expression in labour conflicts to secure wage adjustments, especially in the public sector; the prolonged drought which affected summer crops and livestock production; and the rationing of electric power consumption from May to October, as a result of the drought in question.

At the same time, other events took place which partly counteracted the effects of those listed above, and may open up more hopeful prospects. Mention may be made of the significant recovery in respect of winter crops; the boom in the tourist trade; the tonic effect of the currency devaluation on exports; the measure of success that is being achieved in the renegotiation of the external debt; and, at the over-all level, the official adoption of a short-term programme approved by the Executive, the aim of which is to control the inflationary process, speed up the rate of growth and develop and diversify exports.

Venezuela's approximate rate of development in 1965 was 7 per cent, which represented a continuance of the steady progress made by the country since 1961, and, as in previous years, reflects the influence of internal driving forces. This consolidates a development pattern different from the picture presented by the Venezuelan economy in other periods, when the dynamic factors were to be found mainly in external transactions.

The growth of exports has been slow in the last five-year period, and, in addition, the terms of trade have gradually deteriorated. Imports, on the other hand, have remained relatively stationary.

Thus, one of the mainsprings of economic development has been the import substitution process, which in 1964 and 1965 was strengthened through the expansion of public expenditure and the contribution thereby made to the develop-

ment of an important nucleus of basic industries and, at the same time, to the intensification of internal structural changes. Private investment also exerted a dynamic influence.

5. SECTORAL GROWTH AND THE STRUCTURE OF THE PRODUCT

Viewed from the standpoint of the contribution made by the various sectors of economic activity, the growth characteristics of the Latin American product were by no means the same in 1965 as in the preceding year, although in quantitative terms the aggregate results obtained were very similar.

This time it was the agricultural sector that played a markedly expansionist role, inasmuch as its volumes of production increased by 9.6 per cent, that is, by a much higher proportion than the total product, whereas in 1964 these development ratios had been reversed (see table 7). Public utilities (electricity, gas and water) also kept up a high rate of expansion, while at lower levels no significant changes were registered in the other services. In contrast, there was a slump in the growth rates of mining output (from 6.8 to 3.3 per cent), manufacturing industry (from 9.8 to 6.3 per cent), and construction (from 8.9 to 4.7 per cent).

In later paragraphs these sectoral behaviour patterns will be discussed in fuller detail. In the meanwhile, it is worth pointing out that the foregoing characteristics of economic expansion in 1965 have intensified certain special features by which the development process has been

Table 7. Latin America: Recent evolution of sectoral product,^a 1960-65
(Percentages)

Sector	Annual growth rates				
	1960-61	1961-62	1962-63	1963-64	1964-65
1. Agriculture, forestry and fishing	4.6	4.2	1.7	4.0	9.6
2. Mining and quarrying	3.0	6.0	2.7	6.8	3.3
3. Manufacturing	7.8	3.2	1.3	9.8	6.3
4. Construction	2.3	1.4	4.1	8.9	4.7
5. Electricity, gas and water	12.1	11.0	10.5	9.5	9.5
6. Transport and communications	5.5	22.9	2.3	6.0	4.2
SUB-TOTAL, for basic goods and services	5.7	3.8	2.0	7.0	7.0
7. Trade and finance	6.6	2.8	1.1	6.1	6.3
8. Public administration and defence	2.7	2.0	3.5	3.1	3.4
9. Other services	3.5	3.7	4.6	4.8	4.4
TOTAL	5.3	3.5	2.3	6.2	6.2

Source: ECLA, on the basis of official statistics.

^a Estimates based on gross product at factor cost.

stamped throughout the past five or six years (see tables 8 and 9).

With respect to the proportion of the domestic product generated in the various sectors of economic activity, it seems to have been during the second half of the fifties that the changes in the structure of Latin American production were most rapid; since 1960 they have been considerably less marked. The relative importance of the agricultural sector declined between 1950 and 1955 (from 24.6 to 23.8 per cent of the product), and dropped more sharply between 1955 and 1960 (falling to 21.7 per cent), but no further

decreases were registered in 1965. It was in 1956-60, too, that the greatest increase took place in the share of manufacturing, whose upward trend subsequently tended to flatten out.

These and other changes in the sectoral composition of the product have simultaneously involved both favourable and unfavourable elements which can be evaluated only in the light of a very long-term pattern of structural change, and must also be studied with reference to the speed of over-all development. To take the case of the agricultural sector, the average elasticity of its growth in relation to that of the

Table 8. Latin America: Evolution and structure of sectoral product,^a 1950-65

Sector	Percentage of total gross product				Cumulative annual growth rates (percentages)			
	1950	1955	1960	1965	1950-55	1955-60	1960-65	1950-65
1. Agriculture, forestry and fishing	24.6	23.8	21.7	21.8	4.1	2.7	4.8	3.8
2. Mining and quarrying . . .	4.0	4.5	4.9	4.9	7.0	6.9	4.3	6.0
3. Manufacturing	18.7	19.7	21.7	22.7	6.0	6.6	5.6	6.1
4. Construction	3.4	3.4	3.3	3.2	5.0	4.2	4.3	4.5
5. Electricity, gas and water . .	0.7	0.8	1.0	1.4	7.8	9.3	10.5	9.2
6. Transport and communications	6.3	6.6	6.4	6.2	5.7	4.1	4.2	4.6
SUB-TOTAL, for basic goods and services								
	57.7	58.8	59.1	60.2	5.2	4.7	5.1	5.0
7. Trade and finance	17.3	17.7	18.0	17.8	5.3	4.8	4.6	4.9
8. Public administration and defence	8.6	7.8	7.1	6.5	2.9	2.6	2.9	2.8
9. Other services	16.4	15.7	15.9	15.5	3.9	4.8	4.2	4.3
TOTAL	100.0	100.0	100.0	100.0	4.8	4.6	4.7	4.7

Source: ECLA, on the basis of official statistics.

^a Estimates based on gross product at factor cost.

Table 9. Latin America: Ratio between sectoral growth and growth of total gross product, by period,^a 1950-65

Sector	1950-55	1955-60	1960-65	1950-65
1. Agriculture, forestry and fishing . . .	0.85	0.59	1.02	0.81
2. Mining and quarrying	1.46	1.50	0.91	1.28
3. Manufacturing	1.25	1.43	1.19	1.30
4. Construction	1.04	0.91	0.91	0.96
5. Electricity, gas and water	1.62	2.02	2.23	1.96
6. Transport and communications	1.19	0.89	0.89	0.98
SUB-TOTAL, for basic goods and services				
	1.08	1.02	1.09	1.06
7. Trade and finance	1.10	1.04	0.98	1.04
8. Public administration and defence . .	0.60	0.57	0.62	0.60
9. Other services	0.81	1.04	0.89	0.91
TOTAL	1.00	1.00	1.00	1.00

Source: ECLA, on the basis of official statistics.

^a Estimates based on gross product at factor cost.

total product was 0.81 for the period 1951–65 as a whole, while a break-down by five-year periods gives the following figures: 0.85 in 1951–55, 0.59 in 1956–60, and 1.02 in 1961–65. Although these changes are partly due to the differences in the degrees of dynamism characterizing the evolution of other sectors of the economy, they are also, and primarily, determined by the absolute growth rates of the agricultural sector. In view of the latter's traditional rigidities on the supply side, the gaps between its production and domestic food requirements, and the significant proportion of its output that is used to meet external demand, its more dynamic expansion in the past five years represents an important contribution to the development process. Finally, this expansion reflects not merely the influence of fortuitous circumstances, but the results of a persevering effort to extend the frontiers of agriculture through the incorporation of additional land, the provision of basic infrastructure and the improvement of communications with the chief commercial centres.

With respect to manufacturing industry, the position is different. The slackening of its growth, in terms of its share in the total product, involves factors which cannot but give cause for serious concern. The recent falling-off is manifest: the average annual rate of expansion for the whole period 1950–65 is 6.1 per cent, determined by rates of 6 per cent in 1950–55, 6.6 per cent in 1955–60, and only 5.6 per cent in 1960–65. In the same periods, the average elasticity of its growth in relation to that of the over-all product rose from 1.25 to 1.43, and then declined to 1.19 (see again tables 8 and 9).

Such trends seem incongruous with the fact that the main problems confronting Latin America's development process converge upon the industrial sector, calling for further and greater industrialization efforts. The diversification of exports entails a stronger flow of external sales of manufactured goods; the integration of Latin America presupposes, first and foremost, the gearing of industrial development towards intra-regional trade in manufactured goods and a readjustment of the existing industrial base as well as of projects for its subsequent expansion; the scale of the employment problems calls for fresh and more effective contributions to its solution by means of more rapid industrialization along new lines; and even the improvement of social conditions—which has become one of the objectives of recent development policy—may not prove lasting unless it is accompanied by a more strenuous industrialization effort that will ensure the

region's internal capacity to sustain it. All this saddles industry with unprecedented responsibilities, which are hardly compatible with the symptoms of weakness displayed by recent industrial development. The situation is aggravated by the close association between these symptoms and the fact that the traditional stimulus afforded by import substitution has lost strength, while other factors destined to give new dynamic impetus have not yet acquired sufficient driving force.

In so far as the direction of these trends is successfully altered, there will also be a better chance of tackling, within the framework of accelerated industrial development, the urgent task of rectifying certain unfavourable features that characterized the growth of manufacturing activities in the past. Some of the current defects of Latin American industry—largely determined by factors extrinsic to the industrial sector itself—are all too familiar. The rechannelling of industrial development not only implies revision of the criteria governing the allocation of resources for new manufacturing projects—including those relating to markets of destination, location and assimilation of techniques—but also involves the readjustment and modernization of the whole of the existing industrial base. The very interdependence between the different branches of industry and between them and other sectors of the economy makes it idle to suppose that higher productivity, efficiency and competitive capacity could be achieved in a few selected lines of manufacturing if technical advances were not disseminated throughout the national economies as a whole. The gearing of industrial development to an integrated Latin American market, the stepping-up of competition, and the programming of investment in basic industries by means of concerted regional action, thus become indispensable elements in a new industrial policy for Latin America. In face of these tasks, industrial planning efforts have some leeway to make up. Whereas for the purposes of investment in infrastructure, planning instruments that came into partial use many years ago have gradually been perfected, and while the planning of social services has been strongly encouraged, industrial planning seems to be, in most cases, a particularly weak aspect of Latin American development programmes. Although this state of affairs is partly due to understandable causes, it must be remedied, so that the need to accelerate and rechannel industrial development can be more efficaciously met.

In the light of these longer-term considerations, it will be easier to evaluate the recent changes in levels of activity in the major sectors of the

Table 10. Latin America: Growth rates of gross domestic product by sector of economic activity,^a 1955-65

Country	Agriculture, forestry, hunting and fishing	Mining and quarrying	Manu- facturing	Con- struction	Electricity, gas and water	Other sectors	Total
Argentina							
1955-60	-0.4	14.3	3.8	4.3	6.1	2.8	2.7
1960-65	2.1	7.9	4.1	2.0	12.0	1.9	2.8
1963-64	9.6	4.8	14.3	8.9	9.9	4.4	8.6
1964-65	4.0	2.9	11.6	10.3	12.4	6.3	7.8
Bolivia							
1955-60	2.8	-6.8	-5.0	7.5	a	0.5	-0.3
1960-65	2.0	5.9	6.0	9.3	7.6	5.3	4.8
1963-64	2.0	11.3	10.7	2.6	4.2	5.3	5.5
1964-65	-1.4	4.9	4.0	25.0	4.0	5.5	4.2
Brazil							
1955-60	3.7	14.9	10.3	7.2	10.8	4.6	5.9
1960-65	6.9	11.1	4.9	2.8	9.7	3.6	4.9
1963-64	1.3	18.4	5.1	2.1	7.0	3.1	3.1
1964-65	20.0	12.0	1.0	0.7	4.9	3.2	7.3
Chile							
1955-60	2.3	3.5	3.2	1.4	3.5	3.7	4.3
1960-65	3.1	5.0	6.7	4.6	7.4	5.6	3.5
1963-64	6.4	6.3	5.0	-8.0	10.4	2.3	3.1
1964-65	-1.0	0.0	5.4	10.0	5.6	4.5	4.2
Colombia							
1955-60	3.5	6.8	6.1	-0.2	11.7	3.5	3.9
1960-65	3.0	4.4	5.9	1.9	9.2	5.2	4.5
1963-64	5.1	4.6	6.8	-2.2	6.5	5.3	5.3
1964-65	1.5	13.0	5.4	-4.7	9.2	4.4	3.9
Costa Rica							
1955-60	4.3	...	6.3	3.3	7.2	6.8	5.7
1960-65	0.4	...	8.8	8.3	7.3	5.0	4.4
1963-64	-8.8	...	11.5	8.2	7.6	2.9	1.1
1964-65	8.0	...	9.4	15.2	9.0	6.3	7.5
Ecuador							
1955-60	4.5	4.7	5.6	10.6	5.8	3.7	4.6
1960-65	2.9	3.0	6.3	3.6	8.6	2.9	3.8
1963-64	2.2	11.5	13.3	14.3	7.1	4.8	5.7
1964-65	3.7	2.9	6.3	3.7	8.3	3.0	3.8
El Salvador							
1955-60	1.1	3.5	6.7	8.8	15.3	5.2	4.3
1960-65	5.8	4.6	10.8	5.6	10.8	6.7	7.2
1963-64	9.9	1.7	16.9	8.4	11.8	6.7	9.5
1964-65	0.2	6.6	9.6	11.1	11.8	5.9	5.0
Guatemala							
1955-60	5.1	0.0	6.4	-0.3	8.8	5.4	5.3
1960-65	4.2	-3.6	8.7	3.3	15.5	6.5	6.0
1963-64	-0.4	7.1	12.3	25.6	8.8	7.8	5.9
1964-65	3.4	0.0	4.4	2.7	24.3	6.7	5.5

Table 10 (continued)

Country	Agriculture, forestry, hunting and fishing	Mining and quarrying	Manu- facturing	Con- struction	Electricity, gas and water	Other sectors	Total
Honduras							
1955-60	4.8	-0.6	5.4	-5.8	16.0	4.5	4.7
1960-65	7.7	6.8	8.1	2.4	11.4	4.1	6.5
1963-64	8.5	4.9	9.3	4.5	11.5	3.0	6.6
1964-65	16.0	16.3	8.7	-15.7	24.1	4.9	10.6
Mexico							
1955-60	3.0	6.1	8.1	8.1	6.5	6.6	6.1
1960-65	3.9	4.2	8.0	5.9	10.0	6.0	5.9
1963-64	6.2	6.2	14.2	16.4	14.9	9.2	10.1
1964-65	3.1	2.7	7.0	-3.1	9.5	5.9	5.2
Nicaragua							
1955-60	0.1	4.1	4.8	10.6	22.0	2.6	2.3
1960-65	9.7	-0.5	9.6	5.1	14.1	8.4	8.9
1963-64	11.5	4.9	13.6	6.5	18.2	9.4	10.7
1964-65	11.3	-17.6	7.1	-9.6	14.1	8.1	8.8
Panama							
1955-60	2.2	4.1	10.5	11.2	9.6	4.9	4.4
1960-65	5.7	11.5	12.4	7.4	11.7	7.6	8.0
1963-64	6.4	0.0	5.6	-7.6	8.1	5.3	5.0
1964-65	8.9	5.6	6.7	16.4	21.7	6.9	8.1
Paraguay							
1955-60	1.8	0.0	1.2	10.5	11.0	2.3	2.2
1960-65	4.0	8.5	5.9	2.2	4.7	4.0	4.3
1963-64	7.2	0.0	4.3	2.4	3.2	5.1	6.6
1964-65	3.7	20.0	9.0	2.3	6.3	5.5	4.5
Peru							
1955-60	3.8	11.9	6.1	-2.0	b	4.1	4.7
1960-65	5.9	2.6	7.4	13.3	b	6.1	6.3
1963-64	4.6	3.1	5.6	10.4	b	5.5	5.4
1964-65	5.7	2.3	7.1	12.9	b	5.6	6.0
Uruguay							
1955-60	-3.6	c	0.9	0.1	4.7	0.2	-0.1
1960-65	1.9	c	0.2	-9.1	4.7	0.5	0.4
1963-64	-9.3	c	5.4	-7.4	8.2	2.4	1.1
1964-65	1.2	c	-0.7	-2.3	-2.7	0.9	1.1
Venezuela							
1955-60	6.1	6.6	9.1	1.1	18.1	6.0	6.7
1960-65	6.6	3.7	9.4	7.9	12.0	4.6	5.4
1963-64	6.1	7.1	11.3	15.6	9.8	7.0	7.0
1964-65	7.5	2.5	10.7	17.0	12.1	6.3	7.0
Latin America							
1955-60	2.7	6.8	6.6	4.2	9.4	4.4	4.6
1960-65	4.8	4.3	5.6	5.9	10.5	4.2	4.7
1963-64	4.0	6.8	9.8	8.9	9.5	5.2	6.2
1964-65	9.6	3.3	6.3	4.7	9.5	5.0	6.2

Source: ECLA, on the basis of official statistics.

^a Estimates based on gross product at factor cost.

^b Included under "Other sectors".

^c Included under "Manufacturing".

Table 11. Latin America: Percentage composition of gross domestic product by sector of economic activity,^a 1955-65

<i>Country</i>	<i>Agriculture, forestry, hunting and fishing</i>	<i>Mining and quarrying</i>	<i>Manufacturing</i>	<i>Construction</i>	<i>Electricity, gas and water</i>	<i>Other sectors</i>
Argentina						
1955 . .	19.6	0.8	29.7	3.9	1.1	44.9
1960 . .	16.8	1.4	31.3	4.2	1.3	45.0
1963 . .	16.6	1.9	30.4	3.9	1.8	45.4
1965 . .	16.2	1.7	33.2	4.1	1.9	42.9
Bolivia						
1955 . .	26.4	17.4	13.1	2.5	a	40.6
1960 . .	30.6	12.4	10.2	3.9	1.1	41.8
1963 . .	29.3	12.3	10.3	4.1	1.3	42.7
1965 . .	26.9	13.1	10.8	4.8	1.3	43.1
Brazil						
1955 . .	31.0	0.3	18.9	1.1	0.6	48.1
1960 . .	28.3	0.5	23.4	1.2	0.8	45.8
1963 . .	28.2	0.5	24.4	1.2	0.8	44.9
1965 . .	31.0	0.6	23.4	1.1	1.0	42.9
Chile						
1955 . .	12.8	6.9	18.8	3.1	0.8	57.6
1960 . .	12.2	7.0	18.7	2.8	0.8	58.5
1963 . .	11.1	6.9	19.3	2.9	0.9	58.9
1965 . .	10.9	6.8	19.9	2.7	0.9	58.8
Colombia						
1955 . .	35.2	3.5	15.4	4.5	0.7	40.7
1960 . .	34.6	4.0	17.0	3.7	0.9	39.8
1963 . .	32.9	3.7	17.7	3.8	1.1	40.8
1965 . .	32.2	4.0	17.3	3.4	1.1	42.0
Costa Rica						
1955 . .	37.8	...	10.7	3.2	2.6	45.7
1960 . .	35.4	...	11.1	2.8	2.9	47.8
1963 . .	32.5	...	12.2	3.0	2.9	49.4
1965 . .	29.2	...	13.7	3.4	3.2	50.5
Ecuador						
1955 . .	36.1	2.4	15.0	3.1	1.1	42.3
1960 . .	36.0	2.4	15.7	4.1	1.2	40.6
1963 . .	37.7	2.2	16.1	3.8	1.4	38.8
1965 . .	35.7	2.3	17.7	4.1	1.5	38.7
El Salvador						
1955 . .	35.5	1.5	13.5	2.4	0.6	46.5
1960 . .	30.8	1.0	15.2	2.9	1.0	49.1
1963 . .	30.2	0.9	16.2	2.6	1.1	49.0
1965 . .	28.9	0.9	18.1	2.7	1.2	48.2
Guatemala						
1955 . .	33.0	0.2	10.1	2.7	0.6	53.4
1960 . .	32.8	0.2	10.6	2.1	0.7	53.6
1963 . .	32.6	0.1	11.5	1.6	0.9	53.3
1965 . .	30.2	0.1	12.1	1.8	1.1	54.7

Table 11 (continued)

Country	Agriculture, forestry, hunting and fishing	Mining and quarrying	Manu- facturing	Con- struction	Electricity, gas and water	Other sectors
Honduras						
1955 . . .	49.4	1.3	10.9	5.1	0.4	32.9
1960 . . .	50.4	1.0	11.6	3.1	0.6	33.3
1963 . . .	50.2	1.0	12.5	3.4	0.7	32.2
1965 . . .	53.2	1.1	12.5	2.5	0.8	29.9
Mexico						
1955 . . .	20.2	4.4	18.9	4.6	0.8	51.1
1960 . . .	17.4	4.3	20.5	5.0	0.9	51.9
1963 . . .	16.6	4.2	21.3	5.1	0.9	51.9
1965 . . .	15.7	3.9	22.5	5.0	1.0	51.9
Nicaragua						
1955 . . .	42.2	2.1	9.8	1.7	0.6	43.6
1960 . . .	38.1	2.3	11.1	2.6	1.5	44.4
1963 . . .	38.0	2.0	11.4	2.7	1.6	44.3
1965 . . .	39.5	1.4	11.5	2.2	1.8	
Panama						
1955 . . .	28.4	0.3	9.9	4.5	1.8	55.1
1960 . . .	24.6	0.3	12.7	5.9	2.2	54.3
1963 . . .	21.7	0.4	15.7	6.1	2.2	53.9
1965 . . .	22.2	0.3	15.6	5.8	2.6	53.5
Paraguay						
1955 . . .	39.4	0.1	18.1	1.7	0.6	40.1
1960 . . .	38.8	0.1	17.3	2.4	0.8	40.6
1963 . . .	38.4	0.1	18.0	2.4	0.9	40.2
1965 . . .	38.2	0.2	18.6	2.2	0.9	39.9
Peru						
1955 . . .	23.8	6.4	16.6	4.5	b	48.7
1960 . . .	22.9	9.0	17.7	3.2	b	47.2
1963 . . .	22.7	8.0	18.4	4.0	b	46.9
1965 . . .	22.5	7.6	18.7	4.5	b	46.7
Uruguay						
1955 . . .	22.7	c	19.8	5.0	1.2	51.3
1960 . . .	19.3	c	21.2	5.2	1.5	52.8
1963 . . .	22.8	c	20.2	3.5	1.7	51.8
1965 . . .	20.8	c	21.0	3.2	1.8	53.2
Venezuela						
1955 . . .	7.3	27.0	9.4	5.0	0.9	50.4
1960 . . .	7.2	27.3	10.7	3.9	1.5	49.4
1963 . . .	7.7	26.4	12.0	3.7	1.8	48.4
1965 . . .	7.7	25.2	12.9	4.4	2.0	47.8
Latin America						
1955 . . .	23.8	4.4	19.7	3.4	0.8	47.9
1960 . . .	21.7	4.9	21.7	3.3	1.0	47.4
1963 . . .	21.6	5.0	21.9	3.2	1.3	47.0
1965 . . .	21.8	4.9	22.7	3.2	1.4	46.0

Source: ECLA, on the basis of official statistics.

^a Estimates based on gross product at factor cost.

^b Included under "Other sectors".

^c Included under "Manufacturing".

Latin American economy which are noted in the following paragraphs, and which will also be analysed in detail in Part Three of the present *Survey* (see tables 10 and 11).

(a) *Agricultural sector*

The striking expansion of agricultural production is one of the characteristics of the region's economic development in 1965, when the increase in the gross product of the agricultural sector—including forestry, hunting and fishing—was 9.5 per cent.

Nevertheless, the significance of this expansion must be appraised with certain reservations. The average figure is decisively affected by the remarkable production increment obtained in Brazil—whose gross agricultural product accounted for about 40 per cent of the whole region's agricultural product in 1965—as the result of a substantial recovery on the part of the coffee crop, and of extremely favourable weather conditions, thanks to which other products also registered bumper harvests. To sum up, Brazil's agricultural activities expanded in the aggregate by 20 per cent, while agricultural production in the other Latin American countries increased by 3.7 per cent, i.e., at a rate only a little higher than that of demographic growth. Moreover, within this latter group of countries the situation is far from uniform. Agriculture developed under favourable conditions in eight of them, where, furthermore, this sector plays a major role in the formation of the total product. In Costa Rica, the losses due to the adverse circumstances that had affected agricultural production in 1964 were largely recouped; in Guatemala's case, development was on a more modest scale, and likewise implied a process of recovery; in Ecuador, relatively favourable weather conditions benefited mainly the crops grown for domestic consumption, so that the sector showed a moderate expansion in 1965, within the slow growth trend pursued in recent years; in Honduras and Nicaragua, rates of development that were already high were speeded up still further, rising to 16 and 12 per cent, respectively. The same sort of thing took place, at lower levels, in Panama and Peru. Uruguay achieved a slight increase (1.2 per cent), thanks to a significant recovery in respect of winter crops, but generally speaking the agricultural sector presented the same picture of instability and under-development as before. In Argentina, Colombia, Mexico, Paraguay and Venezuela, on the other hand, the rates attained were lower than in the preceding year, and output decreased in absolute terms in Bolivia, Chile (where weather conditions were particularly bad)

and El Salvador (where the stagnation of agricultural production was imputable to the slump in the cotton crop).

The contribution of the agricultural product to the formation of the total product varies considerably, of course, from one Latin American country to another, ranging from less than 8 per cent in Venezuela to about 50 per cent in the case of Honduras. From 1960 onwards, however, it tended to remain stable, and in specific countries—such as some of those of Central America and Uruguay—even to increase (see again table 11).

The foregoing data suggest that, irrespective of the influence of adventitious factors, benefits are beginning to be reaped from the efforts made to improve rural infrastructure facilities and credit, research and extension services, as well as from the more systematic formulation of agricultural policy on the basis of development plans and programmes. But, if the passing effects of weather conditions are set aside, it is clear that most of the increase in agricultural output in recent years is attributable to the continued expansion of the area under cultivation, whereas the contribution made by higher productivity—resulting from the sustained application of improved techniques—seems to have been a good deal less significant.

While most of the staple agricultural export commodities showed increments larger than those registered in total production, in the case of crops grown for domestic consumption rates of development were less satisfactory than the over-all indexes.

The most important products followed differing trends during 1965. Sugar, coffee, rice and maize outputs increased; the wheat, oat and oil-seed crops were smaller; and cotton production remained stationary.

According to estimates, Latin America's 1964/65 sugar harvest amounted to 16.3 million tons, which represents a substantial improvement in relation to the preceding year. Cuba—the region's largest producer—witnessed a reversal of the declining trend which sugar production had been pursuing since 1961. The Brazilian crop was highly satisfactory, and so were those of Mexico, Peru and Venezuela.

The volume of Latin America's coffee output was very large in 1965—over 3.3 million tons—and greatly exceeded the previous year's harvest of 1.8 million tons. Brazilian coffee played the decisive role in this expansion, while in Colombia and Venezuela no major changes were recorded, in Mexico production decreased, and bigger

crops were obtained in the Central American countries, with the exception of Nicaragua.

The considerable increase in the rice harvest in 1965 was mainly influenced by the Brazilian crop, which accounted for two-thirds of the region's total output of rice. Colombia enlarged the area under seed, while production remained stationary in Mexico and declined in Peru.

The maize harvest was 10 per cent bigger than that of 1964, once again thanks to Brazil, since in Argentina a slight falling-off took place, and in Mexico the steady upward trend registered in previous years came to a standstill.

Latin America's output of wheat, for 90 per cent of which Argentina, Chile and Mexico are responsible, contracted to 10.7 million tons in 1965, after reaching 15 million tons in the preceding year. The lack of rain and the reduction of the area under seed in 1965/66 accounted for the drastic shrinkage of the Argentine crop. Production also decreased in Chile, but the rapidly rising trend recorded in Mexico was maintained.

Production of cotton remained at the same level, with minor fluctuations, during the last three years of the period. In 1965 Argentina and Brazil recouped the preceding year's losses, whereas in Mexico, Nicaragua and Peru the crops diminished.

Beef production failed to regain its relatively high 1963 level in 1964 and 1965, although in the latter year it expanded slightly. Over the long term, output of forest products has slowly crept upward.

To end this brief account of the principal lines of production included in the agricultural sector, the development of the fishing industry was dynamic up to 1964, in which year Latin America contributed 23 per cent of world output. In Argentina, Cuba, Mexico, Panama and Venezuela, production is used for supplying the domestic market with fresh fish, and for canning purposes. In Chile and Peru, on the other hand, the fish principally caught are anchovetas, which serve as raw material for the manufacture of fish meal. Complete data for 1965 are not yet available, but the reduction of Peru's catch during the last quarter of the year is bound to have affected the region's output.

(b) *Mining sector*

In 1965, the gross product generated in the mining and quarrying sector rose by 3.3 per cent in Latin America as a whole, that is, by much less than in 1964, when the increase registered

was 6.8 per cent. Throughout the period 1960-65, this sector tended to develop at much the same rate as the total product, in which its share therefore remained constant, at about 5 per cent.

The 1965 growth rate does not represent a uniform expansion either by countries or by products. The increments achieved were considerable (ranging from 12 to 20 per cent) in Brazil, Colombia, Honduras and Paraguay, but in all these countries, with the exception of Colombia, the mining sector carries little weight in the economy as a whole. In Bolivia, where it generates about 13 per cent of the gross product, which is the highest proportion recorded for any Latin American country except Venezuela, the growth rate of mining output dropped from 11 per cent in 1964 to 5 per cent in 1965, partly on account of labour problems. Similar rates of expansion were registered in 1965 in El Salvador and Panama, while in three countries where this sector is very important—Mexico, Peru and Venezuela—production increased by only 2 to 3 per cent; the same was true of Argentina and Ecuador. In Chile, adverse circumstances kept the aggregate volume of mining output from expanding; if coal and iron are excluded, the other mining products, especially copper—which enjoyed the benefit of a rise in prices—underwent contractions as the result of a number of problems which brought activities to a standstill during several months of the year. Lastly, in Nicaragua there was a slump in mining production, probably determined to some extent by the decline in gold mining that has been observable for some years.

As regards the evolution of the most important mining products, iron output increased by 25 per cent in 1965; production of bauxite, tin, manganese and zinc showed increments ranging from 6 to 8 per cent, and that of coal expanded by 4 per cent, copper and lead production, on the other hand, remained stationary, and reductions varying from 2 to 8 per cent were registered in the output of sulphur, gold, silver and nitrate.

(c) *Manufacturing industry*

Manufacturing industry did not influence the relatively high growth rate of the Latin American economy as strongly in 1965 as in 1964. Its rate of expansion in 1965 was 6.3 per cent, i.e., almost the same as that of the total product, in comparison with the preceding year's 10 per cent. Its share in the generation of the total product amounted to 22.7 per cent in 1965, as against 21.7 per cent in 1960; its contribution in that year was the same as the agricultural

sector's which it has since been gradually surpassing, although by only a narrow margin.

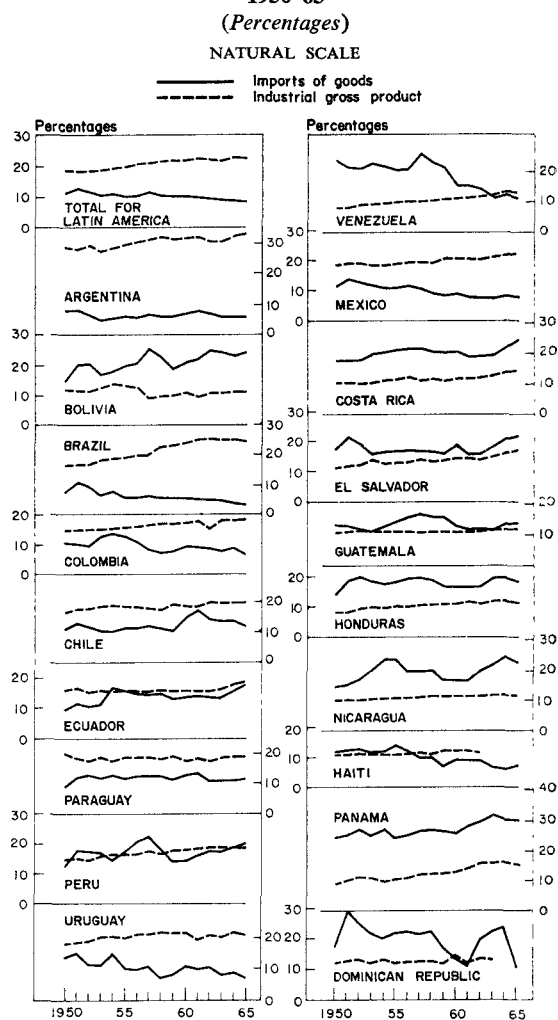
These data imply that from 1960 onwards the development of manufacturing industry was very uneven. Years in which its expansion was considerable (1961 and 1964) alternated with others in which it followed a downward trend (1962 and 1963), while in 1965 it showed no particular dynamism. Industrial trends in the last-named year were largely determined by Argentina and Brazil, which together account for about 60 per cent of Latin America's manufacturing output, and in which the growth rate of industry declined in 1965. In the former, despite this falling-off, the rate remained high (11.6 per cent); in Brazil, on the other hand, it sank to minimum levels, plunging from 5.1 per cent in 1964 to 1 per cent in 1965. It is significant, however, that this slackening of impetus in the manufacturing sector was common to most of the other countries as well. Between 1964 and 1965, the rate of industrial expansion dropped in Mexico from 14.2 to 7 per cent, in Bolivia from 10.7 to 4 per cent, and in Colombia from 6.8 to 5.4 per cent; it also decreased in the Central American countries, while in Uruguay the levels registered were lower in absolute terms, and in Ecuador the previous growth rate was reduced by one-half. Only in Peru and Panama did industry speed up its development, although to no great extent; while in Chile it kept up the same moderate rate of progress as before.

The situation described seems inconsistent with the great strides recently made in specific branches of manufacturing in which new lines of production have been incorporated, as well as with the additional expansion prospects opened up by the advances achieved in the field of regional economic integration. The explanation is to be found in the influence of diverse factors, including the loss of the dynamic impetus traditionally afforded by import substitution, and conditions in the domestic markets concerned, which were affected by the persistence of structural handicaps.

It is worth while pausing a moment to consider the degree of intensity and the characteristics of the substitution process, in view of the importance which did and to some extent still does attach to it as a mainspring of industrial development. Recent years have witnessed no radical change in the steady downward trend pursued by the import coefficient during the last three five-year periods (see figure V). But while in some countries (Argentina, Brazil, Chile, Colombia, Mexico and Uruguay), the low levels reached by the coefficient in question are an

index of the increasing costliness of the substitution process and the difficulty of carrying it any farther, in others—usually those with smaller

Figure V. Latin America: Coefficients of imports of goods and share of industrial gross product in total gross product, 1950-65



markets—conditions were more favourable to the development of their export trade, so that they were able to expand their imports at rates even outstripping the growth of the domestic product. It should further be noted that in several instances the recent decline in the import coefficient cannot be regarded as the direct and immediate consequence of a substitution effort based on industrial expansion, since it is also linked to deliberate import restriction measures

aimed at improving the balance-of-payments situation.

Besides the over-all intensity of the substitution process, the directions it has taken, as illustrated by the changes in the composition of imports that have occurred during the past ten years, are also of interest (see table 12). Outstanding cases in point are the rapid decline registered up to 1960 in the proportion of non-durable consumer goods, and, from that date onwards, the relative constancy of their share in total imports (about 12 per cent); these trends are indicative of the magnitude of the substitution effort in that field. Up to the beginning of the present decade, durable consumer goods absorbed an increasing percentage of total imports, but this too was stabilized as the substitution process spread to such lines of manufacture in more recent years. During the period under review, the trend towards greater regional self-sufficiency in respect of fuels and construction materials persisted, although the latter's share in imports tended to remain unchanged as from 1961, after a particularly sharp reduction. Again, industrial development itself, and import substitution policy, determined an increase in the proportion of total imports corresponding to raw materials and intermediate products, which reached almost 40 per cent, as against 35 per cent in 1955. Lastly, capital goods accounted for a rising percentage of imports, and by 1962 constituted more than one-third of the total; the decrease subsequently registered is partly attributable to import substitution efforts—particularly noteworthy in the case of transport vehicles—but is also due in some measure to the relative falling-off in industrial investment itself.

Within the frame of reference provided by these trends, it will be easier to realize the significance of some of the salient events in recent industrial development, particularly as regards the basic industries.

Output of rolled steel products increased only slightly in 1965, from 8 to 8.2 million tons. Equally insignificant was the increment in total apparent consumption of such goods (10.6 million tons in 1964 and 10.8 million in 1965); to cover it, domestic production was supplemented with imports totalling 3.2 million tons, while at the same time about 600,000 tons were exported, almost entirely to countries within the region. The scale of forthcoming expansion requirements is indicated by the expectation that in the next four or five years approximately 1,200 million dollars will have to be invested in the integrated mills (including Volta Redonda in Brazil and San Nicolás in Argentina), to which must be added the investment needs envisaged

by some semi-integrated establishments, and those that may derive from new projects.

The manufacture and assembly of motor vehicles has substantially expanded in the last year or two. Domestic production—defined as that incorporating over 60 per cent of locally produced parts—amounted to 380,110 units in 1965 (as against about 129,000 in 1959) and more than 170,000 units were assembled (in comparison with 68,000 in 1959). These figures represent an increase of 11.1 per cent in relation to the 1964 levels.

New data for recent years indicate the rapid growth of regional demand for paper and board, which expanded from 2.5 million tons in 1960 to 3.1 million in 1964, and the even greater progress made by domestic production, which raised its contribution to supplies from 63 to 73 per cent between the same years. A major proportion of imports consists of newsprint, while Latin America is becoming increasingly less dependent on extra-regional supplies of cellulose pulp, except for the long-fibre types.

Conspicuous among the other especially dynamic sectors is the petrochemical industry. It has been expanded in those countries which were the first to develop it and installed in others, while in others again projects are afoot for its establishment in the near future.

(d) *Electric power, gas, and water*

The group of activities comprised in this sector constitutes the most dynamic component of the total gross product. Its average annual growth rate rose from 9.4 per cent in 1955–60 to 10.5 per cent in 1960–65, and its share in the total, which was less than 1 per cent in 1955, is now close to 1.5 per cent.

Exceptionally high rates of development were registered in 1965 in Argentina (10 per cent), Panama (22 per cent), Venezuela (12 per cent) and the Central American countries. In these latter, various hydroelectric projects entered production or intensified their operations in 1965, and rates of expansion range from 9 per cent in Costa Rica to 24 per cent in Guatemala and Honduras.

As a result of the progress made in the construction of big electric power stations and in the establishment of regional or national systems, investment in the electricity sector followed a sharp upward trend. The external financing available for this purpose exceeded its 1964 levels by over 100 million dollars.

Mention should be made of the large number of projects (mainly hydroelectric) under construction, often as part of major projects for the

Table 12. Latin America: Structure of imports of goods, 1955-64

Year	Total imports of goods (c.i.f.)	Consumer goods			Fuels	Raw materials and intermediate products			Construction materials	Capital goods				Miscellaneous
		Non-durable	Durable	Total		Metallic	Non-metallic	Total		Machinery and equipment for			Total	
										Agriculture	Industry	Transport		
<i>Millions of dollars at current prices</i>														
1955	6,874.1	864.0	448.2	1,312.2	743.3	523.1	1,881.4	2,404.5	390.1	259.7	1,207.0	524.0	1,990.7	33.3
1960	7,694.6	896.6	546.1	1,442.7	670.9	608.1	1,984.0	2,592.1	371.4	270.6	1,483.5	811.3	2,565.4	52.1
1961	7,951.3	922.4	605.0	1,527.4	608.6	693.6	2,062.2	2,755.8	344.2	243.4	1,583.1	787.7	2,614.2	101.1
1962	8,036.2	966.8	548.5	1,515.3	569.0	502.0	2,103.2	2,705.2	348.9	214.6	1,737.3	842.3	2,794.2	103.6
1963 ^a	7,800.0	987.2	568.5	1,555.7	548.1	596.3	2,203.0	2,799.3	346.6	196.3	1,568.5	704.8	2,469.6	80.7
1964 ^b	8,567.1	959.5	616.8	1,576.3	548.3	788.2	2,553.0	3,341.2	385.5	231.3	1,636.3	771.0	2,638.6	77.2
<i>Percentage composition</i>														
1955	100.0	12.6	6.5	19.1	10.8	7.6	27.4	35.0	5.7	3.8	17.5	7.6	28.9	0.5
1960	100.0	11.7	7.1	18.8	8.7	7.9	25.8	33.7	4.8	3.5	19.3	10.5	33.3	0.7
1961	100.0	11.6	7.6	19.2	7.7	8.7	25.9	34.6	4.3	3.1	19.9	9.9	32.9	1.3
1962	100.0	12.0	6.8	18.8	7.1	7.5	26.2	33.7	4.3	2.7	21.6	10.5	34.8	1.3
1963 ^a	100.0	12.7	7.3	20.0	7.0	7.6	28.3	35.9	4.5	2.5	20.1	9.0	31.6	1.0
1964 ^b	100.0	11.2	7.2	18.4	6.4	9.2	29.8	39.0	4.5	2.7	19.1	9.0	30.8	0.9

Source: ECLA, on the basis of official statistics.

^a Provisional data.^b Estimates.

multiple use of water resources. At the end of 1965, installed capacity for about 9,000 MW, 87 per cent of which represented hydro power, had reached various stages of construction, so that generation of hydroelectric power may be expected to expand in the next three years at a higher rate than during the past year or two.

A few of the major projects lately completed or now being put into effect, with a view to reinforcing the present and future supply situation in the countries concerned, are enumerated below.

In Brazil, hydroelectric power stations with an installed capacity of 567 MW entered production in 1965, bringing total installed capacity up to 7,400 MW. Outstanding examples of completed projects are the Furnas units Nos. 5 and 6, with an aggregate capacity of 304 MW, and Tres Marias with 65 MW. The electric power capacity under construction in 1965 amounted to about 5,200 MW, i.e., 300 MW more than in 1964. These projects are scheduled to enter operation between 1966 and 1972, by which latter year installed capacity should total approximately 13,800 MW.

In Mexico, generation of electric power expanded in 1965 by 9.5 per cent, which was a higher rate than the average for recent years (8.6 per cent). Installed capacity reached about 5,300 MW, which represented an 8.5 per cent increase over the preceding year. This increment was mainly due to the entry into operation of the following plants: Infiernillo (first and second stages of construction, totalling 33.6 MW), Venustiano Carranza (37.5 MW), the third unit of Chilapán (18 MW) and Pajaritos (14 MW). At the end of 1965 power stations with an aggregate capacity of 1,270 MW were under construction, and are expected to enter operation between 1966 and 1968. These projects form part of an integrated plan which by 1972 will raise installed capacity more than 3,000 MW above that existing in 1965.

Construction activities in Chile during 1965 were concentrated in the hydroelectric power stations which are to be the most important in the country: the Rapel storage plant, with a final capacity of 350 MW (scheduled for early 1968) and El Toro, with 400 MW (scheduled for 1972).

In Paraguay a start was made on the preparatory work for a 45-MW power station on the river Acaray, which will more than double existing installed capacity for public utility purposes.

The chief addition to installed capacity in Peru was constituted by the second unit of the

Huinco hydroelectric plant (60 MW) and a new gas thermogenerator group at Toquepala (66 MW). Plans are afoot for the inauguration of various projects in 1966, among which the most important are two more units at Huinco, of 60 MW each. In the same year the Corporación del Salta will also complete the second phase of the Cañón del Pato plant, thus doubling its existing installed capacity.

The principal power station scheduled for the near future (1968) in Venezuela is the Guri plant. The present phase of construction provides for the harnessing of 1,750 MW in 10 units, two of which, with a capacity of 350 MW, will be brought into service in the initial stage.

Costa Rica proceeded with the construction of the Cachi plant (64,000 kW) on the river Reventazón, the first part of which will be completed in 1966. Work was also to start in 1965 on the Tapantí project, which will expand the capacity of the Rio Madeo power station by 60,000 kW, and is scheduled to begin production in 1970-71.

Lastly, it is hoped that the critical power supply situation in the Dominican Republic will be remedied in 1966 when the Puerto Plata and Haina plants, with 27.6 and 53.3 MW, respectively, enter operation.

Among other recent developments of regional interest, mention should be made of the progress achieved with respect to interconnexion of electricity networks in the countries of the Southern Zone of South America. In June 1965, the line joining up the Quaraí generating plant in Brazil (Rio Grande do Sul) and the Artigas power station in Uruguay was brought into service. In the meantime, work continued on the studies relating to a Montevideo-Rio Negro-Buenos Aires interconnexion, which would enable the thermo-electric system on the Argentine littoral and Uruguay's preponderantly hydroelectric network to operate on a complementarity basis. Other interconnexions under study include a trans-Andean link-up between Argentine networks and Chilean plants, at the latitude of Mendoza, and the possibility of feeding demand in the Misiones territory from the Paraguayan hydro plant at Acaray. These and other projects open up the prospect of a large-scale interconnected electricity system stretching from Patagonia in Argentina to the Nordeste region in Brazil, and exploiting to the full the advantages deriving from the diversity of water resources, the heterogeneity of demand situations, and the distribution of peak-load hours as the result of time differentials. This system might well be in operation by 1985, with a capacity of approximately 60,000 to 90,000 MW.

(e) *Petroleum*

The increase in Latin America's output of crude petroleum in 1965 was relatively small (2.7 per cent), signifying in absolute terms of volume a rise from 720,800 to 740,700 cubic metres daily. An expansion so much smaller than that of world production (6.9 per cent), implied a further decrease in Latin America's contribution to the world total.

Neither Venezuela—which accounts for almost three-fourths of the Latin American total—nor the other ten producer countries in the region recorded any major changes in the growth rate of petroleum production. Over a longer period, it can clearly be seen to have declined; in 1959–62 it was 6 per cent annually and in 1963–65 3 per cent, while if Venezuela is excluded it drops still more sharply—from 9.5 to 3.4 per cent between the same two periods.

While the expansion of Latin America's petroleum production tapered off during the last six years, the average output per producing well increased (except in Bolivia and Chile), as a result of efforts to step up yields.

Drilling activities are still falling off in Latin America. Incomplete data for 1965 show that this decline is very marked in Chile and in Colombia. In Venezuela, on the other hand, an increase is observable. Existing wells in Latin America number 42,100, of which 29,200 are in production.

Petroleum refining expanded considerably in the later years of the period. Latin America's total refining capacity increased in 1965 by 6.8 per cent, i.e., at a higher rate than in previous years. Argentina, Brazil, Chile and the Central American countries have now attained complete self-sufficiency in this respect.

(f) *Transport*

Some measure of institutional progress was achieved in 1965 in the field of transport, both in some of the individual countries and at the regional level. Developments indicative of the headway that has been made include the Latin American Free-Trade Association's endeavours to obviate the difficulties attendant upon the concerting of a general maritime transport agreement, as well as a first regional meeting to discuss the integration of air and overland transport; the study of the problems inherent in the Pan American Highway System; the project relating to the Carretera Marginal Bolivariana de la Selva; the meetings of the Latin American Association of Shipowners (Asociación Latinoamericana de Armadores—ALAMAR); the establishment of the Latin American Railways

Association (Asociación Latinoamericana de Ferrocarriles—ALAF); and the sustained and rapid tempo of activities in the field of transport on the part of the Central American integration agencies.

As regards the various transport media, the trends that had been taking shape in previous years continued in 1965. Maritime transport retained its almost absolute sway in the domain of inter-Latin American goods traffic; at the same time, the relative importance of overland transport continued to increase; transport by rail, especially carriage of freight, while expanding in some countries, failed as a general rule to keep pace with the growth of internal volumes of activity; the extension and improvement of highway networks, including arterial, secondary and approach roads, was still the activity to which the Latin American countries devoted most attention, although with a slackening of tempo in some instances; motor-vehicle transport continued to play the most dynamic role within the national territories, to judge from the increases in vehicle inventories and from motorization coefficients in most of the Latin American countries; the need for vessels sailing under Latin American flags to take a larger share in the region's foreign trade transport was reflected in further steps to expand and modernize fleets and in substantial purchases of new units on the part of certain countries; and lastly, with a very few exceptions, the problem of Latin America's lack of port facilities remained a grave one, little significant progress having been made in this connexion.

The difficulties of financing the heavy investment required for the development of this sector were considerably eased, as in previous years, by external financial co-operation. Nevertheless, the sum total of the loans granted in 1965 by the International Bank for Reconstruction and Development (IBRD) and its subsidiary, the International Development Association (IDA), the Agency for International Development (AID), the Inter-American Development Bank (IDB) and the Export-Import Bank (Eximbank) was only 6 per cent higher than the 1964 figure, and this implied a sharpening of the downward trend in the rate of mobilization of such resources that had been registered during the four-year period 1960–63. Continuing technical assistance made it possible to intensify the study of programmes for the joint development of all transport media and for co-ordination with other sectors of the economy under over-all development plans. Particularly important was the study embarked upon at the end of 1965 by Brazil. Its cost, which IBRD will help to defray,

is estimated at 5.5 million dollars, and it will be the most comprehensive hitherto undertaken in Latin America with respect to the modernization and rehabilitation of the transport system.

International highway construction works and projects, to which special importance attaches in view of regional economic integration prospects, made definite headway in 1965. In the last two or three years, the length of the Pan American Highway System increased until by the beginning of 1966 it measured 47,698 kilometres, 69 per cent of which is paved and another

24 per cent consists of all-weather roads. Progress was also achieved in respect of the Carretera Marginal Bolivariana de la Selva project, promoted by the Peruvian authorities and supported by the Governments of Bolivia, Colombia and Ecuador. As regards the Pan American Transverse Highway in South America, the international bridge across the river Paraná was opened in March 1965. To all this must be added the furtherance of other projects for international road links, especially those designed to improve communications between Argentina, Brazil, Chile and Uruguay.

Chapter II

SOME ASPECTS OF RECENT ECONOMIC POLICY

1. FORMULATION AND APPLICATION OF DEVELOPMENT POLICY

(a) *Development policy objectives and instruments*

The persistence of the basic structural problems confronting the Latin American economies means that the major objectives of development policy must remain relatively constant. Certain changes can be detected, however, in the degrees of importance attaching or ascribed in recent years to the various problems concerned, as well as in the methods of tackling them adopted, and in the instruments selected to ensure more efficient action.

As regards the priorities assigned to the different objectives, there has been a marked shift of emphasis in favour of "social questions", a term whose application is confined in some instances to the expansion of investment in welfare services or infrastructure, and in others is extended to such broader fields as the redistribution of income or the creation of employment opportunities. These are aims, moreover, which involve the need not only to increase the resources earmarked for such purposes, but also to channel them so that the ensuing benefits reach all the various population sectors. Some of the Latin American countries—especially those that have been most successful in developing and diversifying their productive and social structures—have for years been enlarging the proportion of aggregate expenditure allocated to social ends, until a point has been reached at which it can hardly continue to be increased at the expense of other objectives; but there are also several instances in which the benefits have mainly favoured the better-organized population groups, as in the case of those channelled through the social security system. In contrast with this earlier trend, recent policy seeks to extend the benefits much more widely, and even attempts to give priority to the less privileged groups, in both urban and rural areas. Hence the importance assigned to social investment, above all in education and housing, as well as to specific structural reforms of particular social significance, like those relating to the land tenure system. Such aims have been encouraged and fortified by external support.¹

¹ Between 1961 and 1965, loans from the Social Progress Trust Fund, administered by the Inter-American Development Bank (IDB), were approved to a value of

Significant changes have also taken place in development policy vis-à-vis the traditional external bottlenecks. While the effects of abrupt trade fluctuations are still a motive of concern, attention is now concentrated to a much greater extent on the expansion and diversification of exports; this new approach has strengthened the region's economic integration aims, and has induced it to join with other developing areas in seeking to establish concerted positions with a view to the remodelling of the structure of world trade. Moreover, where external financial co-operation is concerned, efforts have been directed not only towards securing a more substantial flow of capital, but also towards renegotiation of the commitments deriving from the cumulative external debt.

From another standpoint, certain development objectives, in combination with the unfavourable evolution of internal private investment, have enhanced the importance of the public sector's contribution to capital formation. In some countries—Brazil and Chile being cases in point—public investment is also regarded to some extent as exercising a "compensatory" function, not so much in the sense of offsetting foreign trade vicissitudes as in that of smoothing out internal fluctuations in the economic system. More specifically, it is designed to fill the gap opened by the decline or stagnation of domestic or foreign private investment, and in some cases to mitigate the restrictive side-effects of stabilization policies; in increasing it of late, the two countries mentioned as well as Argentina, have obviously had in mind the reinvigoration of economic activity or the maintenance of its levels.² But this last observation must not be over-generalized. It is valid mainly for some of the countries in the Southern Zone of South

501 million dollars. About 50 per cent of this total was earmarked for investment in housing and education, and a little over 30 per cent for sanitation projects, including the provision of piped water. If local counterpart funds are taken into account, total expenditure for the period, according to IDB estimates, amounted to 1,180 million dollars (see IDB, *Fifth Annual Report*).

² In the countries in question, economic policy is still endeavouring to push up the level of savings and private investment. This is especially true of Brazil's programme, which includes measures to promote the satisfactory organization of the capital market and of the monetary and credit systems in general.

America; elsewhere, the functions assigned to public investment are more usually limited to basic capital formation, expansion of the social infrastructure and promotion of certain basic industries, irrespective of the "compensatory" effects it may bring in its train.

These and other changes in the priorities accorded to development objectives have considerably increased the responsibilities incumbent upon the public sector, since it has had to assume the role of chief executing agency for development policy. State influence on the channelling of development has acquired much wider scope, irrespective of whether the quota of financial or material resources directly handled by the public administration has increased or not, simply through the establishment of more clearly-defined targets and the improvement of the instruments or machinery at the Government's disposal. Quantitative changes have also taken place, to judge from general, though not absolutely reliable, indicators of the ratios of official expenditure to the gross product and of public investment to total capital formation. These increased between 1953-55 and 1962-64 in almost all the Latin American countries for which data are available, with the exception of Argentina and, up to a point, Ecuador (see table 13).

Table 13. Latin America: Public expenditure and investment, 1953-64
(Percentages)

Country	Share of public expenditure in gross domestic product		Share of public investment in total investment	
	1953-55	1962-64	1953-55	1962-64
Argentina .	23.1	21.9	27.4	23.4
Brazil .	22.7	29.5	25.9	38.6 ^a
Chile .	17.5	29.6	31.6	62.3
Colombia .	11.0	19.1	18.2	30.2
Costa Rica .	14.4	22.5	25.3	26.9
Ecuador .	19.8	22.3	36.5	34.3
Guatemala .	10.3	13.4	38.1	25.9
Honduras .	10.3	12.9	20.4	25.5
Mexico .	10.1	15.3	41.3	48.4
Uruguay .	24.8 ^b	32.5 ^a	22.1 ^b	23.3 ^a
Venezuela .	...	20.7	...	30.0

Source: ECLA, *Statistical Bulletin for Latin America*, vol. III, No. 1 (February 1966), tables 37, 38, 39, 40, 41, 42, 44, 45, 46, 52 and 53, and official data from the countries concerned.

^a 1962 and 1963 only.

^b 1955 only.

Lastly, there is a noteworthy tendency to integrate piecemeal development objectives and

projects by fitting them into a general strategy whose primary aim is the acceleration of economic growth and social progress, and which will harmonize and co-ordinate such projects and objectives within the framework of an over-all policy. This endeavour is apparent in the nature of the anti-inflationary policy pursued by some countries (which will be discussed in detail elsewhere in the present *Survey*³); but its clearest formal manifestation is to be found in the preparation of over-all plans and in the steps taken to establish a planning system.

The advances recently made in the field of planning are, indeed, among the time-proof factors that are fostering Latin America's capacity to consolidate, by its own efforts, higher and steadier rates of economic growth. In the course of a few years, all the Latin American countries have set up planning offices, eighteen have formulated specific plans, one has a plan on the point of completion and another is making headway with the preparatory work; at the same time, significant progress has been achieved in the tasks of improving basic statistics, establishing programming methods and training personnel, in all of which international agencies, through their technical assistance services, have played no small part. Thus, development policy in general, and the activities of the public sector in particular, are undergoing a progressive rationalization which is an irreversible and self-perfecting process.

Naturally, it has not been all smooth going; misconceptions die hard, and difficulties and problems are encountered. In some cases, the scope of planning has been narrowed by its adoption as an instrument for introducing a greater measure of rationality into traditional lines of action or facilitating the channelling of external resources, rather than as a means of setting the course for a new development policy and efficiently launching the reforms it involves. In other instances not enough perseverance has been shown to make planning a continuing activity, which neither peters out once a plan has been drawn up, nor can be expected to yield complete and spectacular results straight away. The frequent tendency to keep the planning function apart from the official policy-making machinery has given rise to a sort of fallacious and prejudicial dichotomy between plans and economic policy. Again, it often happens that the central planning agencies have not made sufficient effort—or have not had the necessary backing—to share their responsibilities with decentralized bodies at the sectoral and regional

³ See the present chapter, pp. 36-39.

levels, and have become an inorganic appendage of the traditional type of public administration, instead of inculcating the use of planning as the habitual method of work throughout the whole of the country's administrative organization. Lack of contact with the private sector (both entrepreneurs and wage-earners) and its inadequate participation in planning have deprived the latter of potentially valuable forms of co-operation, thus seriously jeopardizing the attainment of those targets which are not directly dependent upon official action, and lessening the possibility of using plans to mobilize the whole nation in pursuit of development objectives. In more than one instance, the efforts made have been rendered fruitless by arguments about apparent possibilities of choice between over-all or sectoral planning, between short-term programmes or long-term plans, between general plans or specific projects, which are not really alternatives at all.

The persistence of the foregoing problems does not detract from the value of what has already been achieved. On the contrary, it affords opportunities for acquiring further experience, and draws attention to the types of obstacle that will have to be gradually overcome in the near future, if planning is to be given the full content and scope required to make it the essential instrument of development policy.

(b) *Demographic growth and other social factors*

As has been pointed out, a characteristic feature of recent development policy has been the determination to assign steadily increasing importance to social questions, defined in some cases in terms of specific public services, and in others more broadly interpreted to include the problems relating to population growth, employment and income distribution, and full participation in national life.

The results of this determination are by no means easy to quantify. The priority accorded to social affairs in respect of international financial assistance has facilitated the channelling of resources into education, health services and house construction, chiefly through the public sector, and the corresponding indexes have consequently improved. It is not equally clear whether the headway made is commensurate with the scale of the problem or how great its significance may be when insufficient progress is concurrently achieved in other fundamental aspects of the socio-economic situation.

The first of these doubtful points is linked to the difficulties of extending social services in line with increasingly rapid demographic growth and even higher rates of urbanization. It is

therefore not surprising that the problem of population growth is a motive of concern in Latin America as in the world at large, that certain measures to promote family planning are already being adopted, and that this question is beginning to find a place in external assistance programmes. It is, of course, one which each country will study in the light of different considerations, and which, in any event, will have to be examined within the over-all framework development policy, not as an alternative to more strenuous development efforts and to structural reforms.

In the meantime, the population of Latin America continues to increase by 2.8 to 2.9 per cent yearly, and in some countries by as much as 3.5 or 4 per cent. Given the lowest of these rates, the region's population would be doubled in 24 years' time. It is common knowledge that this rapid growth is due to a combination of high fertility rates (from 40 to 42 live births per thousand inhabitants) with fairly low mortality indexes (from 13 to 14 deaths per thousand inhabitants). Recent estimates suggest that growth rates will remain almost constant during the next 10 or 15 years, and that the modest decreases in fertility will be offset by further reductions in the death rate. Although birth rates are higher in rural than in urban areas, they are far from low in the latter, which implies that the speed of the urbanization process will not significantly affect over-all rates of population increase in the immediate future.

The persistence of this pattern of demographic growth signifies the maintenance of the present age distribution, with its high proportions of dependants per economically active person. In most of the Latin American countries, more than 40 per cent of the population falls within the under-15 age groups, and in at least four of them the corresponding proportion is 45 per cent.⁴ Between the last two censuses, in countries with population structures typical of the region, the percentage of the population young enough to represent dependants increased considerably (in Chile from 37.4 to 39.8 per cent, in Ecuador from 42.4 to 45.1 per cent, in El Salvador from 41.1 to 44.8 per cent, in Mexico from 41.7 to 44.4 per cent and in Venezuela from 42 to 44.8 per cent).⁵ Meanwhile, the urbanization process

⁴ For recent estimates of distribution by age groups, see *Demographic aspects of infancy and youth in Latin America* (ST/ECLA/Conf. 20/L.7), a paper prepared by the Latin American Demographic Centre for the Latin American Conference on Children and Youth in National Development (Santiago, Chile, 29 November to 11 December 1965).

⁵ Pan American Union, *Estudio social de América Latina, 1963-64*, table 7.

goes on reducing the proportion of households in which dependent minors make a real contribution to family income from artisan or agricultural activities.

The general features of these trends have been familiar for more than a decade, but discussion of their implications has come to the fore as the world interest in population problems has spread to Latin America. Occasions on which the topic has been canvassed include the *Primera Asamblea Panamericana sobre Población* (Cali, Colombia, August 1965) and the *Seminario Nacional sobre Población y Desarrollo* (Paracas, Peru, December 1965), which was the first of a projected series of national seminars.

In some instances, the immediate objects of concern derive from health considerations—as in the case of the illegal abortion to which urban families in the lower income groups resort—rather than from general demographic policy. This applies to Chile, where the National Health Service has set up machinery to assist families wishing to practise fertility planning. Some Ministries of Health have promoted the establishment of a number of population study centres,⁶ and research on fertility and on the attitude of the population towards contraceptive measures has been undertaken in the form of sample surveys.⁷

It is worth-while stressing the diversity of the considerations that will be brought to bear on the decisions adopted in each individual case, as well as the necessity of approaching the question in the broader context of development policy and structural reforms. Nor can the time factor be ignored; it will take two decades for whatever is done today to reduce the birth rate to have any effect on certain problems, such as those connected with employment.

The need for institutional reforms and other supplementary measures is also underlined by the fact that demographic growth is doing little to even up the geographical distribution of the population, that migratory flows are still directed towards the larger towns, and that this trend

⁶ See the study by Dr. Hernán Romero, Professor of Preventive and Social Medicine in the University of Chile, on *Population growth and the first stages of population policy in Latin America: effect on problems of youth and development* (ST/ECLA/Conf. 20/L.10), presented at the Latin American Conference on Children and Youth in National Development.

⁷ See the study by Carmen A. Miró, Director, Latin American Demographic Centre, entitled, *Un programa de encuestas comparativas de fecundidad en América Latina: refutación de algunos conceptos erróneos* (CELADE, Series A, No. 49), which was presented at the International Conference on Family Planning Programmes (Geneva, 23 to 27 August 1965).

is barely affected by some of the many land settlement projects. The smaller townships, while offering a temporary refuge to some of the redundant population from agricultural areas, are losing the younger and more energetic members of their own population to the bigger centres.

These general considerations have been frequently voiced since 1960, but little progress has been made in the quantitative assessment and more thorough understanding of such problems as those connected with the “repudiation” of rural poverty vis-à-vis the “attraction” of urban life as one of the determinants of migration from the countryside to the towns; with the importance of migration by stages, via the smaller towns, as against direct migration from the rural areas to the primate cities; or with the capacity of the towns to continue affording the immigrants minimum opportunities of earning a livelihood in services, in default of a thriving expansion of industrial employment. In any event, existing data suffice to show that the growth and redistribution of the population, within the framework of the innumerable disequilibria between rural and urban areas, threaten to raise increasingly difficult problems in two broad fields of policy-making.

From the standpoint of the urban centres, the crux of the matter lies in the limited ability of the major towns to accommodate population increments without spreading over disproportionately large areas. New residential suburbs for the upper and middle income groups stretch out from the centre in one direction and those for the lower income strata in another, and the resultant waste of space detracts from the efficiency of the urban structure in terms of its economic and social functions, while at the same time implying the squandering of public and private resources. If the large urban centres were to continue growing at their present annual rates, which average not less than 5 per cent, their population would be doubled every 14 years. For example, the number of inhabitants in the metropolitan area of Mexico City would reach 15 million in a little over 20 years, and in Lima and Santiago would approach 6 million. Such projections are incompatible with the difficulties these cities already encounter in expanding their electricity and piped water systems, especially in the peripheral districts, as well as with the deficiencies of the public transport services and the long distances that many workers have to travel between their home and their job.

More attention is currently devoted to the direct problem of housing than to these supplementary urban development needs. At the same

time, the disparity between the cost of conventional dwellings and the capacity for payment of the lower income strata, combined with the inadequacy of the measures designed to reduce costs and increase efficiency in construction activities, induces a considerable proportion of the urban population to solve its own problems by putting up makeshift dwellings in unsatisfactory surroundings. More recently, emergency policies aimed at supplying minimal housing facilities for families displaced from former settlements have sometimes resulted in the occupation of new peripheral sites where the problems of over-crowding, lack of services and distance from sources of employment differ little from those confronting the shanty towns.

With regard to the rural population, it is impossible not to recognize how little headway is being made in respect of land reforms. In addition to the large-scale reforms carried out by Mexico and Bolivia some years ago, others have been more recently undertaken by Cuba and Venezuela. Following upon the Charter of Punta del Este, agrarian reform legislation was passed in Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Honduras, Nicaragua, Panama and Peru; but in many of these countries the obstacles to real progress are so numerous that the reforms in question are proceeding at a snail's pace.

Well-known as are the economic considerations which make land reform and the modernization of agriculture a particularly urgent need, it is worth pointing out that in Latin America they are being reinforced by an increasing unanimity of opinion on certain basic questions which relate to land reform patterns and objectives in general, although their relative importance must be evaluated in the light of each individual country's particular situation. It is recognized, for example, that agrarian reform does not consist merely in the changing of land tenure systems, but must be accompanied by economic and social investment to increase the productivity of agriculture and improve the living conditions of the rural population, so that its repercussions may make themselves felt in urban life and industrial development. Only in this way will it be possible for agrarian policy, investment in the agricultural sector and a new way of life in the rural areas become efficacious means of controlling over-migration to the towns and the disproportionate growth of the marginal population.

Such far-reaching implications naturally increase the difficulties of the process, without detracting from its urgency. Moreover, they involve the mobilization of considerable financial

resources, since structural changes in the land tenure system must go hand in hand with efforts to modernize methods of farming and introduce improved techniques. Thus, the problems relating to the financing of agrarian reform, and to the distribution of resources among compensation to former owners, social services for the beneficiaries, infrastructure projects and machinery and equipment, credit facilities and funds for the purchase of inputs, etc., have become the object of special attention at the present time. Some of them likewise represent particularly fruitful fields for international financial and technical assistance.

In short, the region is faced with the immense potential needs of a population which is changing its lines of activity and places of residence on an unprecedented scale, and adapting itself to new patterns of family life and social organization; whose income levels are low and insecure; and in which the proportion of children is high in relation to the economically active population. All this is reflected in stringent pressures for the expansion of the public services concerned, although it is uncertain whether, while income and the costs of such services stand at their present levels, objectives and targets comparable with the standards prevailing in other regions can be attained.

It is very hard to evaluate with a reasonable degree of accuracy what has been happening in this respect during the last few years. With the appropriate reservations, a recent publication⁸ concludes that programmes relating to seven areas of social action—education, public health, social security and welfare services, housing, piped water, sewage systems, and community development—are absorbing at least one-third of total public expenditure in most of the Latin American countries, and almost one-half in some of them. Allocations vary considerably from one country to another in absolute per capita terms, ranging from 2 to 45 dollars per annum in extreme cases and more frequently from 10 to 30 dollars, in accordance with the income levels concerned and the differences in the proportions of the total product represented by public expenditure. It seems to be education that absorbs the biggest share in national budgets: over 20 per cent in five countries, between 15 and 20 per cent in six others, and between 10 and 15 per cent in the remaining seven. The proportion assigned to housing is much smaller, probably because more funds are channelled into house construction through autonomous or regional agencies, apart from the

⁸ *Estudio social de América Latina 1963-64*, op. cit.

fact that it is given priority in the allocation of external resources for social progress purposes.

Table 14 presents other relevant estimates taken from various sources, to illustrate the most striking changes that occurred between 1960 and 1964 in the distribution of the budgeted expenditure of central governments, with particular reference to outlays on education and public health.

Table 14. Latin America: Percentages of total budget expenditure allocated to education and public health, 1960 and 1964

Country	Education		Public health	
	1960	1964	1960	1964
Argentina	8.5	15.5	2.3	4.2
Bolivia	14.0	17.9	3.9	5.7
Brazil	14.5	17.0	6.7	7.0 ^a
Chile	13.2	14.4	7.0	9.8 ^a
Colombia	9.1	13.4	4.9	2.7
Costa Rica	26.5	27.6	2.4	2.7
Cuba	—	10.4	—	—
Dominican Republic	8.1	14.9	7.0	7.2
Ecuador	11.0	14.5	3.0	2.8
El Salvador	16.5	23.8	—	—
Guatemala	13.3	13.7	9.3	9.6
Haiti	10.5	11.8	11.3	11.2
Honduras	18.1	21.2	8.2	3.5 ^a
Mexico	19.4	24.3	5.0	5.1
Nicaragua	12.8	16.9	7.9	4.1
Panama	21.2	23.8	16.8	—
Paraguay	13.1	16.8	6.0	4.3
Peru	16.0	17.5	8.8	8.3
Venezuela	9.4	12.3	8.0	17.5

Sources: United Nations, *Statistical Yearbook*, 1961–1964; Inter-American Development Bank (IDB), *Social Progress Trust Fund*, 1961–1964.

^a Year 1963.

Even in the absence of a roughly accurate evaluation of the real improvements that are being secured through this mobilization of resources, some doubts are evidently felt as to the long-term efficacy of efforts to expand specific social services, in the form in which they are undertaken at present, if they are not associated with equally energetic policies in such fields as increased employment opportunities, income redistribution, etc. The focal point of the misgivings expressed is the risk that as a result of over-sectoralization, it may not always be fully realized that certain deficits reflect a broader and more deeply-rooted social marginality problem, which must be simultaneously tackled if large sectors of the Latin American population are not to find themselves cut off from access to housing facilities or from oppor-

tunities to translate the benefits of education into real improvements in their living conditions; in other words, it is feared that development cannot be steadily maintained unless the lower income groups are effectively incorporated into the country's economic life.

2. SHORT-TERM ECONOMIC POLICY AND INFLATIONARY PRESSURES

The principle that development policy should aim at removing structural obstacles and attaining long-term objectives has sometimes had to give way to other more pressing requirements. These consist mainly of inflationary disequilibria, and the action needed to stabilize them has recently prompted a change of approach in economic policy which could usefully be examined here.

Table 15 shows the varying intensity of inflationary pressures in Latin America. The steepest price increases are still recorded in Argentina, Brazil, Chile and Uruguay. Of the remaining countries, Guatemala and Venezuela have enjoyed a period of virtual stability of price levels over the last few years, while prices in Colombia and Peru followed a moderate but steady upward trend, occasionally interrupted by a sudden upswing, as in Colombia in 1963. Prices in Mexico and the Central American countries have followed a similar trend, but at a slower pace, while in Bolivia and Paraguay, where there was spiralling inflation during the fifties, they have recently achieved comparative stability.

In spite of the evident disparities in the conditions prevailing in the second group of countries, it could be argued that inflation there, besides not being as intensive or as persistent as in the first group, is still very closely linked to the structure and movements of the external sector.

Of the southern countries, Argentina and Chile still have relatively high rates of inflation, although not as high as before, a fact which denotes some progress in the efforts to contain inflationary pressures. Brazil, where the imbalances were particularly acute in 1963 and 1964, was able to slow down inflation in 1965, although prices again rose fairly rapidly at the beginning of 1966. Inflation in Uruguay—which had been gaining momentum for some years—speeded up appreciably in 1963 and 1964, and considerably more so in 1965, when the rise in prices was estimated at 85 per cent.

The persistently intensive nature of inflation in Argentina, Brazil and Chile has resulted in the accumulation of a fund of experience in anti-inflationary policy, whose evolution can be divided into three clearly differentiated stages.

Table 15. Latin America: Changes in cost of living, 1962-65
(Percentage variation at the close of each year)

Groups of countries	1962	1963	1964	1965 ^a	Average annual rates	
					1955-60	1960-65
Guatemala . . .	-1	1	-1	-1	-0.2	0.2
Venezuela . . .	-2	1	-2	5	2.6	—
Bolivia . . .	6	-1	11	6	53.0	5.1
Costa Rica . . .	6	2	2	1	1.2	2.5
Dominican Republic .	16	10	-2	-4	—	2.8
Ecuador . . .	4	5	3	3	-0.2	3.8
El Salvador . . .	2	2	2	0	0.2	0.2
Haiti . . .	-1	4	9	0	-0.9	2.9
Honduras . . .	5	2	4	3	-0.8	2.9
Mexico . . .	3	0	3	4	5.9	1.8
Nicaragua . . .	0	3	2	2	-1.4	1.6
Panama . . .	1	1	2	1	—	1.0
Paraguay ^b . . .	5	1	4	7	12.4	5.3
Colombia . . .	5	46	2	17	9.4	12.4
Peru . . .	5	10	12	13	8.3	9.2
Argentina . . .	32	28	18	28	37.2	23.2
Brazil . . .	61	81	85	45	25.3	62.5
Chile . . .	27	45	39	26	32.3	27.0
Uruguay . . .	11	44	39	85	23.0	28.1

Source: IMF, *International Financial Statistics*, March 1965.

^a Many of these figures are estimates.

^b Wholesale prices.

The first covers a long period, but can be considered to apply mainly to the fifties. It was characterized by the adoption of a number of emergency measures to prevent sudden and intensive upswings in prices. Such contingencies were often associated with trade fluctuations, as at the time of the Korean hostilities.

The sporadic nature of those measures, combined with the piecemeal and inconsistent character of the instruments used, helps to explain why the results obtained were so ephemeral and why inflationary pressures subsequently re-emerged with renewed vigour. Hence certain countries, notably Argentina and Chile, endeavoured to put into practice a different type of policy, which could be called "orthodox". In this second stage there was a broader and more integrated approach in which stabilization was expressly defined as the central aim and a wide range of instruments for restraining the main sources of over-all demand was envisaged. Although monetary expedients predominated, fairly stringent measures were also adopted to restrict salary and wage increases, reduce public expenditure and combat pressures on the balance of payments, usually by devaluating the national currency.

Although these measures did serve to curb inflation, their social and economic cost was evidently high and, after the initial impact and in part as a result of their undesirable repercussions, the trend towards monetary disequilibrium re-emerged with varying degrees of intensity.

The unsatisfactory results of those successive experiences intensified the feeling evidenced in current studies of the Latin American economies that the problems of inflation should be situated within the context of a broader development policy, which would take account of the structural roots of those pressures as well as the mechanisms spreading them.

Thus, a third stage began to take shape in the sixties, and the pattern of action changed appreciably as regards both the aims envisaged and the instruments and means used. The principal changes could be broadly summarized as follows:

(a) Aims

The exclusive preoccupation with stabilization gives way to more complex plans, in which aims are broadened and rearranged in order of priority in terms of the twin objectives of development

and price stability. These aims conflict with the previous express or implicit assumption that monetary equilibrium is sufficient to pave the way for active and "sound" development without deliberate and persistent action to bring it about.⁹

The changes in content and priorities are clearly reflected in some of the national plans or government policy statements. Thus, the aims of Argentina's National Development Plan include the maintenance of a certain growth rate of the per capita product, full employment, a more equitable distribution of income, a rise in consumption levels compatible with production capacity, and the progressive elimination of inflationary trends.¹⁰

The Brazilian Government's 1964-66 programme of action, for its part, includes the following objectives: to regain the former growth rate; to adopt progressive measures to curb inflation; to lessen existing economic, sectoral and regional disparities; to ensure employment opportunities; and to correct the tendency for balance-of-payments deficits to get out of control and cause periodic bottlenecks in the capacity to import.¹¹ In Chile, official policy statements have summed up the new Government's policy aims as follows: to combat endemic inflation, to rescue production from its state of stagnation, to distribute the national income on a more equitable basis, to increase exports in both absolute and relative terms, and to introduce structural reforms in agriculture and education.¹²

In all these programmes, the countering of inflationary pressures is visualized as a gradual

process of reduction in the rate at which prices increase, in such a way that it will not conflict with concurrent efforts to meet other development needs. It is made clear, moreover, that the process will be carried out not only through immediate deflationary measures but also by wholly or partly removing the underlying or structural causes of disequilibrium.

(b) Instruments

The changes in objectives have had repercussions on the machinery and specific aims of the different areas of economic policy. Concomitantly with the adoption of measures previously little used, new uses and guidelines were established for those already tried out. In illustration, the salient features of the different fields of action are described below.

Public receipts and expenditure

In this respect, more emphasis appears to have been laid on stepping up public receipts than on curtailing expenditure. In the three countries under consideration, there was a sizable increase in 1965 in current inflows in real terms; 43 per cent in Argentina, 21 per cent in Chile and 14 per cent in Brazil. What is more, a significant proportion of those increases was obtained from direct taxation.

Expenditure reveals sharper contrasts. Current expenditure remained at the same level in Argentina, declined in Brazil and rose (by 13 per cent) in Chile. On the other hand, capital disbursements went up considerably in Brazil and Chile (40 per cent and 48 per cent, respectively) and remained static in Argentina.

In spite of the improvement in tax collection, there was still a considerable gap between receipts and expenditure in Brazil and Chile, which had to be bridged by internal and external loans. In Argentina, although the Treasury deficit was reduced by 40 per cent, it was also necessary to enlist the support of the Central Bank, a decision which was bound up with the aim of maintaining the level of demand as well as liquidity.

Money supply

In 1965, no anti-inflationary action was apparent in the trends followed by the expansion of the means of payment. Only in Argentina was any significant restraint practised; in Brazil and Chile on the other hand, the increase in money supply far outstripped the rise in prices. In Chile the former rose by 52 per cent and the latter by only 26 per cent. In Brazil, the money in circulation increased by 17 per cent in real terms. Argentina had planned to allow the

⁹ This consideration is clearly reflected in the Brazilian Government's 1964-66 economic action programme, which states that public action should be based on the following principles: "(a) the free play of market forces does not necessarily ensure the formation of an adequate volume of savings; (b) the price system does not always adequately foster the creation of external savings . . . given the disassociation between profitability and social productivity; (c) the free play of market forces does not necessarily result in the satisfactory distribution of national income among the inhabitants and areas of a country; (d) the efficiency of the price system may be appreciably impaired by unforeseen or institutional market shortcomings". Ministry of Economic Planning and Co-ordination, *Programa de ação econômica do Governo, 1964-1966* (Sintese), EPEA documents, No. 1, November 1964, p. 13.

¹⁰ Office of the President of Argentina, National Development Council, *Plan Nacional de Desarrollo 1965-1969*, Buenos Aires, 1965, p. 114.

¹¹ *Programa de ação econômica*, op. cit. p. 15.

¹² *Exposición sobre el estado de la hacienda pública presentada por el Ministro de Hacienda, don Sergio Molina Silva, a la Comisión Mixta de Presupuestos el 24 de noviembre de 1964*, Budget Office, Report No. 106 (Chile).

money supply to increase as much as 37 per cent, but in the end—despite the fiscal pressure alluded to above—it rose only 24 per cent, in contrast with what happened in 1964 when it was allowed to expand more freely.

Broadly speaking, the aim underlying the relatively liberal lines on which monetary operations were conducted was to neutralize the action of this sector; in other words, to prevent it from playing an active part either as a creator of autonomous pressures or as an element of control.

Salaries and wages

In this respect, too, there were evident changes in the precepts and objectives of the new anti-inflationary policy. However, the countries analysed here present marked disparities due to the greater or lesser rate of inflation in each case.

In Chile, the emphasis was on co-ordinating price stability policy with the efforts to maintain the real value of salaries and wages and to improve the structure of income distribution in favour of the less privileged sectors. The first of these objectives led to the granting of salary and wage adjustments equal to the rise in the cost of living, and the second to preferential rates for certain sectors and services, mainly connected with the rural population.

Argentina's wage policy attached special importance to the establishment of an adjustable minimum wage. Although most of the urban workers earn wages above that level and have other machinery to protect or increase their real income, this principle seems to have been of particular consequence for those groups whose bargaining power is very limited.

In Brazil, on the other hand, the decision to restrict wage adjustments has played a significant part in anti-inflationary policy and may to some extent have been determined by the need to stem the increasing tempo of inflation. In principle, the aims of Brazil's action programme were to: (a) maintain the wage-earning sector's share in the national product; (b) correct existing wage disparities, especially in the public sector; and (c) scale the adjustments to bring salaries and wages up to the average level for 1962–63. The 1964 wage adjustments for workers employed in the public sector were actually higher than was originally envisaged. Conversely, the minimum wage in the private sector, which is of great importance for the majority of the workers concerned, was raised by 57 per cent in February 1965, although prices had gone up by 81 per cent since the previous adjustment. There were no further wage or salary increases that year, but others were contemplated for the beginning of

1966, although on a lower scale than the rise in prices.

Price measures

In the past, price policy fluctuated between two extremes. At different times attempts were made to extend the scope of direct controls, with unsatisfactory and sometimes even adverse results in view of the persistence of various inflationary pressures. Later on, however, the tendency was to rely on the free play of market forces. Recent plans tend to combine both methods, bringing price movements into line with certain more ambitious economic objectives.

The most notable aspect of Brazilian experience, for example, was a stage of deliberate corrective inflation, the purpose of which was to reform the price system by permitting or prompting considerable rises in the prices of goods and services that had been subject to price controls in previous years. Hence the increases in public utility rates, rents and prices of certain imports such as wheat, a question that will be dealt with more fully in the analysis of Brazil's economic development. Furthermore, while attempts were made to hold down the prices of certain commodities such as meat, which have an important effect on the cost of living, at the same time the excellent harvest made it necessary to establish minimum prices for other commodities in which supply far exceeded domestic demand, the more so as demand had been reduced by the policy followed in respect of wages and other similar decisions.

Chile's price policy has combined sustained measures to regulate the prices of goods most affecting the cost-of-living index—partly by strengthening imports—with attempts to bring about changes in relative prices, in order to improve the terms of trade in certain basic agricultural commodities. Thus, it was officially stated that in 1966 average increases of 13–14 per cent would be authorized for industrial goods and 17–18 per cent for agricultural products. These provisions, as is only natural, are determined by the long-standing unsatisfactory situation in food production.

Foreign trade and exchange policy

The foreign trade policy recently adopted by the countries under consideration also varies greatly in relation to the action taken to control inflationary pressures.

Brazil's position in 1965 was exceptional owing to its bumper harvest and the consequent increase in export earnings, and the fact that a less dynamic evolution of domestic demand reduced import needs.

In Chile, on the other hand, the maintenance of a high level of imports of consumer goods and intermediate products continued to be an essential part of the fight against inflation, as in previous years. The share of foreign goods in the aggregate supply increased, and certain specific components were of decisive importance in preserving a balance in the supply of certain items, in view of Chile's dependence on imports of consumer products and basic inputs. Moreover, in order to obtain that support and help to finance the public sector, Chile was compelled to increase its external indebtedness, although at a slower pace than before.

With a view to controlling the demand for imports, the authorities applied stricter criteria to the granting of authorizations and funds, which reduced the value of imports to slightly below the level for 1964 in spite of the fact that exports continued to rise. Furthermore, the adjustment of exchange rates became more flexible and closely followed the rise in domestic prices, a trend which implied a significant change in past procedures and did not cause the internal dislocation that had accompanied the belated and substantial devaluations in the past.

The criteria followed by Argentina relate to a different set of problems, which have a particular incidence on inflation and the measures taken to arrest it. In the first place, it is clear that the expansion of exports had a greater impact on domestic prices in Argentina than in Chile or in other countries where a very small proportion of the items exported is consumed or used locally. Thus, as Argentina's sales prices improved, the effect was transmitted to domestic supply. Secondly, the spur given to development, especially in the industrial sector, stepped up the demand for imports, while a considerable proportion of available external resources was affected by the heavy burden of the liabilities contracted earlier. Thus a new element of disequilibrium emerged, which tended to spread with successive devaluations.

It is not surprising, therefore, that Argentina's policy in this field should have followed two principal lines. The first consisted in curbing the increase in imports and enforcing strict control of the foreign exchange market. To that end, the Government established a system of prior deposits equal to 100 per cent of the value of purchases, which was subsequently reduced to 75 per cent. At the same time, the term of payment for imports of motor-vehicle parts and spare parts was extended from 180 to 360 days. As regards foreign exchange, operations other than real transactions in goods and services, as

well as expenditure on travel abroad, etc. were restricted, and taxes were levied on dividends remitted to shareholders abroad.

The second course of action followed by Argentina was designed to raise export earnings. Perhaps the most important step in this direction was the public sector's intervention in the marketing of products. The National Grain Board marketed a substantial proportion of the bumper harvest, which had formerly been sold through private channels. Both the National Grain Board and the Meat Board, endeavoured to secure new markets and better prices, with considerable success in the case of meat, a larger proportion of meat exports previously destined for the United Kingdom being diverted to other European markets. Lastly, as in Brazil and Chile, recourse was had to the system of drawbacks to encourage non-traditional export items.

3. INFLATIONARY PRESSURES IN URUGUAY

The foregoing considerations suggest that Argentina, Brazil and Chile have, to some extent, been devising a new, practical strategy to combat inflation, as a response to the negligible or unfavourable results of earlier policies. This new attitude has been fostered by the agreements and undertakings to prepare over-all development plans, which have gradually led to the merging of objectives into the central aim of speeding up economic and social development.

In addition to the experience of those countries, which it is still too early to evaluate, it would be useful to make a number of observations on the particular case of Uruguay, which in 1965 recorded the highest rate of price increases.

In Uruguay, disequilibrium only became a major economic problem in the last few years, following a long period of monetary and price stability during which per capita income levels were among the highest in the region. However, as inflationary pressures increased, it began to be faced with problems similar to those of its neighbours. In Uruguay, too as the rate and nature of inflation changed, so did the policy for remedying it, in an attempt to broaden the range of the instruments used and to combine their action. Although no actual steps have been taken to implement an integrated model merging the twin objectives of development and stabilization some progress has been made in laying the foundations for such action, as evidenced by the goals established in the National Economic and Social Development Plan drawn up by the Investment and Economic Development Committee (CIDE).

The various analyses of Uruguay's economy show the structural background of the present situation, which seems to be attributable to two basic factors. Firstly, the relative stagnation—and recently the recession—of agricultural production, which has ceased to fulfil its two traditional functions: to provide food and inputs for the domestic market and to create an exportable surplus that would make it possible to import the supplementary capital goods, primary products and consumer goods required if the national system is to develop properly. The general result of this trend has been the low growth rate of the domestic product, which, allowing for population growth, shrank in absolute terms by about 12 per cent between 1957 and 1965.

This circumstance is at variance with the second basic factor: social resistance to a decline in real income, a phenomenon which takes a highly individual form in Uruguay, which has a well-integrated and highly organized society. The population is thus fighting a rearguard action with a wide range of devices and instruments that enable each group to defend its own interests with some measure and success.

In such circumstances—even if it were feasible, which it is not—it would be undesirable to solve the contradictory situation at the expense of a large sector of the population, by expecting it to shoulder the burden of the unfavourable income trends. This factor therefore constitutes an indirect source of inflationary pressure, which in the last analysis reflects the struggle of the various social groups to prevent or reduce as far as possible the threat to their real status.

The two factors concerned are not, of course, directly reflected in the trend followed by inflation, nor do they alone explain its fluctuations. Although the final, visible expression of inflation is a rise in prices, such rises occur and fluctuate by virtue of what are normally called “propagating mechanisms”, which are in turn affected by economic policy action or shortcomings. What is more, the conclusion has been reached that while the structural factors lose their relative significance and weight as the inflationary process continues and gathers momentum, the more immediate or “propagating” factors of inflation gain in importance.

One such factor derives from the most vulnerable point of Uruguay's present economy—its trade balance. The inadequacy of the agricultural sector has led to persistent disequilibrium in Uruguay's external accounts, which in turn has prompted periodical devaluations of the national currency, both as a response (usually

belated) to the basic maladjustment and as a means of curbing the demand for imports by raising their relative prices.

Devaluation, which has raised the official rate of the dollar from approximately 11 pesos in 1961 to nearly 60 at the end of 1965, is another “propagating” factor of inflation, inasmuch as the consequent adjustment of the prices of imported goods provoke a defensive reaction on the part of those affected by such changes, whether wage-earners, who in the face of these price increases will try to obtain wage adjustments, or entrepreneurs, who will try to meet the higher cost of their imported inputs by raising the prices of their products. Simultaneously or successively, these two mechanisms of the inflationary spiral have set in motion the mechanisms involved in the fiscal and monetary sectors. The government machine, which in Uruguay employs a sizable proportion of the labour force, has had to satisfy to a greater or lesser extent the petitions of its active or retired personnel, and for that purpose it has had to raise taxes or resort to financing by the currency issuing institution. It is worth while noting the contradiction underlying public sector decisions on devaluation. On the one hand, devaluation opens the way to obtaining funds from additional export or import charges or from the credit expansion made possible by the increase in the value of the reserves. On the other hand, devaluation has the effects alluded to above, with the resulting increase in expenditure. This contradiction has also occurred or is occurring in other countries beset by the same type of problems, but it is especially significant, perhaps, in Uruguay because of the scale of employment in the public sector and its high level of organization.

Thus, the various factors of fiscal disequilibrium—from the standpoint of both receipts (increases in taxes or currency issues) and expenditure (increases in wages and in transfers to other public sector agencies)—constitute the third important mechanism responsible for the spread of inflation.

To use a simplified approach, the above-mentioned factors might be said to affect a fourth determinant of inflation—the monetary sector. It is a well-known fact that, theoretically at least, it is this sector which gives way to or resists the pressures that originate from various sources and require an increase in the money supply to meet the higher levels of nominal income, and consequently of prices.

The monetary system's function has been passive rather than active, since it has usually

given way to or been swayed by the pressures originating outside it, without playing a significant role as an autonomous factor. Only in 1964 and 1965 did the increase in the money supply exceed the rise in prices. Moreover, experience in Brazil and Chile suggests that a much larger increase in money supply than in prices might well be compatible with a slowing down of inflation, given the kind of circumstances that prevailed in those countries.

It would be difficult to establish well-defined causal links or range the various propagating factors in any strict order of importance; since, apart from the fact that the relative importance of each mechanism is constantly changing, we are dealing with a circular process of interaction. However, a study of the way in which they operated in Uruguay suggests that devaluation is of particular significance and is the most "active" of all the propagating mechanisms. The others are evidently secondary or "reflex" factors. The "defensive" nature or significance of income adjustments and the fairly conservative behaviour of the monetary factor can be cited in support of this hypothesis. The role of the government sector is more open to question, since the public sector increased its share of total resources in the second half of the fifties and the first half of the sixties, especially in 1962-63. In other words, and probably because of the responsibilities incumbent upon the government sector in maintaining employment levels, its decisions constituted an additional pressure on a volume of resources which was shrinking in absolute terms.

In the face of this situation, government action has in general followed the characteristic pattern established in other countries, as described above. At the outset, when inflationary pressures had but a moderate and somewhat intermittent effect on prices, the remedies adopted were piecemeal and sporadic so far as the range of instruments used was concerned. Various expedients to curb the demand for imports were combined with others aimed at stepping up exportable surpluses (for example, by endeavouring to reduce domestic consumption), while at the same time, or at other stages, more import-

ance was attached to tightening the money supply or to increasing public revenue. Gradually a more integrated policy emerged, culminating in the last two years in measures to secure a relative reduction in the level of demand. However, Uruguay's policy has differed from that of its neighbours in that it has been more flexibly applied. The most notable example of this phase is the plan adopted in 1965, whose principal aims were as follows: (a) to establish a free foreign exchange market based on severe currency devaluation and on control by the Banco de la República of all foreign exchange deriving from exports liable to customs duties (or *detracciones*, as they are usually called in Uruguay), to deal, above all, with the problem of external liabilities; (b) to adopt various measures—especially in relation to credit facilities—to promote the marketing of export commodities;¹³ (c) to suspend imports of non-essential or luxury goods, raising the value of prior deposits and authorizing the purchase of capital goods provided that foreign suppliers granted at least three years' credit; (d) to levy additional in order to recover a proportion of the potential extra profits earned by the export sector as a result of devaluation; (e) to establish a formal system of co-ordination between the Government and the monetary authorities.

Without examining in detail the results of this strategy, it should be noted that, concurrently with the adoption of measures designed to stabilize prices, a much broader concept of economic policy was gradually envisaged. The resulting National Development Plan not only defines investment aims, but also outlines the economic policy decisions that need to be adopted and the institutional, social and political requirements that had to be met.

¹³ The significance of this aspect, bound up as it is with the prospects created by inflation, can be illustrated by the fact that in 1964, when world wool prices were comparatively high, the volume of exports equalled only half the 1962 figure, although prices had risen by 24 per cent in the two intervening years as a result of stockpiling in anticipation of a devaluation of the currency. Partly as a result of the measures adopted, wool exports doubled in 1965, but at lower prices than the year before.

Chapter III

PROGRESS IN REGIONAL ECONOMIC INTEGRATION

The advances made in 1965 serve to confirm that regional integration is an important feature of Latin America's development policy, affecting not only trade flows but also the basic guidelines and patterns of each country's internal development. This is particularly true of the Central American Common Market, whose progress is leading to a certain degree of economic interdependence between the five member countries, with the result that integration has now become an organic factor of development in their respective production systems. By contrast, the smaller scope of the commitments thus far assumed by the countries belonging to the Latin American Free-Trade Association (ALALC), combined with the different size and stage of development of their economies, explain why the aim of integration is not as forcefully directed at the adoption of internal development decisions and is more concerned with trade operations.

The present chapter sets forth some of the most important recent developments in the two integration systems, as regards both their quantitative results and their institutional framework. The analysis is preceded by a brief reference to inter-Latin American trade as a

whole, including the two regional groups and transactions between countries not members of either system and the rest of Latin America.

1. RECENT EVOLUTION OF INTER-LATIN AMERICAN TRADE

Inter-Latin American trade continued to increase rapidly in 1965, but at a slower pace than in the year before. The sum of exports (f.o.b.) and imports (c.i.f.) amounted to nearly 2,300 million dollars, compared with just over 2,000 million in 1964 (see table 16).

The proportion of trade carried on in the two free-trade areas also increased, rapidly in Central America and somewhat more slowly in the ALALC countries. Conversely, there was a reduction in the absolute figures for regional transactions between Venezuela and the remaining countries—Bolivia, Cuba, the Dominican Republic, Haiti and Panama.

If the composition of inter-Latin American trade in 1960, by country and groups of countries, is taken as a frame of reference, it will be easier to understand the significance of those changes. A fact which stands out in total

Table 16. Latin America: Total current value of trade between selected countries or groups of countries and the rest of the region,^a 1950-65
(Millions of dollars)

Country or group of countries	1950	1953	1955	1959	1960	1961	1962	1963	1964	1965 ^b
Latin American Free-Trade Association	910	1,269	1,331	1,102	1,135	1,001	1,139	1,266	1,463	1,638
As a percentage of total inter-Latin American trade	84	81	82	67	72	74	74	73	72	72
Central America (excluding Panama)	35	50	56	90	96	102	112	190	262	352
As a percentage of total inter-Latin American trade	3	3	3	6	6	7	7	11	13	15
Venezuela	64	166	159	306	254	185	204	196	231	225
As a percentage of total inter-Latin American trade	6	11	10	18	16	14	14	11	11	10
Other Latin American countries ^c	72	80	73	152	90	69	72	81	80	75
As a percentage of total inter-Latin American trade	7	5	5	9	6	5	5	5	4	3
TOTAL	1,081	1,565	1,619	1,650	1,575	1,364	1,527	1,733	2,036	2,290

Source: ECLA, on the basis of official statistics.

^a Exports f.o.b. and imports c.i.f.

^b Estimates.

^c Bolivia, Cuba, Dominican Republic, Haiti and Panama.

regional trade is the substantial increase in the share of the five countries members of the Central American Common Market, which rose from 6 per cent in 1960 to 15 per cent in 1965. The proportion accounted for the countries members of ALALC has remained relatively static at about 72 per cent, in spite of the considerable rise in the absolute value of their transactions. Venezuela's share declined from 16 per cent to 10 per cent during the same period, and that of the remaining Latin American countries from 6 per cent to 3 per cent.

These comparisons illustrate the effectiveness of regional agreements in promoting reciprocal trade, since in both ALALC and the Central American Common Market most of the increase took place in trade between the respective member countries. The greater dynamic force displayed by trade in the latter group compared with the former is the result of various factors, including the broader scope of the trade agreements involved and the initial low levels of trade among the Central American countries.

Besides the differences between the growth rates of over-all trade in the two systems, the composition of their trade also differs in keeping with the nature of the products that make up the bulk of the transactions. Whereas in ALALC trade in agricultural products still constitutes three-quarters of reciprocal trade, nearly two-thirds of the total volume of trade in the Central American Common Market consists of manufactured products. These differences in composition are also due partly to the different emphasis placed on promotional policy in the respective institutional arrangements, and partly to the increase in the share of traditional trade flows, which naturally consist mainly of primary products, in ALALC's present volume of trade.

2. ALALC: PROGRESS AND ACHIEVEMENTS

Intra-Area exports in ALALC rose from just under 560 million dollars in 1964 to approximately 630 million in 1965. In conjunction with this quantitative progress—which, relatively speaking, was on a far lesser scale than in the previous year—further headway was made in relation to decisions and instruments to strengthen future trade flows.

(a) *Institutional advances*

The latest meeting of the Contracting Parties took place at the end of 1965, on the basis of preparatory studies, which covered general institutional matters and questions related to resolution 100 (IV) designed to step up regional integration, measures for harmonizing the

economic and trade policies of the member countries, and a programme of work in connexion with these aspects of integration. The meeting adopted many of the suggestions put forward by the Standing Executive Committee, of which the most important, from the internal institutional standpoint, concerned the establishment of a Council of Ministers and a Technical Committee.

The setting up of the Council of Ministers—resolution 117 (V)—entails the establishment of an executive organ along the same lines as those existing in other regional organizations such as the European Economic Community (EEC) and the European Free-Trade Association (EFTA), with responsibility for adopting the necessary decisions to stimulate economic integration. The Technical Committee—established by virtue of resolution 118 (V)—will be composed of four leading figures in the Contracting States, and will carry out studies, formulate proposals and present projects for accelerating the region's economic and social integration. Its functions will include advisory services, with no executive responsibilities attached, and its proposals or projects must be submitted to the Standing Executive Committee; if the Committee fails to approve them or they fall outside its sphere of competence, they will then be placed before the Council of Ministers.

Other important decisions embodied in resolution 136 (V) are to link the Parliaments of the Contracting Parties with the integration process, establish institutional legal machinery for settling disputes, and incorporate the wage-earning and entrepreneurial sectors in integration activities, connecting them with the Standing Executive Committee through advisory committees. The establishment of a system for settling disputes will fill a marked gap, since disputes have hitherto been submitted to and resolved by ALALC's regular executive organs whose work was hampered by the prevailing system of voting, which allowed either of the parties involved in a controversy to veto the decision adopted.

The new advisory committees represent the first instrument for linking the Committee's activities with the wage-earning sector, since entrepreneurs had actually been co-operating in ALALC's activities, mainly through the various sectoral meetings.

The meetings with members of Parliament of the Contracting Parties are also the first step towards closer liaison with the respective Parliaments, with a view to better co-ordination of legislative measures of regional scope and the possible establishment of a parliamentary organ in ALALC with advisory functions.

From another standpoint, in September 1965 the Financial and Monetary Policy Council of ALALC adopted the agreement between the central banks of the member countries and the relevant regulations governing a system for the multilateral compensation of balances. The system, as defined by the agreement, will be based on credit lines granted reciprocally by the central banks. These credits will not be interest-bearing, but the reciprocal balances will be liquidated in dollars every two months and compensated multilaterally through the Banco Central de Reserva del Perú, which will act as the agent for such compensation.

As regards tariff negotiations, the five regular rounds held annually from 1961 to 1965 have given rise to over 9,000 concessions (see table 17). These relate, in varying proportions, to nearly all the major tariff items, in particular chemicals and chemical products, machinery, electrical appliances and supplies, basic metals and manufactures thereof, agricultural commodities and processed agricultural products, etc. In spite of the progress made, there are still complete sections of the ALALC Tariff Nomenclature (NABALALC) in respect of whose products practically no tariff concessions have been granted, or, if so, they were on a very small scale and by one country. Moreover, most of the concessions agreed on relate to products that are not very highly processed, thus reflecting and boosting present trade flows instead of creating the conditions required for the dynamic expansion of new items.

The first of the three-yearly negotiations for

drawing up a schedule of products in which trade should be completely liberalized in all countries by the end of the period of institution of the Free-Trade Area (1972) took place in 1964. These products, which in principle would be the traditional intra-Area trade items, are to be the nucleus for the full operation of the Free-Trade Area.

As a result of the application of provisions in the Montevideo Treaty that are expressly aimed at facilitating the granting of exclusive customs benefits to ALALC countries at a relatively less advanced stage of economic development, namely, Ecuador and Paraguay, the remaining countries have granted them nearly 7,000 concessions. It is hoped in this way to promote exports from those countries to the rest of the Area and, under the protection of this preferential treatment which does not extend to the other ALALC countries, to encourage the establishment of new industries, mainly for processing their raw materials.

On the whole, five rounds of yearly tariff negotiations have followed a highly irregular pattern, a great many concessions being granted in the first two rounds—far more than the minimum requirements each country had pledged itself to give under the terms of the Treaty—and fewer afterwards. In 1965 almost the same number of concessions were negotiated as in the preceding two years, as a result of the trade liberalization proposals submitted to Governments by the entrepreneurial sectors that attended the various sectoral meetings held in the course of the year.

Table 17. ALALC: Evolution of concessions, 1961–65

Country	Negotiations					Total
	First round 1961	Second round 1962	Third round 1963	Fourth round 1964	Fifth round 1965	
Argentina . .	414	658	208	113	252	1,645
Brazil . . .	619	631	62	52	214	1,578
Chile . . .	343	490	31	8	37	909
Colombia . .	268 ^a	351	85	18	37	759
Ecuador . . .	— ^b	1,714	^c	3	32	1,680
Mexico . . .	288	319	120	82	189	998
Paraguay . .	520	69	76	19	36	720
Peru . . .	227	72	56	12	40	407
Uruguay . . .	567	43	54	^c	16	664
TOTAL	3,246	4,347	655	307	853	9,360

Source: ECLA, on the basis of official statistics.

^a First Special Conference in 1962.

^b Ecuador acceded to ALALC in 1961, but did not start negotiating until the following year.

^c No items were negotiated at the Conference of the Contracting Parties.

(b) *Free-trade infrastructure*

No less important than the growth of intra-Area trade was ALALC's progress in establishing the infrastructure of trade as an indispensable step towards more complex forms of economic integration.

The following are the main fields progressively covered in this respect. The Association has adopted the standard ALALC Tariff Nomenclature (NABALALC), based on the Brussels Tariff Nomenclature (BTN), for the annual tariff negotiations and the presentation of intra-Area statistics. In line with a number of resolutions, several ALALC countries have adopted this nomenclature for all their foreign trade. They have also decided to apply the Brussels definition of value and explanatory notes as a uniform basis for the customs valuation of goods in ALALC member countries in respect of imports from inside and outside the Area (resolution 122 (V)).

On the other hand, ALALC has not adopted any new complementarity agreements, which are an important instrument in intensifying trade in manufactured products. The only such agreements in force are the two concluded between 1962 and 1964 in relation to statistical and card-punching machines and electronic valves. At the sectoral meetings of entrepreneurs held in 1965, new complementarity agreements were proposed for such sectors as the glass industry; motor vehicles; household electrical appliances; rubber; water, gas and other meters; internal combustion engines; the motion picture and television industries; and canned foods.

However, owing to their cumbersome nature and markedly commercial spirit, current pro-

cedures for the conclusion of such agreements, are altogether inadequate—despite the changes introduced, especially that limiting the application of the most-favoured-nation clause—for achieving or promoting the integrated industrial development of the whole region.

(c) *Evolution of intra-Area trade*

In examining the most important recent developments in connexion with trade among the ALALC countries—Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay—it is useful to bear in mind the evolution of their trade for some years before the first concessions adopted under the Montevideo Treaty entered into force.

From 1950 to 1955 intra-Area trade grew slowly but steadily at a faster rate than that of trade with the rest of the world. The proportion of intra-Area exports in relation to the world total increased from 9.2 per cent in 1950 to 11 per cent in 1955, and in 1953 intra-Area imports reached their peak in relation to the total (12.2 per cent). Trade declined rapidly from 1956 onwards, as a result of the reductions in wheat and crude petroleum sales abroad and the deterioration in the terms of trade for coffee, wool and other primary products, a trend which lasted until 1961 when the value of exports was less than 300 million dollars, compared with 500 million in 1953–55 (see table 18). The effects of the termination of bilateral payments agreements—which, despite their limitations had enabled regional trade to develop at a time when certain countries maintained exchange restrictions on imports from the rest of the world—then began to make themselves felt.

Table 18. ALALC: Intra-Area exports, 1961–65
(Millions of dollars)

Exporting country	Annual averages			Value				
	1953–55	1956–58	1959–61	1961	1962	1963	1964	1965 ^a
Argentina .	204.9	123.4	133.4	100.0	141.4	185.0	218.4	224.0
Brazil .	132.5	127.6	85.6	95.2	75.8	76.0	132.8	198.4
Chile .	58.7	36.2	34.9	34.8	39.4	49.3	54.5	50.1
Colombia .	3.0	3.7	4.5	6.1	7.3	6.1	10.9	15.5
Ecuador .	9.8	8.7	6.5	7.5	6.1	8.0	13.3	18.9
Mexico .	5.2	5.0	6.2	7.9	16.7	25.9	34.0	36.3
Paraguay .	13.3	13.6	8.7	9.9	10.9	10.7	14.8	17.5
Peru .	50.1	42.2	37.2	31.5	48.8	49.1	63.8	52.9
Uruguay .	28.7	16.7	3.9	5.8	8.0	15.0	15.0	15.6
TOTAL	507.7	378.2	321.0	298.7	354.4	425.1	557.5	629.2

Source: ECLA, on the basis of official statistics.

^a Estimates.

After the results of the first ALALC negotiations entered into effect on 1 January 1962, intra-Area exports rose rapidly to over 350 million dollars in 1962, 425 million in 1963, 557 million in 1964 and about 630 million dollars in 1965; thus from 1961 to 1965 intra-Area exports increased by over 110 per cent. Imports followed a similar trend, rising from 360 million dollars in 1961 to more than 750 million in 1965 (see table 19). At the same time, the relative share of intra-Area trade in the total exports of ALALC countries increased from barely 6 per cent in 1961 to 12 per cent in 1965.

This expansion took place at a time when, despite the rapid expansion of world trade, that of the ALALC countries with the rest of the world increased slowly and not only these countries but the whole of Latin America lost ground in relation to the world total.

The upward trend of reciprocal trade weakened in 1965, in both exports and imports. The former went up by 13 per cent, as against 31 per cent in 1964, 20 per cent in 1963 and 18.9 per cent in 1962, while imports increased by 17 per cent compared with 23.5 per cent, 25 per cent and 16.5 per cent in each of the three previous years.

Another important change took place concurrently with the slackening of the growth rate. Up to 1964, intra-Area trade increased more or less evenly in nearly all the countries concerned, although some—Mexico for example—registered a faster rate than others. This pattern changed in 1965 when the increase in exports was centred in one country—Brazil—whose sales to the rest of the ALALC countries rose by 50 per cent, absorbing 90 per cent of the increase in intra-Area export trade. Moreover, a substantial pro-

portion of that increase is attributable to a combination of factors that was responsible for the lack of vigour in the growth of domestic demand in Brazil and hence in an exportable surplus of manufactures (mainly steel products). Although there were fairly sizable increments in Ecuador's and Colombia's sales (40 per cent), and Paraguay's exports also went up (18 per cent), these countries failed to influence the situation because of the limited nature of their share in ALALC exports. Sales in Uruguay, Mexico and Argentina rose slightly, but contracted in Peru and Chile.

Some of the factors underlying the 1965 trends are of a transitory nature, such as, the adoption, for reasons connected with the balance of payments, of fairly stringent import controls, which have been applied to ALALC imports by virtue of the Montevideo Treaty itself. In some countries those trends are also attributable to internal economic situations that have affected demand. There are other more lasting factors, however, that relate to the actual institutional framework of the integration system and to the need for further action to stimulate greater fluidity of trade.

If reciprocal trade is considered from the standpoint of imports, an outstanding feature is the considerable increase in those of Mexico (over 70 per cent), Argentina (50 per cent above their 1964 figure), Peru and Colombia (more than 30 per cent in both cases), and Brazil (over 10 per cent) (see again table 19). The increment in Colombia's and Brazil's imports from the Area is particularly noteworthy, since in each case it coincided with a contraction of their total imports from the rest of the world.

Table 19. ALALC: Intra-Area imports, 1961-65
(Millions of dollars)

Importing country	Annual averages			Value				
	1953-55	1956-58	1959-61	1961	1962	1963	1964	1965 ^a
Argentina .	185.7	164.1	113.3	126.0	103.1	101.6	170.8	255.7
Brazil .	185.9	112.6	90.1	45.2	128.6	163.9	168.0	185.3
Chile .	81.3	54.8	76.9	94.5	80.5	120.0	128.9	115.5
Colombia .	16.5	11.0	8.6	10.2	12.5	21.4	33.1	43.3
Ecuador .	5.5	3.8	3.3	4.1	3.9	5.2	8.0	7.1
Mexico .	1.8	2.8	3.9	4.1	6.1	10.8	17.3	29.7
Paraguay .	11.6	11.2	9.6	9.8	6.0	8.4	11.6	11.4
Peru .	20.7	23.6	26.7	31.8	45.2	62.0	58.9	77.1
Uruguay .	53.1	34.7	31.4	34.5	34.0	31.8	49.3	32.1
TOTAL	562.1	418.6	363.8	360.2	419.9	525.1	645.9	757.2

Source: ALALC, *Sintesis mensual*, September 1965-March 1966.

^a Estimates.

Purchases from the Area by Chile, Ecuador, Paraguay and Uruguay declined, particularly in the latter country, owing to its critical external financing position.

These trends have determined important changes in individual intra-Area trade balances, notably in Argentina, Brazil and Peru (see table 20).¹ In Argentina, the surplus of over 47 million dollars obtained in 1964 changed to a deficit of more than 30 million in 1965; Brazil showed a surplus of 13 million dollars in 1965, as against a deficit of over 35 million dollars the year before; and in Peru 1965 marked the largest deficit in its intra-Area trade for the last five years, which was due to a contraction of its exports to the rest of the Area owing mainly to fortuitous causes, combined with a steady and substantial increase in imports, in absolute terms, primarily from Argentina. The cases of Brazil and Argentina are closely interrelated, since the increment in Argentina's purchases mainly benefited Brazil, not a new phenomenon inasmuch as it was also observed, but in reverse, between 1961 and 1962.

The share of each country in total intra-Area trade fluctuates widely and is dependent upon very different factors, e.g. the existence of traditional trade flows, contractual trade relations prior to the Montevideo Treaty, trade relations and interests of many years' standing, complementarity in respect of certain lines of production, etc. Paraguay, Uruguay and Chile absorb 20 per cent to 30 per cent of total intra-

Area imports, while the respective shares of Mexico, Colombia and Ecuador range from 2 to 6 per cent.

These percentages are out of proportion with the shares of the individual ALALC countries in intra-Area imports and exports, since a large volume of trade is concentrated in the adjacent countries of largest economic size. Three of the nine ALALC countries—Argentina, Brazil and Chile—alone account for over 75 per cent of the whole of that trade, while the northern countries of South America—Colombia and Ecuador—and Mexico absorb less than 10 per cent.

The trend towards a progressive change in the composition of trade is just as important now and in the future as its rapid expansion. From 1959 to 1961 agricultural commodities and non-metallic mineral products (mainly petroleum and petroleum products) represented nearly 90 per cent of intra-Area exports. This proportion shrank slowly but surely to 75 per cent in 1964, while exports of metals, metal manufactures and chemicals products rose from 10.8 per cent to nearly 25 per cent and covered a growing number of items. Another noteworthy fact is that intra-Area trade involves a high proportion of goods covered by the ALALC liberalization programme (over 75 per cent in 1964) and that in some countries more than 90 per cent of their imports from the Area consists of products in respect of which they have accorded tariff concessions.

These considerations suggest that the intra-ALALC concessions and preferential treatment have served not only to step up trade in such products as food and raw materials which are customarily bought in the Area itself, but also to induce the ALALC countries to replace their imports of these and other products from outside

¹ The balances are based on f.o.b. export values and c.i.f. import values, as consistent with customs records. No attempt has been made to adjust the national figures or to compute the flows of goods between ALALC countries that might have taken place under special conditions through third countries.

Table 20. ALALC: Inter-country trade balances,^a 1961-65
(Millions of dollars)

Country	Averages			1961	1962	1963	1964	1965
	1953-55	1956-58	1959-61					
Argentina	19.2	-40.7	20.1	-26.0	38.2	83.4	47.6	-31.7
Brazil	-53.4	15.0	-4.5	50.0	-52.8	-87.9	-35.2	13.1
Chile	-22.6	-18.6	-42.0	-59.7	-41.1	-70.7	-74.4	-65.4
Colombia	-13.5	-7.3	-4.1	-4.1	-5.2	-15.3	-22.2	-27.0
Ecuador	3.5	4.9	3.2	3.4	2.4	2.8	5.3	11.8
Mexico	3.4	2.2	2.3	3.8	10.6	15.1	16.7	6.6
Paraguay	1.7	2.4	-0.9	0.1	4.9	2.3	3.2	6.1
Peru	29.4	18.6	10.5	-0.3	3.6	-12.9	5.0	-24.2
Uruguay	-24.4	-18.0	-27.5	-28.7	-26.6	-16.8	-34.3	-16.5

Source: *Sintesis mensual*, op cit.

^a Exports f.o.b. less imports c.i.f.

the Area. Thus imports from third countries have been progressively replaced, especially those items of which certain ALALC countries are traditional exporters. As a result of those changes, the increase of over 145 million dollars in all negotiated items imported from the Area between 1961 and 1964 contrasts with the reduction of nearly 30 million dollars in imports of the same products from the rest of the world.

3. CENTRAL AMERICAN COMMON MARKET: PROGRESS AND ACHIEVEMENTS

In 1965 further headway was made in Central America's integration process, in terms not only of the immediate quantitative results obtained, but also of bringing the decisions and instruments into full operation with a view to ensuring and facilitating subsequent progress.

In the past year, regional trade amounted to approximately 140 million dollars,² a volume which can best be appreciated if it is contrasted with former levels. Up to 1950, the value of intra-regional trade was only about 8 million dollars each year (barely 3 or 4 per cent of total Central American imports). Between 1950 and 1955 it increased by 13 per cent annually, and from 1955 to 1960 at 20 per cent annually. The establishment of the Common Market—with general free trade and tariff equalization and the incorporation of Costa Rica and Nicaragua in the two systems—intensified that growth, which reached an annual rate of 42 per cent between 1961 and 1964, and the volume of trade rose to 106 million dollars, or 15 per cent of total Central American imports.

Thus the 1965 increment supplements the very considerable earlier expansion and reflects the continuing dynamic action both of the initial undertakings, which are steadily producing concrete results, and of the constant efforts to incorporate new arrangements and to reinforce existing institutions or add others with diverse functions. It is useful, therefore, to take account not only of the salient figures reflecting the levels and composition of recent trade, but also of the advances of an institutional character, as well as of some of the considerations regarding their prospects which have emerged from a recent evaluation.

(a) *Institutional advances and prospects*

In the course of its development Central American integration has come to rely upon a set of legal and institutional instruments which establish and regulate free trade in products

originating in the area and aim at equalizing customs duties and charges for items from outside the area, as well as upon a group of agreements and institutions operating on a region-wide basis in the fields of transport, financing, industrial development, investment and public administration. The following are some of the most recent advances in this respect.³

As regards trade liberalization, June 1966 will mark the end of the five-year period of transition leading up to the full operation of the free-trade area established by the General Treaty on Central American Economic Integration, which was signed in 1960. By that time the area will cover 92.5 per cent of the Central American Standard Tariff Nomenclature (NAUCA) headings, and others will be added once a number of regulatory agreements enter into force or certain contractual requirements are met. Only 23 headings—corresponding to the principal exports and certain articles in which trade is at a standstill—will remain indefinitely subject to restrictions. By the middle of the second quarter of 1966 there will be free trade in textile manufactures, oils and fats and various food products, while the liberalization of trade in petroleum products, paper, tobacco and wheat flour will remain pending until the respective agreements enter into force.

With regard to customs tariff equalization, Honduras and Nicaragua deposited their respective instruments of ratification of the San Salvador Protocol at the end of August 1965. Thus, the uniform duties in force for all members of the Common Market on imports of goods from third countries were extended to 98 per cent of the NAUCA sub-items. Since February 1965 the Uniform Central American Customs Code (CAUCA) has also been in force for Costa Rica, Guatemala and Nicaragua. The Code has been supplemented by a body of regulations designed to give greater flexibility to customs operations. These regulations were signed by the Central American Governments in November. In the course of the year, the work of renegotiating the uniform duties and charges constituting the Central American tariff was stepped up.

The first meeting of representatives of Central American integration agencies and of the Government of Mexico was held at the end of 1965. The discussions focussed on the measures that might be adopted for increasing Central America's exports to Mexico so as to place their reciprocal trade on a more even keel. In

² Estimate based on the volume of transactions effected by the Central American Clearing House.

³ See *Report of the Ninth Session of the Central American Economic Co-operation Committee (Guatemala, 25-31 January 1966)* (E/CN.12/CCE/351).

addition, under the auspices of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), negotiations were conducted between Central America and Panama with a view to the conclusion of an agreement for the economic association of Panama with the common market.

In so far as industrial integration policy and instruments are concerned, in June 1965 the Economic Council made its first statement of policy on foreign investment in Central America, thereby supplementing the broad guiding principles for the industrial policy to be followed by the Common Market which were laid down early in 1964. Meanwhile, a number of new concerns have entered into operation, namely, petroleum refineries, and plants producing fertilizers, sulphuric and nitric acid, welded steel tubes, electric light bulbs, copper cables and wire, raw materials for detergents, steel rods, and tyres and inner tubes. Good headway has been made in the installation of plants for caustic soda, chlorine and insecticides, glass containers, sheet glass, and distilled spirits of turpentine. Assembly plants for motor vehicles, refrigerators and other appliances have also been developed. The final touches are being put to the preliminary studies on the steel and ammonia industries and the production of polyvinyls based on calcium carbide, as well as on the use of forest resources for pulp and paper and the industrial uses of bagasse. The first protocol to the Agreement on the Régime for Integration Industries entered into force in February for Costa Rica, El Salvador and Guatemala, and in August for Nicaragua. The first two activities to be integrated are the tyre and inner tube plant set up in Guatemala and the caustic soda and chlorinated insecticides plant to be established in Nicaragua. In November, the five Governments signed a second protocol extending the benefits of the Régime to a sheet glass plant to be opened in Honduras.

Since the establishment of the Central American Agricultural Development Sub-Committee, some progress has been made towards the full liberalization of trade in agricultural commodities, the development of staple food production, the diversification of agricultural exports, and the expansion of livestock and milk production, as well as the regional co-ordination of marketing activities, price stabilization and research. The Ministers of Agriculture and the Ministers of Economic Affairs, at a joint meeting held in October, signed the special grain protocol and the livestock studbook, gave legal status to the Co-ordinating Committee on Marketing and Price Stabilization in Central America and

approved the establishment of a Central American Agricultural Research Committee.

With respect to the economic infrastructure, the Central American Bank for Economic Integration (BCIE) launched a study analysing the current situation of the transport system and recommending a solution for each of its branches. The Central American Electrification Sub-Committee proceeded with its work on the interconnexion of electricity systems and the joint development of water resources, promoted the execution of the next stages of projects that had already been evaluated and approved in principle by the countries concerned, continued to review new possibilities and laid down the basic guidelines for the implementation of a long-term programme to place the initial projects on a thoroughly sound footing.

BCIE will shortly end its fifth year of operations in the field of financing and monetary co-operation. Up to the end of November 1965, it had engaged in over one hundred credit transactions to the value of nearly 45 million dollars. That same year the Central American Economic Integration Fund was set up with 35 million dollars from the Government of the United States and 7 million from the five Central American Governments. The Fund is administered by BCIE. Other activities in this field include continuing action to promote the co-ordination and compatibility of the monetary, exchange and credit policies, in line with the agreement signed by the Central Banks in 1964—which set up the Central American Monetary Council—and with the increase in the volume of Clearing House operations to a monthly average of 11 million Central American pesos during the second half of 1965, compared with 2 million in the first half of 1962, shortly after its establishment.

These and other recent events illustrate the progress made in and the far-reaching nature of Central America's integration activities. Naturally, those advances have not been entirely unhampered and their dynamic force itself tends to create fresh problems, as shown in an evaluation report presented at the ninth session of the Central American Co-operation Committee.⁴

If the fundamental effects of the progress achieved are viewed in a sufficiently broad perspective, it will be seen that in the brief span of fifteen years Central America has emerged from a situation in which it had five independent economic systems, has introduced economic integration within the context of the traditional

⁴ See *Evaluación de la Integración Económica en Centroamérica* (E/CN.12/CCE/327).

development model, and has later related it to the operations of the production system as a whole. The qualitative change from a non-integrated to an integrated economy has enabled the incentives deriving from the export sector to be turned to better account in further strengthening the national growth process, expanding investment possibilities and increasing the capacity to absorb foreign capital.

Accordingly, these advances have resulted in a degree of economic interdependence among the five countries which has made integration an organic factor of development in Central America's production systems.

Although the drive towards integration was accompanied by an expansion in exports to countries outside the area, with all its dynamic after-effects, it is considered that the factors responsible for the attainment of higher economic growth rates than would have been possible without the Common Market are the need to supply aggregate multinational demand and the opening up of entirely new investment opportunities.

It is nevertheless felt that, despite all those advances, the Common Market is not yet a completely autonomous element in Central America's development, nor is it yet the factor determining its growth. On the contrary, integration itself has introduced additional factors in the dependence on the evolution of the export sector. In this respect, it is maintained that integration does not alter Central America's development problems, but provides the means for attacking them and the basis for expanding and transforming the structure of a group of production systems which—because they are small in size, even if taken as a whole—will have to continue evolving in line with an outward-directed development model.

It is further recognized that progress towards full integration has been hampered by hitherto insurmountable obstacles and that certain difficulties have begun to arise in the attainment of the next stage of integration among the five countries. At present, the main sources of concern are the lack of flexibility in adjusting the uniform import tariff to changing development needs, the obstacles still limiting the fluidity of inter-Central American trade, the losses in revenue resulting from trade liberalization, and the possibility that unilateral action to offset them might shatter the unity of the Common Market and distort its development. In general, it can be said that, as a result of their interdependence, the countries concerned have ceased to pursue completely independent lines of action,

each one influencing and being influenced by the actions of the rest.

Thus, certain tax measures adopted by one government may have a restrictive effect on trade flows with the other countries of the area; a national programme of imports from third countries which are subsidized by them may limit supplies from the rest of the Common Market; decisions concerning investment in industry affect the structure of manufacturing industry in the whole area; one country's foreign investment policy may be offset or vitiated by a conflicting policy adopted by the rest; the impact of monetary policy is felt in the behaviour of the neighbouring economies; the advance of social programmes, inasmuch as it affects the competitive position of specific lines of production, may be held up by delays on the part of some members of the integration movement, in putting such programmes into effect.

An evaluation of this set of problems should be based on the fact that they logically derive from integration and must be solved gradually through sustained and systematic action to improve the process itself, without jeopardizing the progress already achieved. However, if their solution is postponed and other problems arising from the very dynamism of the Common Market are added to them, serious difficulties may loom ahead for integration as regards not only the attainment of its new aims, but also the preservation of the development achieved so far.

In this respect, attention is drawn to two main requirements that face the Central American nations today in regard to the formulation of their economic policy within the context of the Common Market: (a) to improve the legal, institutional and administrative basis for integration, and (b) to provide the Common Market with an economic infrastructure commensurate with its size. The former requirement involves not only improving the legal framework of the Common Market, free trade and tariff equalization, but also supplementing and reinforcing that framework through the strengthening and co-ordination of promotional, financial and technical instruments. The second requirement entails the expansion of the existing national systems, their standardization on a region-wide basis and simultaneous transformation as to size, economic scale and technical characteristics. This in turn means that new integration agreements must be concluded and government administrative action adopted so as to give a vigorous impetus to regional programmes in the various sectors of the economic infrastructure.

When evaluating the results thus far obtained

in each country, it can be seen that, although the balanced development of the member countries is one of the cardinal aims of economic integration, little practical headway has yet been made towards achieving it. Hence, it was decided early in 1966 to accord Honduras preferential treatment in the field of industry with a view to gradually narrowing the gap between its development and that of the rest of the Central American countries.

Intra-Central American trade continues to be concentrated in three countries, and the gap seems to persist between the more backward and the more advanced States. However, this disequilibrium has existed before, and its causes must be sought in the trends followed by each production system in the past. It would be illogical, therefore, to assume that it can be remedied in a few years. The concept of balanced development should be regarded as largely synonymous with a process of growth that benefits all member countries, whatever their comparative position in regard to levels and over-all rates, or their respective and reciprocal trade balances. Thus integration is justified so long as a country's economic growth is faster within the Common Market than outside it. Even so, the attainment of higher levels and rates of growth with integration than without it is only a piecemeal and temporary solution, and as integration forges ahead it will be imperative also to ensure a reasonable and equitable distribution of its benefits among the member countries.

(b) Levels and composition of recent trade

The general considerations outlined above make it easier to appreciate the significance of the recent changes in the levels and composition of inter-Central American trade.

As previously noted, trade among the Central American countries rose from 106 million dollars in 1964 to 142 million in 1965. This represents an increase of over 30 per cent and a share of 20 per cent in Central America's total exports of goods in 1965.

As in earlier years, this dynamic rate of growth was mainly attributable to trade in manufactured products, which absorbed an estimated 70 per cent of the total in 1964, after a cumulative annual growth of nearly 32 per cent at current prices in 1955-63. Trade in non-manufactures increased by 13 per cent during the same period.

The principal manufactured goods traded are food products, textiles and made-up textile goods, leather products, chemical products, pharmaceuticals and toilet preparations. Intra-Area imports of these products more than

doubled between 1960 and 1964. Sizable increments were also recorded in construction materials and other manufactures.

It is expected that in the next few years the dynamic growth of inter-Central American trade will continue to be based on trade in manufactured products, combined with a modest increase in the volume of non-manufactures. In 1966 free trade will extend to various manufactured articles whose production had been restricted during the period of transition before complete liberalization, the output of new plants will begin to appear on the market, and more use will be made of existing capacity. Moreover, the Governments' efforts to harmonize price policy, market systems and storage for staple agricultural commodities will tend to stimulate trade and import substitution.

It is also foreseeable that trade in goods produced by highly technical and capital-intensive industries, with a minimum capacity at least large enough to supply the whole region, will begin to assume a vital importance. In this respect, the Central American Governments are at present encouraging the preparation of studies on industrial possibilities and of specific projects, as well as the installation of such plants.

From the standpoint of the transactions in which each individual country is involved, it appears that the increase in trade is due, on the one hand, to the introduction of new products on the market in one or two countries and, on the other, to simultaneous trade flows of goods which were produced on a national basis before the institution of free trade, since the improvements in production and marketing methods are enabling regional producers to operate on a highly competitive footing. Competition and trade in these goods are based on different brands of the same product, which are usually foreign and well known on the market. This is usually true of made-up goods, canned foods and perfumery and toilet preparations (see table 21).

In foodstuffs a distinction may be drawn between unprocessed staple foods—maize, beans, and fresh vegetables and fruit—exported by Honduras and Guatemala to other countries of the area, mainly El Salvador, and food preparations and processed foods in which fairly intensive trade takes place among all the Central American countries. These are the items most affected by trade liberalization, because food processing industries already existed in all the countries concerned, which had therefore attained a certain technological level and possessed management skills, as well as, in some

Table 21. Central America: Intra-area imports, by Central American Standard Tariff Nomenclature (NAUCA) sections, 1964-65

NAUCA section	Central America		Guatemala		El Salvador		Honduras		Nicaragua		Costa Rica	
	A	B	A	B	A	B	A	B	A	B	A	B
<i>1964 (thousands of dollars)</i>												
Total	71,133	106,394	16,389	26,354	27,724	39,232	12,600	22,505	8,975	14,518	5,445	8,285
0. Food	20,598	29,476	4,600	6,160	10,295	14,420	3,056	4,488	1,888	3,015	759	1,393
1. Beverages and tobacco	972	1,422	3	22	652	818	132	2,049	101	130	84	203
2. Crude materials, inedible, except fuels	3,030	3,939	252	386	2,161	2,716	306	3,090	112	226	199	221
3. Fuels and lubricants	320	5,025	44	3,828	73	148	6	13	37	140	660	896
4. Animal and vegetable oils and fats	1,169	1,603	274	336	232	237	244	323	139	291	280	416
5. Chemicals	13,380	19,066	2,713	3,737	5,083	7,300	2,480	3,441	2,182	3,265	922	1,323
6. Manufactured articles classified chiefly by material	18,798	26,650	5,969	7,919	5,899	8,352	3,314	4,614	2,490	3,986	1,126	1,779
7. Machinery and transport equipment	1,927	3,135	62	106	713	1,186	354	533	578	1,014	220	296
8. Miscellaneous manufactured articles	10,099	15,880	2,471	3,855	2,609	4,047	2,627	3,937	1,385	2,283	1,007	1,758
9. Miscellaneous transactions	340	198	1	5	7	8	81	17	63	168	188	—
<i>1965 (millions of dollars)^a</i>												
Total	95.7	142.2	23.7	38.4	30.1	42.4	17.0	24.2	15.0	21.2	10.0	16.0
0. Food	26.9	38.3	5.6	8.1	12.2	15.7	4.1	6.0	2.7	4.3	2.3	4.2
1. Beverages and tobacco	1.2	1.7	—	0.1	0.6	0.8	0.3	0.3	0.1	0.2	0.1	0.3
2. Crude materials, inedible, except fuels	3.2	4.1	0.3	0.4	2.2	2.5	0.4	0.4	0.3	0.5	0.1	0.3
3. Fuels and lubricants	3.0	8.3	1.9	6.6	0.2	0.3	—	—	—	0.2	0.9	1.2
4. Animal and vegetable oils and fats	1.6	2.1	0.3	0.4	0.2	0.3	0.4	0.4	0.3	0.4	0.4	0.6
5. Chemicals	14.7	20.9	3.8	3.9	3.3	6.6	2.8	4.1	3.3	4.3	1.4	2.0
6. Manufactured articles classified chiefly by material	26.3	37.2	8.0	11.7	7.2	10.3	4.6	6.6	4.4	5.3	2.1	3.3
7. Machinery and transport equipment	3.4	5.5	0.4	0.4	1.0	1.9	0.4	0.7	1.1	1.8	0.5	0.7
8. Miscellaneous manufactured articles	15.2	23.8	3.4	6.3	3.3	4.0	4.0	5.7	2.6	4.1	1.9	3.3
9. Miscellaneous transactions	0.3	0.3	—	0.1	—	—	—	—	0.1	0.1	0.3	0.1

Source: Permanent Secretariat of the General Treaty on Central American Economic Integration, (SIECA), *Cartas informativas*, Nos. 42 and 53, and document SIECA/EST.PANAMA/DT.1.

^a Estimates for 1965, based on data for January–September of that year.

A= Figures for January–September.

B= Figures for January–December.

cases, idle production capacity. Integration has encouraged the production of such goods, either to supply other countries or to compete on the domestic market, or for both purposes.

The bulk of the trade in NAUCA sections 6 and 8—miscellaneous manufactured articles—takes place between El Salvador and Guatemala, which are also the principal suppliers of the remaining countries. However, there are certain products—textiles, made-up goods and footwear—concerning which the same observations as those relating to foodstuffs are applicable, i.e., all the Central American countries have taken steps to improve production and compete on both the domestic and regional markets. There are certain products in these sections which require a common market if production is to be on a sound economic footing; in one or two countries integrated plants have been installed for the manufacture of such products as motor vehicle tyres and electric light bulbs.

The chemical industry has also developed in all countries in so far as pharmaceutical products and toilet preparations are concerned, but the dynamic growth noted in recent years is largely accounted for by the trade in fertilizers, which are manufactured on a large scale in Costa Rica and El Salvador.

Guatemala

Imports rose from 1.6 million dollars in 1955 to 7.6 million in 1960 and an estimated 38 million dollars in 1965. Imports of primary products, which predominated up to 1959, have taken second place as a result of the vigorous growth of purchases of manufactured products from other countries of the area; from half a million dollars in 1955 these climbed to 5.7 million in 1960 and will probably pass the 25 million mark in 1965.

Guatemala's principal supplier is still El Salvador, from which it imports increasing quantities of textiles and made-up goods, footwear, confectionery and biscuits, medicinal products and toilet preparations, and some paper manufactures. Imports from Honduras consist mainly of primary products, while the last few years have witnessed an increase in purchases of certain lines of foodstuffs and, in particular, of fertilizers from Costa Rica.

Exports to other countries of the area easily exceed imports. A change is observable in their composition, which was intensified in 1962 when the volume of manufactures surpassed that of primary products. Commodity exports represented 60 per cent of total exports in 1955, declined to around 50 per cent in 1961, but—

owing to the greater increase in sales of manufactured goods—shrank to 30 per cent in the last few years. The dynamic growth of exports was attributable to the following products: food preparations, textiles, tyres, toilet preparations and kraft paper.

El Salvador absorbs over 50 per cent of Guatemala's exports, and the rest is distributed amongst the other three countries, the largest share going to Honduras.

El Salvador

This country has the largest volume of trade of all the Common Market members. Its imports totalled 39 million dollars in 1964 and preliminary estimates place them at 43 million in 1965. A fairly high proportion of this total (about 40 per cent) corresponds to imports of basic grains and other non-processed foods obtained primarily from Honduras and, to a smaller extent, from Guatemala and Nicaragua. As regards manufactured products, Guatemala is its major supplier of foodstuffs, textiles and clothing, footwear, perfumery and toilet preparations, certain types of paper and motor-vehicle tyres.

El Salvador's exports, which have lagged slightly behind its imports, consist mainly of manufactured products. The most important item is textiles, followed by pharmaceutical products and toilet preparations, and processed food products such as edible oils and fats, confectionery, biscuits and chocolates. Of lesser importance are its exports of leather manufactures—chiefly footwear—construction materials such as aluminium structures and, since 1965, electric light bulbs, thanks to the installation of a plant designed to supply the whole of Central America. Its principal markets are Guatemala and Honduras, which together absorb approximately 80 per cent of El Salvador's exports.

Honduras

This is the major exporter of primary products among the Common Market countries, El Salvador being its principal customer. The latter is, in turn, its chief supplier of manufactured products, followed by Guatemala which has recorded a consistently large share in the last few years.

The structure of trade has not altered basically with integration, since, both before it existed and in recent years, the proportion of manufactured goods imported from the Common Market has been approximately 85 per cent of the total,

i.e., 2.5 million dollars in 1955, 18 million in 1964 and an estimated 24 million dollars in 1965.

The composition of exports has also remained virtually unchanged, with primary products—maize, beans and other items such as hides and wood—accounting for 75 per cent of the total. There are plans afoot to install plants to supply the whole area. The most important of these relate to the sheet glass industry, pulp and paper and steelmaking, which would enable Honduras to absorb a larger share of the Common Market with a different structure from that existing at present.

Nicaragua

In the early fifties, Nicaragua's trade with the other Central American countries was negligible. Its total imports amounted to half a million dollars in 1950 and 1.5 million in 1955. The liberalization of trade has intensified it, and in 1964 imports rose to 14.5 million dollars while in 1965 they are estimated to have been over 20 million. They consist mainly of manufactured products. In recent years fresh vegetables and fruits have been imported regularly from Guatemala. Trade flows in grains—maize and

beans—are irregular and depend on the annual crops. Nicaragua's major suppliers are El Salvador and Costa Rica.

Exports have not expanded at the same rate as imports. In 1950 and 1955 they amounted to about 1 million dollars. In 1964 they went up to 7 million dollars, the principal markets being El Salvador and Costa Rica, which purchase such manufactures as agricultural implements (machetes), foodstuffs and leather products; but in general Nicaragua exports more primary products than manufactured articles.

Costa Rica

This country has also been active in intra-area trade since it acceded to the General Treaty on Central American Economic Integration in 1963. In 1964 it doubled its imports which had been 4 million dollars in 1963, while in 1965 they are estimated to have been 16 million dollars. Nevertheless, the most vigorous expansion is seen to be in exports, which increased from 4.5 million dollars in 1963 to over 15 million in 1964. The chief exports are fertilizers, followed by certain foods, made-up goods and leather products. Costa Rica's export trade is mainly with El Salvador and Nicaragua.

Chapter IV

RECENT EVOLUTION OF FOREIGN TRADE

1. RECENT WORLD ECONOMIC TRENDS

The world economic growth rate declined in 1965, after a vigorous expansion in 1964.

World industrial output,¹ which had been slow to increase in the second half of 1964, continued to climb in the first quarter of 1965, thanks to the high index of industrial expansion in the United States. From the second quarter of that year the trend flattened out at a little below the level reached in the first quarter of the year (see table 22), and the latest indicators suggest that the increment for the whole of 1965 was smaller than that obtained the year before.

In view of the preponderant contribution made by industry to the product in the developed countries, the decline in the growth rate of this sector resulted in a slower increase in the product for that group of countries (see table 23) combined with a reduction in the growth of world trade.

Recent economic trends in the countries that are Latin America's chief customers have varied considerably, and a wide range of factors has been responsible for speeding up or slowing down the growth rate of over-all demand. In general, a slower economic growth rate is noted in the major industrialized countries with market economies, the average increase in the product for the countries listed in table 23 being 4.5 per cent in 1965, as compared with over 5 per cent in 1964.

The growth of the product was slowest in the Western European countries and Japan, while the economic development of the United States was once again intensified. This country's sustained economic growth is the cornerstone of the present world economic situation. Its most dynamic factors have been private investment, mainly in the form of fixed capital, and personal consumption, principally through expenditure on durable consumer goods. Notwithstanding the recrudescence of military tensions, the Federal Government's real contribution to the United States product shrank, as expenditure remained slightly below the 1964 figure. Official expenditure, house building and the decline in the growth of exports have been the least dynamic factors of that country's recent economic trends.

¹ Excluding the European and Asian countries with centrally planned economies.

The United States economic growth was matched by that of the Federal Republic of Germany, where fixed capital investment and expenditure on durable consumer goods also expanded fairly steadily. By contrast, in the United Kingdom the growth of consumption expenditure was restrained by heavier taxation, and investment—though still high—lost some of its dynamic force. However, a faster increase in exports helped to raise the growth rate of the product.

In 1965 Austria, Norway, Spain and Sweden followed the same over-all trends as the Federal Republic of Germany. The economic growth of Belgium, France, Italy and Switzerland was more in line with that of the United Kingdom, most of these countries registering a slowing up of private consumption and fixed capital investment, while in all of them the external sector expanded more vigorously, a fact which helped to mitigate the decline in the growth rate of the product. In Japan a number of factors affected the real increase in the product, which was far lower than the 14 per cent recorded in 1964.

Although the growth rate of the Eastern European countries tends to have a less significant effect on world trade, the recent economic evolution of many of these countries is comparable to that of the market-economy countries and, as in their case, has offered fewer incentives to the expansion of trade. Except in Hungary and East Germany, 1965 was marked by a slower growth rate for industrial production than 1964 and, save in East Germany and Czechoslovakia, the growth rate of the material product was below that attained in 1964. As might be expected, these over-all trends influenced external demand, and in every country but Bulgaria and Poland, the growth rate of total imports declined.

The weakening of the growth rate of external demand in the industrialized countries began to make itself felt in the developing countries in the third quarter of 1964, resulting in a drop in the general index of raw material prices and a deterioration in the terms of trade. The reduction in the pace at which world trade was expanding is demonstrated by the fact that current world export values² were smaller in 1965 than the year before. According to United

² Excluding countries with centrally planned economies.

Table 22. Industrial production indexes, 1963-65

	1962-63	1963-64	First quarter 1964- first quarter 1965	Second quarter 1964- second quarter 1965	Third quarter 1964- third quarter 1965
World total ^a	5.4	7.3	7.6	6.0	6.2
Industrialized countries	4.6	8.0	7.0	6.2	7.0
Less industrialized countries	6.4	9.3	8.6	8.2	6.2
Latin America	1.5	7.0			
North America	4.7	6.8	8.8	7.8	7.8
Western Europe	4.6	7.5	5.6	4.9	5.2
European Economic Community ^b	4.5	7.2	4.2	4.7	5.0

Source: United Nations, *Monthly Bulletin of Statistics*, February 1966.

^b EEC includes the Benelux countries, the Federal Republic of Germany, France and Italy.

^a Excluding all countries with centrally planned economies except Cuba.

Table 23. Recent growth of the product and external transactions in selected industrialized countries, 1963-65 (Cumulative annual rates of variation)

Country	Gross national product (at market prices)			Imports			Exports		
	1963	1964	1965	1963	1964	1965	1963	1964	1965
United States	3.8	4.8	5.5	3.9	6.0	11.5	7.2	12.6	1.5
Canada	4.6	6.4	6.5	0.8	11.4	12.0	10.0	12.0	6.0
Federal Republic of Germany ^a	3.5	6.6	4.5	8.3	10.9	14.0	9.6	10.3	7.0
Belgium ^a	4.8	5.0	2.5	8.6	12.6	8.0	7.3	13.0	11.0
France ^a	5.1	5.4	2.5	13.3	11.8	2.0	8.8	7.4	8.5
Italy ^a	4.8	3.0	3.0	21.1	-5.9	2.0	6.1	11.0	17.5
Netherlands ^a	3.1	8.2	5.0	9.4	15.3	5.0	5.2	12.2	8.5
EEC ^{a, b}	4.3	5.6	4.0 ^c	10.7	6.7	5.5 ^c	3.8	9.6	11.0 ^c
Austria ^a	4.4	6.0	3.5	9.8	9.1	10.0	8.9	7.9	8.5
Denmark ^a	0.9 ^d	7.0 ^d	4.0 ^d	-1.1	19.9	7.0	10.1	8.6	8.0
Finland ^a	2.5	6.5	5.0	-1.9	19.2	5.5	1.9	5.8	5.0
Norway ^a	4.8 ^d	6.3 ^d	6.0 ^d	9.0	8.4	9.0	10.2	10.6	6.5
United Kingdom ^a	4.6	5.3	2.0	2.8	9.0	0.5	4.3	3.1	4.0
Sweden ^a	4.6 ^d	7.3 ^d	3.5 ^d	6.7	10.2	11.0	6.6	11.1	3.5
Switzerland ^a	4.5	5.1	4.0	5.2	8.9	5.0	5.4	6.9	6.0

Sources: United States, *Survey of Current Business*; Organization for Economic Co-operation and Development (OECD), *Main economic indicators* and *OECD Observer*; EEC, *Quarterly Survey*, September 1965; United Nations, Economic Commission for Europe, *Economic Survey of Europe*, 1965 (provisional version).

^a Imports and exports of goods and services, and factor income.

^b Benelux countries, the Federal Republic of Germany, France and Italy.

^c For 1965; indexes of volume of trade in invisibles.

^d Including expenditure on maintenance and repairs.

Nations figures, the current value of world exports rose by 7.6 per cent between January-September 1965 and the same period in 1964, as against an increase of 12.5 per cent in 1964 over the preceding year.

The slower growth of world demand has had

different and to some extent conflicting effects on trade in the industrialized and developing countries. While in the former the increase in the current value of exports declined by a little over one-third in January-September 1965 with respect to the figure in the preceding year (9 per

cent and 13.5 per cent, respectively), in the developing countries it was nearly halved (5.5 per cent and 9.2 per cent, respectively) (see table 24).

These trends contrast with the changes observed in the quantum indexes of the exports of each group of countries (see figure VI). In the industrialized countries, the index rose more slowly in January–September 1965 than during the same period in 1964, while the reverse occurred in the developing countries. The slower growth rate of world external demand, combined in some cases with the expansion of supply and expectations of price reductions, affected the developing countries not through a reduction in their export quantum but through the unfavourable movement of raw material prices and the deterioration of their terms of trade, as a result largely of the transmission of inflationary pressures from the centre to the periphery. In this respect, 1965 contrasts with the two preceding years: 1963 marked an improvement in the developing countries' terms of trade and 1964 a relatively stable situation.

Concomitantly with these very general factors which influenced external demand in the developing countries, other noteworthy factors include the uneven price trends of raw materials exported by both industrialized and developing countries (see figure VII). This circumstance is largely

attributable to the difference in the relative importance of certain products in the composition of raw material exports in each group of countries concerned.

World demand for raw materials has also undergone important changes in composition, motivated not only by the heightening of war tensions in south-east Asia but also by changes in the structure of final demand in certain industrialized countries whose economic expansion was particularly rapid in 1965. The former was responsible for the uneven price trends of strategically important raw materials in 1965, compared with those of other raw materials, which generally declined. In this respect, there is a marked difference between the situation in 1965 and that prevailing during the hostilities in Korea: whereas the latter gave rise to a rapid and widespread increase in the price of raw materials as a whole, the impetus associated with the 1965 war tensions was confined to a fairly small number of products and resulted mainly in a steady increase in the price index of non-ferrous metals (see again figure VII). As regards changes in the composition of final demand, the most dynamic factors in some of the countries recording the fastest growth rate for the product in 1965 were precisely those in which the content of imports from developing countries is lowest, namely, fixed capital investment and demand for

Table 24. Variations in the current value of world exports, 1962–65
(Cumulative annual rates)

	1961–62	1962–63	1963–64	First quarter 1964–first quarter 1965	First half of 1964–first half of 1965	January–September 1964–January–September 1965
World total ^a	4.9	9.2	12.5	4.7	7.3	8.2
Developed countries	5.1	9.2	13.5	5.8	7.9	9.0
Developing countries	4.3	9.3	9.2	2.4	5.2	5.5
United States	3.2	7.9	13.5	–9.2	1.4	2.7
Latin America ^b	5.0	6.3	8.7	–1.9	2.5	5.4
Western Europe	5.6	9.2	12.5	9.9	9.6	1.0
EEC ^c	5.8	9.8	13.3	12.6	11.7	12.9
European Free-trade Association ^d	4.9	8.7	10.5	6.6	6.9	8.4
Other Western European countries	7.5	6.4	15.7	0.0	4.7	8.6
Japan	16.1	10.9	22.4	39.1	36.3	33.7
Africa	3.1	12.6	12.9	0.0	5.7	6.2
Eastern Europe	11.3	7.5	8.9	...	6.5	...

Source: United Nations, *Monthly Bulletin of Statistics*, December 1965 and May 1966.

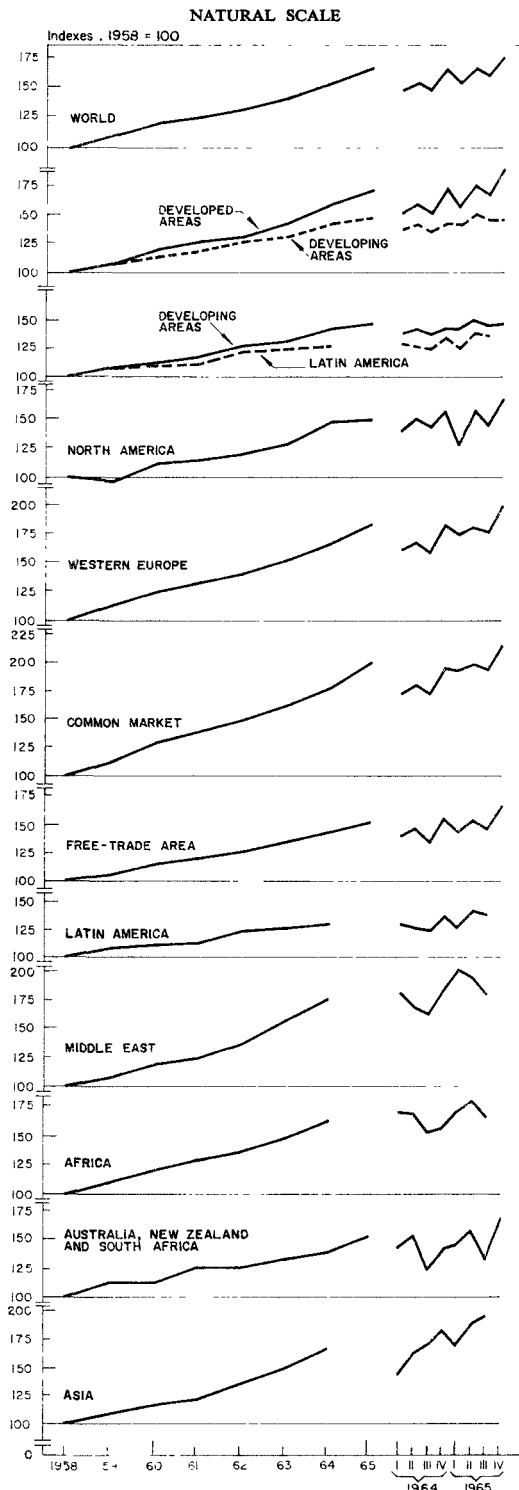
^a Excluding all countries with centrally planned economies except Cuba.

^b Including estimates for Cuba.

^c Benelux countries, the Federal Republic of Germany, France and Italy.

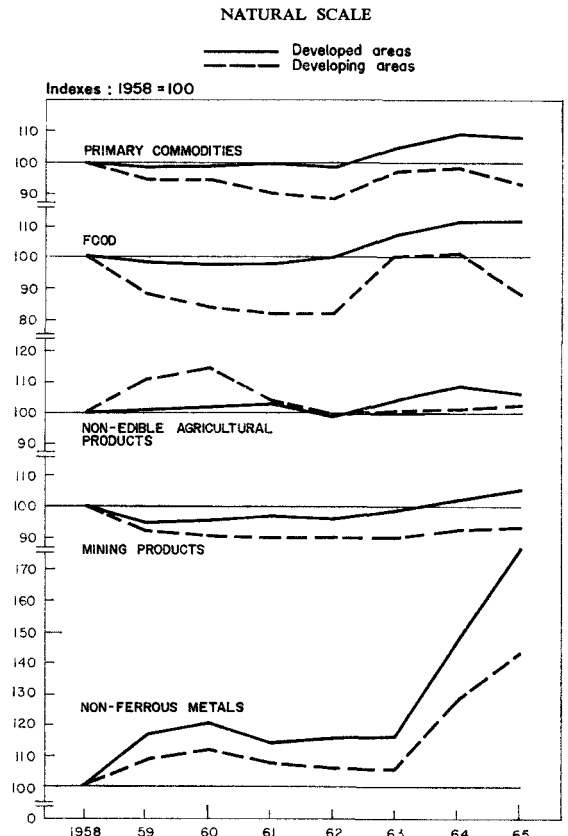
^d EFTA includes Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Figure VI. Quantum indexes of world exports, by areas, 1958-65



Source: United Nations, *Statistical Bulletin*, April 1966.

Figure VII. Export price indexes, 1958-65



Source: United Nations, *Monthly Bulletin of Statistics*, March 1966.

durable consumer goods. Thus, the stimulus of external demand crystallized mainly in a larger volume of reciprocal trade between the industrialized countries.³

Other factors which greatly influenced the price trends of different raw materials exported

³ Typical examples are the United States and the Federal Republic of Germany. In 1964 the latter's total imports increased in current value by a little over 12 per cent, its imports from industrialized countries by just under 12 per cent, and from developing countries by 14 per cent. The increases between January-October 1964 and the same period in 1965 were 21, 24.3 and 13.2 per cent, respectively. The disparity in the case of the United States is even more noticeable, the respective figures being 8.9, 10.2 and 7.8 per cent for January-September 1964, and 11.8, 14.8 and 4.2 per cent for the same period in 1965. In the case of both countries, the increase in the growth rate of total imports (at current prices) for the two periods concerned coincided with a decrease in the developing countries' share, which was slight in relation to the Federal Republic of Germany and very marked in relation to the United States (see International Monetary Fund (IMF), *Direction of International Trade*, December 1965).

by the developing countries in general and by Latin America in particular include changes in the world supplies of specific agricultural products, as well as certain policies designed to restrict demand adopted by several European countries. The different trend followed in 1965 by the prices of certain food products seems to have been affected primarily by the changes in world supplies of those products. The sharpest contrast is presented by the far steeper drop in the prices of tropical beverages than of cereals. World production of both coffee and cocoa in 1965 reached a considerable figure. Coffee output is estimated to have exceeded the 1964 level by over 50 per cent while cocoa output was 60 per cent higher than the average for 1955-59.⁴ As a result of the attainment of these production levels, cocoa prices have fallen rapidly, and coffee prices have remained comparatively stable only through the operations of the International Coffee Agreement, but expectations of a decline in consumer prices led to the curtailment of purchases and the liquidation of stocks. Conversely, the reduction in cereal prices was fairly modest, thanks to the firmness of the world market for feed grains (combined with rising demand for livestock products) and to the fillip given to the wheat market by the reductions in the harvests of the Soviet Union (15-20 per cent in relation to the figure for 1964) and mainland China (10 per cent).

The changes in world trade in textile fibres were on the whole unfavourable, and, in spite of the marked decline in world output of wool, prices dropped owing to the increasing use of

substitutes and to the fact that there had been a price rise in 1963 and 1964.

2. LATIN AMERICA'S SHARE IN THE WORLD MARKET

World exports, in terms of dollars at current prices, increased by about 9 per cent in 1965. Hence, the proportion accounted for by Latin America,⁵ whose exports went up by 5.8 per cent, has once again declined (from 6.3 per cent of the world total in 1963 to 6.1 per cent in 1964 and 5.9 per cent in 1965).

The persistent reduction in Latin America's share of the world market is all the more serious if it is borne in mind that nearly one-quarter of the increment in the current value of regional exports can be ascribed to the increase in inter-Latin American trade. If this is excluded, Latin America's exports will be seen to have risen by only 4.4 per cent in 1963. At the same time, Latin America's external markets raised the current value of their imports by approximately 9.6 per cent. Thus, the increment obtained in Latin America's current export values is less than half what it might have been if its share in those markets had not once again declined.

As can be seen in table 25, Latin America's contribution to the imports of those major areas which have long been its customers contracted sharply in 1965. The drop was very marked in the United States and Canadian markets and somewhat less severe in Western Europe; in Japan Latin America's share expanded, but not in the other major regional

⁵ Except when expressly referred to, Cuba is excluded from the following analysis for want of data.

Table 25. Latin America:^a Share in total supplies of various areas and countries, 1960-65
(Percentages)

	1960	1961	1962	1963	1964	1965
World total	6.6	6.5	6.6	6.3	6.1	5.9
United States ^b	21.3	21.7	20.8	20.3	19.0	17.2
Canada ^b	5.4	5.6	5.5	5.7	5.6	5.0
Japan	6.4	7.8	7.7	7.9	7.6	8.2
EEC ^c	6.0	5.6	5.9	5.4	5.3	5.2
EFTA ^d	5.4	4.9	5.1	4.7	4.4	4.2
Other Western European countries	2.7	3.4	3.6	4.2	3.7	3.8
Eastern Europe	5.5	5.1	5.4	5.0	4.8	4.7
Latin America	9.8	8.6	9.7	11.5	12.7	13.9
Rest of the world	3.0	3.2	3.1	2.9	2.9	2.8

Source: IMF, *Direction of Trade Annual*, 1960-64.

^a Excluding Cuba.

^b On the basis of f.o.b. figures.

^c Benelux countries, the Federal Republic of Germany, France and Italy.

^d Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

groupings of industrialized countries. The factors causing the contraction of Latin America's share of the Western European markets were extensively analysed in the *Economic Survey of Latin America, 1964*. The following section deals briefly with the growing displacement of Latin American exports in the United States market, which has been more intensive than in Western Europe, particularly in the last two years.

These trends—which are unfavourable even when Latin America is compared with other developing regions—have had a widely varying effect on the groups of products exported by Latin America. The heaviest contraction has been in the share of food, beverages and tobacco, i.e., precisely those most affected by the European and the United States policy of agricultural protectionism, followed in decreasing order of importance by fuels, chemical products and manufactured goods (see table 26). The only major group of products in which Latin America has maintained and even augmented its share in relation to that of other developing countries is non-edible raw materials. This can be ascribed mainly to the increase in exports of cotton (especially from Mexico) and of certain mining products, notably iron ore (particularly from Venezuela).

The partial data available for 1965 are indicative of a continuation of the over-all trends noted during the past decade, with a further decline

in Latin America's share in food, beverages and tobacco and a more favourable evolution of fuels and of raw materials other than foodstuffs. In all probability the complete figures for the year will also show a recovery in the proportion of manufactured goods supplied by Latin America in relation to that of other developing countries; as well as a further relative advance in regard to machinery—of little quantitative importance but undoubted strategic value for future development possibilities—thanks to the impact of inter-Latin American trade.

3. LATIN AMERICA'S SHARE IN THE UNITED STATES MARKET

The marked falling off of Latin America's share in the United States market during the last two years is particularly significant inasmuch as that market absorbs approximately one-third of the region's total exports. Viewed over the long term, this process appears to be influenced by the distortions in trade brought about by the Second World War; hence, the contraction of Latin America's share from a peak—excluding the war years—of 34 per cent in 1948–49 to 25 per cent in 1959 would seem to be largely consistent with the reorganization of trade flows under normal conditions which are more like those prevailing before the war. Thus, in 1928 Latin America (including Cuba) accounted for 23 per cent of the United States imports; its

Table 26. Latin America:^a Share of total world exports and of total exports from developing countries, 1955–64
(Percentages)

Period	SITC sections						
	0–9 Total	0–1 Food, beverages and tobacco	2 and 4 Crude materials	3 Fuels	5 Chemical products	7 Machinery	6 and 8 Manu- factured goods
<i>Share of total world exports</i>							
1955–56	8.5	20.5	8.9	18.5	1.7	0.0	2.7
1957–58	7.7	19.0	8.1	18.4	1.4	0.0	2.0
1959–60	7.0	17.2	7.7	19.0	1.3	0.0	2.0
1961–62	6.5	15.5	9.0	17.6	1.3	0.0	1.9
1963–64	6.2	15.7	8.4	16.2	1.4	0.1	2.0
<i>Share of total exports from developing countries</i>							
1955–56	34.2	49.3	22.8	32.7	36.2	8.2	24.3
1957–58	33.6	47.5	22.4	32.0	33.6	13.6	21.7
1959–60	31.8	47.2	20.9	31.2	35.2	11.9	20.3
1961–62	31.5	45.0	25.5	29.3	32.3	11.5	20.0
1963–64	30.8	45.6	25.2	26.3	32.9	15.4	19.4

Source: United Nations, *Monthly Bulletin of Statistics*, March 1961, 1962, 1963, 1964, 1965 and 1966.

^a Including Cuba.

share declined in the years following the 1930 depression, but regained its former level in 1938.

The sharpest change in the early post-war years took place at the beginning of the fifties (see table 27). The hostilities in Korea had little effect on Latin America's share, since at that time the United States had access to other traditional pre-war markets, and the region's contribution to the United States market in 1950-55 therefore remained virtually unchanged. From 1955 to 1959 a decline set in which affected all the Latin American countries except Venezuela. In 1960 trade relations with Cuba were broken off, but even excluding this factor there was a sharpening of the downward trend followed by Latin America's contribution to the United States market (excluding the figures for Cuba), which shrank from 21.3 per cent in 1960 to 17.2 per cent in 1965. Unlike its evolution in the previous period, Venezuela's share also contracted sharply and, save for the Central American Common Market countries, the whole region lost ground in the United States market—in terms of dollars at current prices—in particular the South American countries exporting coffee and cocoa.

In table 28 the analysis of the main trends by country is supplemented by a review of the recent evolution of Latin America's share in United States imports of selected primary products, which represented over four-fifths of the region's total sales to the United States in 1960. As can be seen, the evolution by product is a faithful reflection of the country trends. Over the whole range of selected products, the proportion of the value of United States purchases accounted for by Latin America (excluding Cuba) dropped from 51.4 per cent in 1960 to 46.2 per cent in 1965. The decline in the region's share extends to most of the products set out in the table, the exceptions being fruits, canned meat, copper and lead. As regards the two latter the change is largely attributable to the fact that Latin America's metal-refining capacity expanded considerably during the period concerned; consequently the volume re-exported by several Western European countries diminished since the products in question are now exported directly by Latin America.

4. GEOGRAPHICAL DISTRIBUTION OF LATIN AMERICA'S EXPORTS

The varying growth rates of Latin American exports as determined by demand from different parts of the world have resulted in changes in the geographical distribution of the region's exports. Viewed over the long term, the main

Table 27. Latin America: Share of total United States imports (f.o.b.), 1948-65
(Percentages)

Year	Latin America	Argentina	Uruguay and Paraguay	Brazil	Colombia and Ecuador	Cuba	Central America	Chile	Bolivia	Peru	Venezuela	Mexico
1948-49	34.00	2.01	0.88	7.71	3.71	5.52	1.84	2.41	0.73	0.57	3.98	3.78
1950-51	31.55	2.15	1.28	8.20	3.76	4.16	1.86	1.83	0.43	0.56	3.26	3.23
1952-53	31.98	1.57	0.57	7.25	4.31	4.11	1.98	2.44	0.57	0.80	3.85	3.68
1954-55	30.81	1.05	0.25	6.05	4.88	3.79	1.97	1.84	0.43	1.05	4.96	3.54
1956-57	28.90	1.02	0.22	5.58	3.50	3.63	1.57	1.68	0.26	1.14	6.20	3.33
1958-59	24.90	0.89	0.15	4.11	2.71	3.44	1.22	1.27	0.08	0.92	6.12	3.18
1960-61	22.80	0.67	0.21	3.82	2.34	1.32	1.28	1.32	0.07	1.32	6.19	3.35
1962-63	20.48	0.81	0.19	3.28	2.00	0.02	1.27	1.15	0.08	1.26	5.20	3.53
1964	18.98	0.59	0.13	2.85	1.96	—	1.27	1.18	0.17	1.21	5.10	3.49
1965	17.16	0.57	0.23	2.39	1.79	—	1.30	0.98	0.15	1.13	4.76	2.98

Sources: League of Nations, *The Network of World Trade*; IMF, *Direction of Trade*, 1955-64; and United States Department of Trade.

Table 28. Latin America: Share of selected products in United States imports, 1960 and 1965

	SITC group	Percentage		
		1960		1965, Excluding Cuba
		Including Cuba	Excluding Cuba	
Fresh or frozen meat	011	15.7	15.3	14.4
Preserved meat	013	24.0	23.9	24.5
Fish	031	27.8	26.8	21.2
Fruits	051	60.9	59.2	71.4
Sugar	061	72.9	26.5	49.9
Coffee	071	87.2	87.2	74.7
Cocoa	072	48.0	47.7	27.9
Wool	262	26.0	26.0	25.1
Iron ore and concentrates	281	64.2	64.2	34.5
Non-ferrous ores	283	49.5	48.1	31.2
Crude petroleum	331	57.0	57.0	44.0
Petroleum products	332	48.5	48.5	51.2
Crude petroleum and petroleum products	33	53.8	53.8	47.0
Copper	682	17.6	17.6	50.5
Lead	685	35.5	35.5	43.1
	TOTAL	56.6	51.4	46.2

Source: ECLA, on the basis of official statistics.

trends have crystallized in an increase in Western Europe's importance as a market for Latin America and a reduction in that of the United States. As pointed out above, these over-all trends have brought the geographical distribution of Latin America's exports more closely into line with that existing before the Second World War. Excluded from this general trend, however, is the increase in the relative importance of intra-regional trade, which in pre-war years repre-

sented a lower proportion of the region's total exports than at present.

Tables 29 and 30 show that the diversion of Cuba's exports to the Eastern European countries has merely sharpened the trend towards a rising share for Europe in Latin America's external markets juxtaposed with a decreasing share for the United States. From table 29, which excludes Cuba for want of complete data, it will be seen that those long-term trends have

Table 29. Latin America:^a Distribution of exports, 1960-65 (Percentages)

Destination	1960	1961	1962	1963	1964	1965 ^b
United States	41.3	39.4	37.4	36.4	34.3	33.8
Canada	1.5	1.7	3.2	3.3	2.9	2.6
Japan	2.4	3.4	3.2	3.9	4.4	4.7
Western Europe	32.1	33.1	33.8	34.5	34.5	34.7
EEC ^c	18.5	19.2	20.4	21.1	21.6	22.0
EFTA ^d	12.2	11.9	11.4	11.1	10.5	10.0
Other Western European countries	1.4	2.0	2.0	2.3	2.4	2.7
Latin America	8.0	7.1	7.5	8.0	9.5	10.3
Eastern Europe	1.8	1.8	1.9	1.9	2.1	13.9
Rest of the world	12.9	13.5	13.0	12.0	12.3	

Source: ECLA, on the basis of official statistics.

^a Excluding Cuba.

^b Estimates. Excluding Cuba and Haiti.

^c Benelux countries, the Federal Republic of Germany, France and Italy.

^d Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Table 30. Latin America:^a Destination of exports, 1960-65
(Percentages)

Destination	1960	1961	1962	1963	1964	First six months	
						1964	1965
North America	43.5	39.5	39.1	37.8	35.7	33.5	33.6
United States	41.8	37.7	36.0	34.5	32.6	30.9	31.0
Canada	1.7	1.8	3.1	3.3	3.1	2.6	2.6
Western Europe	31.6	31.8	32.9	34.1	34.1	35.1	34.1
EEC ^b	18.4	18.5	20.0	21.0	20.9	21.9	21.4
EFTA ^c	11.7	11.3	10.9	10.8	10.6	10.8	10.3
Other Western European countries	1.5	2.0	2.0	2.3	2.6	2.4	2.4
Japan	2.8	3.9	3.7	4.3	5.0	5.2	5.4
Latin America	7.9	6.7	7.2	7.7	9.4	7.9	8.9
Eastern Europe	3.1	5.8	5.4	4.8	4.3	4.9	6.5
Rest of the world . . .	11.1	12.3	11.8	11.3	11.6	13.3	11.6

Sources: United Nations, *Yearbook of International Trade*, 1964, and *Monthly Bulletin of Statistics*, June and December 1965.

^a Including Cuba.

^b Benelux countries, the Federal Republic of Germany, France and Italy.

^c Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

been particularly vigorous in the last two years, 1964 being the first post-war year in which Western Europe's share in Latin America's external markets exceeded that of the United States. In 1965 they were slightly attenuated, exports to Western Europe increasing by 6 per cent, as against just over 3.5 per cent at current prices for exports to the United States.

As in recent years, Latin America's exports to the European Economic Community (EEC) expanded faster than those to the European Free-Trade Association (EFTA). In the former group of countries, demand from the Federal Republic of Germany played a predominant role, followed by demand from the Netherlands, which together easily compensated for the reduction in exports to France and other EEC countries in 1965 and culminated in a total increase of 7 per cent in Latin America's sales to the Common Market.

The evolution of Latin America's sales to EEC in 1965 contrasts with the virtual stagnation of EFTA's purchases from the region, which was due to the contraction of the United Kingdom's imports, and was offset only by the considerable increase in imports by most of the Scandinavian countries, Austria, Switzerland and Portugal.

As in the previous year, for reasons indicated in the *Economic Survey of Latin America, 1964*, purchases by the less industrialized Western European countries, particularly Spain, continued to increase dynamically.

According to the partial data available, it was

Argentina, Chile and, to a lesser degree, Brazil and Venezuela which, relatively speaking, benefited most from the increase in Western Europe's purchases in 1965. The reduction in the United States' coffee stocks brought sales down in Colombia and Brazil, while Argentina, Central America, Panama and Uruguay achieved substantial increments in their sales to the United States, and those of Chile and Mexico remained virtually static. The contraction of the Canadian market mainly affected Brazil and Venezuela.

The trend followed by the Japanese market in 1965 was particularly favourable for Latin America; that country's purchases from the region went up much faster than its total imports and rather more quickly than its purchases from developing countries in general. Japan's dynamic demand chiefly benefited Brazil, Chile and Mexico.

5. EXPORT TRENDS IN LATIN AMERICA AS A WHOLE AND IN INDIVIDUAL COUNTRIES OF THE REGION

As previously noted, the current value of exports from Latin America (excluding Cuba) rose by 5.8 per cent in 1965, as against 6.3 per cent the year before. In both periods the regional totals were strongly influenced by the figures for Brazil, since if this country is excluded, the decline in the growth rate of Latin America's exports would be accentuated—from 7.2 per cent in 1964 to 4.8 per cent in 1965. In practice, Brazil's exports barely expanded in 1964, but

Table 31. Latin America: Composition of exports, 1959-64
(Percentages)

	Average		
	1959-60	1961-62	1963-64
<i>Food, beverages and tobacco</i> (SITC sections 0 and 1)	44.4	41.0	44.2
(a) <i>Temperate-zone products</i>			
Meat and meat extracts	2.5	2.4	3.3
Meat preparations	0.9	0.8	0.7
Butter	0.2	0.1	0.1
Wheat, barley and maize	3.5	2.7	3.7
Meat and fish meal	0.7	0.9	1.3
	TOTAL	7.8	6.9
			9.1
(b) <i>Tropical zone products</i>			
Bananas	1.8	1.8	2.1
Sugar, raw and refined	7.9	8.4 ^a	3.3 ^a
Coffee	17.1	15.7	15.0
Cocoa	1.4	0.8	0.8
	TOTAL	28.2	26.7
			21.2
(c) <i>Raw tobacco</i>	1.0	0.5 ^a	0.6 ^a
<i>Inedible crude materials, and animal and vegetable oils and fats</i> (SITC sections 2 and 4)	18.3	21.4	19.0
Groundnuts, copra, castorseed, and oil nuts and almonds	0.1	0.1	0.1
Hides, undressed	0.9	0.9	0.5
Textile fibres	6.2	7.8	6.8
Wool	2.3	2.4	2.0
Fine animal hair	0.1	0.1	0.1
Cotton	3.6	5.0	4.3
Sisal	0.3	0.3	0.4
Sodium nitrate	0.4	0.4	0.3
Ores	4.9	5.0	4.7
Iron	3.0	3.1	2.8
Copper	0.3	0.2	0.2
Lead	0.3	0.3	0.3
Zinc	0.3	0.3	0.4
Tin	0.5	0.5	0.5
Manganese	0.4	0.4	0.3
Titanium, vanadium, molybdenum, tantalum and zirconium	0.1	0.1	0.1
Other ores	0.1	0.1	0.1
Linseed oil	0.5	0.7	0.4
Groundnut and castor oil	0.2	0.4	0.3
<i>Chemical products</i> (SITC section 5)	1.1	1.2	1.4
Tanning extracts	0.2	0.2	0.2
<i>Fuels and lubricants</i> (SITC section 3)	27.8	28.0	26.3
Crude petroleum	20.6	20.1	16.3
Carburetted agents	1.0	1.0	0.9
Gas oil and diesel oil	1.7	1.8	1.5
Fuel oil	3.7	4.0	3.5
<i>Machinery and transport equipment</i> (SITC section 7)	0.2	0.3	0.5
<i>Manufactured articles</i> (SITC sections 6 and 8)	7.5	7.9	8.4
Tanned hides	0.1	0.1	0.1
Yarn	0.2	0.2	0.2
Iron and steel bars, rods, angles, shapes, sections and plates	0.2	—	0.1
Copper, blister copper and refined copper bars, rods, etc.	4.9	5.2	4.7
Lead bars, etc.	0.5	0.4	0.4
Zinc bars, etc.	0.1	0.1	0.2
Total metal manufactures	5.7	5.7	5.3

Sources: United Nations, *Monthly Bulletin of Statistics*, and ECLA, on the basis of official statistics.

^a Excluding Cuba.

increased much faster than the average for the region in 1965. Apart from the reduction in their rate of growth, Latin America's exports showed other important differences in their evolution in 1964 and 1965. In 1964 more than four-fifths of the increase was attributable to the rise in average export values, whereas in 1965 nearly the whole increment was due to a rise in the quantum of exports.

The composition of Latin America's exports has varied widely over the last few years, mainly as a result of the movements of prices for a number of products. Although, for want of information, precise figures cannot be given for 1965, the data set out in table 31 are indicative of certain salient trends. In the first place, the proportion of food, beverages and tobacco dropped to more or less the same point as in 1961-62, because the increases in exports of certain temperate-zone products failed to compensate for the drop in the value of exports of tropical commodities, whose decline in the quantum of exports was aggravated in most cases by adverse price trends. The conflicting trends followed by the export volume and price of each of the main products in the group comprising inedible crude materials and animal and vegetable oils and fats have probably resulted in a slight rise. Chemical products and transport machinery and equipment, which are only a very small proportion of Latin America's exports, have been favoured by intra-regional trade. It seems likely that fuels and lubricants recovered from the contraction they underwent in the last two years, and regained much the same share as they had in 1959-60. Lastly, the largest relative increase was probably in the group comprising manufactured goods, whose share must have reached or even exceeded 9.5 per cent of the total. As this group includes semi-manufactured articles such as simply-worked metals or wood-pulp, the proportion of value added is comparatively small.

The changes in the composition of exports combined with the disparities in the supply position and internal economic situation of most of the Latin American countries in 1965 make it difficult to apply general criteria or divide them into groups according to the composition of their exports. For instance, in the group of countries that mainly export tropical commodities there have been as many individual cases of increases as of reductions in current export values, and the same is true of those that export mining products or temperate-zone agricultural commodities.

The countries could be arranged in four major groups, in line with the trends followed by the value of their exports. The first would comprise

Brazil, Guatemala, Honduras, Panama and Paraguay, whose export values soared (see tables 32, 33 and 34). In all these countries except Honduras, whose exports (in terms of current prices) rose by over one-fifth with respect to their level the year before, the growth rate of current export earnings ranged from 11.5 per cent to 15 per cent.

The second group might consist of those countries in which the increase in the current value of exports was neither greatly above nor below the regional average, i.e., Argentina, Chile, El Salvador, Mexico, Nicaragua, Uruguay and Venezuela, where it fluctuated between just over 4.5 per cent and 8.5 per cent in relation to the 1964 figures.

The third group would cover Bolivia, Colombia, Ecuador and Peru, in which the current value of exports remained virtually unchanged between 1964 and 1965.

The last group would consist of those countries which, for various reasons, had suffered a loss in their export earnings—Costa Rica, the Dominican Republic and Haiti.

If the countries in each group are considered separately, the absence of clearly defined general trends is very noticeable. The current value of Brazil's exports rose by nearly 12 per cent, an increase of some 167 million dollars, which was obtained in spite of a drop of about 54 million dollars—or over 7 per cent—in its coffee exports. Approximately one-quarter of the increment in Brazil's export values was due to the increase in sales of manufactures, but a marked expansion also took place in its sales of ores (iron and manganese), wood and many traditional agricultural commodities of lesser importance, whereas its exports of cotton, sugar, cocoa and tobacco declined. The growth of exports of manufactured goods can be ascribed largely to the weakness of domestic demand, particularly for industrial products, and Brazil has even exported simple iron and steel products of which, under normal circumstances, it is usually a net importer. Nearly two-thirds of its exports of manufactures found a market in other ALALC countries—a repetition of Argentina's experience in 1963 and 1964 when, owing to similar domestic demand conditions, there was an increase in its exports to other Latin American countries that was, in some cases, short-lived.

The estimated rise of nearly 14 per cent in Guatemala's external sales is accounted for mainly by a considerable increment in its exports of cotton—coupled with a smaller increment in those of coffee—which easily offset the drop in its banana export earnings.

Table 32. Latin America: Value of exports (f.o.b.), 1960-65
(Millions of dollars at current prices)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	1,079.2	964.1	1,216.0	1,365.1	1,410.4	1,485.2
Bolivia	51.3	58.0	58.9	65.7	86.0	87.0
Brazil	1,268.8	1,403.0	1,214.2	1,406.5	1,429.8	1,596.8
Chile	490.0	508.1	532.1	542.0	625.8	670.0
Colombia	464.6	434.5	463.3	446.1	548.1	550.0
Costa Rica	85.3	85.2	93.7	94.9	114.4	112.4
Dominican Republic	179.6	142.1	172.4	173.2	149.8	122.5
Ecuador	147.6	126.9	142.8	148.7	147.8	150.0
El Salvador	116.8	119.1	136.3	153.8	178.2	188.0
Guatemala	119.1	112.7	117.4	154.1	158.0	180.0
Haiti	33.1	31.9	42.2	41.4	40.4	38.0
Honduras	64.4	74.0	82.6	84.4	95.1	115.0
Mexico	762.6	825.7	929.3	984.2	1,055.0	1,146.0
Nicaragua	55.8	60.3	81.7	98.7	118.3	125.1
Panama	26.0	28.2	46.1	58.1	67.2	75.0
Paraguay	27.0	30.7	33.5	40.2	49.8	57.2
Peru	432.4	495.9	539.8	541.0	666.7	669.5
Uruguay	129.4	174.1	153.4	165.2	178.9	191.2
Venezuela	2,383.9	2,452.3	2,543.4	2,465.3	2,481.2	2,600.0
TOTAL, Latin America (excluding Cuba)	7,916.7	8,127.4	8,599.1	9,028.6	9,600.9	10,158.9
TOTAL, Latin America (excluding Cuba and Venezuela)	5,532.8	5,675.1	6,055.7	6,563.3	7,119.7	7,558.9

Source: ECLA, on the basis of official statistics.

^a Estimates.

Table 33. Latin America: Percentage variations in the current value of exports, 1960-65
(Cumulative annual rates)

Country	1960-61	1961-62	1962-63	1963-64	1964-65 ^a
Argentina	-10.7	26.1	12.3	3.3	5.3
Bolivia	13.1	1.6	11.5	30.9	1.2
Brazil	10.6	-13.5	15.8	1.7	11.7
Chile	3.7	4.7	1.9	11.5	7.1
Colombia	-6.5	6.6	-3.7	22.9	0.3
Costa Rica	-0.1	10.0	1.3	20.5	-1.7
Dominican Republic	-20.9	21.3	0.5	-13.5	-18.2
Ecuador	-14.0	12.5	4.1	-0.6	1.5
El Salvador	2.0	14.4	12.8	15.9	5.5
Guatemala	-5.4	4.2	31.3	2.5	13.9
Haiti	-3.6	32.3	-1.9	-2.4	-5.9
Honduras	14.9	11.6	2.2	12.7	20.9
Mexico	8.3	12.5	5.9	7.2	8.6
Nicaragua	8.6	35.5	20.8	19.9	5.7
Panama	8.5	63.5	26.0	15.7	11.6
Paraguay	13.7	9.1	20.0	23.9	14.9
Peru	14.7	8.9	0.2	23.2	0.4
Uruguay	35.0	-12.2	7.7	8.3	6.9
Venezuela	2.5	3.3	1.5	0.6	4.8
TOTAL, Latin America (excluding Cuba)	2.7	5.8	5.0	6.3	5.8
TOTAL, Latin America (excluding Cuba and Venezuela)	2.6	6.7	8.4	8.5	6.2

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 34. Latin America: Quantum indexes of exports, 1961-65
(1960=100)

Country	1961	1962	1963	1964	1965
Argentina	90.2	125.8	125.4	122.6	133.9
Bolivia	106.0	100.4	104.3	110.7	96.3
Brazil	110.6	103.2	119.6	106.2	118.6
Chile	110.2	112.4	114.5	124.6	119.5
Colombia	95.7	108.4	105.6	110.5	110.8
Ecuador	93.4	106.3	122.8	118.8	123.9
Paraguay	113.7	127.0	145.6	164.4	180.7
Peru	116.9	123.6	118.2	128.3	122.0
Uruguay	141.0	118.5	128.8	129.4	145.3
Venezuela	101.7	110.4	109.7	116.0	121.6
Costa Rica	102.0	101.4	109.4	123.6	121.8
Dominican Republic	78.2	82.0	73.7	63.8	61.2
El Salvador	106.8	123.4	142.6	159.4	156.7
Guatemala	101.9	109.9	157.0	135.3	148.2
Haiti	96.4	151.4	130.5	116.3	123.9
Honduras	106.8	115.7	113.7	123.3	150.6
Mexico	107.6	119.9	122.0	124.1	140.4
Nicaragua	109.7	147.0	177.8	201.1	214.6
Panama	112.3	154.2	198.5	231.9	253.5
TOTAL, Latin America (excluding Cuba)	103.4	113.1	117.0	118.3	125.2

Source: ECLA, on the basis of official statistics.

The exceptionally large increase of nearly 21 per cent in Honduras's export earnings was due to a remarkable upswing (about 41 per cent) in the value of its major export item—bananas—and its coffee earnings also climbed appreciably. The rise in Panama's export earnings is attributable to the increase in its exports of bananas and shrimps, since its sales of petroleum products declined.

The increase of some 15 per cent in Paraguay's exports was based on higher earnings from sales of wood, meat and cotton. Wood exports, in fact, soared, not only because of the increase in forest production capacity, but also because of the liquidation of stocks accumulated over the years pending a rise in world prices that would make it worth while to export them.

In the second group of countries, an excellent wheat harvest enabled Argentina to step up its exports of this commodity in 1965, and much higher earnings were obtained from exports of other grains, vegetable oils and fruits. However, the value of meat exports remained much the same, thanks to a rise in prices which counterbalanced a parallel decline in the volume exported—a decline that is largely attributable to the weakness of external demand—while wool exports contracted sharply. In Chile, the drop in the volume of copper exports was amply offset by an increase in the unit value of exports,

which had the effect of raising their current value by 7 per cent. There was a rapid increase in its exports of manufactured goods, consisting mainly of semi-processed products such as copper bars and wood-pulp.

El Salvador's modest increment of 5.5 per cent in the value of exports was due to larger coffee and cotton sales, and contrasted with the swiftly rising growth rate attained in recent years.

The increase in the value of Mexico's exports (8.6 per cent) derived mainly from bigger sales of cotton, lead and zinc, since its coffee and copper sales declined. The greatest impetus to Mexico's exports in 1965 came from Western Europe, especially the Federal Republic of Germany and the Netherlands.

The rise in Nicaragua's export earnings, which is very modest in comparison with the progress made in preceding years, is explained by the higher income obtained from its cotton and coffee sales.

Uruguay's sales of wool and other livestock products were stimulated by the successive currency devaluations in 1965, and its export earnings increased as a result of the dynamic growth of its sales abroad in the last three months of the year.

The increment in the value of Venezuela's exports (4.8 per cent) was accounted for mainly

by a rise in the petroleum sector's export earnings; proportionately, however, the export item that showed the most favourable trend was iron ore since the relative increase in its sales far exceeded the rise in exports of petroleum and petroleum products.

The fractional increase in the volume of Bolivia's tin production was offset by better world prices; accordingly, the total value of exports is estimated to have risen by the narrow margin of 1.2 per cent, the largest relative increase in 1965 corresponding to zinc.

Colombia maintained the current value of its exports in spite of a sharp contraction in its coffee sales, which was counteracted by the increments in exports of petroleum, bananas and other less important traditional items.

The relative diversification of Peru's exports of primary products—a typical feature of its trade—made it possible for the value of exports, which had risen considerably in 1964, to remain at virtually the same level. The huge exportable surpluses of fish meal enabled this sector's export earnings to be maintained, despite the decline in the total catch of fish. Peru's metal exports (copper and lead) increased substantially, under the stimulus of good world prices; this compensated for the drop in export earnings from sugar as a result of the slump in sugar prices, as well as for the decline in the cotton sector

owing to the reduction in the volume of exports.

In Ecuador, the rise in coffee earnings, and the exceptionally large increase in the volume of cocoa exports which more than made up for the drop in cocoa prices, offset the decline in export earnings from bananas caused mainly by bad weather conditions.

The increment in Costa Rica's banana export earnings did not entirely counteract the unfavourable coffee trends, which were also observable in Haiti.

The rapid contraction of exports in the Dominican Republic was the result of the political events in that country in 1965, rather than of adverse economic factors such as the protracted deterioration of sugar prices. There were reductions in the volume and value of most of the major export items, which were particularly drastic in the case of sugar, coffee, tobacco and cocoa. The only product that seems to have escaped the general decline is bauxite.

6. LATIN AMERICAN IMPORTS

While in 1964 the current value of imports in Latin America (excluding Cuba) had gone up by nearly 10 per cent, which corresponded to a rise of approximately 8.5 per cent in the import quantum, 1965 marked increments of only about 3.5 per cent and 1 per cent, respectively (see tables 35, 36 and 37). This sharp decline in the

Table 35. Latin America: Value of imports (c.i.f.), 1955-65
(Millions of dollars at current prices)

Country	1955	1960	1961	1962	1963	1964 ^a	1965 ^b
Argentina	1,172.6	1,249.3	1,460.4	1,356.5	981.0	1,077.2	1,190.0
Bolivia	82.4	71.5	77.7	97.7	103.8	96.6	115.0
Brazil	1,303.8	1,461.6	1,459.1	1,475.0	1,486.8	1,262.6	1,130.0
Chile	376.3	499.7	590.5	511.6	557.5	607.2	595.0
Colombia	669.3	518.6	557.1	540.4	506.0	586.3	470.0
Costa Rica	87.5	110.4	107.2	113.3	123.8	138.6	178.0
Dominican Republic	113.2	100.0	80.0	148.0	184.0	220.0	105.0
Ecuador	108.0	115.0	106.4	96.2	128.8	150.4	182.0
El Salvador	91.9	122.4	108.7	124.8	151.7	192.0	208.0
Guatemala	103.5	137.9	133.6	132.9	171.1	202.1	259.0
Haiti	39.6	36.1	41.9	45.9	38.9	41.4	38.0
Honduras	62.0	71.8	72.0	79.8	95.1	101.9	115.0
Mexico	883.7	1,186.5	1,138.6	1,143.0	1,239.8	1,492.9	1,559.0
Nicaragua	69.6	71.7	74.4	97.4	110.4	137.0	150.0
Panama	86.1	128.2	147.0	173.3	192.0	198.3	220.0
Paraguay	33.6	37.7	40.3	41.1	39.1	40.5	53.0
Peru	299.5	372.8	468.1	534.3	553.2	570.9	730.0
Uruguay	236.7	215.9	207.5	228.6	175.0	197.9	179.0
Venezuela	1,054.8	1,187.5	1,080.8	1,096.4	962.0	1,253.3	1,380.0
TOTAL, Latin America (excluding Cuba)	6,874.1	7,694.6	7,951.3	8,036.2	7,860.0	8,567.1	8,856.0

Source: ECLA, on the basis of official statistics.

^b Estimates.

^a Provisional figures.

Table 36. Latin America: Percentage variations in the current value of imports, 1955-65
(Cumulative annual rates)

Country	1955-60	1960-61	1961-62	1962-63	1963-64	1964-65
Argentina	1.3	16.9	-7.2	-27.7	9.8	10.5
Bolivia	-2.7	8.7	25.7	6.2	-6.9	19.0
Brazil	2.3	-0.2	1.1	0.8	-15.1	-10.5
Chile	5.8	18.1	-13.4	9.0	8.9	-2.0
Colombia	-5.0	7.4	-3.0	-6.4	15.9	-19.8
Costa Rica	4.8	-2.9	5.7	9.3	12.0	28.4
Dominican Republic	-2.4	-20.0	85.0	23.8	19.6	-52.3
Ecuador	1.3	-7.5	9.6	33.9	16.8	21.0
El Salvador	5.9	-11.2	14.8	21.6	26.6	8.3
Guatemala	5.9	-3.1	-0.5	28.7	18.1	28.2
Haiti	-1.9	16.1	7.6	-15.3	6.4	-8.2
Honduras	3.0	0.3	10.8	19.2	7.2	12.9
Mexico	6.1	-3.7	0.4	8.5	20.4	4.4
Nicaragua	0.6	3.8	30.9	13.3	24.1	9.5
Panama	8.3	14.7	17.9	10.8	3.3	10.9
Paraguay	2.6	6.9	2.0	-4.9	3.6	30.5
Peru	4.5	25.6	14.1	3.5	3.2	27.9
Uruguay	1.4	3.9	11.0	-23.4	13.1	-9.6
Venezuela	2.4	-9.0	1.4	-12.3	30.3	10.1
TOTAL, Latin America (excluding Cuba)	2.4	3.3	1.1	-2.9	9.8	3.4
Cuba	1.4	10.1	8.1	14.1	17.1	...
TOTAL, Latin America	2.3	3.9	1.6	-1.5	10.6	...

Source: ECLA, on the basis of official statistics.

Table 37. Latin America: Quantum indexes of imports, 1961-65
(1960=100)

Country	1961	1962	1963	1964	1965
Argentina	119.4	108.6	82.9	91.1	100.6
Bolivia	109.8	132.7	139.7	131.2	151.9
Brazil	97.8	97.9	99.6	81.3	71.4
Chile	127.5	101.4	110.5	114.4	105.8
Colombia	104.0	99.8	95.5	110.8	88.9
Ecuador	99.1	88.8	114.2	128.3	151.0
Mexico	96.6	96.6	103.2	125.3	127.4
Paraguay	106.1	87.8	87.5	99.5	130.3
Peru	124.3	139.3	146.9	156.3	193.9
Uruguay	96.1	101.4	78.5	86.0	76.2
Venezuela	91.9	89.6	78.7	99.6	106.7
Dominican Republic	83.2	170.7	214.7	252.9	117.3
Haiti	117.2	124.7	105.5	111.4	99.2
Panama	120.3	139.1	157.6	159.4	171.6
Costa Rica	83.9	97.7	106.3	120.6	157.9
El Salvador	84.7	96.5	116.5	146.5	162.5
Guatemala	83.6	94.9	116.2	136.5	163.3
Honduras	105.3	113.6	137.6	145.1	154.2
Nicaragua	106.0	140.0	161.8	201.0	216.7
TOTAL, Latin America (excluding Cuba)	104.1	103.1	101.0	109.6	110.8
TOTAL, Latin America (excluding Cuba and Venezuela)	106.3	105.5	105.1	111.5	111.6

Source: ECLA, on the basis of official statistics.

growth rate of imports is due essentially to the external financing difficulties that confronted several countries of the region in 1965, since they had to stabilize their balance-of-payments position by the adoption of measures to restrict import demand, sometimes in conjunction with anti-inflationary measures, which also affected total demand and imports.

The disparities between countries are far greater with respect to imports than exports. Only Mexico's imports increased at the same rate as the 1965 average for the region; in some groups of countries they expanded vigorously, while in others they took a sharp downward turn. The same extreme trends are noticeable in the composition of imports and are a manifestation of the internal situation and external financing position of each country.

If Mexico is excluded, the Latin American countries could be arbitrarily classified in three groups according to the rate of increase in their imports.

The first group would comprise Bolivia, Costa Rica, Ecuador, Guatemala, Paraguay and Peru, whose imports went up by 19-30 per cent in terms of current prices.

A second group would be composed of countries in which imports expanded considerably in 1965 without reaching the exceptionally high rate attained by the previous group. The increase in the current import values in this group of countries—Argentina, El Salvador, Honduras, Nicaragua, Panama and Venezuela—ranged from 8.5 per cent to 13 per cent.

In the third group, the current value of imports dropped below the 1964 level and the fact that import prices rose meant an even greater reduction in real imports. This group, in which, even if the Dominican Republic is excluded, the rates of decrease still fluctuated widely from 2 per cent to 20 per cent, would comprise Brazil, Chile, Colombia, Haiti and Uruguay. The Dominican Republic could also be included, but the exceptionally sharp contraction of over 50 per cent in its imports was due to other than economic causes, a fact which differentiates it from the remaining countries in which restrictive measures and financing difficulties were the main determinants of the contraction.

The few available data which can serve as a basis for estimating the evolution of the composition of imports are set out in table 38. The apparent trends represent a continuation of those taken in the previous year, which, in the South American countries and Mexico, are towards a smaller share of capital goods in total imports. This relative reduction, which was a result of the

Table 38. Latin America: Structure of imports of goods in selected countries, 1950-65
(Percentages)

Country or area	Consumer goods		Fuels	Raw materials and intermediate products			Construction materials	Capital goods			Total	Various
	Non-durable	Durable		Total	Metallic	Non-metallic		Total	Agricultural machinery and equipment	Industrial machinery and equipment		
Argentina												
1950 .	8.8	4.3	13.1	12.9	31.4	44.0	7.8	3.2	13.1	5.5	21.8	0.4
1955 .	6.3	2.9	9.2	17.7	32.1	49.9	4.1	3.7	9.5	5.6	18.8	0.3
1960 .	3.2	6.4	9.6	13.4	20.9	35.8	5.5	4.0	20.9	10.0	34.9	0.8
1961 .	4.0	5.7	9.7	10.2	23.3	40.8	2.6	2.8	18.9	13.9	35.6	1.1
1962 .	4.0	3.7	7.7	8.1	21.6	32.9	5.4	2.4	25.0	19.5	46.9	1.0
1963 .	4.8	3.1	7.9	7.3	26.8	36.1	5.4	1.6	23.9	16.6	42.1	1.2
1964 .	4.3	4.0	8.3	9.0	33.6	48.3	3.7	1.9	14.2	13.5	29.6	1.1
1965 ^a	5.0	4.0	9.0	10.0	35.0	52.0	4.0	1.2	10.6	11.0	22.8	2.2
Brazil												
1950 .	9.4	5.9	15.3	13.5	28.2	33.7	3.2	6.2	18.9	8.9	34.0	0.3
1955 .	7.4	1.8	9.2	21.0	6.3	37.8	3.3	3.3	15.7	9.5	28.5	0.2
1960 .	4.1	1.5	5.6	18.0	7.1	35.5	2.4	5.0	17.1	16.2	38.3	0.2
1961 .	4.5	1.7	6.2	17.2	7.5	36.7	3.8	3.9	21.1	10.8	35.8	0.3
1962 .	5.2	1.4	6.6	16.3	7.4	38.4	2.6	2.9	23.4	9.3	35.6	0.5
1963 .	5.6	1.8	7.4	16.3	9.6	41.8	3.4	2.6	19.5	8.6	30.7	0.4
					32.2	49.3	3.4	3.1	17.8	7.4	28.3	0.4

1955 . . .	10.4	2.8	13.2	13.8	3.4	37.3	40.7	3.5	4.7	19.4	6.4	27.1	0.3
1960 . . .	11.6	4.1	15.7	10.5	3.4	29.3	32.7	3.8	2.4	21.3	13.2	36.9	0.4
1961 . . .	11.4	4.4	15.8	6.1	3.5	29.2	32.7	5.5	3.0	22.0	14.5	39.5	0.4
1962 . . .	12.7	3.8	16.5	5.8	2.8	29.4	32.2	5.4	2.7	23.8	13.2	39.7	0.4
1963 . . .	12.8	3.0	15.8	4.5	2.8	36.7	39.5	4.4	1.8	22.8	9.2	33.8	2.0
1964 . . .	10.9	2.6	13.5	4.7	3.1	35.5	38.6	6.4	1.5	24.3	10.1	35.9	0.9
1965 ^a . . .	13.7	2.0	15.7	5.0	2.8	38.3	41.1	4.8	1.5	22.3	8.6	32.4	1.0
Colombia													
1950 . . .	13.1	7.7	20.8	2.8	4.0	31.8	35.8	6.9	4.6	18.0	10.6	33.2	0.5
1955 . . .	10.0	7.1	17.1	3.7	4.2	27.2	31.4	7.8	5.6	22.4	11.4	39.4	0.6
1960 . . .	6.7	4.6	11.3	1.9	7.5	33.1	40.6	4.7	5.6	24.8	9.9	40.3	1.2
1961 . . .	8.4	8.5	16.9	1.7	6.4	31.4	37.8	5.1	4.9	23.8	8.5	37.2	1.3
1962 . . .	8.3	4.8	13.1	1.7	7.2	33.7	40.9	4.8	5.2	24.1	8.6	37.9	1.6
1963 . . .	8.5	3.7	12.2	1.8	7.8	33.6	41.4	4.1	4.4	24.3	10.1	38.8	1.7
1964 ^a . . .	8.2	3.7	11.9	1.1	7.0	32.5	39.5	5.1	4.6	26.3	9.9	40.8	1.6
1965 ^a . . .	7.2	3.9	11.1	0.7	5.0	33.1	38.1	4.8	5.3	29.4	8.5	43.2	2.1
Peru													
1950 . . .	19.6	7.7	27.3	2.0	3.5	26.7	30.2	5.6	4.0	16.5	13.1	33.6	1.3
1955 . . .	17.5	9.0	26.5	3.1	4.8	24.9	29.7	8.0	3.6	20.2	7.6	31.4	1.3
1960 . . .	14.5	8.2	22.7	4.6	5.5	26.6	32.1	4.6	2.8	21.1	11.7	35.6	0.4
1961 . . .	13.6	9.0	22.6	3.3	5.1	25.6	30.7	5.3	2.9	22.5	12.3	37.7	0.4
1962 . . .	13.4	8.3	21.7	3.1	4.5	23.6	28.1	5.9	2.6	26.4	11.9	40.9	0.3
1963 . . .	15.3	9.7	25.0	2.8	4.4	22.6	27.0	4.4	2.6	24.9	12.9	40.4	0.4
1964 . . .	15.2	10.6	25.8	3.1	4.3	24.9	29.2	4.9	2.6	22.8	11.1	36.5	0.5
1965 ^a . . .	14.3	9.8	24.1	3.2	5.0	25.1	30.1	6.3	1.9	23.2	10.8	35.9	0.4
Venezuela													
1950 . . .	27.2	11.4	38.6	1.3	4.3	17.6	21.9	6.4	2.9	21.2	7.3	31.4	0.4
1955 . . .	19.3	11.9	31.2	1.3	3.9	17.1	21.0	8.3	3.2	26.3	8.2	37.7	0.5
1960 . . .	24.5	15.8	40.3	0.7	4.6	19.6	24.2	6.4	2.2	17.3	7.9	27.4	1.0
1961 . . .	24.5	17.8	42.3	0.6	5.2	22.1	27.3	4.8	2.0	14.0	8.0	24.0	1.0
1962 . . .	22.2	17.2	39.4	0.5	5.5	23.5	29.0	4.7	2.3	15.3	7.4	25.0	1.4
1963 . . .	20.8	18.7	39.5	0.3	5.2	23.4	28.6	4.6	2.6	15.6	7.7	25.9	1.1
1964 . . .	20.6	19.1	39.7	0.2	5.6	23.3	28.9	4.3	2.6	16.5	6.7	25.8	1.1
Central America													
1950 . . .	28.3	9.4	37.7	7.0	2.3	19.1	21.4	5.9	2.4	8.2	4.1	14.7	13.3
1955 . . .	28.3	11.6	39.9	6.7	2.4	23.4	25.8	7.5	3.9	11.0	4.4	19.3	0.8
1960 . . .	25.9	10.5	36.4	7.4	2.9	25.5	28.4	6.9	2.9	11.7	4.4	19.0	1.9
1961 . . .	25.7	10.1	35.8	7.8	3.2	27.4	30.6	6.6	3.0	11.3	3.5	17.8	1.4
1962 . . .	24.0	9.5	33.5	7.2	3.3	27.7	31.0	6.9	3.5	13.0	3.7	20.2	1.2
1963 . . .	24.6	10.7	35.3	7.3	3.2	26.4	29.6	6.3	3.5	12.8	4.4	20.7	0.8
1964 . . .	21.9	10.5	32.4	6.7	3.3	27.4	30.7	6.0	3.4	14.2	4.9	22.5	1.7
1965 . . .	22.5	10.7	33.2	6.1	3.4	27.7	31.1	6.3	3.8	14.2	4.8	22.8	0.5

Source: ECLA, on the basis of official foreign trade statistics.

^a Provisional figures.

slower growth of investment and, in certain cases, of the expansion of domestic capacity for the production of machinery and equipment, was in general offset by an increase in the proportion of raw materials imports. In most of the Central American countries and Paraguay, however, capital goods have increased their share in total imports.

Particularly noteworthy is the falling off in the relative importance of capital goods in the imports of Argentina, Brazil and Mexico, as well as the increase in the share of raw materials in Argentina, as a result of stockpiling in connexion with the recovery of its industry. Equally notable is the increment in the contribution of fuels to Argentina's total imports in 1964 and 1965, which breaks the former trend towards greater self-sufficiency in petroleum products.

From a different standpoint, it should be noted that 1965 witnessed important changes in the geographical distribution of Latin America's imports.

On the whole, the evolution of import flows represent a return to the trends prevailing in 1963—that is, in the opposite direction to those followed in 1964—as demonstrated by the three-cornered trade which took place between the United States, Western Europe and Latin America. In 1964, while Latin America's purchases from the United States increased rapidly, its imports from Western Europe declined, and its sales to Western Europe expanded faster

than to the United States. In 1965, the disparity in the region's export trends persisted, although with some mitigation; but imports from the United States rose by barely 1 per cent, compared with an estimated rate of 4 per cent for imports from Western Europe. Therefore, the United States has lost some of its importance as a supplier of Latin America, whereas the industrialized countries of Western Europe have retained their share of the regional market, and Japan's contribution has continued to increase (see tables 39 and 40).

The trends followed by the regional trade balances in 1965 cannot be accurately assessed for want of fuller information. The data set out in table 41, which includes Cuba, relate only to the first half of the year, during which Latin America's imports outstripped its exports, whereas the external sector trends over the whole year were in the opposite direction, with exports rising faster than imports. Nevertheless, certain observations may be hazarded concerning the changes in Latin America's trade balances with the areas that are its main customers and suppliers. The surplus trade balance (exports f.o.b., imports c.i.f.) for the region (excluding Cuba) has increased by over 250 million dollars. The principal changes relate to the balances with the United States and Western Europe; the trade deficit vis-à-vis (f.o.b.) the former shrank to less than half the 1964 figure of 153 million dollars, while the credit balance with Europe and Japan increased.

Table 39. Latin America:^a Breakdown of imports, by origin, 1960–65
(Percentages)

Country or area of origin	1960	1961	1962	1963	1964	1965 ^b
United States	45.2	44.3	43.1	43.0	45.1	42.6
Canada	2.1	2.4	2.4	2.8	2.9	2.9
Japan	2.7	3.5	3.9	4.1	3.5	4.2
Western Europe	32.7	34.3	34.2	32.0	29.6	29.2
EEC ^c	20.2	21.3	21.9	19.9	18.5	18.5
EFTA ^d	11.0	11.5	10.7	10.6	9.6	9.7
Other Western European countries	1.5	1.5	1.6	1.5	1.5	1.0
Latin America	9.8	8.6	9.8	11.5	12.7	13.4
Eastern Europe	2.1	1.8	1.3	1.5	1.4	7.7
Rest of the world	5.4	5.1	5.3	5.1	4.8	

Source: ECLA, on the basis of official statistics.

^a Excluding Cuba.

^b Excluding Haiti.

^c Benelux countries, the Federal Republic of Germany, France and Italy.

^d Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Table 40. Share of selected areas in total world exports (f.o.b.) to Latin America, 1960-65
(Percentages)

Country or area	1960	1961	1962	1963	1964	First six months	
						1964	1965
North America	46.5	43.9	41.6	42.4	43.8	44.6	42.5
United States	44.0	41.1	39.0	39.3	40.4	41.1	39.3
Canada	2.5	2.8	2.6	3.1	3.4	3.5	3.2
Western Europe	33.2	33.8	32.6	30.4	28.6	29.1	29.7
EEC ^a	20.1	21.1	20.2	18.8	17.8	18.0	18.3
EFTA ^b	11.5	11.1	10.6	10.0	9.2	9.2	9.6
Japan	3.5	3.9	3.9	4.0	4.4	3.5	4.5
Latin America	8.7	7.1	8.1	9.4	10.8	9.9	11.0
Countries with centrally planned economies	2.9	7.5	8.5	9.3	7.8	7.7 ^c	7.4 ^d

Source: United Nations, *Monthly Bulletin of Statistics*, December 1965.

^a Benelux countries, the Federal Republic of Germany, France and Italy.

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

^c Including Cuba.

^d Eastern European countries only.

Table 41. Latin America:^a Trade balances, by area, 1961-65
(Millions of dollars at current prices)

	Year	Exports (f.o.b.)	Imports (f.o.b.)	Balance
World	1961	8,670	8,130	540
	1962	9,150	8,100	1,050
	1963	9,730	7,990	1,740
	1964	10,420	9,060	1,360
First 6 months	1964	5,300	4,230	1,070
First 6 months	1965	5,420	4,380	1,040
United States	1961	3,270	3,340	-70
	1962	3,290	3,160	130
	1963	3,360	3,140	220
	1964	3,400	3,660	-260
First 6 months	1964	1,640	1,740	-100
First 6 months	1965	1,680	1,720	-40
Western Europe	1961	2,760	2,750	10
	1962	3,010	2,640	370
	1963	3,320	2,430	890
	1964	3,550	2,590	960
First 6 months	1964	1,860	1,230	630
First 6 months	1965	1,850	1,300	550
Eastern Europe	1961	505	510	-5
	1962	495	585	-90
	1963	465	650	-185
	1964	445	620	-175
First 6 months	1964	260	325	-65
First 6 months	1965	350	325	25
Japan	1961	340	320	20
	1962	335	315	20
	1963	415	320	95
	1964	520	400	120
First 6 months	1964	275	150	125
First 6 months	1965	290	195	95

Source: United Nations, *Monthly Bulletin of Statistics*, December 1965.

^a Including Cuba.

Chapter V

BALANCE OF PAYMENTS AND THE EXTERNAL DEBT

1. THE EVOLUTION OF THE BALANCE OF PAYMENTS IN 1964 AND 1965

(a) *The balance of payments position prior to compensatory financing*

The trend towards a reduction of the external disequilibrium, which was already apparent in most Latin American countries in 1963 and 1964, continued in 1965. In spite of the fact that the world market for raw materials was less favourable than in the previous two years, exports of goods once again increased (by approximately 5 per cent), while imports expanded at a much slower pace. The debit balance on current account was therefore reduced by about 400 million dollars. Since net inflows of non-

compensatory capital declined appreciably in 1965, the balance of payments position prior to compensatory financing reflected a smaller surplus than the year before, despite the smaller deficit on current account (see table 42). The difference between those two years is due, in particular, to the evolution of Venezuela's balance of payments, since the outflow of non-compensatory capital from that country is estimated at over 250 million dollars, which caused its reserves to drop slightly. In view of Venezuela's 1965 balance-of-payments trends, the exclusion of this country, which in previous years had the effect of increasing the deficit or reducing the surplus in the regional balance of payments prior to compensatory financing, does little to alter the over-all position presented by

Table 42. Latin America: Balance of payments prior to compensatory financing, by country,^a 1960-65
(Millions of dollars)

Country	1960	1961	1962	1963	1964 ^b	1965 ^c
Argentina	+175.1	-137.5	-275.8	+170.1	+54.5	+80.7
Bolivia	-2.7	+2.5	-4.1	+5.2	+16.0	+12.1
Brazil	-329.0	+60.0	-294.0	-135.0	+208.0	+151.0
Chile	-45.1	-111.4	-19.8	-29.7	+20.4	+40.6
Colombia	+4.1	-125.0	-73.0	-76.1	-25.7	+100.0
Ecuador	-3.6	-13.4	+12.2	+10.7	+2.6	-13.9
Mexico	-20.3	-26.9	+8.5	+123.0	+50.2	-72.0
Paraguay	-3.1	+2.6	-0.2	+0.5	+2.6	+4.5
Peru	+32.6	+34.3	+6.2	+18.5	+48.1	+9.5
Uruguay	-27.9	+25.3	-63.7	+2.7	-21.0	-32.7
Venezuela	-310.0	+6.6	+71.1	+230.2	+118.7	-13.0
Dominican Republic	-0.3	-29.5	+1.3	+16.3	-13.7	—
Haiti	+2.9	+2.7	-4.7	-2.6	-1.9	+1.9
Panama	—	—	—	—	—	—
Costa Rica	-11.2	-10.9	+1.8	-4.8	-5.0	-7.1
El Salvador	-13.2	-4.8	-8.7	+11.4	+11.9	+14.7
Guatemala	+7.4	-3.3	-13.4	+10.4	+2.0	-2.2
Honduras	+0.3	-2.3	-0.2	+0.3	+4.0	+11.1
Nicaragua	-4.5	-6.8	+4.0	+11.0	+7.9	+19.7
TOTAL, Latin America (excluding Cuba)	-548.5	-337.8	-635.1	+362.1	+479.6	+314.9
TOTAL, Latin America (excluding Cuba and Venezuela)	-238.5	-344.4	-706.2	+131.9	+360.9	+327.9

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a This balance is equal and of opposite sign to the variations in the net position of the monetary authorities' gold and

foreign exchange reserves, plus the net movements of balance-of-payments loans and deferred import payments.

^b Provisional figures.

^c Estimates.

Latin America, since in both cases its monetary reserves are seen to have increased by some 300 million dollars. Therefore, the regional balance-of-payments surplus remains at just under the 1964 figure if Venezuela is excluded, and the decline is aggravated if Venezuela is taken into account.

Although the surplus in the balance of payments prior to compensatory financing declined in 1965, Latin America's position continued, as in 1964, to contrast sharply with its deficit position in 1960-62, when the cumulative deficit of nearly 1,300 million dollars had to be covered by means of considerable inroads on reserves, by balance-of-payments loans and an increase in the liabilities of the monetary authorities.

With this reduction in the regional balance-of-payments surplus, a larger number of countries recorded a deficit in 1965 prior to compensatory financing. These were Costa Rica, Ecuador, Guatemala, Mexico, Uruguay and Venezuela, whereas in 1964 only Colombia, Costa Rica, the Dominican Republic and Uruguay showed a debit balance. Particularly noteworthy in the 1965 balance of payments was the position of Venezuela, Mexico and Ecuador, which had recorded credit balances in previous years. The first two countries showed a deficit, despite a favourable movement in current account imputable to important changes in the net position of official transfer payments and non-compensatory capital. In Ecuador, on the other hand, the movement can be ascribed to a deterioration in the balance on current account, owing mainly to the unfavourable trend followed by the merchandise balance because the steady rise in imports of goods was not offset by a parallel increase in the income derived from exports.

In addition to the above-mentioned countries, Colombia and Brazil registered considerable changes in their balance-of-payments position prior to external financing. These changes were of positive sign in the former and negative in the latter. In Colombia, the deficit over the previous four years was transformed into a surplus thanks to the change in its current account resulting from the application of restrictive measures to effect a considerable reduction in the imports of goods. In Brazil, the credit balance was reduced mainly because of the net negative movement of non-compensatory capital, which was estimated at over 300 million dollars and which was not wholly compensated by the considerable new positive movement (over 150 million dollars) in that country's current account between 1964 and 1965.

(b) *Current account*

The imbalance in Latin America's current account became more pronounced between 1963 and 1964, but shrank again in 1965 to approximately 300 million dollars, or nearly 600 million dollars if Venezuela is excluded. The reduction in the deficit was very marked in the last three years, especially if the estimated average for this period—about 450 million dollars—is compared with that for the preceding three years, which was over 1,200 million dollars. Although Venezuela's surplus on current account declined by an average of over 130 million dollars between the two three-year periods, this country still greatly influences the regional balance, which would be far more unfavourable if it were excluded (see table 43). The improvement noted in the position of the region as a whole during the past three years can be ascribed to the surplus which Argentina started to record in 1963 and which—though much smaller—has persisted since then; to the surpluses recorded by Brazil for the first time in 1964; to the increase in Brazil's surplus in 1965; and to the surplus on current account recorded for the first time that year by Colombia and Uruguay.¹

The change of sign in the current account of each of those countries is essentially dependent upon the trends followed by their respective merchandise accounts. The improvement of some 700 million dollars between 1962 and 1965 in Brazil's current account can be ascribed to the increase in exports and the reduction, albeit on a lesser scale, in imports. The same observation is applicable to Uruguay, while the variations in the current accounts of Argentina and Colombia (over 300 million and 200 million dollars, respectively) were due to the increase in exports rather than to the reduction in imports.

For Latin America as a whole, the reduction in the 1965 deficit on current account is explained by the parallel movement in the merchandise account, which also recorded a positive change of sign of approximately 400 million dollars.

The regional imbalance—the smallest recorded in the last ten years—is in some degree a repetition of the situation in 1963, when the serious balance-of-payments position led to a reduction in regional imports, while exports of goods went up by 5 per cent at current prices. While imports scarcely increased in 1965, exports rose at the same rate as in 1963, and this changed the slight trend towards an aggravation of the current account imbalance which had appeared in

¹ The Dominican Republic is not mentioned because its position was not determined by a combination of economic factors.

Table 43. Latin America: Balance on current account, by country, 1960-65
(Millions of dollars)

Country	1960	1961	1962	1963	1964 ^a	1965 ^b
Argentina	-204.9	-585.7	-274.5	+231.8	+31.9	+42.0
Bolivia	-32.9	-30.6	-47.6	-44.9	-18.7	-30.8
Brazil	-561.0	-304.0	-499.0	-218.0	+43.0	+209.4
Chile	-164.6	-295.1	-222.6	-204.1	-137.9	-92.5
Colombia	-84.5	-141.8	-170.4	-137.2	-131.3	+42.0
Ecuador	-18.8	-25.7	-8.2	-8.2	-53.3	-88.1
Mexico	-325.8	-228.9	-172.8	-214.8	-417.9	-359.6
Paraguay	-12.0	-10.7	-7.6	-8.6	-11.3	-3.6
Peru	+31.7	+12.6	-20.2	-51.1	+8.4	-136.8
Uruguay	-75.5	-22.9	-72.2	-5.0	-8.6	+45.3
Venezuela	+394.6	+386.5	+361.5	+460.4	+211.4	+281.2
Dominican Republic	+42.6	+33.2	-15.6	-38.1	-58.4	+13.8
Haiti	+2.3	-5.3	-3.5	+0.2	-5.3	-8.7
Panama	-42.2	-35.4	-28.4	-35.9	-25.0	-30.5
Costa Rica	-19.3	-17.8	-19.8	-29.0	-25.7	-69.5
El Salvador	-28.4	-2.1	+0.2	-13.6	-27.5	-23.3
Guatemala	-25.5	-22.5	-23.6	-19.7	-51.6	-71.8
Honduras	+2.5	—	-3.3	-17.4	-15.1	-10.6
Nicaragua	-10.2	-7.0	-12.8	-7.4	-13.4	-8.8
TOTAL, Latin America (excluding Cuba)	-1,131.9	-1,303.2	-1,240.4	-360.6	-706.3	-287.8
TOTAL, Latin America (excluding Cuba and Venezuela)	-1,526.5	-1,689.7	-1,602.0	-821.0	-917.7	-569.0
TOTAL, Latin America (excluding Argentina, Cuba and Venezuela)	-1,321.6	-1,104.0	-1,327.0		-949.6	-611.0

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

1964 because imports had increased faster than exports. These disparities between 1964 and 1965 are apparently due to the ephemeral nature of the improvement in the terms of trade in 1963-64; for, when they took a downward turn, an increasing number of countries intensified their restrictive policies. The long-standing association between the balance on current account and the terms of trade—particularly if Venezuela is excluded—is illustrated in figure VIII.

Of the seven countries—Bolivia, Costa Rica, Ecuador, Guatemala, Haiti, Panama and Peru—which recorded a deterioration in their balance on current account, Peru stands out as registering a decline of approximately 140 million dollars from 1964 to 1965 as a result of a parallel movement in its merchandise account. This in turn is attributable to the steadily rising trend followed by imports, combined with a slight falling off of exports.

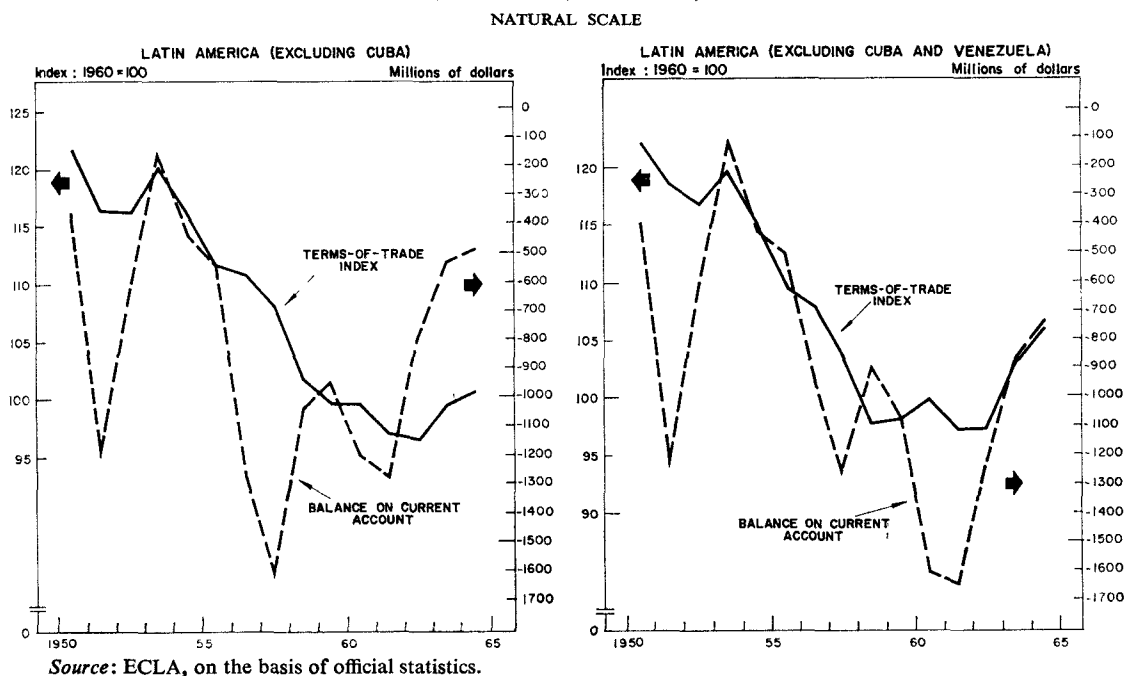
Merchandise account

Latin America's trade balance (calculated on an f.o.b. basis) has in the past been favourable

and since 1961 the surplus has increased considerably; from 764 million dollars that year it rose to about 1,800 million in 1963 and 1964, and to over 2,250 million in 1965. The over-all regional balance is strongly influenced by the surplus on Venezuela's merchandise account. If this country is excluded, the regional account shows a deficit up to 1963, when the sign of the merchandise account in Argentina and Brazil changed drastically, thereby altering the trend for the whole region. Thanks to the fact that Argentina's surplus persisted—although it showed a declining trend—and to the increasing credit balances recorded in Brazil since 1963, in Colombia since 1964 and in Uruguay since 1965, the regional surplus increased from 1963 to 1965 (even if Venezuela is excluded). This increase would have been even more substantial if 1965 had not witnessed a sharp reduction in the credit balance which Peru's merchandise account had been showing and if Ecuador's former credit balance had not seriously deteriorated.

In addition to the above-mentioned cases, which were the factors determining the surplus

Figure VIII. Latin America: Terms-of-trade indexes and balance on current account
(Movable two-year averages)



on the regional merchandise account (even if Venezuela is excluded), there was a general trend towards a change of sign in the merchandise account of other countries. Thus in 1960 the debit balances clearly predominated, since only five countries (including Venezuela) showed a credit balance (see table 44). The same situation prevailed in 1961 and 1962, although with fewer debit balances, but by 1963 the surpluses outnumbered the deficits. This trend re-appeared in 1965, when the number of credit balances was estimated at thirteen, i.e., over two-thirds of the Latin American countries apparently recorded a favourable trade balance, in contrast to the position in 1960.

In order to evaluate the significance of the regional trend towards a more favourable balance on the merchandise account, consideration should be given to some of the factors underlying it. Actually, only in 1964 did the improvement coincide with a sizable increase in regional imports. In 1960-65 exports rose by 28.5 per cent (at current prices), while imports increased far more slowly. In the light of the region's development needs, this cannot be regarded as a favourable state of affairs and is the result of the import restriction policy applied to counter the growing deficits in other balance-of-payments items, mainly external debt servicing. Since those items absorbed an increasing

proportion of the region's available resources, it became necessary to adopt measures to restrict the balance-of-payments items most easily influenced by internal economic policy, i.e., imports.

Internal development policies suffered considerably owing to those factors, in spite of the fact that the decline in the inflow of private capital in the last six years was offset by an increase in the inflow of public capital for development purposes. These restrictive policies have become widespread because of the shortage of liquidity in the region and the increasingly irregular distribution of external financing during that period, a subject which will be dealt with later in more detail.

Services account²

Taken as a whole, Latin America's services account has in the past shown a debit balance; the imbalance has recently tended to become

² This account includes transactions under the head of freight and insurance on international shipments and other transportation, travel, investment income and other services. The definitions relating to each item correspond to those given in the *Balance of Payments Yearbook* published by IMF, except for "other services", where government transactions not included elsewhere and other services are presented in the aggregate.

Table 44. Latin America
(Million)

Country	Exports					
	1960	1961	1962	1963	1964 ^a	1965 ^b
Argentina ^c	1,079.2	964.1	1,216.0	1,365.5	1,410.5	1,484.0
Bolivia	52.6	59.5	60.5	67.4	95.6	97.0
Brazil	1,269.0	1,403.0	1,214.0	1,406.0	1,430.0	1,560.0
Chile ^c	478.1	442.3	481.5	490.9	588.8	645.9
Colombia	480.2	462.5	461.9	474.0	623.2	610.0
Ecuador	146.1	132.0	148.6	150.4	147.8	150.0
Mexico ^c	777.5	839.3	940.6	985.9	1,071.3	1,154.3
Paraguay	36.5	43.1	39.6	38.7	45.4	60.0
Peru	443.3	508.9	554.2	556.0	684.6	669.5
Uruguay ^c	129.4	174.7	153.5	165.2	178.9	191.2
Venezuela	2,383.9	2,452.3	2,543.4	2,465.3	2,481.2	2,600.0
Dominican Republic	157.4	138.9	169.6	174.3	179.8	122.5
Haiti ^c	38.1	32.4	40.3	43.1	38.3	38.0
Panama	39.0	41.4	59.8	73.4	81.4	82.0
Costa Rica	87.0	83.3	92.7	93.2	112.9	112.4
El Salvador ^c	102.6	118.8	138.9	150.2	175.5	198.9
Guatemala	115.9	114.0	119.0	153.4	158.7	176.3
Honduras	64.3	74.0	82.5	84.3	95.0	112.7
Nicaragua	56.9	62.2	83.1	100.2	116.9	125.1
TOTAL, Latin America (excluding Cuba)	7,937.0	8,146.7	8,599.7	9,037.4	9,715.8	10,189.8
TOTAL, Latin America (excluding Cuba and Venezuela)	5,553.1	5,694.4	6,056.3	6,572.1	7,234.6	7,589.8
TOTAL, Latin America (excluding Argentina, Cuba and Venezuela)	4,473.9	4,730.3	4,840.3	5,206.6	5,824.1	6,105.8

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

more acute, mainly because Latin America's external debt servicing has become increasingly onerous and because of the disequilibrium in foreign investment income.

In 1965 the services account showed practically the same deficit as the year before. Thus it was possible to cover 90 per cent of the aggregate imbalance in the account with the surplus obtained from the sale of goods, a percentage which represents the highest coverage in the past six years (see table 45).

Latin America's services account under the head of freight and insurance on international shipments and other transportation has shown a debit balance in the past as a result of the underdeveloped state of the merchant fleets in most countries. However, the debit balance is increasing more slowly than that of other deficit items in the regional balance of payments, and a trend towards stabilization has recently been noted. This is a result not only of the slower growth of imports but also of the introduction of

development policies in many countries of the region, particularly Argentina, Brazil, Chile and Colombia. Thus, the deficit on the regional freight and transportation account rose to about 740 million dollars—or 580 million if Venezuela is excluded, since this country presents the largest deficit in the above-mentioned item. There was practically no change in the deficit between 1964 and 1965; hence, its share in the amount absorbed of the surplus on the merchandise account decreased substantially (see table 46).

Travel was the only item in the general services account which showed a credit balance. This, in conjunction with the surplus on the merchandise account, helped to finance other items of the services account (see figure IX). Altogether, the credit balance amounted to about 156 million dollars in 1964, and is estimated at over 240 million in 1965—an increase of more than 50 per cent. The regional surplus on the travel account is not, however, representative of the individual accounts of most countries of the region, since

Merchandise account, by country, 1960-65
(in millions of dollars)

Imports f.o.b.						Trade balance					
1960	1961	1962	1963	1964 ^a	1965 ^b	1960	1961	1962	1963	1964 ^a	1965 ^b
099.4	1,270.5	1,180.2	853.2	939.5	1,035.3	-20.2	-306.4	+35.8	+512.3	+471.0	+448.7
70.3	74.7	92.5	98.1	98.1	110.0	-17.7	-15.2	-32.0	-30.7	-2.5	-13.0
293.0	1,292.0	1,304.0	1,294.0	1,086.0	970.0	-24.0	+111.0	-90.0	+112.0	+344.0	+590.0
507.4	570.1	547.8	524.6 ^d	566.7	556.1	-29.3	-127.8	-66.3	-33.7	+22.1	+89.8
496.4	530.8	536.9	497.5	575.4	433.0	-16.2	-68.3	-75.0	-23.5	+47.8	+177.0
109.8	108.5	112.1	118.7	153.9	186.0	+36.3	+23.5	+36.5	+31.7	-6.1	-36.0
144.9	1,098.7	1,103.0	1,196.3	1,440.6	1,505.6	-367.4	-259.4	-162.4	-210.4	-369.3	-351.3
43.9	47.9	40.3	40.6	45.1	51.0	-7.4	-4.8	-0.7	-1.9	+0.3	+9.0
319.1	400.5	462.8	480.3	512.9	631.0	+124.2	+108.4	+91.4	+75.7	+171.7	+38.5
187.9	182.8	207.6	151.6	169.2	129.8	-58.5	-8.1	-54.1	+13.6	+9.7	+61.4
140.3	1,130.8	1,178.5	1,047.1	1,213.5	1,220.0	+1,243.6	+1,321.5	+1,364.9	+1,418.2	+1,267.7	+1,380.0
90.3	72.1	132.3	164.6	191.2	91.7	+67.1	+66.8	+37.3	+9.7	-11.4	+30.8
38.4	37.9	42.2	33.1	31.3	35.5	-0.3	-5.5	-1.9	+10.0	+7.0	+2.5
108.5	123.6	144.3	163.4	169.2	186.0	-69.5	-82.2	-84.5	-90.0	-87.8	-104.0
98.9	96.0	102.4	113.4	124.7	159.2	-11.9	-12.7	-9.7	-20.2	-11.8	-46.8
113.2	100.6	115.4	140.4	176.8	192.4	-10.6	+18.2	+23.5	+9.8	-1.3	+6.5
124.8	120.6	122.9	150.4	184.5	218.7	-8.9	-6.6	-3.9	+3.0	-25.8	-42.4
65.4	66.3	73.9	88.3	95.1	104.8	-1.1	+7.7	+8.6	-4.0	-0.1	+7.9
56.4	58.7	78.7	91.0	109.9	110.0	+0.5	+3.5	+4.4	+9.2	+7.0	+15.1
108.3	7,383.1	7,577.8	7,246.6	7,883.6	7,926.1	+828.7	+763.6	+1,021.9	+1,790.8	+1,832.2	+2,263.7
968.0	6,252.3	6,399.3	6,199.5	6,670.1	6,706.1	-414.9	-557.9	-343.0	+372.6	+564.5	+883.7
868.6	4,981.8	5,219.1	5,346.3	5,730.6	5,670.8	-394.7	-251.5	-378.8	-139.7	+93.5	+435.0

^c C.i.f. import values adjusted to f.o.b. values by subtracting a certain proportion for freight and insurance paid to foreign enterprises.

^d The import values for 1963 were adjusted as they included entries for other years.

Table 45. Latin America: Total transactions under the head of services,^a 1960-65
(Millions of dollars)

Year	Total (excluding Cuba)			Total (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance
1960	1,543.3	3,425.5	-1,882.2	1,406.7	2,532.6	-1,125.9
1961	1,574.5	3,561.6	-1,987.1	1,457.1	2,607.2	-1,150.1
1962	1,496.1	3,684.1	-2,188.0	1,412.0	2,684.6	-1,272.6
1963	1,593.4	3,682.8	-2,089.4	1,506.1	2,737.4	-1,231.3
1964 ^b	1,745.2	4,280.6	-2,535.4	1,649.1	3,214.0	-1,564.9
1965 ^c	1,981.1	4,491.7	-2,510.6	1,881.1	3,382.9	-1,501.8

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Including freight and other transportation

costs, insurance, travel, investment income and other services.

^b Provisional figures.

^c Estimates.

Table 46. Latin America: Transactions under the head of freight and insurance on international shipments and other transportation, 1960-65
(Millions of dollars)

Year	Total (excluding Cuba)			Total (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance
1960	286.0	925.4	-639.4	265.4	751.7	-486.3
1961	317.5	1,001.3	-683.8	292.7	829.8	-537.1
1962	328.2	1,022.3	-694.1	306.9	853.1	-546.2
1963	333.1	984.2	-651.1	311.8	832.2	-520.4
1964 ^a	362.8	1,094.0	-731.2	343.1	916.4	-573.3
1965 ^b	441.3	1,177.5	-736.2	421.3	998.7	-577.4

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

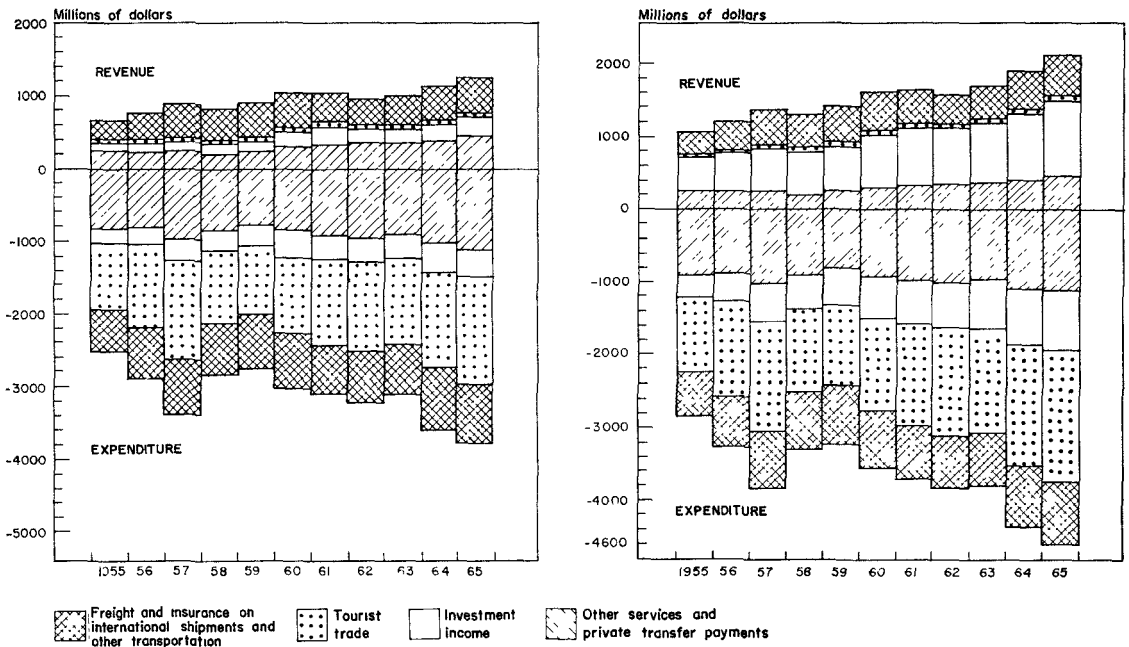
recently only three—Mexico, Panama and Uruguay—have recorded surpluses. If Mexico is excluded, the regional balance becomes a deficit of over 167 million dollars in 1964 and an estimated 125 million dollars in 1965. The reduction of the deficits in many Latin American countries is attributable largely to the restrictions imposed on the foreign travel of nationals, as well as the higher cost of such travel due to the devaluation of the currency in those countries. In addition to Mexico, Panama and Uruguay,

surpluses on this account were also recorded in 1965 by Brazil and Ecuador. The prospects of improving this balance seem most promising, at least for countries near potentially important tourist flows.

The servicing of foreign capital under the head of profits, dividends on portfolio investments and interest on foreign loans has long constituted a heavy financial burden for Latin America, and the deficit in this item of the services account has repeatedly absorbed the

Figure IX. Latin America: Revenue and expenditure under the head of services, 1955-65

NATURAL SCALE



Source: ECLA, on the basis of official statistics.

whole of the surplus on the regional merchandise account.

The principal component of these payments in Latin America as a whole is direct foreign investment income, but of late the payment of dividends on foreign portfolio investments and of interest on short-term loans has rapidly increased in importance (see table 47). If Venezuela is excluded, direct foreign investment earnings are seen to have dropped by more than 50 per cent.

Up to 1963 the payment of investment income exceeded the credit balance on the regional merchandise account, but since then the position has been reversed and in 1965 such payments absorbed only 78 per cent of that surplus. In the course of 1965 the share of non-direct investment income continued to increase; for while the debit balance under this head rose by over 20 per cent from 1963 to 1965, provisional estimates place

the rate of increase in the direct investment deficit at less than 4 per cent.

The item "other services", which includes government transactions not included elsewhere, as well as other services, normally shows a deficit for Latin America (see table 48). The deficit is not very large in absolute terms and in 1965 it was only slightly over 250 million dollars, its growth rate in the last six years having been somewhat slower than that of current income. Consequently, the financial burden represented by this item has tended to lighten. The net income of countries recording a substantial credit balance under this head (Panama and Mexico) has followed a different pattern. In Mexico, the income deriving from the wages of seasonal workers employed in the United States remained relatively static, while in Panama the inflow in respect of wage-earners in the Canal Zone rose substantially. The credit balance

Table 47. Latin America: Investment income, 1960-65
(Millions of dollars)

	Total (excluding Cuba)			Total (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance
<i>1960</i>						
Direct investment income	43.6	948.2	-904.6	32.4	430.6	-398.2
Other investment income	11.9	300.6	-288.7	11.8	284.9	-273.1
TOTAL	55.5	1,248.8	-1,193.3	44.2	715.5	-671.3
<i>1961</i>						
Direct investment income	78.7	1,078.4	-999.7	64.2	517.7	-453.5
Other investment income	10.2	346.1	-335.9	8.9	314.3	-305.4
TOTAL	88.9	1,424.5	-1,335.6	73.1	832.0	-758.9
<i>1962</i>						
Direct investment income	17.2	1,105.7	-1,088.5	8.1	482.2	-474.1
Other investment income	12.5	372.4	-359.9	9.1	352.5	-343.4
TOTAL	29.7	1,478.1	-1,448.4	17.2	834.7	-817.5
<i>1963</i>						
Direct investment income	11.1	1,083.5	-1,072.4	2.0	472.6	-470.6
Other investment income	22.5	365.4	-342.9	11.5	348.1	-336.6
TOTAL	33.6	1,448.9	-1,415.3	13.5	820.7	-807.2
<i>1964^a</i>						
Direct investment income	15.8	1,240.0	-1,224.2	6.2	578.8	-572.6
Other investment income	33.4	443.7	-410.3	18.4	427.9	-409.5
TOTAL	49.2	1,683.7	-1,634.5	24.6	1,006.7	-982.1
<i>1965^b</i>						
Direct investment income	10.1	1,279.3	-1,269.2	0.1	596.3	-596.2
Other investment income	29.7	522.9	-493.2	14.7	505.9	-491.2
TOTAL	39.8	1,802.2	-1,762.4	14.8	1,102.2	-1,087.4

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

Table 48. Latin America: Other services accounts, 1960-65
(Millions of dollars)

Year	Total (excluding Cuba)			Total (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance
1960 . . .	474.3	645.0	-170.7	373.3	535.0	-161.7
1961 . . .	387.0	546.2	-159.2	313.5	418.6	-105.1
1962 . . .	343.6	552.4	-208.8	296.7	436.0	-139.3
1963 . . .	375.6	586.4	-210.8	333.2	492.6	-159.4
1964 ^a . . .	402.7	728.5	-325.8	357.3	594.9	-237.6
1965 ^b . . .	463.2	718.9	-255.7	415.2	573.9	-158.7

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

recorded by Guatemala on this account has a different significance, since it resulted from certain inflows under the head of transport which were included in this item because of difficulties encountered in classifying them.

Private transfer payments account

Latin America's account under this head closed with a debit balance and consisted mainly of family remittances by migrants, capital transfers being of minor importance only. This item has therefore been included in the regional current account.

Venezuela is responsible for the largest proportion of the regional deficit, partly because it continued to receive large numbers of immigrants and partly because it did not follow the usual policy of limiting remittances, which was applied in other countries with a growing balance-of-payments deficit. (See table 49.)

(c) *Capital account*

For accounting purposes, the net external financing used to bring payments into balance

is equal and of opposite sign to the balance on current account. Its sources include by net autonomous capital income, net variations in the monetary reserves and net compensatory credits.

The net inflow of capital drawn upon by Latin America to finance its deficit was particularly large during the first three years of the sixties, but the improvement in the balance on current account has led to a corresponding reduction in the debit balance still outstanding.

Provisional estimates place the balance of net external financing for the region in 1965 at close to 300 million dollars, i.e. the lowest recorded so far in the sixties. The reduction in the balance outstanding was mainly the outcome of the surplus on current account in Argentina in 1963, in Brazil in 1964 and in Colombia and Uruguay in 1965 (see again table 43).

The distribution of external financing among the different countries has changed appreciably in the last four years. In 1961, more than four-fifths of the total external financing of Latin America (excluding Cuba and Venezuela) went to Argentina, Brazil, Chile and Mexico, but in

Table 49. Latin America: Private transfer payments account, 1960-65
(Millions of dollars)

Year	Total (excluding Cuba)			Total (excluding Cuba and Venezuela)		
	Credit	Debit	Balance	Credit	Debit	Balance
1960 . . .	56.5	153.1	-96.6	56.5	65.5	-9.0
1961 . . .	66.0	156.4	-90.4	66.0	72.6	-6.6
1962 . . .	74.3	161.1	-86.8	73.3	78.5	-5.2
1963 . . .	100.9	156.3	-55.4	96.9	71.8	+25.1
1964 ^a . . .	118.8	136.7	-17.9	113.7	50.4	+63.3
1965 ^b . . .	94.3	149.7	-55.4	89.3	59.7	+29.6

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

1965 they received only about a third. Similarly, in 1961, the only countries to have a credit balance on current account were the Dominican Republic, Peru and Venezuela, while in 1965 the first and last were joined by Argentina, Brazil, Colombia and Uruguay, Peru's current external imbalance in that year being estimated at over 130 million dollars. The pattern taken by the distribution of external financing was largely due to the fact that the external financial situation of these countries had become extremely critical, compelling them to create surpluses on current account. Another contributory factor was the change in the geographical distribution of non-compensatory external capital. Such capital was channelled through international institutions, which made it possible for aid to be distributed more widely throughout the region; whereas previously the funds obtained from direct investment—which at that

time represented a relatively more important share of the total—had been concentrated in the biggest economies.

Tables 50 and 51 bring out certain characteristics and recent trends in the movements of external and domestic funds in Latin America, most of which seem to have persisted throughout 1965. In the last few years, the balance for the movements of external funds has exceeded the amount required for the net external financing of the region. The surplus has been counterbalanced by a net outflow of recorded and unrecorded domestic funds (errors and omissions) which, in 1962–64, ranged between 450 and 600 million dollars.

Net foreign funds, which were tending to become stable in 1962–64, rose slightly in 1965. According to preliminary estimates, this rise was balanced by a bigger net outflow of domestic funds.

Table 50. Latin America (excluding Cuba): Balance of payments on capital account, 1960–64
(Millions of dollars at current prices)

	1960	1961	1962	1963	1964 ^a
<i>Net external financing (A+D+E)</i>	+1,131.9	+1,303.2	+1,240.4	+360.6	+706.3
A. Net external funds (a+b)	+1,583.6	+1,770.9	+1,399.5	+1,307.2	+1,374.5
(a) Net non-compensatory external funds	+981.9	+1,535.4	+1,217.9	+1,198.9	+1,715.8
1. Direct investment	+412.9	+365.4	+199.9	+248.1	+360.8
2. Long-term loans	+365.9	+911.7	+786.1	+705.6	+913.4
2.1 To the private sector	+220.4	+369.7	+283.2	-6.9	+142.3
2.2 To the public sector	+145.5	+542.0	+502.9	+712.5	+771.1
3. Official transfer payments	+120.9	+129.0	+135.4	+139.0	+132.3
4. Short-term capital (liabilities)	+82.2	+129.3	+96.5	+106.2	+309.3 ^b
(b) Net compensatory external funds	+601.7	+235.5	+181.6	+108.3	-341.3
1. Deferred import payments	-15.0	-1.0	—	—	—
2. Balance-of-payments loans	+243.4	+173.2	+46.4	-58.0	-186.3
3. Short-term liabilities of the monetary authorities	+378.2	-186.7	+205.6	+45.8	-64.8
4. Net IMF situation	-4.9	+250.0	-70.4	+120.5	-90.2
B. Net domestic funds as entered on the balance of payments	-21.9	-531.2	-328.8	-385.3	...
1. Private long-term capital (assets)	+19.8	-248.2	-147.8	-27.9	-43.8
2. Public long-term capital (assets)	-85.8	-141.0	-112.7	-17.4	-29.1
3. Short-term capital (assets)	+44.1	-142.0	-68.3	-340.0	...
C. Errors and omissions	-376.6	-38.8	-283.8	-90.9	-457.0
D. Net domestic funds plus errors and omissions (B+C)	-398.5	-570.0	-612.6	-476.2	...
E. Movement of gross gold and foreign exchange reserves (-increase)	-53.2	+102.3	+453.5	-470.4	-138.3
1. Short-term assets of the monetary authorities	-280.8	+159.4	+213.2	-480.9	-168.8
2. Official monetary gold	+227.6	-57.1	+240.3	+10.5	+30.5

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Including short-term assets.

Table 51. Latin America (excluding Cuba and Venezuela): Balance of payments on capital account, 1960-64
(Millions of dollars at current prices)

	1960	1961	1962	1963	1964 ^a
<i>Net external financing (A+D+E)</i>	+1,526.5	+1,689.7	+1,601.9	+821.0	+917.7
A. Net external funds (a+b)	+1,755.1	+1,913.9	+1,754.1	+1,461.1	+1,384.4
(a) Net non-compensatory external funds	+1,314.5	+1,643.1	+1,503.4	+1,285.1	+1,693.4
1. Direct investment	+538.9	+390.2	+440.6	+331.8	+398.9
2. Long-term loans	+411.5	+922.1	+777.6	+719.0	+887.4
2.1 To the private sector	+215.9	+367.4	+280.3	-6.9	+142.1
2.2 To the public sector	+195.6	+554.7	+497.3	+725.9	+745.3
3. Official transfer payments	+120.8	+128.8	+133.8	+136.0	+129.2
4. Short-term capital (liabilities)	+243.3	+202.0	+151.4	+98.3	+277.9 ^b
(b) Net compensatory external funds	+440.6	+270.8	+250.7	+176.0	-309.0
1. Deferred import payments	-15.0	-1.0	—	—	—
2. Balance-of-payments loans	+43.4	+206.5	+113.1	+8.7	-153.0
3. Short-term liabilities of the monetary authorities	+383.3	-184.7	+208.0	+46.8	-65.8
4. Net IMF situation	+28.9	+250.0	-70.4	+120.5	-90.2
B. Net domestic funds as entered on the balance of payments	-3.8	-251.4	-149.1	-196.2	...
1. Private long-term capital (assets)	+24.6	-51.8	+22.0	+73.1	-25.6
2. Public long-term capital (assets)	-77.5	-115.3	-101.7	-17.4	-26.3
3. Short-term capital (assets)	+49.1	-84.3	-69.4	-251.9	...
C. Errors and omissions	-22.7	-46.4	-458.6	-136.0	-362.9
D. Net domestic funds plus errors and omissions (B+C)	-26.5	-297.8	-607.7	-332.2	...
E. Movement of gross gold and foreign exchange reserves (-increase)	-202.1	+73.6	+455.5	-307.9	-51.9
1. Short-term assets of the monetary authorities	-176.0	+130.7	+215.2	-318.4	-82.4
2. Official monetary gold	-26.1	-57.1	+240.3	+10.5	+30.5

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Including short-term assets.

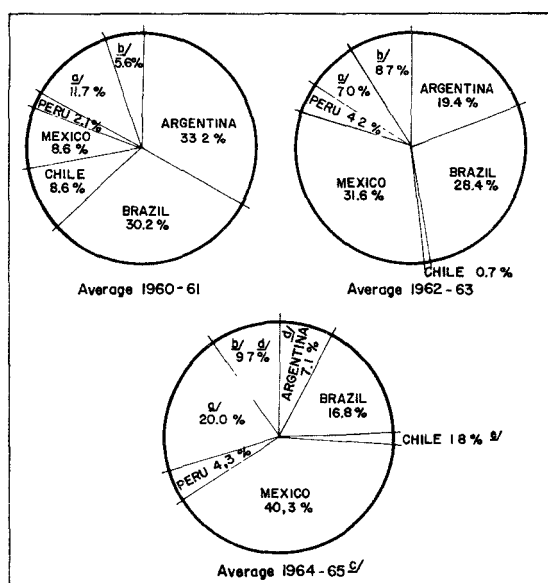
Mention has already been made of the tendency of direct investment to take a smaller share in the total sum of net non-compensatory foreign funds. As indicated in figure X and table 52, the geographical distribution of direct investment changed considerably during the last few years, with Argentina and Brazil accounting for a smaller proportion and Mexico and Central America for more.

The distribution of non-compensatory long-term loans has also altered mainly because more loans have been given to Mexico and fewer to Argentina. (See table 53.) From the institutional standpoint, the recent tendency for more loans to be granted to Governments by regional and international organizations seems to have per-

sisted in 1965. In 1965, the programme loans of the Agency for International Development (AID) increased considerably, thereby offsetting the reduction in loans from some of the other organizations. Up to 1964, the Inter-American Development Bank (IDB) was the most active in this respect, and its operations expanded rapidly.

In the region as a whole, however, the trend taken by the net inflow of autonomous capital was mainly distinguished by the fact that it was exceeded by the net regional outflow under the head of profits and interest on foreign capital. Up to 1964 Venezuela had been the main cause of this disequilibrium, but by 1965 the imbalance had become so marked that there was a regional deficit even with Venezuela excluded.

Figure X. Latin America: Percentage distribution of direct foreign investment, by countries, 1960-65
(Excluding Cuba, Haiti, Honduras and Venezuela)



Source: ECLA, on the basis of official statistics.

^a Including Bolivia (1964 only), Colombia (1964), Ecuador (1964), Panama, Paraguay and Uruguay (1964).

^b Including Costa Rica, the Dominican Republic, El Salvador, Guatemala and Nicaragua.

^c Preliminary figures for 1964 and estimates for 1965.

^d 1964 only.

^e Disinvestment in 1964 and 1965.

Table 52. Latin America: Net direct investment, by countries, 1960-65
(Millions of dollars)

Country	1960	1961	1962	1963	1964 ^a	1965 ^b
Argentina	+332.0	-18.2	+71.8	+77.9	+27.0	
Bolivia	+16.5	+11.4	+10.1	+5.8	+1.5	
Brazil	+138.0	+147.0	+132.0	+87.0	+86.0	+42.0
Chile	+29.0	+51.9	+35.8	-30.1	-8.5	-5.0
Colombia	+2.5	+1.1	+0.4	+0.8	+66.0	
Ecuador	+8.0	+8.4	+3.4	+3.6	+7.0	
Mexico	-38.1	+119.3	+126.5	+117.5	+151.7	+155.7
Paraguay	+2.4	+1.3	+1.9	+3.0	+3.7	+4.0
Peru	+6.6	+13.1	+5.9	+26.8	+12.5	+20.0
Uruguay	+5.8	+4.8	...	...	...
Venezuela	-126.0	-24.8	-240.7	-83.7	-38.1	
Dominican Republic	+1.0	+2.0	+2.0	+5.0	+3.0	
Haiti	+0.1	+0.6	+1.2	-1.4	+2.7	
Panama	+17.3	+30.4	+16.6	+8.1	+7.0	
<i>Central America</i>						
Costa Rica	+2.4	+7.7	+12.0	+14.0	+12.6	
El Salvador	+4.5	+3.3	+7.3	+6.2	+9.6	
Guatemala	+16.8	+7.6	+9.3	+0.5	+6.1	
Honduras	-7.6	-7.5	-1.0	+2.5	+5.2	+6.1
Nicaragua	+1.7	+6.0	+5.4	+4.6	+5.8	
TOTAL, excluding Cuba	+412.9	+365.4	+199.9	+248.1	+360.8	
TOTAL, excluding Cuba and Venezuela	+538.9	+390.2	+440.6	+331.8	+398.9	

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Provisional figures.

^b Estimates.

Table 53. Latin America: Non-compensatory long-term loans, private and public, 1960-64^a
(Millions of dollars)

Country	1960			1961			1962			1963			1964 ^b		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Argentina . . .	254.7	41.3	+213.4	458.5	95.9	+362.6	425.4	186.9	+238.5	273.9	191.5	+82.4	209.0	248.4	-39.4
Bolivia . . .	12.8	10.8	+2.0	15.2	14.2	+1.0	25.4	6.9	+18.5	34.3	14.3	+20.0	30.9	15.4	+15.5
Brazil . . .	348.0	370.0	-22.0	579.0	307.0	+272.0	368.0	265.0	+103.0	287.0	219.0	+68.0	310.0	187.0	+123.0
Chile . . .	50.5	41.5	+9.0	143.1	57.1	+86.0	197.7	61.9	+135.8	212.6	63.1	+149.5	240.3	68.7	+171.6
Colombia . . .	34.9	24.0	+10.9	53.5	25.7	+27.8	71.3	27.9	+43.4	80.1	27.5	+52.6	113.5	6.8	+106.7
Ecuador . . .	24.6	9.4	+15.2	21.5	10.3	+11.2	21.3	11.3	+10.0	13.7	11.5	+2.2	13.5	8.3	+5.2
Mexico . . .	363.2	189.5	+173.7	352.2	187.2	+165.0	400.9	267.9	+133.0	425.5	233.6	+191.9	752.0	378.7	+373.3
Panama . . .	7.8	2.1	+5.7	5.9	0.4	+5.5	9.6	1.0	+8.6	13.4	1.1	+12.3	8.5	1.5	+7.0
Paraguay . . .	4.9	1.0	+3.9	6.5	2.7	+3.8	7.0	2.2	+4.8	5.4	2.2	+3.2	6.3	1.3	+5.0
Peru . . .	23.4	37.9	-14.5	48.8	61.3	-12.5	89.8	59.0	+30.8	102.1	57.0	+45.1	112.6	51.4	+61.2
Uruguay . . .	11.9	6.3	+5.6	18.7	7.3	+11.4	22.9	7.9	+15.0	23.7	8.8	+14.9	2.4	11.0	-8.6
Venezuela . . .	122.1	167.7	-45.6	242.6	253.0	-10.4	111.9	103.4	+8.5	54.2	67.6	-13.4	59.1	33.1	+26.0
Costa Rica . . .	6.1	5.4	+0.7	6.0	4.7	+1.3	10.4	5.7	+4.7	20.8	8.0	+12.8	22.4	8.0	+14.4
Dominican Republic . . .	—	0.5	-0.5	—	24.7	-24.7	16.1	0.9	+15.2	21.8	0.7	+21.1	13.5	—	+13.5
El Salvador . . .	2.3	2.2	+0.1	3.9	2.0	+1.9	5.2	3.0	+2.2	7.9	3.1	+4.8	11.8	3.3	+8.5
Guatemala . . .	11.1	7.0	+4.1	7.2	3.5	+3.7	5.4	6.6	-1.2	20.1	5.3	+14.8	19.3	9.0	+10.3
Haiti . . .	1.3	0.2	+1.1	3.4	0.3	+3.1	1.9	1.0	+0.9	0.4	0.8	-0.4	2.4	1.2	+1.2
Honduras . . .	5.2	1.6	+3.6	6.2	2.4	+3.8	10.0	2.1	+7.9	16.3	3.0	+13.3	9.9	2.9	+7.0
Nicaragua . . .	2.2	2.7	-0.5	2.9	3.7	-0.8	11.0	4.5	+6.5	14.8	4.3	+10.5	13.2	1.2	+12.0
TOTAL, excluding Cuba	1,287.0	921.1	+365.9	1,975.1	1,063.4	+911.7	1,811.2	1,025.1	+786.1	1,628.0	922.4	+705.6	1,950.6	1,037.2	+913.4
TOTAL, excluding Cuba and Venezuela	1,164.9	753.4	+411.5	1,732.5	810.4	+922.1	1,699.3	921.7	+777.6	1,573.8	854.8	+719.0	1,891.5	1,004.1	+887.4

Source: IMF, *Balance of Payments Yearbook*, vols. 15, 16 and 17.

^a Including portfolio investment.

^b Provisional figures.

2. EXTERNAL INDEBTEDNESS³(a) *General trends*

Up to a few years ago, the main concern aroused by balance-of-payments questions was focused on the short-term imbalances that so often appeared as a result of export fluctuations. Monetary policy therefore tended to concentrate on these incidental problems and on the means of remedying them. This does not mean that the more fundamental and lasting problems affecting the evolution of the external transactions account, such as the slow growth of the region's staple exports in comparison with the very much quicker growth of imports of goods, were either unknown or discounted. But as the terms of trade or the volume of exports, or both, improved slightly during the first ten years after the war, this basic cleavage did not become a source of serious disquiet to the countries or, for that reason, a vital economic policy issue.

During the last decade, two phases can be roughly distinguished. In the first, which coincided more or less with the years 1956-60, the two main currents clearly began to diverge, either because the growth of the purchasing power of exports was less satisfactory, or because import demand became more dynamic. However, save in one or two cases this did not create a serious external financing problem thanks to the increased inflow of funds in the shape of loans and direct investment of various kinds.

In the second stage, which approximately covers the first five years of the sixties, the difference between the increase in the purchasing power of exports and the growth of import demand became even more acute, although exports had obviously made great headway since the preceding five-year period. What happened was that the pressure exerted by imports in recent years had coincided with an increase in the burden of servicing and repaying the capital and loans obtained in previous years. The result was a "problem of indebtedness", further complicated by the need to obtain new loans, with the accent increasingly placed on short-term credit, and, occasionally, to extend the terms of repayment of outstanding debts. Interest, profits and amortization payments thus began to grow more rapidly than export earnings.

The expedients referred to, which were used to remedy the imbalance in basic external transactions, might be taken as retrospective evidence

of the policy followed in this field. In actual fact, what happens in many cases is not so much that planned expedients are applied in pursuit of chosen ends but that attempts are made to alleviate or overcome short-term problems on a trial-and-error basis.

This is largely due to the rapid evolution of the factors that have to be dealt with, for, from an economic policy standpoint, the items making for external disequilibrium seldom offer much scope for immediate action—except in so far as imports can be restricted—and where room for manoeuvre does exist it is usually dependent on circumstances outside the control of the country concerned. Current revenue, for instance, depends for its expansion, first and foremost, on a long-term policy concerned, on the one hand, with the promotion of exports, and on the other, with prices, especially for raw materials. It is only when export items have a big domestic market, as in Argentina, that short-term decisions can be taken to increase current revenue. With respect to current expenditure, outgoings on imports are contingent on each country's requirements, since, if imports are slashed too heavily, production activities will suffer. Temporary restrictions on imports have, however, been one of the most popular devices for covering debit balances if no others are available. Imports have been controlled by raising their over-all cost through currency devaluation, which usually generates acute inflationary pressures if resorted to on an intensive scale, or the application of every kind of quantitative restriction. It should be noted, however, that the expansion of current revenue and expenditure are closely inter-related over the short term, since, as the former creates additional income, expenditure also rises because of the propensity to import, provided, of course, that imports have been freed from restrictions.

In relation to expenditure on interest, profits and amortization, the margin of action is ceasing to be a matter for independent decision, and is instead becoming increasingly dependent on the results of negotiations with creditors. Over the longer term, these entries expand or contract according to the way in which the deficit produced by the external imbalance is covered, and it is only in the last few years, as a result of the widening of the financial gap, that more thought has been given to the future commitments involved in the different ways of closing it.

Table 54 brings together the basic data and illustrates the development of this problem in the region as a whole. The over-all figures for the five-year period 1956-60 indicate that imports outstripped exports in terms of value, among

³ For a more detailed, if less up-to-date, treatment of this subject, see *The external financing of Latin America* (United Nations publication, Sales No.: 65.II.G.4, December 1964).

Table 54. Latin America: Current revenue, imports and amortization and service payments on foreign capital, 1951-65
(Millions of dollars)

Period or year	Current revenue	Imports of goods and services ^a	Foreign investment income			Amortization			Balance
			Profits	Interest	Total	Auto-nomous loans	Com-pensatory loans	Total	
1951-55 ^b	7,973.4	7,664.8	852.1	83.1	935.2	186.8	127.1	313.9	-940.5
1956-60 ^b	9,341.7	9,218.7	11,067.3	193.7	1,261.0	720.1	172.4	892.5	-2,030.5
1961	9,728.3	9,695.9	-999.7	-335.9	-1,335.6	1,063.4	230.5	1,293.9	-2,597.1
1962	10,171.1	9,963.1	-1,088.5	-359.9	-1,448.4	1,025.1	393.1	1,418.2	-2,658.6
1963	10,722.8	9,668.1	-1,072.4	-342.9	-1,415.3	922.4	609.2	1,531.6	-1,892.2
1964	11,562.4	10,634.2	-1,224.2	-410.3	-1,634.5	1,037.2	423.7	1,460.9	-2,167.2
1965	12,257.0	10,782.4	-1,269.2	-493.2	-1,762.4				

Source: ECLA, on the basis of official statistics.

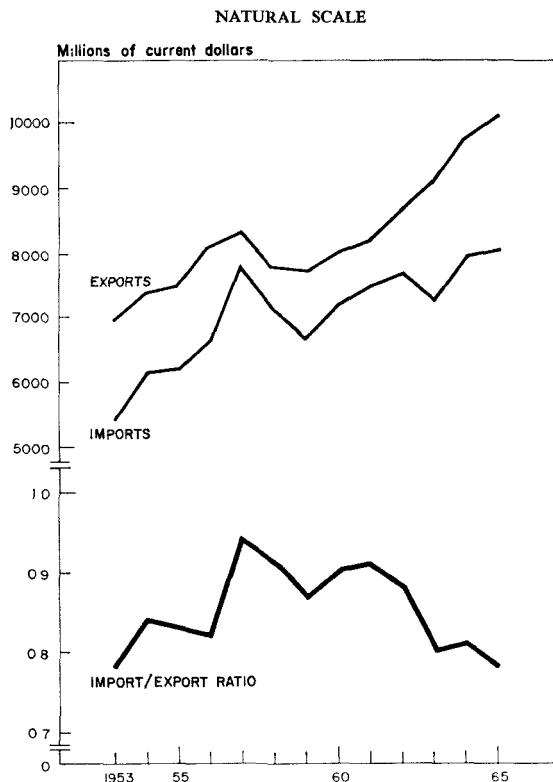
^a Gross imports of goods and services except factor payments.

^b Annual averages.

other reasons because they were supported by external financial aid averaging nearly 2,125 million dollars a year. In 1961-64 the trend was reversed, with exports increasing at a mean annual rate of 5 per cent and imports at only 2.5 per cent. Profits, interest and amortization payments, which had already reached a high level in the previous five-year period, rose even more between 1961 and 1964, the average yearly rate of increase for profits and interest being 8.2 per cent and for servicing 7.7 per cent. This situation triggered off an unmistakable "indebtedness spiral" in the region, and in certain countries in particular, since, in order to keep up their profit, interest and amortization payments as they fell due and maintain a reasonable level of imports, several Governments had to resort again to consolidation of their debts and compensatory short-term loans, which further worsened the situation and eventually led to import restrictions. This development pattern can be clearly appreciated from figure XI on the import/export ratio, which shows that it rose after the Korean hostilities up to 1959 and from then on fell sharply.

(b) Recent trends in certain countries

Although the totals for Latin America point to the existence of a general trend, they cover a wide variety of situations between groups of countries, which cancel one another out to a certain extent in the closing balance. The differences will be easily appreciated if it is considered that, in 1961-64, the gap between current revenue, on the one hand, and imports and remittances under the head of profits, interest and amortization, on the other, expressed as a percentage of current receipts, was 27.3 per cent for Latin America as a whole, 34.2 per cent for a

Figure XI. Latin America: Evolution and ratio of imports and exports of goods, 1953-65

Source: ECLA, on the basis of official statistics.

group of countries comprising Argentina, Brazil, Colombia and Uruguay, 5.2 per cent for Chile, 32 per cent for Mexico and 16.9 per cent for the rest of Latin America. In Venezuela, on the other hand, a credit balance averaging about 190

million dollars a year was recorded, which made it possible for reserves to be built up without incurring debts.

The most striking situation is that of those countries deeply in debt which in 1965 reduced their imports, i.e. Argentina, Brazil, Colombia and Uruguay. Between 1961 and 1965 their exports increased by 987 million dollars at an average annual rate of 5.3 per cent, while imports fell by 555 million dollars in absolute terms. In the two previous five-year periods, imports had followed the pattern of exports and had risen to a slightly higher level. Their new pattern of behaviour was determined not so much by domestic factors connected with the development process as by external payments difficulties, which made it necessary to cut down on imports. Table 55 shows that the balance for 1963 and 1964 can be traced to these difficulties, since, although the gap was narrowed, disbursements under the head of interest, profits and amortization continued to increase. Figures XII and XIII trace the trend of the import-export ratio in those four countries and in the rest of Latin America, indicating that in the first group it rose steadily from 1953 to 1961 and then dropped sharply, whereas elsewhere in the region it rose up to 1958 and then remained at much the same level.

Venezuela is a special case because of the importance of its external sector, which carries great weight in the regional total, and of the fact that many of its balance-of-payments entries are on the opposite side to those of the other countries (see table 56). Over the last five years there was no increase in either its export earnings, which are 22 per cent of the regional total, or its imports. Payments of profits averaged 614 million dollars a year in the four-year period

1961-64, i.e. 56 per cent of the regional total, but interest and amortization payments were fairly small in comparison with the aggregate

Figure XII. Argentina, Brazil, Colombia and Uruguay: Evolution and ratio of imports and exports of goods, 1953-65

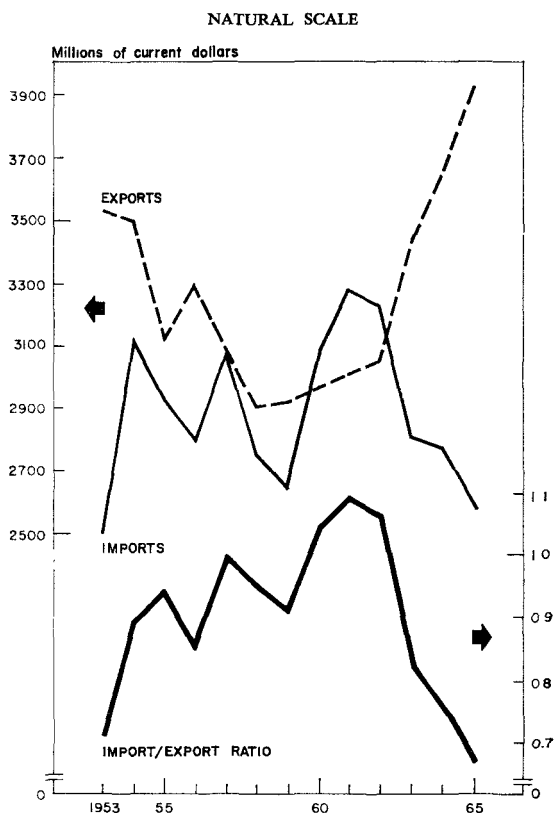


Table 55. Argentina, Brazil, Colombia and Uruguay: Current revenue, imports and service and amortization payments on foreign capital, 1951-65

(Millions of dollars)

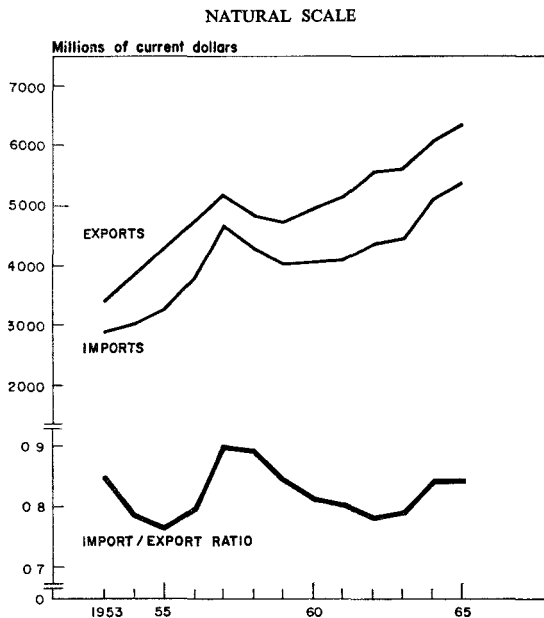
Period or year	Current revenue	Imports of goods and services ^a	Foreign investment income			Amortization			Balance
			Profits	Interest	Total	Autonomous loans	Compensatory loans	Total	
1951-55 ^b	3,599.0	3,894.4	-129.0	-56.6	-185.6	96.0	119.2	215.2	-696.2
1956-60 ^b	3,460.2	3,748.9	-98.9	-121.8	-220.7	330.4	167.9	498.3	-1,007.7
1961	3,461.9	4,173.9	-149.8	-192.6	-342.4	435.9	157.5	593.4	-1,647.8
1962	3,426.7	4,143.1	-144.0	-191.7	-335.7	487.7	259.8	747.5	-1,763.6
1963	3,824.0	3,649.6	-124.8	-178.0	-302.8	446.8	345.7	792.5	-920.9
1964	4,112.1	3,798.3	-130.7	-248.1	-378.8	453.2	231.4	684.6	-749.6
1965	4,449.3	3,618.4	-169.4	-309.7	-479.1	...	...	...	...

Source: ECLA, on the basis of official statistics.

^a Gross imports of goods and services except factor payments.

^b Annual averages.

Figure XIII. Latin America, excluding Argentina, Brazil, Colombia and Uruguay: Evolution and ratio of imports and exports of goods, 1953-65



figures for the external sector. All in all, current revenue exceeded expenditure on imports, and outgoings under the head of profits, interest and amortization.

Chile typifies a country that, although heavily in debt, did not establish import controls because of its payments policy. The result was that expenditure on imports exceeded current revenue during the five-year period 1960-64, and, although the position was reversed in 1965, expenditure remained at a high level (see again table 56).

Unlike the other Latin American countries, Mexico did not contract heavy debts between 1956 and 1960, but, from then on, it began to go more deeply into debt, particularly in 1964, when it received as much as 1,075 million dollars, gross loans being almost double and short-term liabilities treble what they were in 1963. Imports of goods and services increased rather more slowly than current revenue but not because of the burden of other commitments. However, as a result of the country's growing indebtedness, amortization and interest payments in 1961-64 were almost four times as much as the average for 1956-60.

Table 56. Latin America (excluding Argentina, Brazil, Colombia and Uruguay): Current revenue, imports and service and amortization payments on foreign capital, 1951-65
(Annual averages in millions of dollars)

Country and period or year	Current revenue	Imports of goods and services ^a	Foreign investment income			Amortization			Balance
			Profits	Interest	Total	Autonomous loans	Compensatory loans	Total	
Chile									
1951-55	459.8	411.7	-49.8	-12.1	-61.9	26.0	3.6	29.6	-43.4
1956-60	493.2	508.9	-50.7	-15.9	-66.6	42.0	7.2	49.2	-131.5
1961-64	589.0	711.2	-56.5	-36.3	-92.8	62.7	106.4	169.1	-384.1
Mexico									
1951-55	1,042.0	1,000.4	-88.5	-10.6	-99.1	36.1	—	36.1	-93.6
1956-60	1,289.0	1,353.2	-133.0	-21.4	-154.4	88.5	—	88.5	-307.1
1961-64	1,644.4	1,643.6	-183.8	-75.6	-259.4	266.9	—	266.9	-525.5
1965	.	2,049.0	-255.9	-68.9	-294.8	...	...	...	...
Venezuela									
1951-55	1,632.7	1,143.4	-481.4	-0.4	-481.8	2.5	—	2.5	5.0
1956-60	2,577.3	1,990.1	-683.3	-4.9	-688.2	197.7	—	197.7	-298.7
1961-64	2,584.4	1,594.1	-614.1	-21.2	-635.3	114.3	50.0	164.3	190.7
Rest of Latin America									
1951-55	1,239.9	1,214.9	-103.4	-3.4	-106.8	26.2	4.3	30.5	-112.3
1956-60	1,522.0	1,617.6	-101.4	-29.7	-131.1	61.5	-2.7	58.8	-285.5
1961-64	2,013.3	2,100.2	-104.5	-26.6	-131.2	112.3	9.1	121.4	-339.5

Source: ECLA, on the basis of official statistics.

^a Gross imports of goods and services except factor payments.

In the other Latin American countries, current revenue expanded in 1961–64 at an average annual rate of 11 per cent, imports at 13.5 per cent, and profit, interest and amortization payments at 1.8 per cent. Moreover, these payments amounted to only 12.5 per cent of export income. In 1963 and 1964, in particular, expenditure on imports outstripped current income by about 150 million dollars, which means that the increase in imports was financed by the capital inflow.

(c) *Deficit financing*

It is useful to review the ways in which the differences between current revenue and expenditure on imports of goods and service and amortization payments were covered. Table 57 shows that most of the funds available came from net direct foreign investment, gross autonomous capital loans and net short-term liabilities. But these funds fell short of requirements, since the outflow of capital, whose magnitude can be roughly judged from the movements of short and long-term assets and from errors and omissions, made it even more necessary to draw on compensatory financing and, up to 1962, on gold and foreign exchange reserves.

In 1956–60, the annual average for net direct foreign investment was more than twice the figure for the preceding five-year period, but in 1961 a decline set in and brought the average down to below its level in 1951–55. This trend coincided with radical changes in the end use of the foreign investment entering Latin America, which was perforce increasingly diverted to industries producing for the domestic market rather than for the export trade, and consequently did not earn the necessary foreign exchange to cover remittances of profits. Moreover, these industries often have a high pro-

portion of imported inputs, which drain away the foreign exchange saved through import substitution.

The bulk of the foreign capital available in recent years consisted of gross loans, which, in 1961–64, accounted for 75 per cent of the total compared with 50 per cent in 1956–60. In general, the Governments have little freedom of choice as regards the type of loan and the length of the repayment terms. They are compelled to resort to deferred medium and short-term financing of imports at higher rates of interest, as well as to other types of short-term financing. As regards official credits, the capacity to absorb them has often been trammelled by their lack of suitability for immediate requirements, rather inelastic terms and, at times, a want of operational capacity in the borrowing countries. This has slowed down the pace of disbursement, as indicated by the fact that, in 1961–65, the loans authorized by IBRD, IDB and the United States Government averaged 1,094.8 million dollars annually, but only 736.1 million were actually paid out per year. In 1965, the two sets of figures were 1,261.2 million and 801.6 million dollars respectively.⁴ This marked disparity between the volume of loans authorized and actually disbursed, which persisted for five years, can be traced to a variety of causes, among them the administrative delays already referred to, on the part of both the lenders and borrowers, and, at the operational level, the difficulty of finding the counterpart national funds, and the insistence that loans should be used for certain

⁴ Inter-American Economic and Social Council, *El futuro del desarrollo de la América Latina y la Alianza para el Progreso*, Washington, D.C., February 1966, pp. 230–231.

Table 57. Latin America: Evolution of capital transactions, 1951–64
(Millions of dollars)

Period or year	Net direct investment	Gross loans	Official transfer payments	Net short-term liabilities	Total external capital available	Balance	Short- and long-term assets and net errors and omissions	Gross balance-of-payments loans	Net gold and foreign exchange position
1951–55 ^a	325.3	281.0	29.2	6.2 ^b	641.7	-298.8	-22.5	258.3	63.0
1956–60 ^a	848.8	1,052.0	105.0	117.6 ^b	2,123.4	92.9	-461.9	315.0	54.0
1961	+365.4	1,975.1	+129.0	+129.3	2,598.8	+1.7	-570.0	402.7	165.6
1962	+199.9	1,811.2	+135.4	+96.5	2,243.0	-415.6	-612.6	439.5	588.7
1963	+248.1	1,628.0	+139.0	+106.2	2,121.3	+229.1	-476.2	551.2	-304.1
1964	+360.8	1,950.6	+132.3	+409.7	2,853.4	+686.2	-603.3	237.4	-293.3

Source: ECLA, on the basis of official statistics.

^a Annual averages.

^b Including short-term assets.

countries. In addition, up to now loans have been mainly earmarked for specific projects rather than for general development programmes.

As far as the other components are concerned, official transfer payments, having risen from 29 to 105 million dollars a year between the two five-year periods 1951-55 and 1956-60, remained at around 134 million in 1961-64; they were, in fact, of sizable importance in only one case, that of Bolivia.

The other source of non-compensatory funds is that provided by short-term liabilities, which rose sharply in 1964 and, in general, are bound up with import payments.

To round off the picture, it should be pointed out that the difficulties encountered in bridging the gap between current revenue from exports of goods and services and expenditure under the head of imports, and profit, interest and amortization payments, were accentuated by the unceasing outflow of capital, which added to the imbalance. The ensuing deficit made it necessary to resort increasingly to balance-of-payments loans and to increase the monetary authorities' liabilities. Gross balance-of-payments loans thus reached an annual average of over 400 million dollars in 1961-64, while the deterioration of the net gold and foreign exchange position in 1960-62 meant that part of the compensatory loans received by the region as a whole in 1963 and 1964 had to be used to reconstitute the reserves.

These broad trends will now be re-examined in relation to specific countries (see tables 58 and 59).

The countries with a high degree of indebtedness—Argentina, Brazil, Colombia and Uruguay—continued to have substantial debit

balances up to 1963, and were compelled to cut down imports even further and resort to external and balance-of-payments loans, since direct investment remained at a low level. Their indebtedness became so acute that between 1957 and 1964 the monetary authorities' liabilities in general rose to 749.6 million dollars and to 306.1 million dollars vis-à-vis the IMF. This, combined with gross gold and foreign exchange reserves of only 835 million dollars in 1964, made their net position negative, and led them to renegotiate the terms of payment for debts contracted in the past. Thanks to an agreement reached in October 1964 on the rescheduling of its payments, Brazil succeeded in reducing its commitments to 271 million dollars in 1964 and to 242 million in 1965. Argentina, with total payments of 787.9 million dollars falling due in 1965, deferred payment on 220.7 million, and covered a further 120 million with an external debt dollar bond issue. In Colombia, as a result of the renegotiations, only 10 per cent of the external debt had to be paid off in less than five years (except for the external debt of the Banco de la República). The negotiations conducted by Uruguay in 1965 led to the postponement of payment on 92 million dollars that fell due that year, and additional credit of 55 million dollars was obtained.

The payments situation in Chile improved in 1965 owing to debt refinancing, but the burden of its external debts continued to weigh heavily on the country. Total amortization payments dropped from 244 million dollars in 1963 to 92 million in 1965, but interest payments increased during the same period from 41 to 51 million dollars because of the extension of the terms of payment.

So far Mexico has not had any particular

Table 58. Argentina, Brazil, Colombia and Uruguay: Evolution of capital transactions, 1951-64
(Millions of dollars)

Period or year	Net direct investment	Gross loans	Official transfer payments	Net short-term assets	Total external funds available	Balance	Short- and long-term assets and net errors and omissions	Gross balance-of-payments loans	Net gold and foreign exchange position
1951-55 ^a	83.6	165.1	3.1	-6.2 ^b	245.6	-450.6	66.0	247.1	137.5
1956-60 ^a	323.6	492.2	10.5	65.2 ^b	891.5	-116.2	-190.3	245.7	60.8
1961	134.7	1,109.7	29.7	40.0	1,314.1	-333.7	-1.0	318.6	16.1
1962	204.2	887.6	56.0	41.6	1,189.4	-574.2	-392.1	320.9	645.4
1963	165.7	664.7	51.7	-74.6	807.5	-113.4	-270.6	367.2	16.8
1964	179.0	634.9	43.8	126.7	984.4	+238.8	-250.4	81.0	-65.4

Source: ECLA, on the basis of official statistics.

^a Annual averages.

^b Including short-term assets.

Table 59. Latin America (excluding Argentina, Brazil, Colombia and Uruguay): Evolution of capital transactions, 1951-65
(Annual averages in millions of dollars)

Country and period or year	Net direct investment	Gross loans	Official transfer payments	Short-term liabilities	Total external funds available	Balance	Short- and long-term assets and net errors and omissions	Gross balance-of-payments loans	Net gold and foreign exchange position
Chile									
1951-55	18.7	27.1	1.0	2.3 ^a	49.1	+5.7	-5.1	4.5	-5.1
1956-60	41.7	44.7	22.4	3.2 ^a	112.0	-19.5	-3.1	23.4	-0.8
1961-64	12.3	198.4	8.0	30.0	248.7	-135.4	-6.2	120.7	20.9
1965	-5.0	204.8	...	-16.0	...	...	...	42.0	-69.6
Mexico									
1951-55	87.9	45.2	5.5	10.1 ^a	146.7	53.1	-24.4	—	-28.7
1956-60	78.6	177.3	0.3	38.0 ^a	294.2	-12.9	11.7	—	1.2
1961-64	128.8	482.7	0.2	75.9	687.6	162.1	-123.4	—	-38.7
Venezuela									
1951-55	73.3	1.5	0.2	8.1 ^a	83.1	88.1	-54.9	—	-33.2
1956-60	313.7	208.5	0.1	-7.9 ^a	514.4	215.7	-241.8	40.0	-13.9
1961-64	-96.8	117.0	2.0	-21.6	0.6	191.3	-134.6	—	-56.7
Rest of Latin America									
1951-55	61.8	42.1	21.4	-8.1 ^a	117.2	4.9	-4.1	6.7	-7.5
1956-60	91.2	129.3	71.7	19.1 ^a	311.3	25.8	-38.4	5.9	6.7
1961-64	78.5	219.0	78.5	67.5	443.5	104.0	-79.6	15.1	-39.5

Source: ECLA, on the basis of official statistics.

^a Including short-term assets.

difficulty in financing its external debt. The most outstanding feature of its external transactions was the volume of net external investment which, in 1961-64, accounted for 43.9 per cent of the regional total, partly because of the stable conditions in Mexico and partly because of the opportunities offered by the size of the market and the possibilities of import substitution. But, side by side with this inflow of capital, the payments under the head of profits on foreign investment rose at an average annual rate of 17.8 per cent over the same period.

The case of Venezuela is basically unlike that of the other countries in that it has a credit balance instead of a deficit, and has thus been able to finance a substantial capital outflow, mainly

connected with the petroleum industry. In addition, there was a considerable fall in imports in the last five-year period compared with the preceding five years, thanks to vigorous import substitution.

In the remaining Latin American countries, gross loans more than doubled during the period in question and general indebtedness increased on the basis of short-term liabilities, which enabled imports to be kept up and even expanded; nevertheless, this did not give rise to a serious problem of indebtedness. Foreign investment averaged 78.4 million dollars a year in 1961-64, and remittances under the head of profits and interest 131.1 million dollars (6.5 per cent of export earnings).

Chapter VI

WORLD MARKET CONDITIONS FOR LATIN AMERICA'S STAPLE EXPORTS

An examination of the way in which the export trade of the Latin American countries has developed in the last two years will show that the increase in the total value of exports in 1963 and 1964 was not due to basic structural changes but to factors of quite another kind, which it is important to point out, namely, the decline in sugar and coffee output, and the large purchases of cereals, and wheat in particular, made by the Soviet Union and other socialist countries. Naturally the high level of economic activity kept up in the United States and Western Europe also contributed to the satisfactory development of the Latin American export sector. In 1965, however, export earnings seem to have expanded more slowly than in the two preceding years, partly because of the drop in the prices of sugar, cocoa and wool and partly because of the controls that had to be imposed on coffee exports to keep market quotations for this item fairly firm. The reduction in the growth rate of exports in 1965 was accompanied by another downturn in the terms of trade, as a result of the decline in international market quotations for some export items and the upswing in import prices.

It thus became a matter of vital importance to implement the recommendations on commodity trade adopted by the 1964 United Nations Conference on Trade and Development. Certain measures taken in the developed countries in the course of 1965 seem, however, to have run counter to those recommendations. An outline of the policies followed by the developed countries for such commodities as sugar, meat and wheat will be given later on. These policies were, in practice, a spur to self-sufficiency, since they either offered greater incentives to domestic producers, or tightened up the restrictions on imports of similar products or combined the two. Such policies not only hamper the expansion of Latin American export trade but are liable to reduce it and thereby create serious problems for the countries whose export trade consists essentially of those three commodities.

In recent years, it is the agricultural policy of the European Economic Community that has aroused the greatest concern in relation to these problems. Since the Treaty of Rome entered into effect, the Latin American countries have made repeated representations to the Community

authorities concerning the restrictive and discriminatory effects of the common agricultural policy and the preference given to products from associate countries over Latin American exports. Although the position of the Latin American countries is admittedly being considered by the organs of the Community, their interests do not yet carry enough weight to influence the tenor of Community policy. This can be explained to some extent by the fact that the representatives of the Community have been able to argue that Latin America's misgivings are unfounded in that its trade with the Community has increased rather than decreased in the last few years.

It is clearly still too early to judge the effect of the common agricultural policy and the Association Convention with some African countries on current trade flows. But, equally clearly, the upward trend of the Community's aggregate imports from Latin America in the last few years is not sufficient reason for dismissing Latin America's fears for the future of its exports to the Community as groundless.

In the first place, the Community's imports from Latin America have increased relatively less than its imports from other areas, with the result that Latin America's share of the Community's total purchases (excluding inter-Community trade) has been declining. Its share is of course much smaller (i.e. its rate of contraction has been faster) if it is measured against the Community's total imports, since inter-Community trade has been expanding rapidly.

Secondly, it is important to note that even though the Community's imports from the associated States have so far increased relatively less than those from Latin America, this has been due to a shortage of supplies in the former. The situation is changing rapidly, however. The financial aid received by the associated States through the European Investment Fund and the programmes for expanding agricultural production with that aid are laying the foundation for strong competition in future between these countries and Latin America. It is then that the Latin American countries will be at a disadvantage in the Community market, since imports from the associated States will be enjoying the preferential treatment established by the Association Convention.

The measures taken in certain developed countries to increase their self-sufficiency in sugar, grains and meat are equally in contradiction with the recommendation adopted with aid of their votes and set forth in Annex A.II.1 of the Final Act of the Conference. In that recommendation, the signatory States undertook not to create new tariff or non-tariff barriers or to increase those in existence against imports of primary commodities of particular interest to developing countries. Its purpose was essentially to prevent the imposition of new or greater restrictions from reducing the share currently held by products originating in the developing countries in the imports or supplies of the developed countries. It is clear that the maintenance of their share, in other words, the maintenance of the *status quo*, must be regarded as a transitional phase leading up to the attainment of the other objectives stated in that recommendation, i.e. the gradual reduction and elimination of the tariff and quantitative restrictions that are impeding access to the markets of the developed countries. The maintenance of the standstill on restrictions does not of course guarantee that the developing countries will keep their present share of the developed markets, since the policies of encouraging domestic production may radically change it. This explains the serious implications of the agricultural policy measures that have been taken in the European Economic Community, the United Kingdom and the United States, and holds out little promise for some of Latin America's export products in future.

In conclusion, it should be added that the problems of the international commodity markets do not stem solely from the policies adopted by the developed countries. The discussions at the recent United Nations Sugar Conference showed that even when international commodity agreements have already been concluded, as in the case of sugar, it is sometimes extremely difficult to iron out the differences between the developing countries themselves, not only when their interests as importers or exporters conflict, but when they coincide, as, for instance, when they are all exporters. Despite the agreement between both developed and developing countries on the advisability of negotiating international commodity agreements, such agreements have been concluded for only four products of interest to Latin America, namely, wheat, sugar, coffee and tin, and the agreement on sugar has been virtually inoperative for some years owing to the failure to come to a satisfactory arrangement on the distribution of export quotas. The negotiations on a Cocoa Agreement also broke down at the end of 1963,

after five years of preliminary talks, because it proved impossible to decide on the floor and ceiling prices to be fixed in the Agreement. The negotiations on sugar and cocoa are now under way again but there is no certainty that the respective Agreements will in the end be signed. In other words, despite unanimous support for the idea of international commodity agreements, the negotiation of their operative clauses bristles with difficulties that sometimes turn out to be insurmountable, because, at certain times, immediate interests are apt to carry more weight than the more general objectives of an international agreement, as, for instance, when a country finds it more advantageous to stay outside in the hope of increasing its exports at the expense of the signatory countries who are limited by the system of quotas established to keep prices steady. However, this is not the only kind of factor that acts as a stumbling-block to the conclusion of agreements. In spite of the radical change in the concept of the functions of commodity agreements, which has been clearly defined in Annex A.II.1 to the Final Act of the Conference on Trade and Development, most of the developed and developing countries still regard such agreements from the same standpoint as in the 1948 Charter of Havana, that is, as special procedures to be used in emergencies, such as the piling-up of production surpluses. It is precisely in this sort of situation that the chances of conducting successful negotiations that will take into account the interests of both importing and exporting countries are most hampered by the difference in their market expectations. As a result, the bargaining power of the exporter countries in particular is weakened, an adverse effect which is further accentuated by the pressures exerted on the balance of payments by falling external prices for the commodity in question.

The main developments that have recently been noted in world markets for Latin America's principal exports are described below for each commodity in turn.

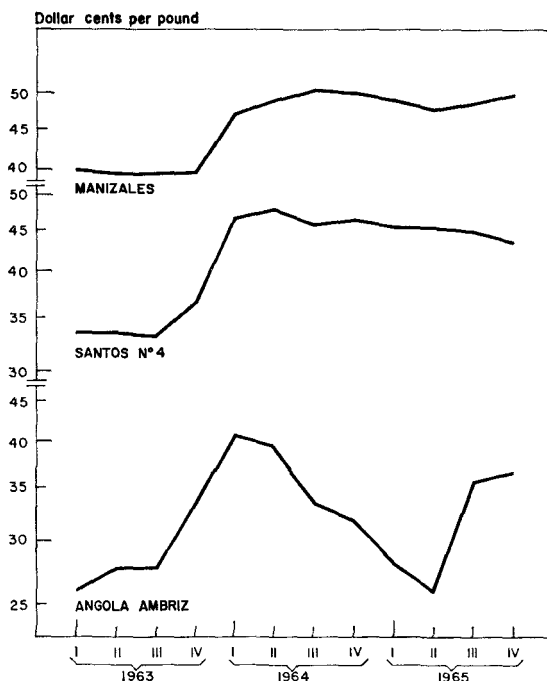
1. COFFEE

International market quotations for the main varieties of Latin American coffee fluctuated very little in 1965, the average for the whole year being only 4 per cent lower than in 1964 for Brazilian Santos and almost the same in both for Colombian Manizales. This relative price stability was essentially due to the restrictions placed on exports by the signatory States to the International Coffee Agreement. In other words, although the evolution of the coffee market was not unfavourable in 1965 as regards external

prices, it was unsatisfactory from the standpoint of volume, since the main producer countries had to limit their volume of sales in order to keep prices firm (see figure XIV).

Figure XIV. Coffee: New York prices, 1963-65

SEMI-LOGARITHMIC SCALE



Source: United Nations, *Monthly Bulletin of Statistics*.

From the beginning of 1965 there has been a certain slackening off in international demand that has threatened to wipe out the 1964 improvement in coffee prices over the low levels of the immediately preceding years. This led the parties to the Agreement to cancel, in the first few weeks of 1965, the increases that had been authorized in the export quotas, and, shortly afterwards, to arrange for a 4.5 per cent reduction in the total quota for the marketing year October 1964/September 1965. At the same time, in order to increase the regulatory powers of the Agreement, they agreed to establish a "guide price", which would be the average of the daily quotations for eight different qualities of coffee on the New York market, and empowered the Executive Board of the Agreement to adjust the export quotas as much as 6 per cent whenever the guide price was less than 38 or over 44 dollar cents per pound for fifteen consecutive market days.¹ The calculation of the guide price

¹ Pan American Coffee Bureau, *Annual Coffee Statistics 1964*, New York, 1965, pp. 10 et seq.

began at the end of March 1965, and the level recorded in the first few weeks (38 dollar cents per pound, i.e. the floor of the price range) was gradually raised during the next few months and towards the end of 1965 had reached 42 dollar cents per pound. The rise in price was largely attributable to the three types of African *robusta* included in the average, with some help from the improvement in the price of milds (one Colombian and three Central American). The other component of the average, the price of Santos coffee, declined to some extent in the last few months of 1965, partly because of the lowering of the export register of floor prices set by Brazil.

Thanks to the guide-price formula and the automatic adjustment of quotas whenever the guide price exceeded either limit, the International Coffee Agreement became a more flexible and effective regulatory instrument for keeping world market prices for coffee stable within certain bounds. It also provides a very useful yardstick for international agreements on other commodities (e.g. cocoa beans) that vary widely in price from one quality to another.

The weakening of international coffee demand in the early months of 1965 was largely a reflection of the change in immediate supply prospects indicated in the estimates of the volume of exportable coffee available in the 1965/66 marketing year. These estimates pointed to a notable recovery in Brazilian production (after its sharp fall the year before), and even higher levels were forecast in later estimates, bringing total world exportable production in 1965/66 up to 63.4 million bags (third estimate) as against 37.1 million in the 1964/65 marketing year (see table 60). Even if the comparison is made between the figures for 1962/63 and 1963/64, exportable production in 1965/66 will be a good deal higher; in other words, the imbalance between world supplies and consumption which has already existed for some years is becoming more marked.

Moreover, little progress has been made in reducing the heavy customs duties and other fiscal charges which have an adverse effect on coffee consumption in the majority of the European countries,² although, at the 1964 Conference on Trade and Development, these same importer countries recognized that it was desirable to lower these charges so as to make their markets more accessible to the exports of the developing countries. It is regarded, in fact,

² International Coffee Organization, *Informe preliminar acerca de los obstáculos que en la actualidad imponen los países miembros al comercio y consumo de café*, EB-149, Rev. 2, London, 1 June 1965.

Table 60. Coffee: World exportable production, 1962/63 to 1965/66
(Marketing years)

Country	1962/63 (thousands of 60-kilogramme bags)	Index: 1962/63=100		
		1963/64	1964/65	1965/66 ^a
Brazil	20,000	106.0	15.0	134.0
Colombia	6,500	110.8	106.2	104.6
El Salvador	1,540	122.4	122.1	127.9
Guatemala	1,700	92.9	81.8	105.0
Mexico	1,250	148.4	130.4	148.0
Other Latin American countries	4,244	98.4	99.1	105.1
TOTAL, Latin America	35,234	107.6	53.9	123.9
Africa	15,282	107.1	100.8	112.1
Other	2,900	90.7	93.6	88.4
WORLD TOTAL	53,416	106.5	69.5	118.6

Source: United States Department of Agriculture, *World Agricultural Production and Trade*, December 1965.

^a Third estimate.

Table 61. Coffee beans: World imports, by main countries, 1963-65

Country	1963 (thousands of 60-kilogramme bags)	Index: 1963=100	
		1964	1965
United States	23,893	95.8	89.1
Canada	1,288	96.8	88.2
Federal Republic of Germany	3,958	108.0	114.2
France	3,645	105.4	99.2
Italy	1,935	102.9	99.6
Netherlands	1,257	109.8	109.6
Belgium-Luxembourg	922	113.8	105.6
European Economic Community	11,717	107.0	106.0
Sweden	1,467	104.0	104.3
United Kingdom	1,275	102.2	76.3
Denmark	883	91.2	91.5
Finland	703	113.2	94.0
Norway	560	98.9	83.9
Switzerland	576	104.3	127.8
Austria	252	113.1	111.5
Portugal	222	80.6	98.2
European Free-Trade Association	5,938	101.8	95.6
Soviet Union	415	117.3	114.9
Eastern Germany	425	111.5	111.8
Hungary	94	158.5	243.6
Poland	167	111.4	189.2
Czechoslovakia	71	283.1	235.2
Eastern Europe	1,172	127.7	142.0
WORLD TOTAL	48,011	101.4	97.5

Sources: Pan American Coffee Bureau, *Coffee Statistics 1964*, New York, 1965; G. Gordon Paton, *Complete Coffee Coverage*, New York, 2 March 1966.

as one of the measures that can do most to increase coffee consumption in a large number of European countries where per capita intake is relatively low in comparison with the figures for the Scandinavian countries or the United States.

If recent consumption trends are judged by the volume of imports, a marked decline seems to have taken place in 1965 in a number of countries (see table 61). In the United States the total volume of imports in that year was 1.6 million bags (7 per cent) less than in 1964 when it also fell below the previous year's level. The figures for roasting have dropped successively in recent years, and in 1965 were at their lowest point since 1959. There has also been a steady deterioration in the quality of the coffee blends sold to the consumer which is obviously liable to reduce per capita consumption even more. In fact, the *robusta* variety, which a few years ago was used for soluble coffee only, is now widely used for ground coffee blends, and at the same time the number of cups obtained from each pound of coffee has increased. Thus, so far as the United States market is concerned, there is little immediate hope that imports will increase, unless current consumption trends are changed by a vigorous publicity drive to promote coffee (which is one of the functions of the International Coffee Organization).

The Western European countries also imported a smaller quantity of coffee in 1965, the total being about one million bags (6 per cent) less than in 1964, although, in this case, the fact that several countries reduced their volume of purchases seems to have been the result not so much of a decline in consumption as a policy decision to use up stocks in view of the substantial increase in the exportable surplus available after the 1965/66 harvest. This is the first sizable contraction that has taken place in Western Europe's imports in recent years.

Imports by the Soviet Union and the Eastern European countries, which had risen sharply in 1964, continued their upward trend in 1965. In relation to the world total, however, these imports are still fairly insignificant.

One facet of the international market situation that is of particular interest to the Latin American countries concerns the effects on their exports of the progressive unification of the Community's common external tariff. With the entry into force of the new Association Convention with the African States and Madagascar in June 1964, imports by the Community countries from those States were freed from all duties and charges, while those from third countries remained subject to the common external

tariff. In the Federal Republic of Germany, France and Italy, the process of alignment to the common external tariff means that existing duties and charges on coffee will be reduced, whereas, for the Benelux countries, it involves the establishment of a duty where none existed. From June 1964 to December 1965, an *ad valorem* duty of 2 per cent was enforced; this will be raised to 5 per cent between January 1966 and December 1969 and to 9.6 per cent (the common external tariff) as from January 1970. There is no doubt that the preferential treatment granted to the associated States gives their coffee a privileged position on the Community market, but the possibility that it will largely replace Latin American coffee is limited partly by the existence of the export quota system and partly by consumer habits. Preliminary information on the total volume of coffee imports by the Community in 1965 indicate that, despite a slight contraction in the total, Latin America's share remained much the same as in 1964, when it was 55 per cent. However, the import figures of the Federal Republic of Germany, which is the biggest importer in the Community and the market in which Latin American supplies bulk largest, show that the region's share has dwindled from 86 per cent in 1962 to 82 per cent in 1964 and 81 per cent in 1965.

World coffee exports in 1965 are reckoned to have dropped about 10 per cent below their level in 1964, the largest share of the decline being borne by the Latin American countries, mainly Brazil, Colombia and Mexico (see table 62).

Table 62. Coffee beans: Exports from Latin America, 1963-65

Country	1963 (thousands of 60-kilogramme bags)	Index: 1963=100	
		1964	1965
Brazil	19,516	76.6	69.2
Colombia	6,134	104.5	91.9
Costa Rica	959	87.3	...
Dominican Republic	460	123.3	...
Ecuador	500	83.4	154.2
El Salvador	1,575	110.8	...
Guatemala	1,668	87.0	...
Haiti	390	96.9	102.3
Honduras	333	93.1	...
Mexico	1,125	149.2	113.4
Nicaragua	477	78.4	...
Paraguay	104	79.8	...
Peru	662	103.1	...
Venezuela	390	83.6	76.4
TOTAL	34,293	83.1	...

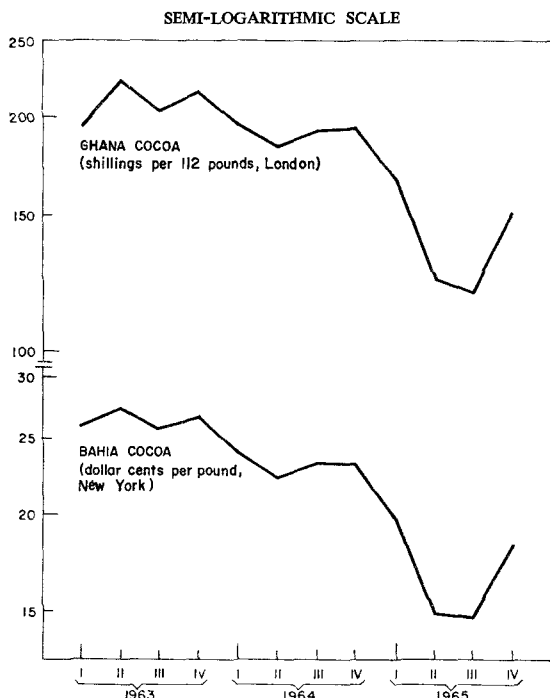
Source: Complete Coffee Coverage, op. cit.

The reduction in export quotas decreed by the Executive Board of the Agreement affected sales mainly in the second and third quarters of 1965, but the market revived during the last quarter of the year (which is also the first quarter in the marketing year for quotas), as a result of the 3 per cent increase in the aggregate quotas for the year October 1965 to September 1966. The downward trend of world exports in 1964 and 1965 may consequently be halted in 1966.

2. COCOA

The decline in international cocoa bean prices, which was fairly marked in 1964 (the average for that year on the New York market being 14 per cent lower than in 1963), sharpened even more in the first half of 1965. In July of that year, when quotations had sunk to their lowest level, the monthly average was nearly 50 per cent lower than in the second half of 1964, and even though prices recovered somewhat during the rest of the year, the annual average was 27 per cent lower than in 1964 (with a similar decline on the London market) (see figure XV).

Figure XV. Cocoa beans: New York and London prices⁴ 1963-65



Source: United Nations, *Monthly Bulletin of Statistics*.

The steepness of the fall in world market prices for cocoa was due, in the first place, to the steady increase in world production in recent

years, particularly in the 1964/65 crop year, when output rose by 25 per cent over the previous year's level, and, secondly, to special market conditions connected with the attempt made by some of the producer countries to regulate supplies. Another and equally important factor has been the slow growth of consumption, which has led to the accumulation of big stocks in the main importing countries. Then, too, the imbalance between total supplies and consumption caught the producers without the necessary institutional machinery to carry out a policy of price protection on international markets. In fact, after the failure of the United Nations Cocoa Conference of September 1963 to work out an international agreement on this commodity, the possibilities of setting up some sort of mechanism for regulating cocoa supplies depended on a consensus of opinion among a few of the countries concerned. This was achieved in 1964 when the Cocoa Producers Alliance composed of the five major world producers (including Brazil) was set up. The way in which this group of countries tried to stabilize the market to some extent included the establishment of a "guide price" (the average price for the third quarter of 1964) and of export quotas which were to be adjusted as expedient to keep cocoa quotations at approximately the same level as the guide price. A few weeks after adopting these regulations, the members of the Alliance agreed to suspend cocoa exports, but because of the large stocks in the hands of the principal importer countries³ and the small number of firms that control the bulk of the import trade in those countries, the regulations had virtually no practical force. Thus, when the member countries lifted the embargo on exports, the market was flooded and the result was the catastrophic fall in prices referred to above.

The Committee on Commodities of the Trade and Development Board at its 1965 July session (when the slump was at its worst) recommended the emergency adoption of certain measures to relieve the extremely critical state of the cocoa market. They included the establishment of a minimum price for cocoa exports during the 1965/66 marketing year, the creation of a buffer emergency fund through contributions from Governments and international financing organizations to give the producer countries short-term loans to enable them to hold on to their stocks, the study of plans to promote

³ The stocks in the major importing countries are estimated to have been 204,000 tons at the end of 1958, 307,000 tons at the end of 1960, 475,000 at the end of 1962 and 500,000 at the end of 1964, (Gill and Duffus, *Cocoa Market Report*, London, 7 October 1965).

non-traditional uses of cocoa, and, lastly, the abolition of the customs duties and internal taxes that are limiting cocoa consumption in some of the importing countries.⁴ The Working Party on Prices and Quotas of the United Nations Cocoa Conference also held two special sessions in the second half of 1965 to review that state of the world cocoa market, during which both the importer and producer countries agreed that it was vital to take steps to improve market quotations and to reopen negotiations for an international agreement. As regards the possibility of abolishing or lowering existing duties and charges on cocoa, the importer countries stated that as all the problems connected with a possible reduction of customs duties on tropical products (including cocoa) were being discussed in GATT (the Kennedy Round), they were not prepared to take any step in that respect until the negotiations had been concluded. Customs duties on imports of cocoa beans range from 4 to 6 per cent *ad valorem* in the majority of European countries, although some are much higher, but the level rises considerably for processed products (cocoa butter, cocoa powder and chocolate confectionery) on which there is usually an *ad valorem* duty of over 25 per cent.⁵ Apart from the incidence of these duties, the situation of the Latin American exporters is aggravated by the unequal footing on which they have to compete with the African producers

in the major European markets, since most of the African exporters enjoy total exemption from payment of duty by virtue of being either associated States of the European Economic Community or members of the British Commonwealth.

The cocoa market slump was thus mainly a result of the sharp upswing in world production and the relatively slow growth of consumption. During the last few months of 1965, the trend taken by the market gave further proof of the strong influence exercised over the short term by changes in its future prospects. In fact, early estimates of production in the 1965/66 marketing year indicate that it would return to its pre-1964/65 level. Output was subsequently confirmed to have been only 1.2 million tons, as against 1.5 million the year before (see table 63). However, the slight improvement that took place in international cocoa prices during the last few months of 1965 was caused partly by the decline in world production and partly by favourable consumption trends. In terms of world milling figures, the growth of consumption between 1962 and 1964 was very small although world market prices had dropped. The reason for this was that the reduction in the price of the raw material was not reflected in the consumer price of the processed product, as will be seen from a comparison between, for instance, the wholesale price indexes for chocolate confectionery and for cocoa beans in the United Kingdom. This will show that cocoa bean prices have fallen far below their 1954 level in recent years, whereas the prices of chocolate confectionery have not only failed to go down but are even higher than in 1954. The highly critical state of the market by the

⁴ Trade and Development Board, *Report of the Committee on Commodities on its first session*, TD/B/21, 13 August 1965.

⁵ For a summary of the different taxes applied in importer countries, see Gill and Duffus, *Cocoa Market Report*, London, 7 February 1966.

Table 63. Cocoa beans: World production, by selected countries and regions, 1962/63 to 1965/66

Country or region	1962/63 (thousands of long tons)	Index: 1962/63 = 100		
		1963/64	1964/65	1965/66
Brazil	109	111.0	107.3	137.6
Costa Rica	11	100.0	109.1	109.1
Dominican Republic	40	100.0	95.0	82.5
Ecuador	38	92.1	126.3	105.2
Mexico	26	65.4	84.6	96.2
Venezuela	20	100.0	100.0	100.0
Other Latin American countries	47	108.5	102.1	102.1
TOTAL, Latin America	291	101.4	104.8	112.4
Africa	840	105.4	139.2	104.5
Other	27	81.5	103.7	118.5
WORLD TOTAL	1,158	103.8	129.7	106.8

Source: Gill and Duffus, *Cocoa Market Report*, London, 7 February 1966.

middle of 1965 and the need to give a stronger impetus to consumption seem to have changed the situation somewhat; in mid-1965 representatives of the chocolate manufacturing industry in the United Kingdom and the United States announced an increase in the net chocolate content of their products for the same price, thereby helping to push up the volume of world milling that year. Preliminary estimates for 1965 point to an increment of 13 per cent over the figure for 1964, and another sizable increase is forecast for 1966.

World exports of cocoa beans were slightly over one million tons in 1962, 1963 and 1964, but the volume of Latin American exports in those years was much smaller than before because of the sharp contraction in Brazil's sales. There are no provisional estimates available yet on the volume of world exports in 1965, but it is thought to have been 10 per cent less than in the preceding year. The trend of Latin America's exports is shown in table 64.

Table 64. Cocoa beans: Exports from Latin America, 1963-65

Country	1963 (thousands of long tons)	Index: 1963=100	
		1964	1965
Brazil	68	108.1	121.5
Costa Rica	9	99.7	68.9
Dominican Republic	23	118.4	...
Ecuador	35	75.5	110.8
Mexico	18	18.4	59.4
Venezuela	12	100.2	100.8
TOTAL	165	91.8	...

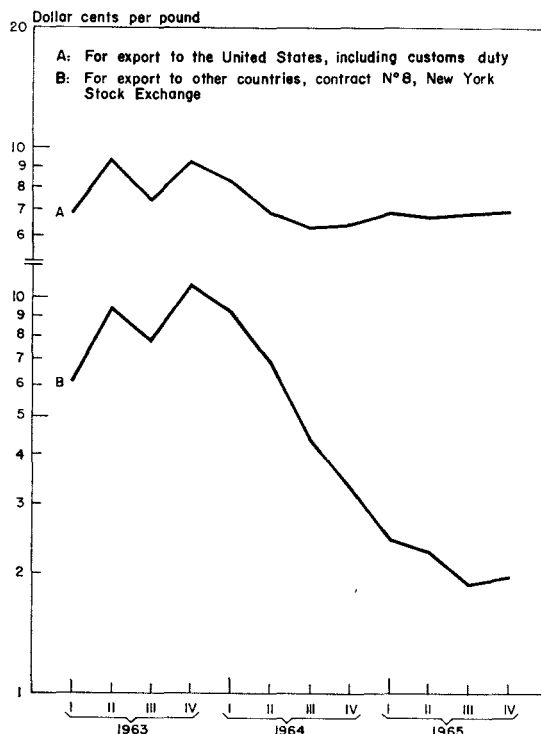
Source: Gill and Duffus, *Cocoa Market Report*, London, 7 February 1966.

3. SUGAR

Because of its residual nature, the free sugar market has always tended to be very unstable. During the last three years, quotations for exports to this market area fluctuated widely, and in 1965 slumped to about the same levels as before the Second World War. The decline began early in 1964 at a high point, the highest, in fact, that had ever been reached because of the shortage of sugar supplies the year before. The drop in prices during the first half of 1964 thus reflected the easing of the supply situation. But what began by being a market adjustment, was shortly transformed into an acute crisis, as the fall in prices continued and sharpened with an intensity that will be appreciated if the average for January 1964 (10.75 dollar cents per

pound of raw sugar, Contract No. 8 on the New York Stock Exchange) is set against the average for December of the same year, which was 2.83 cents less, and for August 1965, which was as low as 1.79 dollar cents per pound (see figure XVI).

Figure XVI. Raw sugar: New York prices, 1963-65
SEMI-LOGARITHMIC SCALE



Source: United Nations, *Monthly Bulletin of Statistics*.

The main cause of the slump was the sharp expansion in the volume of world production in 1964/65, which is estimated to have been 72 million short tons against 59.8 million in 1963/64 and 54.9 million in 1962/63 (see table 65). Because of the division of the market into areas governed by bilateral agreements and import quotas, the surplus was dumped on to the free market, whose instability and price fluctuations were thereby increased.

Up to 1962, the sugar trade in the free market area was regulated by the International Sugar Agreement. Since then, however, the operative articles of the Agreement (which regulated the exports of member countries by means of a price range and quotas which were adjusted if the price range was exceeded in either direction) have not been enforced because of the breakdown of the negotiations held to renew the

Agreement. The want of this mechanism for regulating exports contributed to sharpen the fall in prices during the second half of 1964 and throughout 1965. The efforts made to ease the critical situation in this market area therefore concentrated on paving the way for the negotiation of a new international sugar agreement. With that end in mind, the United Nations Sugar Conference was convened at the end of September 1965, and, during its first session, exploratory talks were held on the basis of a draft agreement drawn up by the Executive Director of the International Sugar Council. Although the session's only formal achievement was the approval of a Protocol keeping the 1958 Agreement partially in force for another year, it did enable a preliminary exploration to be made of two of the most complex issues to be negotiated: the export quotas and the floor and ceiling prices to be fixed in the Agreement. On this last point, an official source indicated that a certain number of countries (including the Soviet Union, the United Kingdom and the United States) had informally agreed to set the floor and ceiling prices at 4 and 5.50 dollar cents per pound.⁶ The Conference decided to resume its meetings early in 1966.⁷

⁶ Merrill Lynch, Pierce, Fenner and Smith Inc., *Sugar Weekly Letter*, New York, 15 October 1965.

⁷ At the beginning of March 1966, the exporter countries parties to the International Sugar Agreement decided to make a joint effort to improve sugar quotations in the free market area, while reopening negotiations for a new agreement. To that end, the exporter countries agreed: (1) to adopt a marketing policy designed to improve free market prices in the near future; (2) as the first step in that direction, not to sell raw sugar for less than 2.50 dollar cents per pound, f.o.b. Caribbean ports; (3) to meet again as a group at the end of the first month of implementation of the agreement to see whether it was working well and to take the necessary decisions; (4) to set up a Marketing Advisory Committee to advise the exporter countries on the implementation of the scheme and on further action for achieving its objectives; (5) that the present scheme was voluntarily and did not affect their attitude towards a future international agreement; and (6) to keep the operation of the scheme preferably to the commercial sector with the least possible Government involvement (International Sugar Council, *Press Release* (66) 5, 3 March 1966, published in *Press Summary* (66) 3, London, 21 March 1966). The agreement, as described, constitutes the practical application of recommendation B.3 in Annex A.II.1 of the Final Act of the United Nations Conference on Trade and Development. The recommendation considerably widens the field of international commodity agreements, which can range from the traditional type of commodity agreement to less formal arrangements. An arrangement of similar scope and aims was entered into by the countries that joined the Cocoa Producers Alliance, although the conditions in which it took effect were very different from those prevailing on the sugar market. In any event, both initiatives are likely to be a source of useful experience for the developing countries.

Save in exceptional periods such as that in 1963, the fluctuations in quotations for sugar exported to the United States were kept within fairly narrow bounds because of the system of import quotas that regulated supplies for consumption there. During the exceptional period that occurred in 1963, quotations fluctuated as widely as those in the free market area. As supplies began to flow in more regularly again, quotations for exports to both areas—the free market and the United States—tended to decline, in the former assuming the proportions of a slump but in the latter dropping gradually. The annual average price quoted on the United States market in 1964 and 1965 was therefore lower than in 1963 (when supplies were scarce) but higher than in 1960–62.

During most of 1965, a climate of uncertainty prevailed in the sugar trade geared to the United States market because of the prolonged discussions in Congress on the proposed amendments to the country's sugar legislation. There were three key points of interest to Latin American exporters: the specification of the share of aggregate consumption to be reserved for domestic producers; the distribution of import quotas among foreign suppliers; and the decision as to whether imports brought in under the quotas would be liable to payment of an additional tax intended to absorb some or all of the difference between domestic prices and free market prices. At the second meeting of the Sugar Authorities of the States Members of the Organization of American States (Washington, April 1965), the participating countries adopted a resolution setting forth the principles that they hoped to see embodied in the new legislation. Among these, specific mention was made of the need for the United States to step up its total imports; for the import quotas to be so distributed as to permit the Latin American countries as a whole to provide 90 per cent of the total imports (excluding those from the Philippines) and for no variable import duties to be imposed over and above those currently applied.⁸ The amendments eventually adopted failed, on the whole, to meet the hopes of the Latin American exporters, since, although variable duties and charges were not imposed on imports, the new legislation constituted a step backwards in all other respects. For instance, the share of domestic producers in total supplies was increased, and this naturally reduced the share of the countries

⁸ Inter-American Economic and Social Council, *Second Meeting of the Sugar Authorities of the States Members of the OAS*, document UP/CIES No. 13, 21 April 1965.

Table 65. Sugar: Production in Latin America and world total, 1962/63 to 1965/66

Country	1962/63 (thousands of short tons)	Index: 1962/63=100		
		1963/64	1964/65	1965/66
Costa Rica	96	104.2	114.6	119.8
Dominican Republic	847	114.5	106.3	106.3
El Salvador	68	126.5	173.5	182.4
Guatemala	152	104.6	103.9	110.0
Haiti	67	101.5	92.5	104.5
Honduras	30	100.0	113.3	143.3
Mexico	1,870	112.1	121.9	135.9
Nicaragua	111	94.6	110.8	110.8
Panama	40	135.0	157.5	162.5
Argentina	858	134.8	125.5	143.0
Bolivia	55	183.6	154.5	145.5
Brazil	3,576	101.2	116.1	128.0
Chile	119	100.0	111.8	131.1
Colombia	449	88.9	108.7	130.1
Ecuador	149	87.2	87.2	128.9
Paraguay	38	107.9	147.4	131.6
Peru	904	95.6	97.4	100.0
Uruguay	57	77.2	147.4	129.8
Venezuela	292	110.1	134.9	148.6
SUB-TOTAL	9,778	107.2	115.9	127.0
Cuba	4,211	104.5	156.7	156.7
TOTAL, Latin America	13,989	106.4	128.2	135.9
WORLD TOTAL	54,856	109.0	131.2	127.6

Source: United States Department of Agriculture, *Foreign Agriculture Circular, Sugar FS-7-65*, December 1965.

subject to the quota system; broad powers were given to the Government to cancel the import quota granted to a particular country if it were thought necessary on grounds of national interest or if the country in question were expropriating the property of United States citizens without adequate compensation; and it was decided that the concession of import quotas and the redistribution of the occasional deficits of some countries in filling their quotas would be made in the light of the current or potential capacity of the country enjoying the right to a quota to acquire agricultural surpluses from the United States.

The reduction of Latin America's share in the United States total sugar imports and consumption can be seen from the following figures for the distribution of over-all consumption estimated by the United States Department of Agriculture at 9.7 million short tons.

	Legislation prior to 1962	Law of 1962	Law of 1965
	(Thousands of short tons)		
Total consumption	9,700.0	9,700.0	9,700.0
Domestic producers*	5,186.5	5,810.0	6,390.0
Foreign suppliers	4,513.5	3,890.0	3,310.0
Of which Latin America	3,524.3	2,563.6	1,638.0
	(Percentages)		
Latin America's share in:			
Total consumption	36.3	26.4	16.9
Foreign supplies	78.1	65.9	49.5

* Including Hawaii, Puerto Rico and the Virgin Islands.

The consumption figures are reviewed in the course of the year so that the necessary proportional adjustments can be made. This tends to alter the real tonnage of imports from Latin

America, which is also affected by the redistribution of the deficits of other foreign suppliers. Thus, in 1965, total consumption amounted to 9.9 million short tons, of which domestic producers accounted for 6.1 million and foreign suppliers for 3.8 million, with Latin America supplying 1.87 million, i.e. 49 per cent of imported supplies and 19 per cent of total consumption.⁹

It was stated earlier on that world sugar production in 1964/65 was 72 million short tons, or 20 per cent more than in the previous year. The largest increment recorded for Latin America was achieved in Cuba, where output amounted to 6.6 million short tons against 4.4 million in the 1963/64 crop year (see again table 65). The aggregate output of the other Latin American countries was 11.3 million tons in comparison with 10.5 million in 1963/64. Latin America, as a net exporter area, thus contributed only 3 million short tons to the total increment of 12.2 million in production between 1963/64 and 1964/65. Estimates for 1965/66 show that some important changes have taken place, which will no doubt have improved general market prospects. A moderate decline in world production is forecast, which, being concentrated in Eastern Europe, the Soviet Union, Western Europe and the United States may act as an incentive to

⁹ United States Department of Agriculture, *Sugar Reports*, January 1966.

Latin American exports. Latin America's total output, on the other hand, continued to expand.

The figures for Latin America's exports in 1965 are still very fragmentary and it is not yet possible to determine whether the total recovered after the setback it suffered in its exports in 1964 (see table 66).

4. MEAT

The quotations for Argentine beef on the United Kingdom market rose fairly considerably during the second and third quarters of 1965, but during the last few months of the year most of the increment was wiped out when quotations fell below their level in the first nine months. The annual average for 1965 reflects the high levels that prevailed during most of the year, being nearly 10 per cent over the 1964 average (see figure XVII).

The firmness of the market and market quotations during the major part of 1965 represented a continuation of the trend that had already manifested itself in 1964 in most of the European markets where consumption expanded more rapidly than domestic production. The upswing in international demand also coincided with a period in which Argentina's over-all production was restricted, partly by the decision to reduce the slaughtering rate in order to reconstitute the herds.

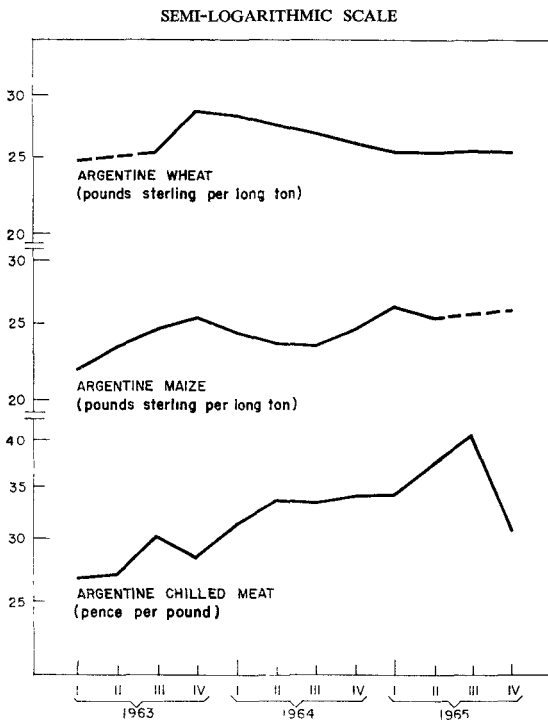
The change in the trend of the market during the last few months of 1965 points to the

Table 66. Sugar: Exports from Latin America, 1963-65
(Thousands of tons)

Country	1963	1964	Period		
			1964	1965	Months
Argentina . . .	339.7	45.5	39.0	82.2	January-September
Brazil . . .	486.7	268.2	149.2	531.6	January-September
Colombia . . .	40.3	25.4	—	15.8	January-March
Costa Rica . . .	34.1	36.8	...	...
Ecuador . . .	47.0	51.5	...	...
El Salvador . . .	20.4	19.4	...	...
Guatemala . . .	46.8	62.0	...	...
Haiti . . .	36.7	23.3	...	...
Mexico . . .	377.4	486.3	314.3	372.6	January-June
Nicaragua . . .	44.1	48.9	...	...
Panama . . .	10.4	17.3	...	...
Peru . . .	480.6	428.4	266.6	258.1	January-September
Venezuela . . .	49.6	6.6	...	...
SUB-TOTAL	2,685.0	2,181.1	...	...
Cuba . . .	3,520.5	4,176.1	...	...
TOTAL	6,205.5	6,357.2	...	...

Source: International Sugar Council, *Statistical Bulletin*, vol. 25, No. 1 (January 1966), tables 3, 27 and 76.

Figure XVII. Wheat, maize and meat: London prices, 1963-65



Source: United Nations, *Monthly Bulletin of Statistics*.

restoration of a better balance between meat supply and demand, and the impact of a body of measures adopted in the United Kingdom and the European Economic Community providing much stronger economic incentives to domestic production. In the United Kingdom the measures included an increase in the guaranteed price (or support price) for beef cattle, an increase in the established subsidy for certain types of cattle and an extension of other benefits granted to stock farmers. In the European Economic Community, the minimum and maximum limits of the guide price for 1965/66 were set a good deal higher than for 1964/65 in the hope of giving a greater impetus to domestic production. In the market conditions prevailing in 1964 and 1965, the regulations adopted by the Community had scant effect; in fact, some of them were suspended up to mid-1965 so that immediate consumption requirements could be met. It is obvious, however, that as the goals of the common agricultural policy on meat are approached, the effectiveness of the quantitative restrictions and of the import levies will make it more difficult for Latin American exports to enter the market. What is more, the quantitative regulations and tariff barriers may become more

stringent with the application of the complex sanitary code adopted by the Community.

The evolution of the United States market is no less unfavourable for Latin American exporters. The legislation setting quantitative restrictions on imports of fresh, chilled and frozen beef did not have to be invoked to keep these imports down, and in 1965 they were nearly 15 per cent less than in 1964. The rise in domestic prices is apparently connected with the reduction of per capita consumption in 1965, although the factors that probably had most to do with the drop in total imports are certain regulations adopted in various parts of the United States whose effect is to block free trade in meat.

Table 67 traces the evolution of Argentina's and Uruguay's meat exports in the last three years by main areas of destination. Both countries saw the volume of these exports shrink in 1965.

5. WHEAT

International wheat quotations, which had risen between the second half of 1963 and the first half of 1964 as a result of the big purchases made by the Soviet Union and mainland China, declined during the second half of 1964, and throughout 1965 remained close to the floor price fixed by the International Wheat Agreement (see again figure XVII). This trend in international prices partly offset the high wheat production figures recorded by Argentina, the main Latin American exporter. In fact, in 1963/64 and 1964/65, Argentina's output topped its total for the last eighteen years, thus enabling the volume of its exports to be stepped up considerably in 1964 and even more in 1965 (see tables 68 and 69). However, the larger volume of exports in 1965 fetched lower prices than those commanded the year before.

The drop in international market prices was partly due to the weakening of demand in the importing countries, as a result of the upturn in production in the European Economic Community, the Soviet Union and the United Kingdom after the decline that took place in 1963/64 (see again table 68). The fall in import demand caused world exports to shrink from 56.4 million tons in the marketing year 1963/64 to 50.6 million tons in 1964/65, in other words, by 10 per cent. The exports most affected by the contraction were those of the United States and Canada, and, to a much smaller extent, those of Australia; sales from Argentina and France, on the other hand, increased substantially. The other factors influencing immediate market prospects were chiefly related to the line taken by

Table 67. Beef: Exports from Argentina and Uruguay, by main countries of destination, 1963-65
(Thousands of tons)

Exporter country and destination	1963	1964	January-September	
			1964	1965
A. Argentina:				
Belgium	18.0	13.5	10.6	4.9
Federal Republic of Germany	27.7	56.9	44.9	30.0
France	5.8	14.1	5.4	6.8
Italy	84.2	88.7	76.2	43.0
Netherlands	17.8	21.2	17.7	18.4
	SUB-TOTAL	153.5	194.4	154.8
United Kingdom	224.9	145.4	109.0	78.4
Other	149.9	45.0	36.1	43.8
	TOTAL	528.3	384.8	299.9
B. Uruguay:				
Belgium	1.6	1.4	1.1	1.4
Federal Republic of Germany	1.5	20.1	17.1	6.6
France	—	4.2	0.9	6.9
Italy	2.4	13.1	10.2	6.8
Netherlands	1.0	8.9	6.8	8.5
	SUB-TOTAL	6.5	47.7	36.1
United Kingdom	39.0	31.3	29.4	3.9
Other	17.0	38.6	34.3	21.8
	TOTAL	62.5	117.6	99.8

Source: Commonwealth Economic Committee, *Intelligence Bulletin*, London, December 1965.

Table 68. Wheat: Production in selected countries and world total, 1962/63 to 1965/66

Country	1962/63 (thousands of tons)	Index: 1962/63 = 100		
		1963/64	1964/65	1965/66
Argentina	5,171	172.9	195.3	...
Brazil	272	50.0	110.0	...
Chile	1,274	103.5	97.8	...
Colombia	162	55.6	52.5	...
Mexico	1,502	117.6	119.8	139.8
Uruguay	452	52.3	142.8	...
Canada	15,392	127.9	106.7	134.9
United States	29,765	104.4	118.0	124.1
Eastern Europe	17,010	101.7	106.5	107.4
European Economic Community	29,361	83.6	99.7	102.0
Soviet Union	54,431	73.5	105.0	...
United Kingdom	3,974	76.7	93.0	103.8
	WORLD TOTAL	268,365	84.6	94.3

Source: United States Department of Agriculture, *Foreign Agriculture Circular*, FG-5-65, FG-10-65.

Table 69. Wheat and wheat flour: World exports, by country, 1962/63 to 1964/65

Country	1962/63 (thousands of tons)	Index: 1962/63=100	
		1963/64	1964/65
Argentina . .	1,806	153.8	235.5
Australia . .	4,788	163.2	136.4
Canada . . .	9,015	167.4	131.0
France	2,978	90.0	155.0
Soviet Union .	5,330	24.1	21.7
United States .	17,332	133.3	112.9
Other	2,265	160.9	115.9
WORLD TOTAL	43,514	129.6	116.2

Source: International Wheat Council, *Review of the world wheat situation*, London, 1965.

national wheat policy in the European Economic Community, the United Kingdom and the United States. The grain policy of the Community is designed, by means of a complicated system of price administration to give a margin of preference to purchases made among the members of the Community and to bring about greater self-sufficiency in these commodities, while providing funds for granting subsidies to finance exports of the surpluses that found no outlet on the domestic market. Because of the different quality requirements for wheat, a certain amount will probably always have to be imported, but the volume of these imports will tend to decrease as production in the Community is stepped up under the effect of the incentives offered.

The United Kingdom has applied a plan for expanding agricultural production one of whose aims is to increase grain production by 4.75 million tons over the next few years so as to cover the total increase in demand and if possible reduce import requirements. The tendency towards a decline in import demand has already made itself felt, since the proportion of imports in total cereal consumption shrank from 46 per cent in the period 1961/62–1963/64 to 40 per cent in 1964/65, while the targets proposed for the expansion of production up to 1970 will cut the share of imports to only 28 per cent.¹⁰

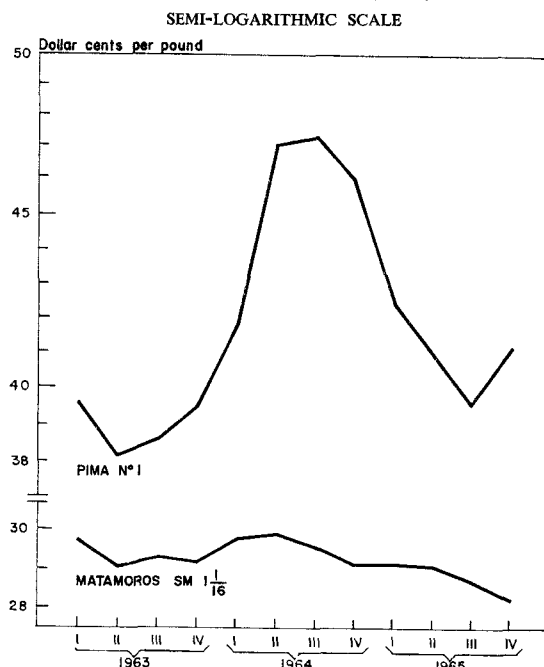
In the United States changes were made in the system of support prices, the mode of operation of the programme and the level of subsidies so as to improve the competitive status of wheat on the world market, but the restrictions on the size of the wheat-growing area remained in force.

¹⁰ United States Department of Agriculture, *Foreign Agriculture Circular*, 22 November 1965.

Moreover, the United States programme of sales under special conditions (Public Law 480) may be expanded in the near future as a result of the indirect stimulus given to it through such devices as the arrangement made in relation to the assignment of import quotas for sugar.

6. COTTON

The steadiness of world market quotations for medium and short-staple cotton in the last five years was slightly shaken in mid-1965 when they dropped by about 3 per cent (see figure XVIII).

Figure XVIII. Cotton: Liverpool prices, 1963–65

Source: International Cotton Advisory Committee, *Monthly Bulletin*.

This decline seems to have been mainly a result of the amendments proposed—and adopted towards the end of the year—in United States cotton legislation, particularly as regards the level of support for domestic prices, and export policy. It is well known that, because of the United States' importance as the leading world producer and exporter of cotton, changes in its sales policy have a far-reaching effect on international prices. Even though the reform of the cotton legislation in 1965 had less of an effect than the policy for the disposal of surpluses adopted in 1956, which brought prices down sharply between that year and 1958, one of the major aspects of the new legislation is the reduction in the domestic support price which it is

hoped will stimulate exports. For the Latin American exporters this is the key issue, since their chances of finding a market hinge on the strength of the competition offered by United States cotton. The new legislation restores the controls set by the previous legislation over the cotton-growing area and even provides incentives for the growers to reduce the area cultivated over and above their authorized allotment. However, the experience of past years has shown that even if such incentives succeed in cutting the total cotton-growing area down to less than the specified maximum, the restrictive effect on over-all cotton output will be practically negligible, since the concentration of production on the best cotton land and the improvement of the methods of cultivation will, by raising yield per unit of area, militate against the effect sought in reducing the area. In short, what begins as a policy for restricting production and reducing the accumulation of surpluses ends by being a policy for improving agricultural productivity and thus the competitive position of United States cotton on the world market.

Because of the big stockpiles of surpluses that have accumulated in the United States, the relatively small annual increments in world production and consumption of cotton have little effect on the level of prices for medium and short-staple cotton. In the case of long and extra-long-staple cotton, however, which form a fairly small proportion of world output, the annual variations in production and consumption have an immediate impact on prices, as demonstrated by a comparison of the changes in world market quotations for one of these qualities (Peruvian Pima No. 1) over the last three years with the variations in production.

During the marketing years 1963/64 and 1964/65, world cotton consumption increased enough to make up for the ground it had lost in the two preceding seasons and even achieved a new record. But if this peak figure of 10.8 million tons (world consumption in 1964/65) is measured against the total of 10.5 million obtained in 1959/60, the consumption increment in the last few years is reduced to its true proportions. The slow growth of consumption is mainly due to increased competition from man-made fibres, for which demand has been shooting up in recent years as a result of improvements in the production processes, and the reduction in prices made possible by these technological innovations and the rise in output. To quote one example, the price of a non-cellulose fibre (polyester 1.5 denier) in the United States dropped from 1.14 dollars in 1963 to 98 cents in 1964 and 84 cents in 1965. In the same country, the proportion of

cotton in total industrial consumption of all textile fibres shrank from 64.6 per cent in 1960 to 53.9 per cent in 1965.¹¹

Production and export figures are given in tables 70 and 71.

Table 70. Cotton: Production in Latin America and world total, 1962/63 to 1964/65

Country	1962/63 (thousands of tons)	Index: 1962/63=100	
		1963/64	1964/65
Argentina . . .	133	75.2	97.7
Brazil . . .	488	104.5	93.2
Colombia . . .	82	89.0	73.2
El Salvador . . .	70	105.7	114.2
Guatemala . . .	52	125.0	138.5
Mexico . . .	523	87.4	98.8
Nicaragua . . .	73	127.4	169.9
Paraguay . . .	13	100.0	107.7
Peru . . .	145	96.6	93.8
TOTAL	1,579	96.6	100.6
WORLD TOTAL	10,454	104.8	107.8

Source: International Cotton Advisory Committee, *Cotton*.

Table 71. Cotton: Exports from Latin America and world total, 1962/63 to 1964/65

Country	1962/63 (thousands of tons)	Index: 1962/63=100	
		1963/64	1964/65
Argentina . . .	47	51.1	—
Brazil . . .	249	89.5	80.3
Colombia . . .	23	52.2	34.8
El Salvador . . .	64	103.1	87.5
Guatemala . . .	46	128.3	134.8
Mexico . . .	409	75.3	84.8
Nicaragua . . .	62	140.3	174.2
Paraguay . . .	7	142.8	157.1
Peru . . .	134	85.8	76.1
TOTAL	1,041	(86.8)	85.9
WORLD TOTAL	3,458	113.6	104.8

Source: International Cotton Advisory Committee, *Cotton*.

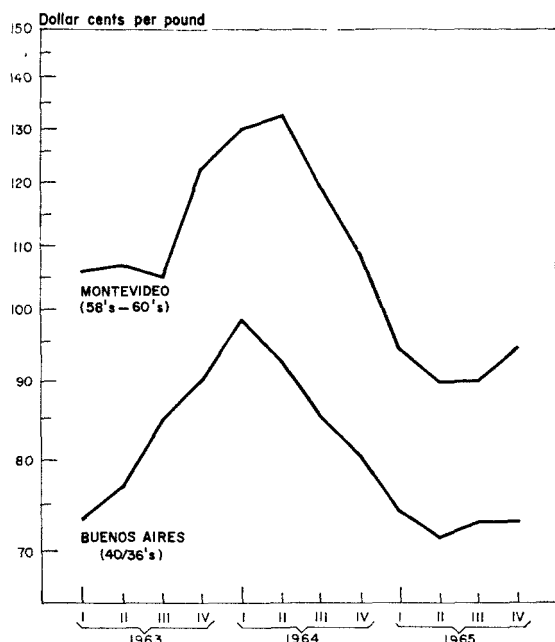
7. WOOL

The improvement of wool prices in the 1963/64 marketing year was short-lived. In the second half of 1964 they fell steadily, and continued to do so during most of 1965, with the result that

¹¹ United States Department of Agriculture, *Cotton Situation*, November 1965.

the average for that year was considerably lower than for the two preceding years (see figure XIX). World production and consumption of wool are fairly well balanced, even though changes in consumption are usually accompanied by variations in price. The levels reached by consumption in 1961-63 were followed by a drop of 4 per cent in 1964 and a further drop of about 2 per cent in 1965, and, although these changes were on a relatively small scale, they had a sharp impact on quotations for Latin American wools, since two representative qualities of Uruguayan and Argentine wools dropped more than 25 per cent in price between the beginning and end of 1964. In 1965, the fluctuations in price were more restrained, but, as indicated above, the average for the year was much lower than before.

Figure XIX. Wool: Boston prices, 1963-65
SEMI-LOGARITHMIC SCALE



Source: United Nations, *Monthly Bulletin of Statistics*.

Wool is another of the commodities whose production the United States has tried to stimulate by the adoption of certain measures. The method of calculating the domestic support price was modified, with the result that the price, which had been 62 dollar cents per pound (of greasy wool) up to 1965, rose to 65 dollar cents per pound in the following year. Although it is difficult to decide exactly how much this added incentive affected wool production in the United

States, it will certainly help to counter-balance the downward trend of production in recent years and may thus reduce the current proportion of imported wool in the country's total consumption.¹²

As in the case of cotton, the competition put up by man-made fibres is a pre-eminent factor in the international wool market. The big price reductions achieved for the majority of man-made fibres is a powerful incentive to their substitution for natural fibres, and the result is that they account for most of the increment in the consumption of textile fibres produced by the growth of the population and the improvement in living levels. In the four-year period 1960-63, world wool consumption remained stationary at 3,300 million pounds annually, and declined in the next two years.

The volume of output and the exports of the five countries that supply the bulk of world wool consumption are shown in tables 72 and 73.

Table 72. Wool: Production in selected countries and world total, 1962/63 to 1965/66

Country	1962/63 (millions of pounds)	Index: 1962/63 = 100		
		1963/64	1964/65	1965/66
Argentina	408	96.8	102.7	105.4
Australia	1,673	106.5	107.5	101.2
New Zealand	620	99.5	100.5	106.4
South Africa	322	100.3	97.2	96.6
Uruguay	190	101.0	98.4	100.0
TOTAL	3,213	103.0	104.0	102.2
WORLD TOTAL	4,528	101.9	101.9	100.9

Source: United States Department of Agriculture, *Wool Situation*, October 1965.

The fairly sharp fluctuations in the exports of the two Latin American countries usually reflect the exporters' practice of keeping stocks back instead of selling when domestic prices and foreign market prices diverge to any marked extent. It has often happened in such cases that the Government of the country concerned has modified the exchange rate applicable to exports of

¹² In the five-year period 1961-65, imported wool represented 65 per cent of aggregate industrial consumption against 62 per cent in 1955-59. Between these two periods the annual average for industrial wool consumption varied very little (see United States Department of Agriculture, *Wool Situation*, October 1965).

wool or has temporarily removed the taxes on them.

Table 73. Wool: Exports by selected countries,^a 1962/63 to 1964/65

Country	1962/63 (millions of pounds)	Index: 1962/63=100	
		1963/64	1964/65
Argentina .	324	63.9	
Australia .	1,381	106.5	103.2
New Zealand .	563	100.2	93.0
South Africa .	253	100.8	96.4
Uruguay .	106	50.0	105.6
TOTAL	2,627	97.1	

Source: *Wool situation*, op. cit.

^a The marketing year extends from July to June in Australia, New Zealand and South Africa and from October to September in Argentina and Uruguay.

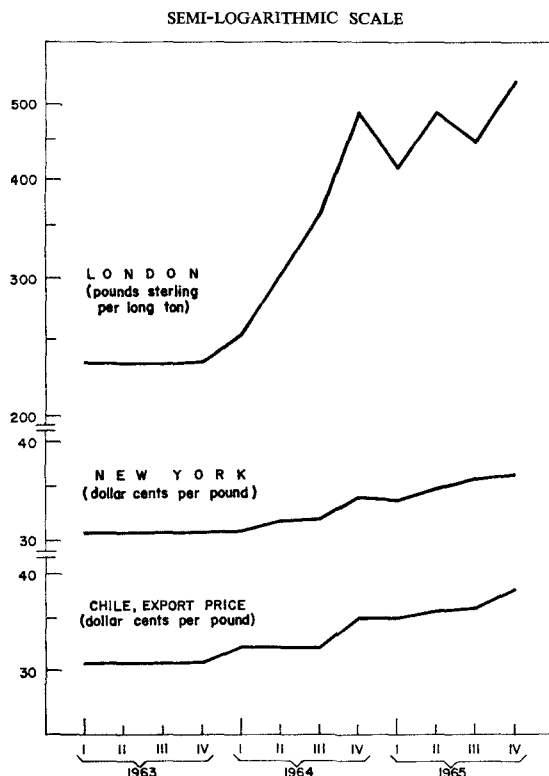
8. COPPER

The shortage of supplies on the international copper market in 1964 was also a feature of 1965, and sent quotations up even higher in the course of that year. In relative terms, the biggest price increases were recorded on the London Metal Market, where the averages for 1964 and 1965 were 50 and 34 per cent higher than for 1963. However, the importance of this trend was partially offset by the fact that it took place in a fairly small sector of the market accounting for not more than 30 per cent of world copper consumption. In fact, the quotations of the London Metal Market, like those of the New York Stock Exchange, relate to transactions in small amounts of copper from independent producers and in secondary copper.¹³ Production and trade in the remaining 70 per cent of the copper is controlled by the major world producers which decided to adopt, at the beginning of 1964, a policy of sales at fixed prices. The prices were, however, amended twice in the course of the year and twice again in 1965, with the result that the annual averages for those years showed increases which, in the case of the United States producers, were 4.6 and 9.4 per cent over the averages for each of the preceding years (see figure XX). The export price of Chilean copper, output of which is controlled by the big United States producers to the extent of a little over 80 per cent, was fixed only slightly higher than the

¹³ For instance, transactions in electrolytic copper on the London Metal Market amounted to 539,000 and 551,000 tons in 1964 and 1965 respectively, but transactions involving actual metal deliveries were only 46,800 and 112,000 tons in those same years.

United States price. Even so, the gap between the prices set by the major United States producers and those fixed by the big producers in other areas has been widening considerably since the beginning of 1966.¹⁴

Figure XX. Copper: London and New York prices, 1963-65



Sources: United Nations, *Monthly Bulletin of Statistics*; Chilean Copper Department, *Informe de mercado*.

The deficit in supplies was caused, in the first place, by a larger consumption increment than had been forecast by the producers, and, secondly, by production stoppages as a result of strikes in Africa, Chile and the United States. Another factor intervened in the course of 1965,

¹⁴ In the last quarter of 1965, the difference between the two sets of prices was barely 2 dollar cents per pound, but in January 1966 it increased to 6 dollar cents, since the United States producers kept the price of 36 dollar cents per pound while the remainder raised it to 42 dollar cents. The increase was also adopted in Chile, but an agreement was subsequently reached with United States Government by virtue of which the Chilean Government authorized the sale of 90,000 tons of copper to the United States at 36 dollar cents per pound. In mid-April, Chile again raised the price in an endeavour to narrow the gap between the prices of the big producers and those prevailing on the London Metal Market. The new price of 62 dollar cents per pound fixed by Chile represents a 47.6 per cent increase.

that is, the escalation of the United States military activities in Viet-Nam and the events associated with the independence of Rhodesia that made it uncertain whether copper would be obtainable from Zambia. The rising copper requirements of the industries connected with the United States defence programme compelled the Government to arrange for the sale of 100,000 tons from the strategic reserves early in 1965, followed by a further 200,000 tons towards the end of the year. Thanks to these additional supplies, the Government was able to restrain domestic producers from raising their prices in company with the other major world producers at the beginning of October 1965, and, even more, from matching the further rise that took place early in January 1966. More recently, a bill in which it was proposed to suspend the existing tax of 1.7 dollar cents per pound on imports of copper went before the United States Congress, but no decision had yet been taken on this by the end of March.

The trends of Latin America's copper production and exports are traced in table 74. The upturn in Chile's output during the four previous years changed to a 6 per cent decline in 1965 owing to a strike towards the end of the year. In Peru, production has varied very little in the last three years, but in Mexico (where the volume of output is fractional) a significant increase took place in relative terms, although in absolute figures it was not more than about 12,000 tons. As far as exports are concerned, the decline in Chile's sales in 1964 when production expanded, was simply a reflection of the fact that more copper was delivered to local industry for subsequent export in the form of finished or semi-finished products.

Table 74. Copper: Latin American production and exports, 1963-65

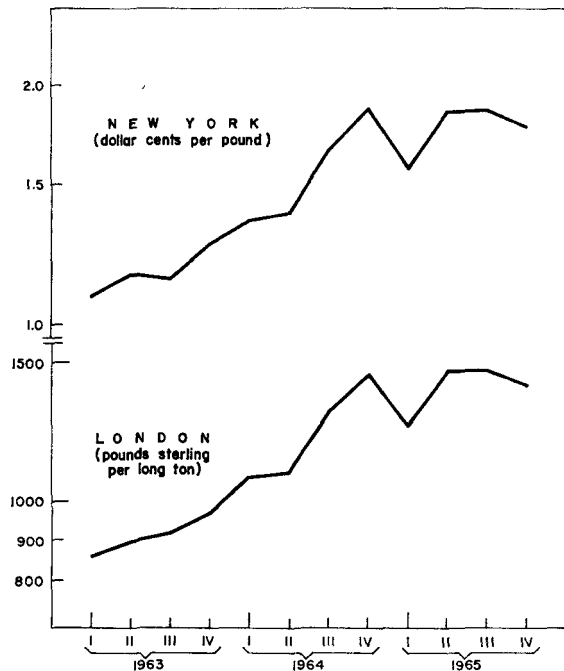
Country	1963 (thousands of tons)	Index: 1962/63=100	
		1964	1965
A. Production			
Chile . . .	601	103.5	97.0
Mexico . . .	56	94.6	116.0
Peru . . .	177	98.9	101.7
B. Exports			
Chile . . .	585	95.6	94.0
Mexico . . .	28	64.3	...
Peru . . .	163	110.4	...

Sources: United Nations, *Monthly Bulletin of Statistics*, and official foreign trade statistics of the countries concerned.

9. TIN

The sharp drop in world tin production in 1958 and 1959 marked the beginning of a supply shortage which has lasted ever since, and has been constantly pushing up tin quotations on the world market. The deficit in supplies was met during the first few years from the Buffer Stock set up by the International Tin Agreement, and when this was finally exhausted in mid-1961, by sales of tin from the United States strategic reserves. As a result, tin prices have risen steadily in recent years, and the annual averages in 1964 and 1965 were higher than at any other time (see figure XXI).

Figure XXI. Tin: New York and London prices, 1963-65
SEMI-LOGARITHMIC SCALE



Source: United Nations, *Monthly Bulletin of Statistics*.

The prolongation of the production deficit for as much as eight years is a unique case among the primary commodities of importance to Latin America. The fact that world output failed to increase to any significant extent between 1960 and 1965, despite higher export prices, suggests that the stagnation is mainly due to the depletion of deposits in some of the countries, and to inadequate investment in prospecting for and working new deposits because of the long period of stockpiling and low prices that preceded the present deficit. Production figures over the last

fifteen years show that the recent decline in output has assumed substantial proportions in Bolivia, Indonesia and the Republic of the Congo (Leopoldville), while in two other important producing countries, Malaysia and Nigeria, wide annual fluctuations have taken place in a total volume of output that has remained virtually the same from 1953 to 1965. In other words, of the major tin producers, only Thailand has succeeded in increasing the volume of its exports.¹⁵

With the market in this state, the functions of the International Tin Agreement have been rather cramped in recent years, being mainly confined to a periodic review of the market situation and consultations with the United States Government on its sales policy for tin from its strategic reserves. It is important to note that, as the United States is not a party to the tin agreement, the Government's announcement that it intended to sell 150,000 tons of tin (equivalent to world production for one year) presented a serious threat to existing price levels, which thereupon declined during the second half of 1962 and the first few months of 1963. The consultations between the International Tin Council and the Government were instrumental in ensuring that the United States sales policy would not be pursued in such a way as to cause an immediate market disturbance in spite of the magnitude of the commercial sales.¹⁶

This illustrates the role that can be played by international commodity agreements even when market conditions are diametrically opposed to those that have traditionally given rise to the negotiation of such agreements. It has been pointed out earlier that there still seem to be traces of the idea that commodity agreements are justified solely when production surpluses have accumulated, a point of view which, when adopted by one of the big tin producers at the end of 1965, made it doubtful that the necessary number of signatures would be collected for the new international agreement on tin to enter into effect in July 1966. In fact, in a press release of

¹⁵ Between 1953 and 1960 the output of mainland China also increased from 6,300 long tons to about 24,000, a figure which has not been improved upon since then. Between 1957 and 1960 the bulk of this output was sold on the European markets by the Soviet Union, but from 1962 onwards these exports ceased. In 1964 and 1965 only about 6,000 tons a year were recorded as imported from mainland China.

¹⁶ The total volume of commercial sales of tin from the United States strategic reserves was 10,725, 29,000 and 20,670 long tons respectively in 1963, 1964 and 1965. Sales in 1964 and 1965 averaged 15 per cent of world consumption (see International Tin Council, *Statistical Bulletin*, February 1966).

mid-December 1965, the Government of Malaysia declared that it would not be a party to the new agreement because of the unlikelihood of production surpluses. The non-participation of Malaysia (which accounts for nearly 450 votes in the total of 1,000 for the group of producer countries) meant that the new agreement would not be backed by enough signatures and votes to enter into force. However, another official Government communiqué reports that this decision was reversed a few days later, as a gesture of solidarity and readiness to co-operate with the rest of the developing countries that produce tin.¹⁷

There are undoubtedly good reasons for considering that production is unlikely to overstep consumption requirements in the immediate future, but the current level of tin quotations on the world market may be affected by a number of other factors, and it is advisable for the producer countries to have the necessary institutional machinery and protective instruments to weather unforeseen market changes.

The volume of Bolivia's tin exports (which are equivalent to its total production) is given in table 75. The figures for 1965 show that there was no increase over output in 1964, because of production stoppages during a short period of political unrest.

Table 75. Tin: World production and consumption, and exports from Bolivia, 1963-65

	1963 (long tons)	Index: 1963=100	
		1964	1965
<i>World production</i>			
Ores . . .	141,400	104.2	107.9
Refined . . .	143,000	99.8	102.1
<i>World consumption</i>			
Primary metal . . .	160,700	103.4	103.9
Secondary metal . . .	8,000	113.7	105.0
<i>Exports from Bolivia</i>			
Ores . . .	20,290	100.6	98.6
Metal . . .	2,462	146.7	154.3
TOTAL	22,752	105.6	104.6

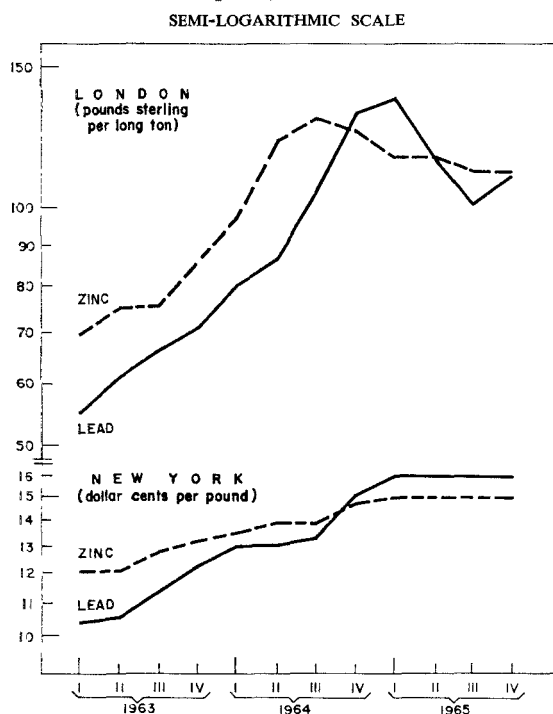
Source: International Tin Council, *Statistical Bulletin*, February 1966.

¹⁷ For the texts of the official communiqués of the Government of Malaysia, and other press releases issued by the International Tin Council concerning the States signatories to the new agreement, see the International Tin Council, *Statistical Bulletin*, London, February 1966.

10. LEAD AND ZINC

The period 1963-65 saw a radical change take place in the conditions that had characterized the world market for lead and zinc from 1957 to 1962. The production surpluses and falling prices that distinguished those earlier years were followed by a period in which world demand far exceeded production with the result that prices rapidly recovered and eventually reached the highest level recorded since 1953. For both ores, the biggest rise in prices took place between the second half of 1964 and the first few months of 1965. During the last few months of 1965, prices shaded downwards, particularly for zinc (the annual average falling slightly below the 1964 figure, but, in the case of lead, the decline had little effect, since the average increased again to 14 per cent over its 1964 level (see figure XXII).

Figure XXII. Lead and Zinc: London and New York prices, 1963-65



Source: United Nations, *Monthly Bulletin of Statistics*.

As in the case of copper and tin, the gap between current demand and production of lead and zinc was partly filled by sales from the United States strategic reserves. The fact that the United States domestic market remained short of supplies in spite of the influx from the reserves prompted the Government, at the end

of 1965, to suspend the quantitative restrictions that had been applied to imports of lead and zinc since October 1958.

Towards the end of 1965 the International Study Group on Lead and Zinc held its ninth session, during which, apart from its usual review of the state of the market, it discussed the possibility of establishing an inter-governmental arrangement or agreement on the two ores. It was clear from its deliberations that, although a certain number of countries were in favour of starting negotiations on an international agreement, another faction thought it necessary to make a closer examination of the problems involved in an inter-governmental agreement. The Study Group therefore concluded by recommending the continuation of certain lines of research that were already being pursued and the initiation of others that might pave the way for inter-governmental negotiations on those commodities whenever the time proved to be ripe for them.

The evolution of production and exports of lead and zinc in Mexico and Peru (Latin America's two major producers of these items) is set forth in table 76. Peru's output and exports will be seen to have climbed steadily in recent years as a result of the working of new mineral deposits.

Table 76. Lead and Zinc: World production and consumption, and exports from Mexico and Peru, 1963-65

	1963 (thousands of tons)	Index: 1963=100	
		1964	1965
A. Lead			
World production . . .	2,457	104.5	105.8
World consumption . . .	2,505	107.6	109.8
B. Zinc			
World production . . .	2,742	107.7	113.0
World consumption . . .	2,914	110.9	113.2
C. Exports			
<i>Peru</i>			
Lead ore	62	100.0	161.5
Lead	55	161.7	154.5
Zinc ore	146	138.7	205.3
Zinc	39	158.6	154.2
<i>Mexico</i>			
Lead	137	79.6	80.2
Zinc ore	181	96.4	88.3
Zinc	30	94.0	87.2

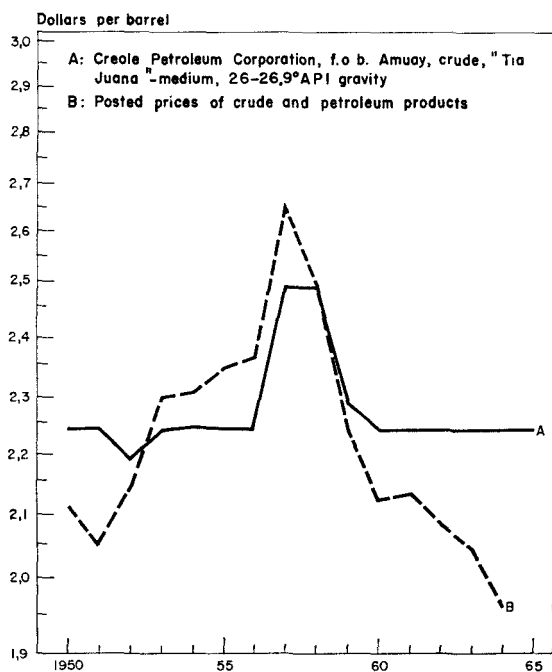
Source: *Monthly Bulletin of the International Lead and Zinc Study Group*, January 1966.

11. PETROLEUM

The f.o.b. prices of Venezuela's crude petroleum—according to the price lists published by the oil companies in that country—have not altered since 1960, nor have there been any changes in the export prices of oil companies in the Middle East. This price stability is one of the objectives attained by the Organization of Petroleum Exporting Countries (OPEC), since by this means the Governments of the member countries confirmed their responsibility for determining the sales price of their major export item while at the same time the reductions in price determined unilaterally by the petroleum producing companies in one country were prevented from arousing a similar reaction in other oil countries. However, the question of stability in respect of petroleum prices is very relative, since in practice the actual prices involved in transactions undergo changes which mainly reflect the discounts made by the producing companies according to the market of destination and the volume of petroleum and petroleum products sold. Figure XXIII shows the real price trends followed by Venezuela's exports of petroleum and petroleum products. It will be

Figure XXIII. Venezuela: Crude petroleum export price, 1950-65

SEMI-LOGARITHMIC SCALE



Source: Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos*, Caracas, November 1965.

seen from this figure that although f.o.b. quotations for crude petroleum remained relatively stable between 1960 and 1965, the actual sales price has steadily declined and in 1963 and 1964 it reached the lowest level recorded since 1950. There is no information available as yet concerning the actual sales price in 1965, but conditions on the world petroleum market make it unlikely that trends have altered very much.

Petroleum prices cannot, of course, be dissociated from the relationship existing between the growth of production and consumption. Consequently another fundamental objective of OPEC is to strike a balance between the annual increase in demand for petroleum and petroleum products and the increase in production. Because of the very nature of oil-drilling work, there must always be a margin of unused capacity available from which to meet an unforeseen increment in demand. The countries belonging to OPEC intend to prevent this potential or actual production surplus from having a depressive effect on the market, and have therefore agreed to set up a system for regulating the growth of production a *pro rata* basis. According to the terms of the resolution adopted by the member countries, the *pro rata* regulation of production is designed to eliminate one of the main causes of falling prices, that is, ruthless competition among the producers of crude petroleum that operate in the member countries. The resolution adds that "there is another very important reason for the adoption of a measure to regulate production on the part of the member countries of OPEC. It lies in the structure of the international petroleum industry, which is characterized by the ties between the principal oil companies operating in the member countries. The same seven or eight major international oil companies, in various combinations, control the bulk of production in all the important petroleum-exporting countries".¹⁸

Venezuela's production and exports of petroleum and petroleum products have been moving up in recent years, although the annual rates of increase have varied widely. In 1965 both production and exports expanded less than in the preceding year. The main markets of destination for exports are listed in table 77.

No major changes took place in the United States system of import quotas, but in spite of this Venezuela's share in total imports of crude petroleum shrank again in 1964. The main changes in imports are shown in table 78.

¹⁸ Resolution IV-61 of the Organization of Petroleum Exporting Countries, published in the *Boletín de la Cámara de Comercio de Caracas*, September 1965.

Table 77. Venezuela: Exports of crude petroleum and petroleum products, 1963-65
(Millions of barrels)

Destination	1963	1964	January-June	
			1964	1965
United States	449.6	477.3	245.8	257.2
Canada	111.3	132.4	59.2	55.8
European Economic Community . .	123.6	94.8	49.5	41.5
United Kingdom	107.7	103.3	52.1	55.4
Other European countries	65.0	72.2	33.4	35.7
Argentina	7.9	13.2	4.8	4.4
Brazil	39.3	39.2	20.1	20.2
Panama	19.5	17.4	8.4	10.3
Trinidad and Tobago	33.0	40.9	17.0	22.6
Other countries	132.9	155.5	76.3	80.4
TOTAL	1,089.8	1,146.2	566.6	583.5

Source: Petroleum Press Service, London, November 1965.

Table 78. United States: Crude petroleum imports, by country of origin, 1960-64

	1960	1961	1962	1963	1964
Total (millions of barrels)	371.6	381.5	411.0	412.7	438.6
	<i>Percentage of total</i>				
Canada	11.1	17.5	20.7	21.9	23.2
Mexico	0.2	1.0	0.9	0.9	0.8
Colombia	4.0	2.6	2.1	2.0	2.2
Brazil	—	0.5	0.3	0.5	—
Venezuela	46.5	40.8	41.1	42.3	39.7
Middle East ^a	30.5	31.2	26.5	25.0	24.6
Other countries and areas	7.7	6.5	8.3	7.4	9.5
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: American Petroleum Institute, *Annual Statistical Bulletin*, New York, April 1965.

^a Iran, Iraq, Kuwait, Neutral Zone, Qatar and Saudi Arabia.

Part Two

THE RECENT ECONOMIC SITUATION IN SELECTED COUNTRIES

Chapter I

ARGENTINA

1. GENERAL FEATURES OF THE RECENT ECONOMIC EVOLUTION

(a) *Over-all growth and the factors affecting it*

In 1965, for the second year in succession, the Argentine economy had a relatively high growth rate. The gross domestic product increased, in real terms, by 7.8 per cent, with an increase in the per capita product of 6 per cent, and a level of activity 8 per cent above that achieved before the recession in 1962 and 1963 (see figure XXIV (a)).

The continuing industrial expansion and the increase in agricultural production—which made possible peak export levels—were the main reasons for the change. Manufacturing expansion was based on a better use of the industrial capacity available, some of which was the result of recent investment. There was no difficulty in selling the increased agricultural output abroad, and high prices were obtained for exports of beef. There were also other favourable factors, including an increase in the demand for durable consumer goods and for housing construction, and the accumulation of industrial inventories.

These recent trends reflect the influence of important factors acting in some cases on the structure of domestic activity, and in others on its equilibrium. The first group of factors include the changes that occurred in the composition of final demand, and the technological progress achieved in some sectors of production. The second group include the reduction of the government deficit and the persistence of inflation.

The most important of the changes affecting final demand related to exports of goods and services. During the post-war period exports had been in the neighbourhood of 1,100 million dollars; in 1962 they rose to 1,500 million dollars, and in 1965 were over 1,600 million dollars, although this rise went hand in hand with a heavy burden of short-term obligations. The new level of exports was also due in part to a significant change relating to market diversification.

In 1965 the composition of demand was also affected by the emphasis given in domestic expenditure to durable consumer goods and housing construction, which rose at a significantly higher rate than investment in the sectors of production. This is attributable to—among other factors—the income levels attained, the existence of a formerly repressed demand, and to

increased financing facilities for this type of purchase.

Total personal consumption rose by 8.5 per cent, but as inventories increased in 1965 it can be assumed that the actual increase in personal consumption was less. The rate of domestic investment in relation to the product fell from 21.6 per cent in 1964 to 20.6 per cent in 1965; this was partly due to the smaller accumulation of inventories of agricultural products, since the rate of gross fixed investment went up from 20.4 per cent to 21.5 per cent (see table 79 and figure XXIV (c)).

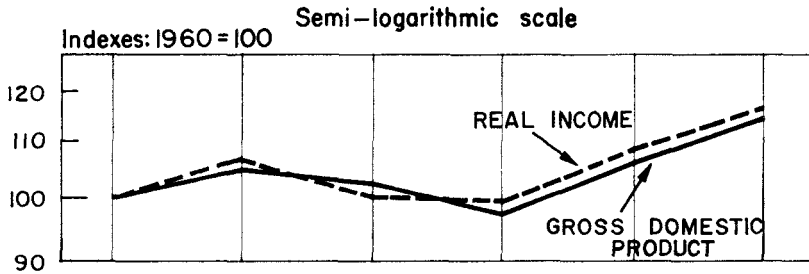
The high rate of increase in household consumption can be ascribed mainly to the rise in purchases of automobiles and home appliances. The rise in the rate of fixed investment was almost wholly due to the increase in private construction, since of a total increment of 14,000 million pesos (at 1960 prices) in fixed investment, 9,000 million pesos represented private construction, 2,000 million public construction, and 3,000 million machinery of all kinds. Industrial inventories rose, and had an appreciable effect in increasing over-all demand.

With respect to technological advances and the balance of the structure of production, the most important recent developments were the improvements in agricultural yields and in steel production, and the progress towards the installation of a petrochemical industry. In 1965 the wheat yield per hectare was 35 per cent higher than the annual average for the decade 1953–62, a highly significant change, in view of the long stagnation of export agriculture, going back to the early fifties. The steel industry achieved levels of utilization of capacity of 90 per cent in the production of pig iron and steel (with outputs of about 0.7 million and 1.4 million tons, respectively), and 40 per cent in rolled steel products (an output of 1.1 million tons). Further progress was made with the plans to install a petrochemical industry.

With respect to financial equilibrium, there was a substantial reduction in the government deficit, mainly as the result of a sharp rise (43 per cent in real terms) in tax revenue, the maintenance of real current expenditure at the same level, and a slight reduction in public investment. The sums allocated to government enterprises

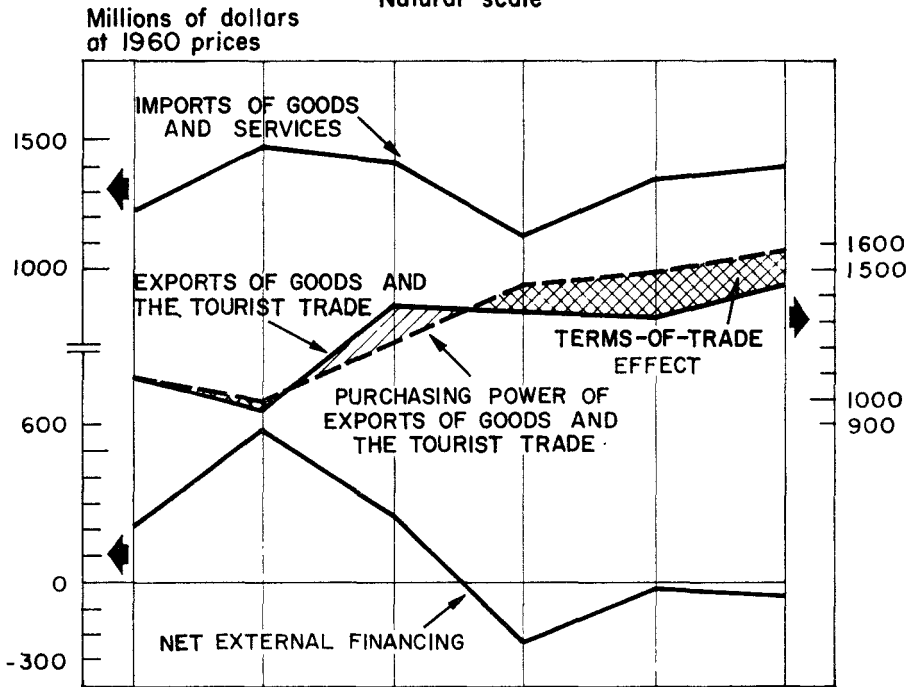
Figure XXIV. Argentina, 1960-65

(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



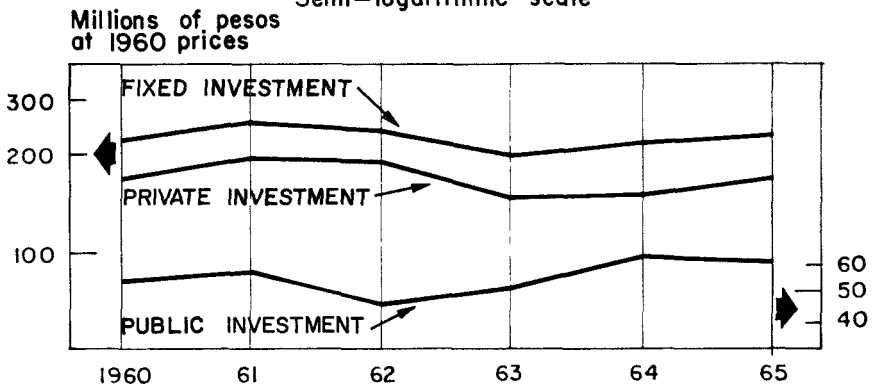
(b) EXTERNAL SECTOR TRENDS

Natural scale



(c) INVESTMENT TRENDS

Semi-logarithmic scale



Source: ECLA, on the basis of official statistics.

Table 79. Argentina: Use of real gross domestic income, 1963-65
(Thousands of millions of 1960 pesos)

Concept	1963	1964 ^a	1965 ^a
1. Consumption	737.3	811.8	875.6
(a) Household ^b	655.5	730.9	795.6
(b) Government	81.8	80.9	80.0
2. Gross domestic investment	193.3	227.3	233.3
(a) Fixed investment	199.7	212.2	225.5
(i) Construction	85.4	92.5	103.0
(ii) Machinery and repairs	114.3	119.7	122.5
(b) Changes in inventories ^c	-6.4	15.1	7.8
3. Foreign trade balance (quantum).	29.7	3.2	14.7
(a) Exports	130.1	122.1	135.0
(b) Imports	100.4	118.9	120.3
4. Gross domestic product	960.2	1,042.3	1,123.6
5. Trade balance	-4.4	8.4	2.4
6. Real gross domestic income	955.8	1,050.7	1,126.0

Source: National Development Council (CONADE).

^a Provisional figures.

^b This entry includes changes in inventories of products not covered in the "changes in in-

ventories" item 2 (b) below—mainly industrial products of domestic or foreign origin.

^c Includes only the changes in stocks of a group of major agricultural products.

and decentralized agencies decreased slightly at constant prices, and their composition changed, since larger allocations went to reducing the operational deficit than to the financing of investments, mainly as a result of the railway deficit, which rose by 30 per cent in real terms. Despite the improvement in the financial situation, the growth of the product and the slower increase in the means of payment in the private sector, inflation continued, and led to an increase of 28.6 per cent in retail prices during 1965 (as against 22.1 per cent during 1964). The main inflationary factors were an average rise of 22 per cent in the official rate of exchange compared with that for 1964, and an increase in wages in

monetary terms; hence, in comparison with 1964, costs rather than demand were the main cause of price rises.

(b) Evolution of production

The increase in productive activity in 1965 was due largely to the persistence of a high growth rate in the industrial sector, accompanied by more activity in private construction and the maintenance of favourable conditions in the agricultural sector. The services sectors also expanded more rapidly than in 1964 (see table 80).

In 1965 the growth rate for the agricultural sector as a whole was 4 per cent, reflecting similar

Table 80. Argentina: Quantum index of the gross domestic product, 1963-65
(1960 = 100)

Sectors	Indexes			Percentage change	
	1963	1964	1965	$\frac{1964}{1963}$	$\frac{1965}{1964}$
Agriculture	96.9	106.2	110.4	9.6	4.0
Mining and quarrying	135.9	142.6	146.4	4.9	2.7
Manufacturing	95.6	109.3	121.9	14.3	11.5
Construction	92.1	100.2	110.4	8.8	10.2
All sectors producing goods	96.8	108.6	118.2	12.2	8.8
All sectors producing services	99.8	104.3	110.7	4.5	6.1
TOTAL	98.2	106.6	114.9	8.6	7.8

Source: National Development Council (CONADE).

rates for both crop and stock production. In addition to the bumper wheat harvest, which was over 10 million tons, there was also a rise in sunflower-seed production, while the output of other fine grains declined. The level of maize production was slightly below that for the preceding crop year, but industrial crop production as a whole rose, although there were marked differences between the individual crops. Stock production rose by 4.6 per cent, mainly as a result of the 4 per cent increase in beef production. At the same time the building up of the cattle inventory continued, and the relative prices of beef cattle rose. There was an increase of 10 per cent in sheep and pig production, milk production remained at much the same level, and there were increases of 6 per cent in wool production and 19 per cent in poultry production.

In 1965 there was a continuation of the process of industrial expansion that had followed on the severe recession of 1962-63, an expansion that had already made it possible to exceed earlier peak levels. Manufacturing rose by 14.3 per cent in 1964, and by 11.5 per cent in 1965, the increases of the various groups of industries being more uniform in the latter year. It is estimated that the new levels of activity have permitted a utilization of over 66 per cent of installed capacity, as against less than 55 per cent in 1963.

In the extractive industries, output of crude petroleum fell by 2.1 per cent. This decline, in conjunction with increased demand, resulted in a rise of imports from 1.7 million cubic metres to 4.2 million. The output of the natural gas network, on the other hand, rose by 22 per cent, attaining a level equivalent to over 3.3 million cubic metres of petroleum. Coal output also rose, to a level of 540,000 tons, an increase of 27.5 per cent over 1964.

In 1965 electricity production rose by 10 per cent, and building and other construction by the same amount. Marketing services and rail freight transport increased by about 9 per cent.

(c) *Employment*

The favourable development of the sectors of production in 1965 raised the level of employment. In non-agricultural activities employment increased by 3.5 per cent, that is, much faster than the population growth (1.8 per cent). Unemployment fell from 5.7 per cent in October 1964 to 4.4 per cent in October 1965, and thus tended to return to the level of 2.7 per cent recorded in the 1960 census, when the employment situation was relatively normal. The expansion of the volume of output at a pace that was almost double that of employment reflects

a significant rise in average productivity per worker.

To judge by collective bargaining agreements, real wages rose in 1965 by about the same amount as in 1964, approximately 5 per cent for foremen and 7.7 per cent for ordinary workers.

(d) *Foreign trade and the balance of payments*

In 1965 the trade surplus was about the same as in 1964. Although the volume of exports rose by 10 per cent, prices declined by an average of 5 per cent, whereas imports remained at virtually the same level as in 1964, in terms of volume and current prices. Exports amounted to 1,640.5 million dollars, and imports to 1,436.5 million.

The rise of 9 per cent in the real value of exports of goods resulted in a peak level for the past decade, partly as a result of the successful sale of grains through the opening up or expansion of new markets, especially mainland China, and the reactivation of such traditional markets as Brazil. The changes in the destination of exports also affected sales of beef, which declined in volume in 1965, concurrently with a significant rise in prices. In 1960, 70 per cent of the chilled and frozen beef exported went to the United Kingdom, whereas in 1964 the proportion fell to 34 per cent, and tended to decline even further in 1965.

Imports were 6.1 per cent above those for 1964, and their composition also changed, with an increase in raw materials and intermediate products, which accounted for 53 per cent of the total, and a reduction in capital goods, whose share fell to 23 per cent.

In 1965 the terms of trade declined by 6 per cent compared with 1964, as a result of the fall in cereal export prices.

During the year, important negotiations took place to lighten the burden of servicing Argentina's external debt. The results included the refinancing and postponement of obligations to the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), as well as those arising out of the 1960 agreements with European and United States banks and the 1963 agreements with Europe and Japan (Paris Club).

2. CHANGES IN THE MAIN SECTORS OF PRODUCTION

In addition to the general picture drawn above, the following paragraphs describe the evolution in the most important sectors of production.

(a) *Agriculture*

Although there were bumper harvests of some grain and oil-seed crops, the lower levels of

other commodities led to the total expansion for all crops together being only 4.7 per cent. There were exceptionally good harvests of wheat (10.1 million tons as against an annual average of 6.1 million tons during 1953-62, 5.0 million tons in 1963 and 8.1 million in 1964) and sunflower-seed (which was 60 per cent higher than in 1964). The harvest of other fine grains was 3.2 per cent lower, and maize production was slightly below that for the previous crop year. The high output of grains and oil-seeds was due to the improvement in yield per hectare, since the area under cultivation was 3.5 per cent less (16.4 million hectares in 1965 as against 16.7 million in 1964). The land thus made available was turned over to livestock production. The wheat yield was particularly striking, 1,743 kg per hectare, an increase of 35 per cent compared with the decade 1953-62 and 18 per cent compared with the already high level achieved in 1963-64. This was due not only to particularly good weather conditions, but also to the regular use of improved seed and to increased mechanization.

Industrial crops as a group increased by about 7 per cent; the decline in grape production (12 per cent) and in other secondary crops was offset by considerable increases in groundnuts (30 per cent), cotton (27 per cent) and to a lesser extent sugar cane. In 1965 sugar-cane production continued the expansion that had been encouraged in 1964 by the favourable world market conditions and was 30 per cent above the annual average for 1953-62. However, the sharp change in the market in 1965 made it difficult to sell the exportable surpluses, and created serious economic difficulties in the producing area.

Fruit production rose by 13 per cent; domestic sales presented no problem, and exports rose to peak levels. Vegetable production rose by 28 per cent, as a result of good potato and tomato harvests. Harvests of sorghum and other animal feed crops declined by 20 per cent, because although the area under cultivation was the same, some of it was used for grazing purposes.

Livestock production was 4.6 per cent higher than in 1964, reflecting an increase of about 10 per cent for sheep and pigs and 4 per cent for cattle. Livestock inventories gradually recovered from mid-1963 on, as a result both of better weather conditions, and of a decrease in total slaughterings and a change in their composition. In 1964, for example, the proportion of dams and young animals slaughtered was considerably smaller, which meant, moreover, that average carcass weight increased. This process of recovery was further encouraged by the favourable trend followed by the relative prices of beef,

which reached its peak in 1964. In real terms, the price indexes for steers (1960=100) were 88.7 in 1963, 117.8 in 1964 and 113.0 in 1965; while in addition, the beef/cereals price ratio improved, rising from 3.4 in 1963 to 6.1 in 1964 and 5.8 in 1965, thus creating a further incentive to retention of breeding stock. The decrease in slaughtering registered in 1964 and 1965 in relation to 1963 involved a reduction in domestic consumption of beef, which was still further curtailed by the restrictions imposed on retail sales. Alongside this falling-off, a process of replacement by other types of meat took place, linked in its turn to changes in the corresponding relative prices; thus, the share of beef in total meat consumption in the city of Buenos Aires dropped from 73 per cent in 1963 to 62 per cent in 1965. Output of milk and milk products remained stationary, as in previous years.

Poultry production expanded by 19 per cent, partly through the stimulus of the relatively low consumption of beef, and partly too because a certain number of mechanized poultry farms, producing on a large scale, were already in full operation.

The production of wool expanded by 6 per cent. For the varieties most commonly used in domestic industry, the increase was 10 per cent, and the expansion of textile activities afforded a market for this output; exports, on the other hand, encountered difficulties, as reflected in world price declines, although this factor was offset by measures to devalue the currency and reduce duties and taxes. In the latter part of the year prices improved, mainly because of the adverse weather conditions in Australia.

The fisheries sector increased its output by 12 per cent. The use of fish as a substitute for beef and in the preparation of animal feeds continued, and a brisk export trade was maintained in fish oil and meal, while for the first time there were sizable exports of frozen fish fillet. In addition the existing fishing fleet was enlarged.

(b) *Extractive industries*

The volume of output for mining and quarrying rose by 2.7 per cent. The branches quarrying construction materials expanded in line with construction activities. There was also an increase in the extraction of metal ores (especially lead) and other ores for industrial use.

The extraction of crude petroleum (excluding gas), on the other hand, declined by 2.1 per cent, because of the fall in the output of Yacimientos Petrolíferos Fiscales (YPF), though the output of the former concession-holders increased slightly (see table 81). There was a decline in the

Table 81. Argentina: Production of crude petroleum, 1960-65

Year	Total	YPF	Former concessionary companies	Private companies
1960	10,132	7,126	2,465	562
1961	13,428	9,135	3,774	520
1962	15,613	10,438	4,689	487
1963	15,444	10,319	4,712	422
1964	15,943	10,779	4,817	346
1965	15,621	10,198	5,111	312

Source: Ministry of Fuel and Power.

Table 82. Argentina: Opening-up of new oil wells, 1960-65

Year	New exploratory and semi-exploratory wells	New development wells	Total
1960	233	933	1,167
1961	239	1,400	1,639
1962	277	1,017	1,289
1963	217	589	806
1964	170	336	506
1965	195	357	557

Source: Ministry of Fuel and Power

number of new exploratory, semi-exploratory and development wells (see table 82). As a result of the fall in output and of increased demand, imports of crude petroleum rose from 1.7 million cubic metres in 1964 to 4.2 million in 1965.

The output of the natural gas network rose by 22 per cent in 1965, as a result of the partial installation of the pipeline from the south.

Coal output continued to expand, and amounted in 1965 to 540,000 tons, an increase of 27.5 per cent over 1964.

(c) Manufacturing

The industrial growth rate in 1965 was 11.5 per cent, compared with 14.3 per cent in 1964. Industrial production indexes (base year 1960) were 95.6 in 1963, 109.3 in 1964 and 121.9 in 1965 (see table 83). Thus the expansion during the last two years represented not merely a return to former levels, but a steady growth in absolute terms. There was a sharp increase in the growth rate of the dynamic industries, such as those producing metals, paper and board, rubber, petroleum products, vehicles and machinery, and chemical

Table 83. Argentina: Production indexes and growth rates, by groups of industries, 1963-65 (1960 = 100)

	1963 Index	1964		1965	
		Index	Percentage increase	Index	Percentage increase
Food and beverages	116.6	104.5	-10.4	110.2	5.5
Tobacco	103.8	112.1	8.0	114.3	2.0
Textiles	74.7	96.1	28.6	110.6	15.1
Clothing and other made-up textile goods	69.9	86.6	23.9	95.3	10.0
Wood and wood products	77.7	89.5	15.2	99.7	11.4
Printing and publishing	89.9	98.2	9.2	111.9	14.0
Leather and leather products	69.2	80.8	16.7	83.0	2.7
Miscellaneous	96.0	40.2	13.6	123.2	11.8
Paper and paperboard	116.8	132.0	13.0	149.6	13.3
Chemical products	95.8	107.1	11.8	121.6	13.5
Rubber products	102.2	124.4	21.7	148.9	19.7
Basic metal industries	107.4	146.5	53.4	162.2	10.7
Vehicles and machinery	88.5	116.8	32.0	133.4	14.2
Electrical machinery and appliances	89.3	93.3	17.7	110.4	18.3
Stone, glass and pottery	92.7	99.1	6.9	114.3	15.3
Petroleum products	123.5	129.8	5.1	147.1	13.3
Artisan industry	18.6	93.0	5.0	97.7	5.0
TOTAL	95.6	109.3	14.3	121.9	11.5

Source: National Development Council (CONADE).

products, the indexes for these industries ranging in descending order from 162 to 121. At the other end of the scale are the leather products, clothing and other made-up textile goods, artisan and wood products industries, with indexes below those for 1960, though higher than for 1963. The most important slow-growth industries—food, beverages and textiles—attained an index of 110 in 1965, although their pattern of evolution was not the same. Another important feature in 1965 was that the increases for the various industrial groups were more uniform than in 1964.

The figures show that great strides were made by the dynamic industries; in 1960 this group represented 48 per cent of the total gross product for manufacturing, and this proportion rose to 53 per cent in 1964 and an estimated 55 per cent in 1965. In some of these industries vertical integration is taking place, especially in those producing steel, pulp and paper and chemicals. But even in the slow-growth group, new production lines have been introduced that have expanded more dynamically, such as the manufacture of packaged foods, synthetic fibre textiles and particle board.

This industrial expansion is a burden on the balance of payments, because although there is import substitution for finished goods, at the same time a new demand has grown up for semi-finished goods, raw materials and parts. This burden is all the more significant in view of the fact that imports of finished goods were previously restricted, while now domestic production of these goods, and consequently imports of their components, are being encouraged. However, the present situation, in addition to meeting a formerly repressed demand, opens the way for exports of manufactured goods. It should be noted that the domestic contraction in 1963 had a powerful effect in stimulating exports, which rose from 23.9 million to 92.3 million dollars between 1962 and 1964. The most notable increases were in exports of iron and steel (19 million dollars), machinery and vehicles (19 million), chemical and pharmaceutical products, oils and paints (14 million) and paper and board (10.8 million).

Most of the activities included in the food and beverage group of industries maintained the same growth rate as in recent years, except for the production of edible oils and of sugar, which rose by 40 per cent and 10 per cent, respectively. The production of the meat-packing plants increased by about the same amount as the food industries group as a whole.

The manufacture of textiles and made-up textile goods expanded considerably. The wool

clip increased by about 10 per cent, and the bumper cotton crop—30 per cent larger than the preceding year's—was easily absorbed by industry. However, two points are worthy of note, the first being a new tendency to accumulate stocks, and the second a weakening of the exceptional expansion that occurred in the synthetic fibre branch in 1964.

The groups comprising the wood and stone, and the glass and ceramics industries, which are closely linked to construction activities, registered growth rates in line with the expansion of those activities (11.4 and 15.3 per cent, respectively).

The paper and board, and printing and publishing industries expanded vigorously. Production of paper, in particular, reached unusually high levels, largely as the result of the entry into operation of a large paper mill in the province of Jujuy. Publishing activities also increased dynamically, partly on the basis of considerably larger exports of books and periodicals.

Leather production expanded at a rate of less than 3 per cent; after its decline in 1962 and 1963, it has not yet regained the 1960 level.

The growth rate of the chemical products group was 13.5 per cent (as against 11.8 per cent in 1964). The main advances were in the production of synthetic fibres, paint, and petrochemical products. In the petrochemical industry a large-scale enterprise in the north of the province of Buenos Aires entered into full operation.

Output of petroleum products increased by 13.3 per cent, largely owing to the growth of demand for light products.

The iron and steel sector, which accounts for 70 per cent of the basic metal industries, showed increases of 12 per cent in pig iron, 8 per cent in raw steel and 11 per cent in rolled products. The production of rolled products was stimulated by the greater activity in the motor-vehicle and construction industries.

In the vehicles and machinery group there was a marked increase in the production of motor vehicles. The total output was 194,000 vehicles, as against 165,000 in 1964. The number of passenger cars produced rose from 114,000 to 134,000, and the number of lorries, chassis and other freight vehicles from 52,000 to 60,000. Most of the motor-vehicle enterprises are already on the point of attaining the maximum percentage of value added of domestic origin envisaged in the promotion programmes. However, the industries supplying the assembly plants are not covered by the promotion system, and are not restricted as to the percentage of imported components in their output. Consequently, real

import substitution is less than the promotion plans for the assembly enterprises would seem to show. It is estimated that the total imported content of the units produced is still about 40 per cent.

Production of agricultural machinery was affected by a decline in the replacement of equipment. Output of tractors increased by 3.5 per cent (13,600 units in 1965 as against 13,100 in 1964); but sales dropped from 15,100 to 13,700, since in 1964 part of the carry-over stocks had been sold, and the level of production in 1965 was apparently in line with demand.

The manufacture of industrial equipment declined because of the lower growth rate of investment, and also because of export difficulties due to the deterioration in the relation between the domestic cost and the rate of exchange.

The group comprising electrical machinery and appliances expanded by 18 per cent. Demand for durable consumer goods, which constitute a major proportion of this sector's output, remained steady. Production of television and wireless sets increased by about 40 per cent, and that of refrigerators by 17 per cent. The manufacture of electrical parts for the motor-vehicle and building industries expanded in line with the upswing in these activities.

(d) *Other sectors*

Building and other construction works increased by 10 per cent (15 per cent for private activities and 5 per cent for the public sector). In the private sector, the expansion is attributable to changes in the terms of financing obtainable, both from official and from private banking sources. Broadly speaking, no labour or material supply problems arose (cement production expanded by 15 per cent) and some of the supplier industries still have idle capacity.

Services concerned with the distribution of goods expanded by about 9 per cent. The volume of wholesale and retail transactions in manufactured goods rose mainly because of the increase in the consumption of clothing and durable goods, and, to a lesser extent, the growth of domestic demand for food products. Wholesale trade connected with agricultural production (local middlemen, providers of storage facilities and exporters) was encouraged by the increase in crops and in livestock sales; the larger volume of imports also provided a spur to the middlemen's sector.

Freight transport by rail increased by 9 per cent. Although no estimates are available, a similar rise may safely be assumed in road

transport. Port activities expanded considerably, because of the large volume of cereals exported.

Production of electricity rose by 10 per cent, in response to the increase in industrial demand and in household consumption. The installation of additional capacity in previous years and in 1965 enabled this greater demand to be met without restrictions.

Distribution of piped gas increased by 22 per cent, as a result of the greater utilization of the new gas pipeline from the south, and bottled gas consumption rose by 32 per cent. Gas continued to supersede the heavy fuels used in industry, and kerosene and other traditional fuels for household use.

3. LEVEL AND COMPOSITION OF CENTRAL GOVERNMENT INCOME AND EXPENDITURE

The Central Government's treasury outlays in 1965 amounted to 386,000 million pesos, which means that the real level was practically the same as in 1964. Receipts totalled 256,000 million pesos; thus there was a deficit of 130,000 million, which was less than the 1964 deficit at current prices, and 40 per cent less in real terms (see table 84).

The real current expenditure of the Central Government remained virtually unchanged. As regards real investment by the Government and public enterprises, of which only a small proportion is financed by the Treasury, estimates suggest that it may have slightly exceeded the amount budgeted (131,000 million pesos), which would imply an increase of about 25 per cent at current prices, and a slight decrease in real terms, in comparison with 1964.

The part of real investment which is not entered in the Treasury accounts and which relates to investment effected by State enterprises, and the the public works plan, was financed mainly by the enterprises' own funds (thanks to a surplus of 41,000 million pesos) and by loans from abroad and suppliers' credit. The sale of public bonds and debentures, on the other hand, made no major contribution.

Total tax revenue increased in real terms by 43 per cent. The most striking increases were in the various forms of income tax, and were chiefly attributable to such factors as the higher level of economic activity, the general improvement in tax inspection and control, and the changes introduced in the tax system in 1965. These changes consisted in an increase in the percentage and frequency of advance payments, a reduction of the period of grace, and the abolition of certain tax concessions (see again table 84).

Table 84. Argentina: Movements of national treasury funds, 1963-65
(Thousands of millions of pesos at current prices)

	1963 ^a	1964	1965	
			At current prices	At 1964 prices ^b
I. Expenditure	189.9	304.0	386.1	301.2
(1) Central government expenditure and investment	102.8	140.4	183.6	143.2
(a) Central administration and decentralized agencies				
(i) Staffing costs and current expenditure		132.2	172.7	
(ii) Investment		5.4	6.9	
(b) Special accounts		2.2	4.0	
(2) Servicing of the public debt	15.3	31.5	29.2	22.0
(3) Contributions to State enterprises and similar government agencies	52.9	77.8	93.4	72.9
(a) Coverage of operational deficits	22.8	29.8	53.8	
(b) Investment	18.9	26.8	26.3	
(c) Miscellaneous	11.2	21.2	13.3	
(4) Other outgoings	18.9	54.3	81.0	63.2
(a) Transfers to provincial treasuries		15.2	17.2	
(b) Commitments carried over from previous fiscal years		12.9	16.8	
(c) Liquidation of bonds		26.1	46.9	
II. Funds available	128.4	138.7	256.2	199.8
(1) General revenue	100.4	117.8	215.0	
(2) Other cash income	28.0	20.9	41.1	
III. Treasury deficit	61.5	165.3	130.1	101.5
IV. Financing of deficit	61.5	165.3	130.1	
(1) Loans	49.1	114.3	66.5	
(a) Long-term	16.9	8.0	20.9	
(b) Short-term ^c			21.2	
(c) Advance by the Central Bank }	32.2	106.3	24.4	
(2) Certificates and documents relating to liquidation of debt to suppliers	5.8	51.3	63.3	
(3) Miscellaneous	6.6	—	—	

^a November 1962–October 1963.

^b Deflation was based on the increase in retail prices.

^c Mainly including sales of securities to the banking system against minimum cash reserves.

4. CHANGES IN THE MONETARY SITUATION

In 1965, the means of payment of individuals expanded by 24 per cent, as against the 41 per cent increase in 1964. The growth of liquidity in the private sector gradually slowed down, after the transactions connected with crop harvests, but a significant rise of 5 per cent took place in December.

The contribution of the various sectors to the growth of the means of payment was not the same as in 1964, because of the increased participation of the external sector, through the rebuilding of international reserves and the financing of crops through the National Grain Board (Junta Nacional de Granos). In 1964, most exports of cereals and oil-seeds were effected by private exporters, but in 1965 the magnitude of the exportable surpluses, and the consequent necessity of storing them throughout

the year, led to the requisite financing being channelled through the Board.

The public sector played a less expansionist part than in 1964; its contribution to the means of payment was 39 per cent in 1965 as against 49 per cent in 1964. For net Treasury financing only (increase in credit to the official sector minus the increase in its deposits) the increase in 1965 was 19 per cent, compared with 42 per cent in 1964.

The monetary and credit evolution in 1965 represented an increase of 155,000 million pesos, which, given the absorption of 57,000 million, accounted for an increase of 212,000 million pesos in the means of payment, or slightly higher than in 1964. Of this sum, the 82,000 million for the public sector consisted of 45,000 million for net financing of the Central Government's Treasury deficit, and 37,000 million for the

Table 85. Argentina: Creation of means of payment, 1961-65
(Thousands of millions of pesos)

Year	External sector	Public sector			Private sector	Total
		National Grain Board	Remainder	Total		
1961	23.5	—	108.1	108.1	232.8	364.4
1962	9.6	—	140.5	140.5	254.4	404.5
1963	18.2	—	199.2	199.2	287.9	303.3
1964	22.6	11.6	300.2	311.8	375.4	709.8
First quarter	26.2	—	230.8	230.8	392.3	549.3
Second quarter	28.6	—	266.5	266.5	317.0	612.1
Third quarter	25.8	12.5	272.6	285.1	346.4	657.3
Fourth quarter	22.6	11.6	300.2	311.8	375.4	709.8
1965 ^a	47.0	31.2	382.3	413.5	461.7	922.2
First quarter	19.9	32.6	331.9	364.5	386.7	771.1
Second quarter	27.7	41.1	344.2	385.3	417.9	830.9
Third quarter	41.1	40.3	368.3	398.6	440.8	880.5
Fourth quarter	47.0	31.2	382.3	413.5	461.7	922.2

^a Provisional figures.

financing of provincial deficits and absorption through the increase in official deposits.

The liquid assets available to the general public amounted to 124,000 million pesos, since there was an increase of 31,000 million in virtually frozen accounts, mainly those representing prior deposits on imports. The liquidity index (the ratio between the primary liquidity of individuals and the gross domestic product), which had been 0.17 in 1963 and 1964 and 0.19 in 1960, was 0.16 in 1965.

A break-down of the growth of the means of payment is given in table 85.

5. EVOLUTION OF THE BALANCE OF PAYMENTS

Balance of payments trends in 1965 indicate that the trade surplus was maintained at much the same level as in 1964 (see table 86). In addition, there was an increase in capital outflows—partly offset through the refinancing of existing loans—dollar bonds were sold to enterprises with external commitments, and there was an increase in the depleted reserves of gold and convertible foreign exchange, which at the end of 1964 had sunk to 82 million dollars (see figure XXIV (b)).

(a) Exports

The value of exports of goods rose to 1,484 million dollars, continuing the rising trend that began in 1962. This rise was based mainly on exports of cereals and oil-seeds, and on the excellent wheat harvest, the export volume of this commodity being 17 per cent larger than in

1964 and double the 1963 figures. The problem of sales abroad was dealt with by the National Grain Board, which sold practically the whole harvest through the opening up of new markets—notably mainland China—and the reactivation of such traditional markets as Brazil. However, the price of wheat was 10 per cent lower than in 1964.

Exports of oil-seeds went up 20 per cent in value and 5 per cent in price. The increase in volume was mainly due to the large sunflower-seed and linseed oil sales, which amounted to some 250,000 tons at prices virtually unchanged from the previous year.

There was also a rise of 35 per cent in fruit exports, due to the exceptionally large sales of apples (275,000 tons, as against 135,000 in 1964). However, apple prices were 18 per cent lower than in 1964.

Exports of livestock products fell by 4 per cent in value compared with 1964. The main decrease (14 per cent) was in wool, since although the volume of wool exports rose by 20 per cent, prices fell by 30 per cent. The reverse was true for meat, since the volume of exports shrank by 18 per cent and prices improved by about the same amount (the unit price of chilled and frozen beef went up from 570 dollars a ton in 1964 to nearly 670 dollars in 1965). This price increase reflects the diversification of markets and the resulting changes in the types of meat exported. Thus, while 70 per cent of the chilled and frozen beef exported in 1960 went to the United Kingdom, in 1964 the proportion had fallen to

Table 86. Argentina: Balance of payments, 1960-65
(Millions of dollars at current prices)

	1960	1961	1962	1963	1964	1965 ^a
<i>Current account</i>						
Total goods and services	-197.9	-573.0	-267.7	+232.0	+34.2	+44.0
Merchandise						
Exports	1,079.2	964.1	1,216.0	1,365.5	1,410.5	1,484.0
Imports	1,099.4	1,270.5	1,180.2	853.2	939.5	1,035.3
Merchandise f.o.b. balance	-20.2	-306.4	+35.8	+512.3	+471.0	+448.7
Services						
Investment income	-57.0	-101.6	-72.0	-68.4	-102.7	-125.0
Freight and insurance	-108.9	-147.1	-126.7	-81.4	-102.3	-106.9
Other ^b	-11.8	-17.9	-106.8	-130.5	-231.8	-172.8
Private transfers (balance)	-7.0	-12.7	-4.8	-0.2	-2.3	-2.0
Total balance on current account	-204.9	-585.7	-274.5	+231.8	+31.9	+42.0
<i>Capital account</i>						
Non-compensatory capital and official transfers	+556.5	+377.6	+262.1	+9.9	+39.8	+48.7
Net errors and omissions	-176.5	+70.6	-263.4	-71.6	-17.2	-10.0
Compensatory financing	-175.1	+137.5	+275.8	-170.1	-54.5	-80.7

Source: ECLA, on the basis of official statistics.

^a Estimates.

^b From 1962 on, the figures are no longer comparable with earlier years because of changes in classification.

34 per cent, and the decline continued in 1965. At the same time there was a decrease in the percentage of chilled beef and an increase in the percentage of frozen beef, mainly for the European markets.

(b) *Imports*

Total imports were 6.1 per cent higher than in 1964. As to their composition, there was a reduction of about 50 million dollars (15 per

cent) in capital goods and an increase of nearly 100 million dollars (19 per cent) in raw materials and intermediate goods. Thus in the changed import schedule in 1965 raw materials and intermediate products accounted for 53 per cent of total imports and capital goods for 23 per cent, whereas in 1962 the corresponding proportions were 33 per cent and 47 per cent respectively (see table 87). The rise in imports of raw materials and intermediate goods was due mainly to the

Table 87. Argentina: Imports of goods, 1960-65
(Percentages)

Type of goods	1960	1961	1962	1963	1964	1965 ^a
<i>Consumer goods</i>	9.7	9.8	7.9	8.0	8.4	9.2
Non-durable	3.3	4.1	4.1	4.9	4.4	5.1
Durable	6.4	5.7	3.7	3.1	4.0	4.1
<i>Fuels</i>	13.5	10.3	8.1	7.4	9.1	10.2
<i>Raw materials and intermediate products</i>	36.1	41.3	33.3	36.5	48.7	53.2
<i>Construction materials</i>	5.5	2.6	3.4	5.5	3.8	4.1
<i>Capital goods</i>	35.2	36.0	47.3	42.6	30.0	23.3
For agriculture	4.0	2.9	2.4	1.6	2.0	1.2
For industry	21.1	19.1	25.2	24.2	14.4	10.8
Transport machinery and equipment	10.1	14.0	19.7	16.8	13.6	11.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLA, on the basis of official statistics.

^a Estimates.

fact that industrial expansion was more vigorous in activities involving a higher level of imported inputs (such as the production of motor vehicle parts and steel). The decline in imports of capital goods can be ascribed to financing problems and to the administrative requirement that prior deposits must be made, and also to the existence of idle capacity (which still persists) in certain industrial branches, and the fact that the main public works in course of execution did not require large imports of machinery.

On 1 December 1965 a new customs tariff nomenclature was adopted, based on the Brussels Tariff Nomenclature, and import surcharges were established with a view to maintaining the protection of domestic industry. The highest surcharges were for motor vehicles (ranging from 405 to 605 per cent), food products (140–200 per cent), wood products (70–120 per cent), paper products and non-metallic mineral products (95–220 per cent), products of the basic metal industries and machinery (75–220 per cent), textile manufactures (320 per cent) and leather manufactures (260 per cent).

(c) *Terms of trade*

The terms of trade declined by 6 per cent in relation to 1964, since import prices remained at the same average level as during the two preceding years, while export prices were over 4 per cent lower than in 1964. This decline was due mainly to the fall in the unit price of cereal and wool exports, and was offset to some extent by the rise in meat prices.

(d) *The external debt*

The weakness of the position with respect to gold and convertible foreign exchange in the early months of 1965, and the fact that payments on the external debt falling due that year

exceeded the predictable surplus on current account in the balance of payments led to re-scheduling negotiations with the leading creditors. The debt situation in Argentina was heavily affected by short and medium term commitments, since over half of them fell due in 1966–68; the refinancing of debts payable in 1965 has made little difference to the position, since for 54 per cent of them payment was deferred until 1966–68, and for the remaining 46 per cent until 1969 or later (see table 88).

Official forecasts for 1965 indicated that payments totalling 300 million dollars falling due that year would have to be re-scheduled. To that end, negotiations took place that resulted in deferring payment of 220.7 million dollars, on the terms indicated in table 89.

The amount finally refinanced meant that obligations totalling 80 million dollars would not be met. If this sum is added to the difference between the estimated and actual deficit on current account in the balance of payments, a difference of 42 million dollars, the total deficit is about 120 million dollars. The Central Bank dealt with this problem by resorting to internal refinancing in the form of successive issues, during the last quarter of 1965, of external debt bonds to a value of 120 million dollars, of which 83 million were taken up in 1965. These bonds pay an annual interest of 5 per cent, are repayable in twelve quarterly instalments beginning in July 1966, and can be taken up only by local firms in order to meet their external commitments or to cover remittances of interest, profits and other returns on capital. The remaining capital outflow was financed through an increased movement of autonomous capital and a smaller increase in reserves than had originally been envisaged.

Table 88. Argentina: Annual payments falling due under the head of external commitments, as at 31 December 1964
(Millions of dollars)

Year	Central Bank	Public sector	Private sector	Total
1965	235.6	173.2	371.1	787.9
1966	163.8	156.3	198.7	518.8
1967 or later	150.2	931.1	536.2	1,607.5
TOTAL, amortization payments	549.6	1,206.6	1,106.0	2,916.2
Interest payments	51.1	232.7	155.8	439.6
TOTAL, capital plus interest	600.7	1,493.3	1,261.8	3,355.8

Table 89. Argentina: Results of the negotiations for refinancing of loans falling due in 1965
(Millions of dollars)

<i>Obligations</i>	<i>Loans falling due in 1965 (as at 31.12.65)</i>	<i>Total amount renegotiated</i>	<i>Refinancing terms</i>
Agreement with International Monetary Fund (1960, 1961 and 1962)	115.2	67.0	Postponement of repayments due in 1965 until 1967 and 1968
Joint agreement in 1960 with European and North American banks	39.4	30.0	Payment deferred until 1966
Payments of subscription to International Bank for Reconstruction and Development (IBRD)	6.7	6.7	Postponement of conversion into dollars
Consolidated debt and refinancing granted in 1963 by Europe and Japan (Paris Club)	195.0	117.0	Consolidation and postponement of 60 per cent of the payments due under the heading of financial aid. Repayment in five annual instalments (1968-72)
TOTAL	356.3	220.7	

Source: Ministry of Economic Affairs.

Chapter II

BOLIVIA

1. PRINCIPAL OVER-ALL TRENDS

Bolivia's economic growth rate slackened in 1965, compared with the two previous years. In fact, the rate of increase in the total product, which had risen from just over 2 per cent in 1961 and 1962 to more than 6 per cent in 1963, declined to 5.5 per cent in 1964 and to 4.2 per cent in 1965 (see figure XXV (a)).

The rates of growth of the over-all product are seen to be closely associated with export trends. In 1960 the current value of exports sank to one of the lowest levels ever recorded—less than 60 million dollars—but since then has steadily recovered, a process which culminated in increases of 20 per cent in 1963 and 30 per cent in 1964; little change is noted in 1965 (see table 90). The higher growth rate of the product in 1963 and 1964 followed closely upon a larger volume of net external financing in the immediately preceding years, i.e., over 40 million dollars in 1962 and 1963.

This marked dependence of internal economic growth on the evolution of the external sector is attributable to factors stemming from the very structure of Bolivia's economy, which have remained unchanged despite the economic and social reforms undertaken since 1952.

It is common knowledge that, together with Mexico and Cuba, Bolivia is one of the Latin American countries where the most far-reaching institutional changes have been effected. They have consisted essentially in the nationalizing of the large-scale tin-mining companies—tin is Bolivia's chief export—and an agrarian reform which has completely altered the structure of agriculture.

Table 90. Bolivia: Recent evolution of the product and exports, 1960-65

<i>Year</i>	<i>Gross domestic product (annual growth rates)</i>	<i>Exports (millions of dollars)</i>
1960 .	1.8	57.6
1961 .	2.1	66.3
1962 .	5.7	70.5
1963 .	6.4	84.2
1964 .	5.5	111.8
1965 .	4.2	113.5

Sources: Gross product: National Planning Department. Exports: official foreign trade statistics.

The nationalizing of the tin mines was calculated to raise the proportion of export earnings accruing to Bolivia under the head of draw-backs, and thus to increase the surplus resources that could be channelled through the Government to finance a programme for the growth and diversification of the economy. This is not the place to analyse the factors which precluded the achievement of that aim—linked as they were to the decapitalization of the tin-mining sector at the time it was nationalized and to the pressure that was brought to bear, and was fomented by the actual revolutionary process, to secure an immediate rise in the miners' real income—but rather to describe their subsequent course. This has been characterized by a sharp decline in exports and an increase in tin production costs, which in their turn resulted in a critical financial situation in the nationalized enterprise.

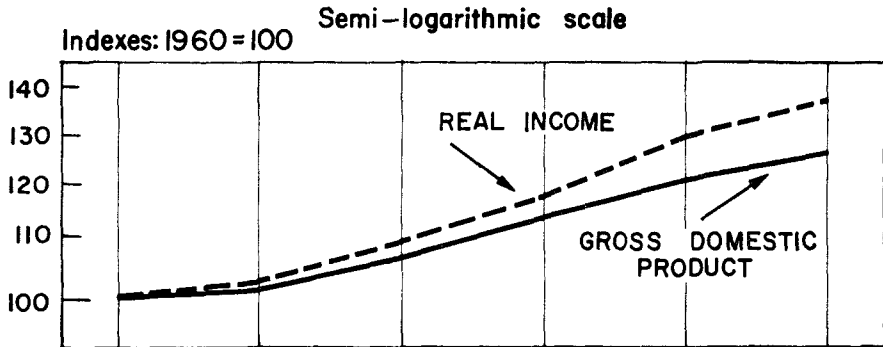
Agrarian reform, for its part, wrought substantial changes in the prevailing social conditions and had important economic repercussions. Its immediate and lasting effect was to raise nutritional levels in the rural areas themselves. However, the inadequacy of subsequent action to support agrarian reform in other spheres weakened its results from the standpoint of supplying the urban centres.

Thus, supply failed to keep pace with demand in the two major sectors of the national economy, and this situation conflicted with the hopes for a rapid improvement in the living conditions of wage-earners in those sectors, and of the well-organized middle-income urban groups in a position to exert political pressure. Those factors, in their turn, gave rise to a classical situation in which strong inflationary pressures triggered spiralling prices in 1954-58; later, a considerable effort was required to contain those pressures, but the basic problems underlying them remain unresolved.

Indeed, the possibility of maintaining and stepping up the volume of imports, despite the severe reduction in exports, became one of the two fundamental problems of Bolivia's economy, the other being to continue to provide certain dynamic incentives through public expenditure. The outlook for both has been improved by external contributions.

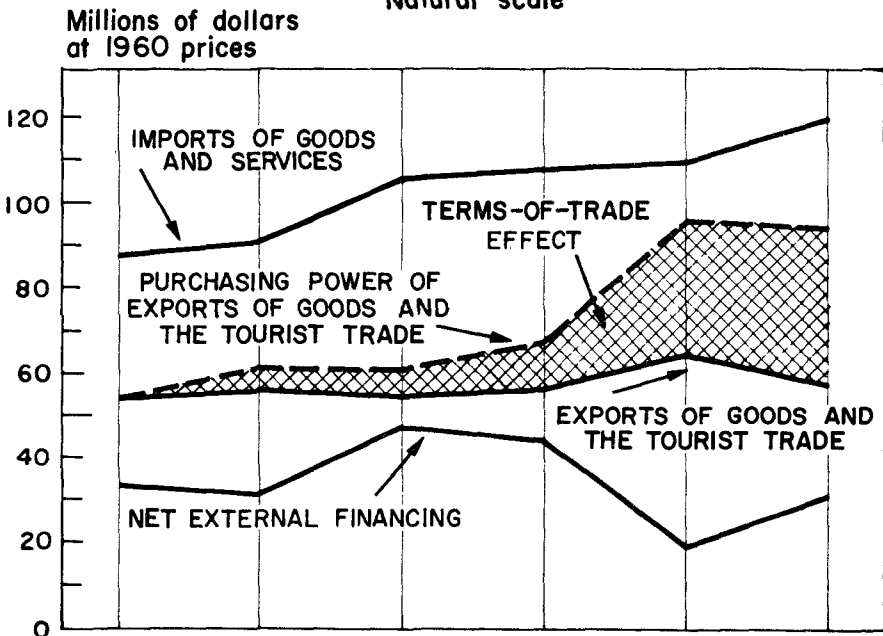
Figure XXV. Bolivia, 1960-65

(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



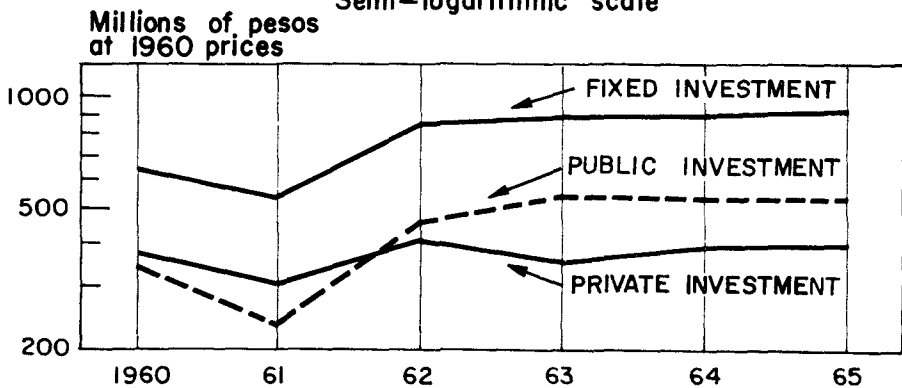
(b) EXTERNAL SECTOR TRENDS

Natural scale



(c) INVESTMENT TRENDS

Semi-logarithmic scale



Source: ECLA, on the basis of official statistics.

The inflow of foreign capital—mainly in the form of loans and transfer payments from the Government of the United States—enabled Bolivia's capacity to import to follow a different course from exports, and even to increase faster than the product. Since a considerable proportion of that contribution was channelled through the public sector, it was also a decisive factor in surmounting the existing fiscal difficulties, maintaining a growing over-all demand through public expenditure, without bringing about any major increments in general prices, since it coincided with a proportionately larger increase in imports.

This state of affairs, which was typical of the early sixties, changed to some extent in 1964 and 1965. Each of the two years was marked by a larger volume of exports with a current value of over 110 million dollars. This boom did much to offset a decline in external financing and, at the same time, to improve the position as regards Bolivia's reserves (see table 91 and figure XXV (b)).

It is not out of place to observe that the changes in the over-all volume of external financing have been accompanied by appreciable changes in its composition. Since 1960, transfer payments have fluctuated around 20 million dollars, while movements of capital have undergone sharper variations. Within the context of these variations, moreover, the proportion of direct investment—which was particularly large in 1958–62 when it was allocated primarily to the petroleum sector—has gradually declined, and, consequently, the share of long-term loans has increased.

Be that as it may, the fact remains that the growing capacity to import has enabled the Bolivian economy to maintain a dynamic

pattern of development, despite the inadequate progress made in economic integration at the national level and in the corresponding mobilization of human resources. To go more deeply into this basic problem of development over the longer term would entail a very careful analysis of various factors, including the use of external financing. For example, the funds obtained from that source have probably not been channelled on a sufficient scale into production activities, but—owing to the peculiar circumstances that have prevailed in the country—have been used largely to help maintain the levels of consumption in the public and private sector. According to estimates of the National Planning Department, consumption, limited by the low absolute levels of per capita income, has actually absorbed over 92 per cent of the domestic product since 1960, and as much as 95.7 per cent in 1961; only in 1964 did its share drop to 87.3 per cent, probably as a result of the rise in the value of exports.

The position with regard to *minifundios* and the growth of consumption in the rural sector, combined with the apparent lack of dynamic force in the industrial sector—partly owing to the system under which the economy evolved, of keeping the market wide open to external supplies—has been responsible for the rigid supply position in these sectors. However, the high level of imports in itself is a sign that there is a margin, as far as the market is concerned, for a more vigorous expansion of domestic production.

As a result of these factors, Bolivia's economic growth in the last five years has been somewhat uneven from the sectoral standpoint. Table 92 shows clearly that whereas agricultural production, which accounted for about 30 per cent of the

Table 91. Bolivia: Imports and net external financing, 1950–65
(Millions of dollars)

Year	Exports	Net factor income	Transfer payments and non-compensatory capital	Capacity to import	Imports of goods and services
1950 . . .	81.4	-3.6	-0.5	77.3	78.3
1954 . . .	75.4	-1.1	25.8	100.1	91.5
1958 . . .	56.8	-2.0	32.8	87.6	90.5
1960 . . .	57.6	-1.2	30.2	89.0	91.7
1961 . . .	66.3	-1.1	30.2	98.3	95.8
1962 . . .	70.5	-0.9	43.5	113.1	117.2
1963 . . .	84.2	-1.9	50.1	132.4	127.5
1964 . . .	111.9	-3.1	34.7	143.5	127.5
1965 . . .	113.5	-3.5	42.9	152.9	140.3

Source: IMF, *Balance of Payments Yearbook*, vols. 12, et seq.

Table 92. Bolivia: Growth and composition of the real gross product, by sector of activity, 1960-65
(Annual rates and percentages)

	Percentage of the total domestic product						Annual growth rates			
	1960	1961	1962	1963	1964	1965 ^a	1960-65 ^a	1962-63	1963-64	1964-65 ^a
Agriculture	31.0	31.9	29.9	29.7	28.7	27.1	2.0	5.6	2.0	-1.4
Mining	8.4	8.5	8.5	8.4	9.1	9.1	6.3	5.9	13.2	4.7
Petroleum	3.9	3.7	3.7	3.8	3.8	3.9	4.5	9.2	6.1	5.5
Food industries	2.5	2.6	2.7	2.8	3.0	3.0	8.9	11.6	16.0	3.5
Non-food industries	9.2	8.8	9.2	9.1	9.4	9.4	5.2	4.9	9.3	4.2
Electricity	1.4	1.4	1.5	1.6	1.6	1.6	7.4	13.0	3.6	4.5
Transport	8.5	8.3	8.3	8.4	8.5	8.5	8.5	7.0	6.6	3.9
Trade and finance	13.0	12.8	12.8	12.8	12.8	12.8	4.4	7.2	5.5	3.7
Construction	4.1	3.2	3.9	4.3	4.2	5.0	9.3	17.2	2.3	25.0
Other services	10.1	10.3	10.3	10.1	10.1	10.1	4.8	4.7	5.1	4.5
General government	7.9	8.5	9.2	9.0	8.8	9.5	8.7	3.5	3.6	12.3
<i>Gross domestic product</i>	100.0	100.0	100.0	100.0	100.0	100.0	4.8	6.4	5.5	4.2

Source: National Planning Department.

^a Provisional figures.

product, increased at half the rate of the total product in 1960-65, the most dynamic sectors which offset that trend were those linked to government activities proper (the Government itself and construction); electric power, which developed faster than the product, as is perfectly normal; and the branch of manufacturing industry that is closely connected with food production, which is naturally protected. In the last two years, the recovery of the mining sector has also influenced economic growth.

A study of the structure of gross internal investment confirms the foregoing considerations (see table 93 and figure XXV (c)). During the last few years, public investment has represented over 50 per cent of total investment. A very high proportion of private investment comes from foreign sources and has been concentrated in the

petroleum sector, a very small margin being left for agriculture and industry. These two sectors might well become the hub of a combined process of import substitution and economic integration if the existing obstacles to the marketing of goods and services between the rural and urban areas could be removed. On the other hand, a substantial proportion of public investment has been allocated to transport and communications, no doubt to accelerate integration at a national level. This has permitted the development of new production centres—as in the Santa Cruz area—but has not had either so rapid or so far-reaching an effect on the various sectors of production or on the traditional centres of activity.

Besides the long-term factors that have influenced Bolivia's recent economic trends,

Table 93. Bolivia: Investment earmarked for gross fixed capital formation, 1963-65
(Millions of pesos at 1958 prices)

	1963	1964	1965
Electricity	19.5	25.3	115.8
Transport and communications	242.5	241.3	193.7
Public utilities	17.9	18.0	11.3
Land settlement and irrigation	5.3	10.0	28.2
Mining	119.9	84.4	50.3
Petroleum	294.5	319.1	274.4
Manufacturing	36.7	43.2	66.2
Agriculture	17.2	31.5	41.9
Education, health and housing	62.3	59.3	50.1
TOTAL	815.8	832.0	832.0

Source: National Planning Department.

there are others of an essentially fortuitous nature which explain the relative decline in the 1965 growth rate. They include labour problems that affected the mining sector, and the adverse weather conditions for agriculture. In addition, there was a certain contraction of private enterprise, as reflected in the production levels of manufacturing industry, pending the enactment of the new investment law at the end of 1965.

Other facts and trends observed within the framework of Bolivia's economic development may well have deeper repercussions within the course of the next few years. Noteworthy in this respect are the recent employment trends, the slight recovery in the public sector's financial position, the present situation with regard to exports of ores, and some of the economic policy measures adopted, which will be referred to later in connexion with the various economic sectors.

There seems to be no question that the employment situation will remain one of the main problems affecting Bolivia's development policy. Unemployment is estimated to have increased over the past few years. To this would have to be added the labour force which does not seek employment owing to the subsistence and self-supply conditions existing in the Bolivian countryside, but is composed of potential immigrants from the *minifundio* areas. Moreover, the type of unemployment that is being created might mean that the population group concerned will be readier to take part in land settlement plans or to migrate spontaneously to some of the areas where new means of communication have been opened up, provided they are offered enough incentive. Otherwise, they might increase the pressure on land in the traditional agricultural areas where *minifundios* already prevail, or the social pressures in the cities if they shifted to urban centres.

From another standpoint, although the chronic government deficit persists, the deficit in public administration has declined slightly in the last two years, despite a substantial rise in real expenditure during 1965. This improvement is attributable mainly to the increase in the value of exports as a result of the rise in world prices of ores, and also in part to the efforts to rationalize the expenditure of the Bolivian Mining Corporation (Corporación Minera Boliviana—COMIBOL) and to an increment in central government revenue.

2. EVOLUTION OF THE MAIN ECONOMIC SECTORS

(a) *Mining*

This highly important sector, which includes petroleum production, generates 95 per cent of

Bolivia's foreign exchange and provides employment for over 45,000 persons, who constitute the most efficiently organized labour group in the country and one of the principal sources of domestic demand.

Tin continues to represent 75 per cent of total exports of ores, which makes Bolivia the third largest world producer. It also ranks third in the production of antimony, fourth in the production of bismuth, and fifth in that of tungsten. Other mineral products are: gold, silver, sulphur, lead and petroleum.

The substantial rise in the value of Bolivia's exports of ores in the past two years is attributable to the increase in both prices and the volume of exports. In 1964, large-scale mining as represented by COMIBOL produced 64 per cent of the gross value of ores, but it is worth noting that in 1960-64 the medium-scale mines—mainly controlled by private interests—stepped up their exports by nearly 47 per cent, as against only 16.2 per cent in large-scale mining and 20.1 per cent in the small mining companies. The past year marked the promulgation of the Mining Code and the Investment Act, while the capital of the Mining Bank (Banco Minero) was increased, the two measures being designed to raise production by means of incentives to private investment in mining, at a time when world prices were high.

Although COMIBOL continued to show a loss if the royalties granted by the central Government are included in the costs, the rise in the price of ores has tended to improve the position in the last few years. Furthermore, since mid-1965 the Government has been pursuing a policy aimed at rationalizing the structure of costs, while improving the production efficiency of large-scale mining. These measures have mainly affected employment and remuneration: there has been a general move to reduce wages, over-employment and the number of recipients of social security benefits originally meant for the miners, while steps have been taken to relate future wage increases and share in the profits to real production increments.

Considerable sums have been invested in the petroleum sector during the last five years. In 1963 exports to Argentina amounted to over 2 million dollars and domestic demand was fully covered, except in the case of aviation gasoline and fuel for turbines, which are not produced locally. In 1964 and 1965, however, production and exports declined. New refineries with a capacity of 2,200 barrels per day were opened in Santa Cruz, and there are good prospects for such time as the new Santa Cruz-La Paz-Arica pipeline is connected.

(b) Agriculture

This is the most strategic sector for Bolivia's long-term economic development not only because of its considerable share of the product but also because of the high proportion of the population living in the rural areas.

In the past quinquennium, the largest increments were recorded in the production of sugar, coffee, cotton and fruit grown in the Santa Cruz area. They were attributable mainly to the area's economic growth, and in part to government policy, which comprised such measures as the opening of the Santa Cruz-Cochabamba highway connecting this area with the Altiplano. The increases in the above crops have served largely to replace imports. The sugar output has exceeded domestic demand, as a result of which surpluses were accumulated at a time when the world market was slack. The prospects for exporting coffee have also been somewhat marred by an unsatisfactory world market.

The Beni region presents highly favourable possibilities for the livestock sector, and has an estimated potential of up to 2 million head. The present stock is calculated at over 700,000 head, and meat has been exported by air to Peru. In general, however, in view of the topography of the country and the distribution of the more efficient means of communication the increase in demand in the Altiplano urban areas where the bulk of the population lives should be covered by imports instead of supplies from such possible areas of agricultural development as Santa Cruz and Beni. The position might well change if production were forthcoming from the traditional farming areas, with which means of communication exist, but these regions are not at present producing a surplus that would permit of supplying the Altiplano urban market. This is largely attributable to the increase in self-supply following upon agrarian reform.

In 1965, the product of the agricultural sector declined by approximately 1.4 per cent in relation to 1964. Although the Agricultural Economies Department of the Ministry of Agriculture reported that sowings and the early growth of crops cultivated in 1965 were promising, as harvest time approached production was hampered by such adverse factors as excessive humidity or prolonged drought, and in some cases diseases and pests against which effective measures were not taken in time. Hence, the only normal harvests were of cereals, tubers, vegetables, oil-seeds and various commodities such as coffee, tobacco and cocoa. The potato and maize harvests, which represent about 51 per cent of agricultural supply, shrank in value by about 1.3 per cent. By contrast, the yucca, dried

pulse, sugar-cane, cotton and citrus and other fruit harvests were satisfactory. In general agricultural production in 1965 is estimated to be 2 per cent below the 1964 level.

The position with regard to livestock and animal products remained unchanged with respect to 1964. The increase in cattle and poultry was less than average owing to disease; it was normal for sheep, and could be considered satisfactory only in the case of pigs. There was a considerable increment in forest production in 1965 compared with 1964, although exports did not rise much in value.

(c) Manufacturing industry

This sector developed at much the same average rate as the domestic product in 1960-65. Although 1964 marked a slight increase, the growth rate declined in 1965 mainly as a result of the manufacturers' uncertain position pending the enactment of the Investment Act that was approved at the end of that year. Certain sectors, too, have been influenced by specific problems, as in the case of milling and the cement industry. The former is almost at a standstill owing to the importation of wheat flour under aid programmes operating in line with United States Public Law 480. This has generated the unemployment of factors of production, which is aggravated by the impossibility as yet of restoring sources of employment for the agricultural sector. The cement industry has become a bottleneck in the development of construction activities, since the Sucre plant has had various problems to face and the Viacha plant reduced production to less than 50 per cent of its installed capacity.

On the whole, the growth of industrial production in the last few years can be ascribed mainly to the better use that has been made of installed capacity. Although gross investment in this sector is on a relatively small scale, in 1964 some additional facilities had been installed. Most of this new investment is concentrated in Santa Cruz; it is compatible with the continued growth of this area, and relates to sugar and cotton, two of the agricultural commodities possessing most dynamic force in the region. Thus, a sugar mill has been expanded and a new plant established for the production of dried molasses yeast; two cotton gins have entered into operation and a cotton waste extractor has been installed. In 1964, a start was made on the construction of a plant for the manufacture of plastic products at La Paz, and a sulphuric acid plant, a tire-retreading plant and a cotton textile mill are scheduled to begin operating shortly at Oruro.

The chemical, para-chemical, cigarette and

textile industries show the highest growth indexes for 1965. Although the factory sector of the food industry expanded by slightly over 7 per cent, the artisan sector increased on a much smaller scale, thus bringing down the average. Moreover, industrial growth in 1965 was influenced by the less favourable trends followed by the production of footwear and leather, made-up textile goods, rubber, cement, and building materials; printing and related industries; metal transforming; and the electrical industries.

In general, industry is still affected by the small size of the markets, as a result of the low income levels and lack of dynamic force of the rural sector, which represents over 62 per cent of Bolivia's total population. Furthermore, it has had to compete at this stage of development with foreign products imported illegally, which in some instances absorbed over 20 per cent of apparent domestic consumption. The production of footwear has perhaps been most seriously affected by this circumstance, and the industry manufacturing made-up textile goods has run into difficulties because it lacks raw material of a quality to compete with the imported article.

The new Investment Act promulgated at the end of 1965 affords ample safeguards for national and foreign investment and will no doubt constitute an incentive to future investment. Seemingly, many investors were awaiting the promulgation of this law before actually making the investments that had already been programmed. Another pending measure is the improvement of customs protection as an incentive to investment in the industrial sector.

(d) *Transport, construction and energy*

Since 1960, the transport sector has expanded

at virtually the same rate as the total domestic product, in spite of the considerable sums invested in the sector. The volume of traffic on some of the new highways (e.g., Santa Cruz-Cochabamba) has remained practically unchanged since its construction in 1955, a fact which indicates a diminishing rate of return on investment in transport. This is a reflection of the sectoral, and above all geographical, integration problems affecting Bolivia's economy, as well as of the competition from imports. Such competition is especially strong in the case of agricultural commodities which it is most difficult to protect, and this hampers the growth of domestic supply to meet market requirements.

Construction has been expanding at a faster rate than the average for the over-all product, mainly as a result of public sector investment in infrastructure. The same cannot be said of housing construction, for which relatively low levels are recorded in both the private and public sector.

The electric energy sector might constitute a bottleneck in Bolivia's industrial development, since although in real terms electric energy generation has been increasing at a faster pace than the total domestic product, the growth of demand has possibly been even faster. This is borne out by the fact that the low voltages and frequencies are seriously impairing the operation of electrical equipment. Although Bolivia possesses a huge hydroelectric potential, at the present time no more than 58 per cent of the electric energy produced comes from this source. Two hydroelectric plants are under construction, one to supply Cochabamba and the surrounding mining district, and the other to supply La Paz.

Chapter III

BRAZIL

1. GENERAL CHARACTERISTICS OF BRAZIL'S RECENT ECONOMIC GROWTH

Four outstanding events dominate the general picture of Brazil's economy in 1965: the rise in the growth rate, the improvement in the external sector, the slowing-down of the inflationary process, and the attainment of a sounder position with regard to public sector income and expenditure.

The nature and relationship of the first three developments are the main subjects analysed in this introductory section, but will be examined more thoroughly at a later stage. Another section in this chapter is devoted to a study of the recent evolution of public income and expenditure.

(a) *The rate of growth*¹

After two years of relative decline and virtual stagnation, Brazil's economy is estimated to have improved at a rate of 7 per cent in 1965, which not only contrasts with the situation during the two previous years but is actually faster than the growth rate recorded at any time during the preceding decade (see table 94 and figure XXVI (a)).

This growth, which can be considered exceptional, was largely due to the excellent harvests obtained that year as a result of favourable weather conditions, which followed upon two years in which they had been quite the reverse.

The reason for the rise of the gross product is clear if the effect of agricultural output is expressed in quantitative terms. As can be seen in table 95 this part of the primary sector records a sudden leap from a growth rate of slightly over 1 per cent in 1963-64 to 20 per cent in the latest crop year considered. Thus, the agricultural sector's share of the domestic product rose from about 28 per cent in 1963-64 to 31 per cent in 1965.

In considering the role played by agriculture, it should be added that its growth is largely attributable to the fact that the production of

¹ The figures given for 1965, in particular those relating to the gross sectoral product, are estimates made by ECLA at the beginning of 1966 on the basis of provisional figures and data obtained from various official sources. Therefore, there might be some discrepancies between these estimates and the final figures arrived at later.

Table 94. Brazil: Product, real income and population, 1955-65
(Annual growth rates)

Period	Total		Per capita	
	Gross product	Real income	Gross product	Real income
1955-60	5.9	5.4	2.7	2.4
1960-65 ^a	4.6	4.6	1.7	1.7
1960-61	5.8	5.7	2.8	2.7
1961-62	5.4	5.0	2.4	2.0
1962-63	1.6	1.6	-1.3	-1.3
1963-64	3.1	3.6	0.2	0.7
1964-65 ^a	7.3	7.2	4.4	4.3

Sources: Up to 1964: ECLA, on the basis of data at current values furnished by the Getúlio Vargas Foundation (FGV); 1965: provisional ECLA estimates based on incomplete indicators obtained from Brazilian sources.

^aProvisional figures.

coffee, the country's main commodity, was three times as large, reaching the figure of 36 million bags. The financing of the new stockpile of coffee represented an additional challenge to economic policy. If coffee is excluded, the increase in agricultural output was 11 per cent.

Consequently, if the agricultural sector is omitted, it will be seen that the rest of the economy developed at an average rate of only 2.4 per cent, or 4 per cent without coffee.

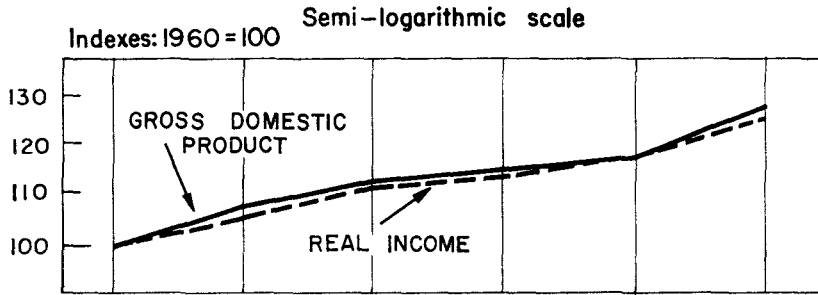
It is quite clear from these figures that the secondary and tertiary sectors made a very weak contribution to economic growth. This is particularly true of manufacturing industry, which contracted appreciably during the first half of the year and recovered in the second half; hence, the provisional estimates for the whole year show a growth of only 1 per cent over 1964 production levels.² By contrast, the mining sector, geared to the external market rather than to import substitution, showed highly satisfactory results, but since it carries little weight in the economy as a whole it did not alter the situation of non-agricultural activities.

The lack of dynamic force displayed by

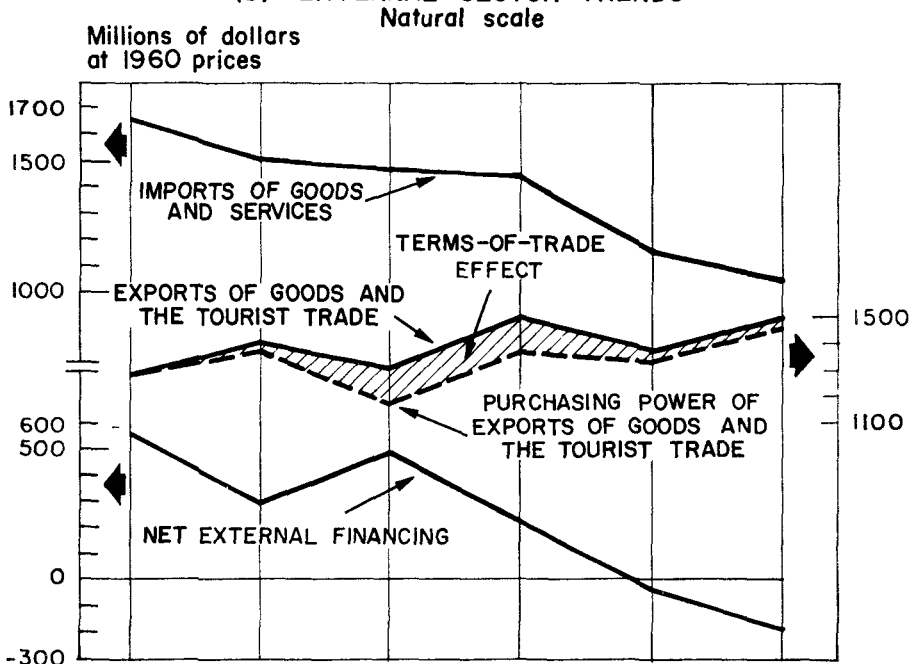
² For the source and nature of this estimate, see section 5 (c) below.

Figure XXVI. Brazil, 1960-65

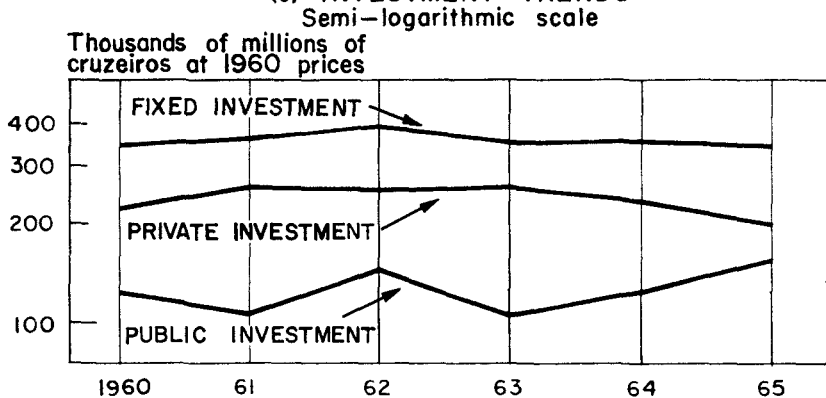
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

Table 95. Brazil: Gross domestic product, by sector of economic activity,^a 1955-65

Sector	Percentage of total gross domestic product					Annual growth rate by periods						
	1955	1960	1963	1964	1965 ^b	1955-60	1960-65 ^b	1960-61	1961-62	1962-63	1963-64	1964-65
Agriculture, forestry and fisheries	31.0	28.4	28.2	27.7	31.0	3.7	6.9	7.6	5.5	1.0	1.3	20.0
Mining and quarrying . . .	0.3	0.5	0.5	0.6	0.6	14.9	11.1	6.4	1.0	18.8	18.4	12.0
Manufacturing . . .	18.9	23.4	24.4	24.9	23.4	10.3	4.9	11.1	8.1	-0.3	5.1	1.0
Construction . . .	1.1	1.2	1.2	1.2	1.1	7.2	2.8	9.7	0.4	1.5	2.2	0.7
Electricity, gas and water . . .	0.6	0.8	1.0	1.0	1.0	10.8	9.7	6.8	11.0	19.3	7.0	4.7
Transport and communications . . .	7.0	7.6	8.2	8.2	7.7	7.5	5.2	9.5	3.8	6.2	3.6	0.0
Trade and finance . . .	14.8	15.5	15.0	15.0	14.8	6.6	4.0	6.1	3.8	1.3	3.1	6.0
Ownership of dwellings . . .	4.3	3.9	3.8	3.8	3.7	3.6	3.4	3.5	3.6	3.6	3.6	2.6
Public administration and defence . . .	8.7	7.4	7.0	6.9	6.5	2.4	2.4	2.4	2.3	2.5	2.4	2.4
Other services . . .	13.3	11.3	10.7	10.7	10.2	2.2	1.9	2.2	2.8	3.5	3.0	2.6
TOTAL	100.0	100.0	100.0	100.0	100.0	5.9	4.9	7.3	5.3	1.7	3.1	7.3

Sources: Up to 1964: ECLA, on the basis of data at current values furnished by the Getúlio Vargas Foundation (FGV); 1965: provisional ECLA estimates based on incomplete indicators obtained from Brazilian sources.

^a Estimate based on the gross domestic product at factor cost.
^b Provisional figures.

industry in the last three years and the rapid growth of agriculture in 1965 reversed the trend that had characterized Brazil's economic development in the fifties. The growth rate of industry was almost twice that of agriculture in 1950-55, and over three times as fast in 1955-60, whereas in 1960-65 agriculture developed quicker than industry (see again table 95). As a result of this process, the agricultural sector's share in the total gross product, which in the past had been gradually shrinking, rose again to nearly one-third in 1965, whereas industry's share declined from 24.9 per cent in 1962 to 23.4 per cent in 1965. In evaluating the growth prospects for the next few years, too much importance should not be attached to the changes that have taken place in the past quinquennium, since they represent a particular experience determined by a series of factors—many of them circumstantial—whose sequence and repercussions need not be projected.

The incomplete nature of the data available precludes an accurate appraisal of the trends followed by the factors of over-all demand in 1965. Provisional estimates based on piecemeal indicators would seem to show that, in contrast to the dynamic growth of public investment, private capital formation pursued the downward movement recorded since 1961 (see table 96 and figure XXVI (c)). Factors influencing a decline in construction activities, combined with the reduction in the total volume of imports, partly account for this trend. In short, total fixed investment appears to have contracted in 1965. The evolution of total investment is as yet unknown since no quantitative data are available regarding variations in stocks, but everything seems to indicate that they increased, beginning with the accumulation of huge stocks of coffee as a result of the big coffee harvest.

Neither can the trend followed by private consumption in 1965 be accurately assessed, although it is estimated to have increased at a slightly slower pace than the total product. The growth of the product was not reflected in an equal increment in domestic supplies of goods and services, since sales abroad went up by nearly 10 per cent, while the supply of imported goods shrank by the same proportion. In 1960-65, both public and private consumption increased at much the same average rate (4.2 per cent annually), while total fixed investment remained practically at a standstill. Altogether, domestic demand necessarily lagged behind the gross product, influenced as it was by the steady reduction in the supply of imported goods, i.e., 60 per cent between the first and last year of the period concerned.

Table 96. Brazil: Gross domestic product, by type of expenditure, 1960-65
(Growth rate)

	1960-61	1961-62	1962-63	1963-64	1964-65 ^a	1960-65 ^b
Gross domestic product	5.8	5.4	1.6	3.1	7.3	4.6
Total investment	6.6	14.1	-14.9	8.1	...	2.0
Fixed	3.5	10.0	-10.3	-0.5	-1.5	0.1
(a) Public	-14.1	35.9	-28.7	20.0	24.0	4.3
(b) Private	13.2	-0.8	0.3	-8.7	-15.1	-2.6
Total consumption	3.9	4.2	3.7	1.5	...	4.2
(a) Public	2.9	3.9	2.9	2.4	8.8 ^a	4.2
Exports of goods and services	10.5	-7.9	15.9	-10.0	9.7	3.1
Imports of goods and services	-8.8	-2.7	-1.0	-21.4	-9.9	-9.0

Sources: Up to 1964: ECLA, on the basis of data at current values furnished by the Getúlio Vargas Foundation (FGV); 1965: provisional ECLA estimates based on incomplete indicators obtained from Brazilian sources.

^a Provisional figures.

^b Including estimates for 1965.

(b) *External sector trends*

If the changes in domestic production can be considered as exceptional for various reasons, those which took place in Brazil's external transactions were no less so. Seemingly deep-rooted economic trends reversed themselves, as in the case of the pressure on the capacity to import which had resulted in deficits in the balance of payments over the past fifteen years, with the single exception of 1961.

The most notable features of those changes are clearly illustrated in table 97 and figure XXVI (b). A fact which stands out is the rise in the real value of exports above the levels reached in 1953-54 when the coffee boom was nearing its end. Although the role of this variable is important—particularly if the effect of the terms of trade with respect to 1960 is taken into account—it is secondary to that of imports; in fact, in 1965 imports pursued the sharply

declining trend followed the year before to reach the lowest level recorded since 1950. The play of these two flows resulted in a surplus trade balance of nearly 600 million dollars, which was more than enough to cover the increment in the negative balance on the net external factor payments account and to provide a substantial surplus in current transactions.

The movements of autonomous capital also showed marked changes, although there was no reversal of trends, but the pattern followed since 1961 was greatly intensified (see table 98). Although the new over-all circumstances might conceivably have favoured an increase in the flow of official credit and direct investment, the fact is that 1965 closed with a deficit of just over 80 million dollars in those transactions. This had not happened since 1950, although, as mentioned above, there had been a definite movement in that direction. The results might have been even

Table 97. Brazil: Evolution of the external sector, 1960-65
(Millions of dollars at 1960 prices)

Year	Volume of exports of goods and the tourist trade	Terms-of-trade effect with respect to 1960	Purchasing power of exports of goods and the tourist trade	Net external factor payments	Imports of goods and services, including the tourist trade	Balance on current account
1960	1,293.0	—	1,293.0	-194.0	1,660.0	-561.0
1961	1,428.9	-32.2	1,396.7	-180.2	1,514.1	-297.6
1962	1,315.1	-132.8	1,182.3	-193.0	1,473.3	-484.0
1963	1,524.1	-138.2	1,385.9	-141.0	1,458.4	-213.5
1964 ^a	1,371.5	-9.5	1,362.0	-175.9	1,145.8	+40.3
1965 ^b	1,503.8	-28.5	1,475.3	-249.4	1,032.7	+193.2

Source: ECLA, on the basis of the IMF, *Balance of Payments Yearbook*, vols. 8 to 17.

^a Provisional figures.

^b Estimates.

Table 98. Brazil: Balance of Payments, 1964-65
(Millions of dollars)

	1964 ^a	1965 ^b
A. <i>Current transactions</i> (1+2+3)	147	220
1. Goods	344	590
Exports, f.o.b.	1,430	1,560
Imports, f.o.b.	-1,086	-970
2. Services	-259	-400
Credits	107	225
Debits	-366	-625
3. Net transfer payments	62	30
B. <i>Autonomous capital movements</i> (1+2)	12	-83
1. Receipts	310	169
Investment	28	42
Loans	164	106
Public Law 480	62	6
Other receipts	56	15
2. Expenditure	-298	-252
Amortization	-271	-242
Other expenditure	-27	-10
C. <i>Total (A+B)</i>	159	137
D. <i>Unclassified capital transactions</i>	-119	14
<i>Surplus (C+D)</i>	40	151
E. <i>Trade arrears and credits</i>	57	-176
F. <i>Official compensatory financing</i> (1+2+3)	-97	25
1. Stabilizing operations	88	358
Loans	116	338
AID	50	127
Eximbank	37	35
European creditors	29	38
North American creditors	—	35
Japan	—	23
North American bankers	—	80
IMF	-28	20
2. Other financing operations	-52	-33
Swaps	-52	-178
Instruction 289	—	145
3. Variation in reserves	-133	-300
Assets (increase -)	-76	-328
Liabilities (decrease -)	-115	
Monetary gold (increase -)	58	28
G. <i>Total (E+F)</i>	-40	-151

Source: Central Bank of Brazil, Economic Affairs Department, Balance-of-Payments Section.

^a Provisional figures.

^b Estimates.

more unfavourable if rescheduling of the external debt had not led to an appreciable decline in amortization payments.

If attention is focused on exports, it will be seen at once that the improvement is not attributable to the traditionally decisive commodities in that respect (see table 99). In the first place, coffee exports were some 55 million dollars below the 1964 figure. By contrast, there was an increase in the value and share of other agricultural commodities, manufactured goods, a variety of products grouped under the head of "other exports", and also of iron ore, whose

importance acquired in recent years was reaffirmed.

Two factors seem to have been mainly responsible for the expansion and diversification of exports. The bumper harvest of a number of crops besides coffee increased the exportable surpluses of commodities that were easily marketed, either because of the favourable conditions prevailing or because these surpluses represented a fraction of world supply;³ and the

³ Table 112 contains figures showing the evolution of agricultural production.

Table 99. Brazil: Principal exports, 1964-65

Classification	Tons		F.o.b. value in thousands of dollars	
	1965	1964	1965	1964
Total (excluding coffee)	18,659,941	13,690,061	891,403	670,087
Manufactures ^a	493,689	347,021	111,583	69,942
Iron ore (hematite)	12,623,092	9,729,630	102,774	80,638
Raw cotton	194,796	217,028	95,997	108,259
Sugar	821,755	253,140	59,051	33,138
Pinewood	696,210	614,115	54,721	46,363
Beef (frozen, canned)	52,955	26,404	38,373	16,954
Maize, unmilled	628,768	62,315	32,371	2,928
Castor oil	145,500	111,014	28,173	24,435
Cocoa beans	91,896	74,710	27,870	34,816
Leaf tobacco	55,668	59,794	27,117	28,291
Manganese ore	923,047	832,918	26,391	20,615
Hides and skins	50,022	20,136	25,540	11,719
Sisal (fibre and tow)	125,123	135,569	21,635	37,480
Rice	188,568	12,425	21,199	851
Wool	13,110	18,492	13,719	23,513
Cocoa butter	17,193	10,330	13,360	10,846
Pará chestnuts	20,342	24,185	12,042	10,421
Carnauba wax	11,838	11,088	10,654	10,243
Groundnuts (meal and cake)	126,907	27,964	9,118	1,829
Soya bean meal and cake	107,143	43,821	7,917	3,024
Jacaranda wood	28,304	17,803	7,725	2,679
Soya beans	75,078	—	7,440	—
Oranges	159,496	96,964	7,429	3,714
Maté	41,752	48,415	7,156	7,775
Other commodities	967,689	894,780	122,048	79,614
Coffee beans	809,311	896,774	705,419	759,703
TOTAL	19,469,252	14,586,835	1,596,822	1,429,790

Sources: 1964: Ministry of Finance, Economic and Financial Statistics Services; 1965: the coffee figures for January–November were furnished by the Brazilian Coffee Institute (IBC), and the December figure was estimated at 68.5 million dollars; other commodities: Banco

do Brasil, Carteira do Comercio Exterior, estimates based on bills of lading. The figures are all provisional.

^a Sections 5, 6, 7 and 8 of the Brussels Tariff Nomenclature (revised).

effects of the relative contraction of domestic demand made available exportable surpluses of manufactures and other products, even though the volume of output had increased at a much slower pace.

The reasons for the decline in imports are obvious. In the first place, the variations are determined by the level of activity of Brazil's production system. In view, therefore, of the modest rate of increase in the product and in the income of the non-agricultural sectors, it is not surprising that the demand for imported goods should decrease. Secondly, a more specific cause is the fact that the import substitution process and the combination of domestic resources were instrumental in linking such demand basically with the industrial sector's needs. In 1961, for example, about 70 per cent

of Brazil's purchases were intermediate goods (metal and non-metal products and parts thereof) and capital goods, and 22 per cent were fuels and lubricants.⁴ In the main, all those items are directly or indirectly connected with manufacturing, whose lack of dynamic force in 1965 largely explains why purchases of capital goods dropped by 28 per cent and the volume of imports of petroleum and petroleum products remained at the same level as in 1964.

(c) *The slowing down of inflation*

It is useful to remember that the anti-inflation policy adopted by Brazil in mid-1964 had certain

⁴ See ECLA, "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, vol. IX, No. 1, p. 23, table 9-B.

peculiar characteristics. While in some ways it followed the so-called orthodox scheme, in others it was entirely different, i.e., in the attention focused on growth trends and public investment, and the ability to adapt itself to the vicissitudes of the situation. In actual fact, stabilization was only one of the salient aims in a variety of objectives: the revival of economic growth, the achievement of a sounder financial position, liberalization of the system, etc. The multiplicity of aims does much to explain the force as well as the weaknesses of the anti-inflation campaign when evaluated on its own. In other words, its complex nature necessitated considerable room for manoeuvre and great flexibility in assigning priority to one or another of the objectives concerned, since the aim was to advance along a whole front and not only in one direction.

If attention is focused only on the question of inflation, it will be noted that, according to available cost-of-living indicators, the rate of price increases in 1965 was reduced to half that prevailing in the previous two years; in other words, it dropped from nearly 90 per cent to 45 per cent. Moreover, if account is taken of a set of indicators—cost of living, wholesale prices and construction prices—the rise is reduced to 34 per cent.

The stabilization policy was reinforced by such powerful factors as the curtailment of salary and wage adjustments, the excellent harvest, the control of monetary expansion and the improvement in the fiscal position. Nevertheless, the end of 1965, and particularly the beginning of 1966, witnessed a new upsurge of inflationary pressures, as revealed by the rise of 8.3 per cent in the January price index.

The persistence of those pressures stems from the very nature and content of the stabilization policy, and also from some of its effects, which in turn influenced the policy itself. If consideration is given to the former type of factors, it would have to be remembered that, concurrently with the aim of curbing price increases, a short-term objective of the stabilization policy was to effect a sweeping reform of the price system. In the main, it was intended to eliminate the distortions brought about by former controls, which primarily affected the rates of the basic services, essential goods, such as wheat, petroleum and paper, imported at preferential exchange rates, and rents. Thus, in 1965 rents went up by 116 per cent, and the rates for public utilities by 71 per cent.

Furthermore, attention is drawn to some of the effects deriving from the stabilization policy itself. The most important of these would seem to be the radical change in the external sector.

There is little doubt that the various restrictive influences on the growth of domestic demand caused the decline in imports. This, coupled with the increment in foreign exchange receipts, resulted in an accumulation of foreign exchange which, in the long run, was the main factor of monetary expansion. The exceptionally good harvest, for its part, while evidently helping to make the stabilization measures more effective, gave rise to distortions, in that the decline in domestic demand and the impossibility of selling all the surpluses abroad made it necessary to maintain minimum prices and to purchase larger quantities of coffee for the stockpile.

These are not the only contradictory phenomena in the complex economic policy adopted by Brazil. Inasmuch as it sought both stabilization and a renewal of economic development—which had been practically at a standstill since 1963—it is easy to visualize the problems that arose in trying to strike a balance between those two major aims. With the purpose of lightening the pressure exerted by demand, the above-mentioned measures in relation to salaries and wages, credit and fiscal financing were enforced with a greater or lesser degree of stringency. But already by the first half of 1965 there were clear signs that those measures had produced a “stabilization crisis”. A shift in emphasis was therefore necessary, with the main accent placed on incentives to expenditure on both domestic and imported goods and services, added to which were the effects of the accumulation of foreign exchange and of other operations connected with foreign trade—the settlement of swaps, coverage for delayed licences, etc.—described above. This effort to step up demand met with a certain amount of success as testified by the fact that industrial production, which had dropped by a little over 4 per cent in the first half of 1965, rose appreciably in the second half, and the year closed with a small increment over the 1964 average. However, the cycle of measures and counter measures was not to end there, since this change set off another price spiral, although the foregoing considerations have shown that this was bound up—it is hard to say how closely—with the deliberate price increases in specific goods and services.

(d) *Some economic prospects*

Whatever may be the appraisal made of the foregoing developments and relationships, the fact remains that the Brazilian economy entered upon 1966 with some well-defined characteristics that open up favourable possibilities. The most important feature would appear to be the relative under-utilization of production capacity, especially in the industrial sector and allied activities.

Secondly, the improved position of the external sector permits steps to be taken to revive the demand for imports and, eventually, to eliminate partial disequilibria which might constitute bottlenecks or obstacles to domestic growth. This trend of development could be strengthened, if necessary, through the addition of external resources to the existing combination of new opportunities. The third feature derives from the possibilities afforded by the improvement of the public finances and the various devices for organizing the monetary machinery and the capital market. Lastly, there are the prospects of another promising year for agriculture, which does not necessarily mean an excessive increase in coffee production, since bumper coffee harvests seldom occur twice in succession.

With this background it seems reasonable to expect that the materialization of their potential opportunities will depend above all on two factors which, although conflicting to some extent, are by no means incompatible. One is the movement or recovery of real income— unquestionably affected in recent years by the acceleration of inflation and the wage adjustment policy—which may be considered a requisite for ensuring the fuller utilization of production capacity. The second factor is tied up with the need to control both that growth and the other variables concerned in order to prevent the renewal of the inflationary spiral.

The purpose of these observations is merely to point up some of the objective potentialities noted in Brazil's present economic situation. Therefore they are not a forecast, since the trend of events and the lines taken by economic policy are dependent on a number of contingencies that are not easily predictable but might considerably affect the situation. Moreover, the present analysis is confined only to the short-term prospects. As soon as all the possibilities for reinvigorating the system within the existing framework have been exhausted, certain structural obstacles, which were examined in earlier studies and still exist in Brazil, will probably emerge again.⁵

2. RECENT EXTERNAL SECTOR TRENDS

(a) *Principal changes in the balance of payments*

For the second year in succession Brazil's aggregate balance of payments showed a substantial and increasing surplus. The balance on current account was 147 million dollars in

1964 and 220 million dollars in 1965 which, after adjustment to take into account the movement of autonomous capital and other unclassified capital transactions, amounted to an over-all surplus of 40 million dollars in 1964 and 150 million dollars in 1965, which contrast favourably with the deficits recorded annually 1957 to 1963 with the exception of 1961. Apart from the improvement in Brazil's external financial position thanks to the current transactions in goods and services in 1965, there were also considerable inflows under the head of stabilizing loans, which had the effect of increasing the exchange reserves (see table 98).

The aforementioned changes, besides strengthening the 1964 balance of payments position and increasing the surplus, show marked disparities with respect to other periods, as will be seen if the major components of the balance of payments are examined.

To take the balance on current account, to begin with it will be noted that the trade balance in 1965 reflected a surplus of nearly 600 million dollars as the result of sharp opposing variations in exports and imports of goods. The f.o.b. value of exports was over 1,500 million dollars (9 per cent higher than in 1964), a figure which had not been attained since 1953-54. Imports, for their part—also in terms of f.o.b. value—were under 1,000 million dollars, which, in addition to representing a reduction of about 10 per cent with respect to 1964, is the lowest level recorded since 1950.

This trade surplus was more than enough to cover the traditional deficit in transactions in invisibles, which reached a very high figure in 1965.

Finally, the trade surplus compared with the deficit in services and adjusted to take into account the net inflow of private transfers (30 million dollars) resulted in a credit balance of about 220 million dollars for current transactions. This result, besides being an increase of 50 per cent with respect to 1964, shows that the situation has taken a new turn in the last two years if 1950-65 is taken as the frame of reference. For the first time in those fifteen years there were consecutive and increasing surpluses in the balance of payments under the head of current transactions. In other words, Brazil's current transactions in 1964 and 1965 gave rise to an increasing volume of domestic saving, a fact which appears to be linked—as will be shown later—to a temporary slackening in import demand and to efforts to channel a larger proportion of production to the export market. The latter had the effect of increasing exports of manufactures and of certain domestic consumer goods (see table 99).

⁵ See "The growth and decline of import substitution in Brazil", op. cit.

Autonomous capital transactions, for their part, culminated in 1965 in a net deficit, expenditure being a little over 80 million dollars higher than income. This was a characteristic feature of the balance of payments in that year, as a similar state of affairs had not existed since 1950 when the movement of autonomous capital reflected a net outflow of nearly 30 million dollars. It might also be recalled that as early as 1964 inflows of autonomous capital had exceeded outflows by the narrow margin of 12 million dollars, and this prompted the adoption of measures to stimulate income, which were supplemented by others in the course of 1965.⁶ In spite of those measures, the decline noted in such inflows since 1961 was intensified, inasmuch as there was a drop of 45 per cent between 1964 and 1965, which was barely offset by the slight increase in direct investment. Moreover, the reduction in external payments under the head of amortization—by virtue of new agreements for renegotiating the external debt—prevented a larger deficit in the movement of autonomous capital. Its potential effect is illustrated by the fact that amortization remittances amounted to 364 million dollars in 1963, compared with only 271 million dollars in 1964 and 242 million dollars in 1965.

These transactions (and an additional adjustment of 14 million dollars for errors and omissions) were the cause of the surplus of 150 million dollars in the 1965 balance of payments as a whole. That surplus, coupled with the credit balance of 25 million dollars in compensatory financing, made it possible in 1965 to settle almost the whole of the trade arrears amounting to 176 million dollars. This settlement formed part of the external debt renegotiation clauses laid down in the year before.

Table 99 gives details of the movement of compensatory financing. An outstanding feature is the large inflow of funds recorded under the head of stabilizing loans, which totalled 338 million dollars. There are not enough data available to determine what proportion of the total is represented by external credit granted through renegotiation of the external debt in 1964. In any case, this was the medium through which use was made at the time of stabilizing resources provided by Eximbank (37 million dollars) and by European creditors (29 million

dollars). The arrangements with Europe and their subsequent extension to the United States and to other international financing institutions enabled Brazil to secure additional stabilizing loans from the Agency for International Development (AID) and the International Monetary Fund (IMF) for early 1965. Most of these resources were furnished that year by AID, in addition to nearly 140 million dollars from United States creditors and bankers and from Japanese sources, none of which had been parties to the 1964 agreements alluded to above.

This combination of transactions and other short-term operations had the ultimate effect of increasing Brazil's net reserves by about 300 million dollars, which is equivalent to an increment of 328 million dollars in the net bank reserves against other countries if the remittances of monetary gold are taken into account.

(b) *Composition and destination of exports*

The marked increase in exports was attributable to the increments in all the major groups of commodities—except chemical, pharmaceutical and other similar products—which did not preclude significant changes in the share of each individual group in the dollar value of total exports (see again table 99).

The increase was even apparent in foodstuffs and beverages, despite the fact that exports of coffee—a predominant item in that group and actually in the whole range of exports—fell short of the previous year's figures in both volume and value (in terms of dollars).

The recent coffee export trends are explained by the sequence of events in the two preceding years. In 1963 Brazil's most important coffee-growing area—Paraná—was devastated first by frosts and then by fire. The consequent forecast of a reduction in the 1963/64 harvest affected world demand by stimulating the growth of coffee stocks, which brought about a substantial increase in the volume of Brazil's exports in the second half of 1965, and also in their value, because of the considerable rise in world coffee prices. During the course of 1964—when the world market had large stocks at relatively high prices—Brazil contrived to follow an external sales policy based on the provisions of the International Coffee Agreement. However, the United States' failure to ratify the Agreement until mid-1965 weakened the policy's chances of success. Moreover, because of the price situation in 1964, Brazilian coffee prices were nearly the same as those of the finest Colombian and Central American varieties and far higher than that of African *robusta* and this caused

⁶ Law 4390 enacted in August 1964 and the regulations for its enforcement laid down in Decree 55762 of February 1965. By virtue of these provisions the criteria for recording the reinvestment of profits and the original entry of capital were standardized, the obstacles to remittances of profits abroad were eliminated and the system for recording foreign capital was simplified.

world buyers to use other varieties instead of Brazilian coffee in the preparation of their blends. Under these circumstances, Brazil actually exported 14.9 million bags of coffee in 1964, which was less than the quota of 18.9 million bags established under the International Agreement. Thanks to world prices, however, this permitted a slight increase in coffee export earnings.

Essentially the same conditions prevailed in the first six months of 1965, the second half of the 1964/65 crop year. World imports at that time amounted to 21 million bags, as against 25.5 million in the first half of 1964, which reflected a tendency on the part of importers to reduce their stocks. Those in the hands of North American importers dropped from 4.5 million bags at 31 December 1964 to 2.7 million at end of May 1965, possibly in expectation of a change in the price support policy adopted by Brazil at a time when the marketing terms for the new harvest were about to be decided. The contraction of world demand and the persistence of minor disparities in price between Central American and Brazilian coffee, and of considerable disparities between the latter and the *robusta* variety definitely contributed to reducing Brazil's exports in the first half of 1965 by 33 per cent with respect to the first six months in 1964, and 39 per cent with respect to the same period in 1963. The situation was quite different in the second half of 1965, which marked a recovery in Brazil's exports in comparison not only with the previous six months but also with the second half of 1964. This recovery was influenced, *inter alia*, by the United States ratification of the international agreement, which had a favourable effect on market conditions; the rise in African coffee prices (mainly from May onwards), which re-established more favourable terms of trade for Brazil; and the acceptance by the International Coffee Organization of Brazil's initiative in exercising a more effective control of the world market through the quota-price system, supplemented locally by resolutions adopted by the Brazilian Coffee Institute to protect coffee sales. However, 1965 as a whole witnessed a decline in Brazil's coffee exports with respect to 1964, in terms of both the number of bags sold and the dollars earned thereby (see table 100).

This decline was offset by a marked increase in exports of sugar-cane, maize, rice and meat in 1965, partly as a result of special internal incentives.

The other significant change that has taken place recently in the composition of exports is the sizable increase in sales of manufactured products to other countries. With the increments

Table 100. Brazil: Exports classified by groups of commodities,^a 1964-65
(F.o.b. value in thousands of dollars)

Commodity group	Exports	Imports
	1964	1965
Live animals	346	1,063
Raw materials, processed and non-processed	344,050	403,478
Foodstuffs and beverages	754,702	783,008
Chemical, pharmaceutical and other similar products	14,267	11,381
Machinery and vehicles, and parts and accessories thereof	13,543	22,284
Manufactured goods (by raw material used)	18,419	54,799
Miscellaneous manufactured articles	1,403	2,239
Gold, coins and special transactions	4,217	10,317
TOTAL	1,150,947	1,289,569

Source: Ministry of Finance, Economic and Financial Statistics Services.

^a January-October each year.

recorded in 1965, the figures reached were 60 per cent higher than in 1964 and the share in the total f.o.b. value of exports was 12.5 per cent larger. The main contributions were made by the steel industry, and in this sector three specific groups of products—certain types of bars and sheets—accounted for over 30 million dollars in the first ten months of the year, compared with only 2.5 million dollars for the same period in 1964, and nearly one-third of total exports of manufactures. Until recently the installed capacity of Brazil's steel industry was not large enough to satisfy domestic demand, and up to October 1965 had been increased by only one blast furnace (in September). It is therefore concluded that the expansion of exports of steel products and other manufactures was associated with a decline in domestic demand. Nearly 60 per cent of Brazil's exports of industrial products in 1965 went to other ALALC countries.

Several measures besides those mentioned earlier in connexion with coffee, meat and cereals, and the devaluation of foreign exchange (not enforced until November 1965) helped to intensify Brazil's policy of promoting sales abroad. They include tax incentives to exports of manufactures, through authorization to deduct from total taxable profits the proportion corresponding to the industrial products specified

by the Foreign Trade Commission;⁷ provisions governing export credit, which have been in force since 1964;⁸ and measures for simplifying export formalities, also in force since 1964.⁹

(c) *Level, composition and origin of imports*

As previously stated, Brazil's imports dropped to a very low level in 1965. This decline seemed to be associated not with a lack of capacity to import but with the slowing down of industrial growth which affected demand for raw materials and inputs in general, as well as machinery and equipment.

According to information available for January–October, there was a drop in the c.i.f. value of imports of most of the major groups of items, with the exception of chemical and pharmaceutical products, non-ferrous metals and certain fruits (see table 101). The volume of imports of petroleum and petroleum products was practically the same as in 1964, but the c.i.f. value in terms of dollars fell by about 10 per cent. There was an even sharper decline in imports of anthracite and bituminous coal.

Imports of unmilled wheat in the first ten months of 1965 shrank by 36 per cent in volume and 41 per cent in value with respect to the same period in 1964. As imported wheat represented a growing proportion of total supplies, this decline must have had a significant effect on both the domestic market and consumption.

⁷ By virtue of the provisions contained in Law 4663 of June 1965 and Decree 56967 of October 1965, the amount to be deducted is equal to the proportion of a firm's total earnings during the base year represented by its exports of manufactures; they will be in force in 1966, 1967 and 1968, and will benefit manufacturers, exporters, exporting agents, and exporters' associations registered as such. Moreover, Decree 53967, which establishes regulations for the reimbursement of the customs duties paid on raw materials and imported materials used for the production of export items, had been in force since June 1964.

⁸ In September 1964 the system of refinancing exports was established through the Foreign Trade Department of the Bank of Brazil for all exports financed through credit operations at 360 days or less, and for 75 per cent of the balance financed through longer-term operations. Moreover, steps were taken to enable exporters of manufactured products to import raw materials and equipment other than those produced locally by authorizing them to use for the purpose 50 per cent of their foreign exchange earnings, and exempting them from compulsory deposits and other charges. Furthermore, a bill establishing export credit insurance was sent to Congress in January 1965 and the regulations governing it were issued in November.

⁹ Exports of goods other than coffee and certain commodities exported on a minor scale are at present subject to the system of licences issued by the Foreign Trade Department, which are normally authorized within twenty-four hours; the exchange rates are negotiated on the free market, except for coffee, cocoa and beef.

As regards capital goods, the first ten months of 1965 marked a drop of 28 per cent in imports of machinery and accessories compared with the same period in 1964, and the decrease was even steeper (47 per cent) for vehicles and parts thereof.

Generally speaking, the import policy followed in 1965 did nothing to further the contraction of purchases abroad, which was influenced by the relative stagnation of domestic activities, particularly in the manufacturing sector. On the contrary, as the balance of payments surplus increased, a number of measures were adopted which, in point of fact, constituted an incentive to imports. They included preferential treatment for imports which had the necessary financing but lacked exchange coverage, and for imports from monetary areas with which Brazil maintained a favourable balance of payments (in force since February); the elimination of all additional exchange charges—compulsory deposits, financial charges and guarantee deposits—for items imported against the credit of 150 million dollars granted by the United States Government (AID) to finance purchases of products from that country; the abolition of exchange charges on imports involving price stabilization commitments (also in force since February); the reduction of the guarantee deposits from 100 per cent to 50 per cent (since September) for imports effected in convertible currencies, followed by a further reduction to 25 per cent in January 1966; and the reclassification of import items, entailing transfers from the special to the general category. Moreover, the free market exchange rate remained unchanged up to November and the adjustment at that time (from 1,850 to 2,200 cruzeiros to the dollar) was proportionately lower than the increase in domestic prices. In addition, the prior deposits and financial charges on imports were eliminated, concurrently with the devaluation, and the financial charge on transfers was reduced to 15 per cent (10 per cent for firms accepting price stabilization commitments).

3. RECENT EVOLUTION OF PUBLIC REVENUE AND EXPENDITURE

The nature of Brazil's recent economic evolution shows the marked influence of the public sector, whether indirectly through anti-inflation measures and over-all economic policy or directly through the level and composition of public income and expenditure. The effect of the latter on the economy as a whole will be more easily appreciated if it is borne in mind that the estimated share of public investment in the total domestic product, in terms of current values,

Table 101. Brazil: Imports, by principal goods,^a 1964-65

Goods	Volume (tons)		C.I.f. value (thousands of dollars)		Value in dollars as a percentage of the total	
	1964	1965	1964	1965	1964	1965
Fuels, lubricants, mineral oils and derivatives	10,952,176	10,261,578	214,150	185,592	20.49	21.13
Crude petroleum	8,852,648	8,871,240	140,634	135,733	13.46	15.45
Anthracite and bituminous coal	1,039,162	686,047	19,382	12,095	1.85	1.38
Lubricating oils	232,222	172,129	18,836	13,971	1.80	1.59
Liquefied petroleum gases	202,509	140,016	11,819	8,075	1.13	0.92
Wheat, unmilled	2,087,861	1,325,911	166,644	97,763	15.94	11.13
Machinery, and parts and accessories thereof	75,195	46,500	200,005	144,477	19.14	16.45
Machine-tools and other metal-working machines, other than pneumatic	14,412	8,231	28,321	17,019	2.71	1.93
Bearings and bearing balls	4,101	3,022	13,365	9,873	1.28	1.12
Chemical, pharmaceutical and other similar products	584,133	725,469	122,033	145,426	11.67	16.56
Manufactured fertilizers	294,570	377,029	15,524	21,186	1.49	2.41
Caustic soda	100,379	78,146	10,756	8,034	1.03	0.91
Metals and metal manufactures	328,286	300,002	109,428	106,781	10.47	12.16
Iron and steel sheet and rolled products, including tinplate	100,576	103,085	23,022	22,477	2.20	2.56
Crude, refined and unrefined copper	23,944	18,621	17,300	20,921	1.66	2.38
Barbed wire	55,150	42,906	10,902	8,753	1.04	1.00
Crude aluminium	16,855	17,949	8,376	9,081	0.80	1.03
Vehicles, and parts and accessories thereof	23,438	17,253	58,952	31,590	5.64	3.60
Tractors, other than steam	9,659	6,780	15,410	11,998	1.47	1.37
Printing paper	65,881	46,247	13,004	9,103	1.24	1.04
Cod (<i>bacalao</i>)	18,361	13,204	11,986	8,869	1.15	1.01
Apples, pears and grapes	42,249	19,272	9,946	10,613	0.96	1.21
Other goods	669,672	887,764	139,031	138,088	13.30	15.72
TOTAL	14,847,252	13,643,227	1,045,149	878,302	100.00	100.00

Source: Ministry of Finance, Economic and Financial Statistics Services.

^a January-October each year.

apparently increased by 7.7 per cent in 1964 and 9.7 per cent in 1965, representing in the latter nearly 60 per cent of total investment. It would be as well, therefore, to examine some of the most significant changes that have taken place in public income and expenditure, inasmuch as they help to explain the importance and relative scope of the role that is being played at present by Brazil's public sector.

(a) Central Government revenue and expenditure

For want of information, much of the analysis will be confined to the central government, although some illustrative details will be added later on the other agencies that have come to play a relatively important part in the public sector.

The salient factor has been the rapid and steady growth of real central government revenue in recent years, which climbed from 7.2 per cent annually in 1963 to 10.6 per cent in 1964 and

13.8 per cent in the following year. The increase in the amount of revenue flowing into the Treasury in the last two years is due to the emergency tax reform put through in 1964 as a prelude to the full reform that is still pending.

At the same time, the revenue changed appreciably in composition (see table 102). A larger share of the total was accounted for by capital receipts, which expanded from 7.1 per cent in 1964 to 10.1 per cent in 1965, but even more radical changes took place in the structure of tax revenue. Income tax was the item to increase most rapidly, contributing around 60 per cent of the increment in tax revenue between 1962 and 1965 (in real terms), while the increase in consumption taxes was much less and the real value of import duties declined. The result was that the share of income tax in total tax revenue increased from 26 per cent in 1962 to 28.1 per cent in 1964 and 33.8 per cent in 1965; consumption

Table 102. Brazil: Evolution of central government revenue,^a 1962-65
(Thousands of millions of cruzeiros)

	Current prices			
	1962	1963	1964	1965
I. Current revenue				
(a) Tax revenue	444.1	845.7	1,717.7	3,021.6
(b) Revenue from the net wealth tax	12.3	8.4	41.9	30.7
(c) Industrial income	6.2	7.8	14.0	33.4
(d) Other income	12.6	13.9	37.6	145.7
II. Capital revenue	36.6	77.3	199.4	362.5
TOTAL	511.8	953.1	2,010.6	3,593.9

Source: Contadoria Geral da República, Ministry of Finance.

^a The data relate to book income and have been brought up to date in accordance with the general price index.

taxes also expanded between 1962 and 1964 (46 and 51.2 per cent respectively), but decreased appreciably in 1965 to 43.3 per cent (see table 103).

Some features of these changes are lasting while others are of a more transient nature. For instance, the decline in the relative share of customs duties is due to the fact that until recently these have been used as an economic policy tool rather than a source of tax income, while the growing importance of income taxes is the result of the tax reform, and the decrease in the share of consumption taxes seems to have been mainly caused by the temporary economic recession in the first half of 1965.

Recent trends in central government expenditure show that it has been expanding more slowly than revenue but that equally marked changes have taken place in its composition (see table 104).

If total expenditure is roughly divided into

current and capital expenditure, it will be seen that the former shrank from 82.9 to 78.4 per cent between 1962 and 1964, while the latter increased from 17.1 to 21.6 per cent. This pattern became much more marked in 1965, when current expenditure was 66.3 per cent and capital expenditure more than a third. The anti-inflationary measures reduced real current expenditure in 1965 to 42.2 per cent below the previous year's level because the wages of public employees were frozen. Consequently the slight rise in total expenditure over the 1964 level (1.4 per cent in real terms) represented a sharp increase in capital outlays, and reflected the government policy of protecting the 1965 public investment programme, most probably on the grounds that it was one of the main ways in which to give a new dynamic impetus to development.

Owing to the trends of central government revenue and expenditure, the current account closed with a surplus balance for the first time in

Table 103. Brazil: Central government tax revenue, 1962-65
(Thousands of millions of cruzeiros)

	Current prices			
	1962	1963	1964	1965
1. Income tax	115.6	242.9	482.4	1,022.6
2. Import taxes	47.9	69.9	96.8	165.4
3. Customs duties	10.5	16.9	27.5	43.1
4. Consumption taxes	204.3	408.1	880.0	1,307.6
5. Flat tax on electric energy	2.2	11.9	32.6	97.1
6. Land tax	—	0.1	0.2	0.2
7. Flat tax on ores	—	—	—	19.1
8. Stamp tax	60.7	91.8	188.0	347.7
9. Other charges	2.9	4.1	10.0	18.7

Source: Contadoria Geral da República, Ministry of Finance.

Table 104. Brazil: Trend of central government expenditure,^a 1962-65
(Thousands of millions of cruzeiros)

	Current prices				Average 1965 prices			
	1962	1963	1964	1965	1962	1963	1964	1965
Current expenditure	595.2	1,033.5	2,171.0	2,925.0	3,098.9	3,097.6	3,410.7	2,925.0
(a) Costs	315.6	609.1	979.9	1,257.7	1,643.1	1,825.6	1,539.4	1,257.7
(b) Current transfers	279.6	424.4	1,191.1	1,667.3	1,455.8	1,272.0	1,871.3	1,667.3
Capital expenditure	131.4	244.0	599.7	1,489.9	648.2	731.2	942.1	1,489.9
(a) Economic and social development	98.7	216.4	498.9	—	513.8	648.7	783.8	—
(b) Investment	30.2	23.9	88.9	560.0	157.4	71.7	139.6	560.0
(c) Financial investment	1.0	1.7	7.1	87.9	4.8	4.9	11.1	87.9
(d) Capital transfers	1.5	2.0	4.8	842.0	8.2	5.9	7.6	842.0
Expenditure in previous years	—	—	—	—	0.1	0.1	—	—
TOTAL	726.6	1,277.5	2,770.7	4,414.9	3,783.2	3,828.9	4,352.8	4,414.9

Source: Contadoria Geral da República, Ministry of Finance, figures brought up to date in accordance with the over-all price index.

^a The new budget classification established by Act 4,320

eliminated the item "Economic and social development" in 1965, and all expenditure under that heading was thereupon divided between "Investment" and "Capital transfers". Up to 1964, capital transfers had consisted solely of amortization payments on the public debt.

several years; as a result nearly 45 per cent of the capital expenditure was financed from government savings, which reduced the over-all budget deficit (see table 105).

(b) *The public sector as a whole*

There is unfortunately no comprehensive account available for the public sector similar to the systematic presentation of data for the central government,¹⁰ although the States and municipalities and the decentralized administration account for a large proportion of the total public revenue.

¹⁰ The first consolidated account for the public sector in the 1965 fiscal year will probably be issued at the end of 1966. So far the only accounts brought out have been for the central government, covering budget transfers (current and capital) to States, municipalities and the decentralized administration.

In 1964, the States and municipalities received nearly 1,900 thousand million cruzeiros largely from sales taxes, not including income from transfers, while the central government obtained a little over 2,000 thousand million. In the same year, the decentralized administration obtained about 4,300 thousand million cruzeiros, of which some 1,400 thousand million came from transfer payments.

Revenue in 1965 is provisionally estimated at 3,000 thousand million for the central government, 3,138 thousand million for the States and Distrito Federal, and 530 thousand million for nearly half the municipalities,¹¹ as indicated in table 106. In the case of the central government,

¹¹ The data available cover 2,131 of the 4,414 municipalities in the country.

Table 105. Brazil: Budget implementation, 1962-65
(Thousands of millions of cruzeiros)

	Current prices			
	1962	1963	1964	1965
Total revenue	511.8	953.1	2,010.6	3,593.9
Current expenditure	595.2	1,033.5	2,171.0	2,925.0
Balance on current account	-83.4	-80.4	-160.4	668.9
Capital expenditure	131.4	244.0	599.7	1,489.9
Budget deficit	214.8	324.4	760.1	821.0

Source: Contadoria Geral da República, Ministry of Finance.

Table 106. Brazil: Estimated public revenue, 1965
(Thousands of millions of cruzeiros)

	National	State and Distrito Federal	Municipal ^a
Current revenue			
(a) Tax revenue	2,938.4	2,440.1	357.7
(b) Revenue from the net wealth tax	25.8	6.4	1.7
(c) Industrial income	10.7	134.5	14.1
(d) Current transfers	—	193.4	91.4
(e) Other income	25.0	98.1	38.1
	SUB-TOTAL	2,872.5	503.0
Capital revenue			
(a) Capital transfers	—	150.0	
(b) Other capital income	0.1	115.5	
	SUB-TOTAL	265.5	30.3
	TOTAL	3,138.0	533.3

Source: Ministry of Finance, Technical Council for Economic and Financial Affairs.

^a Covering only 2,131 of the 4,414 municipalities in the country.

at least, the sum actually obtained was almost 20 per cent higher than had been expected. Estimated expenditure for the same year was around 3,800 thousand, 3,400 thousand and 600 thousand million for the three entities (see structure in table 107), and actual outgoings were 17 per cent higher for the first group than had been forecast.

The total capital expenditure of the decentralized administration in 1965—comprising

state-owned industrial concerns and the most important Federal and State agencies for purposes of capital formation—is estimated to have been 1,800 thousand million cruzeiros, of which a little more than 1,400 thousand million is thought to have been financed from sources outside the budget. This would have been well below the volume of resources available for capital expenditure, which was estimated at 2,200 thousand million cruzeiros, of which 470

Table 107. Brazil: Estimated budget expenditure, 1965
(Thousands of millions of cruzeiros)

	National	State and Distrito Federal	Municipal ^a
Current expenditure			
(a) Costs	1,152.0	1,461.9	310.9
(b) Current transfers	1,524.4	802.3	70.0
	SUB-TOTAL	2,264.2	380.0
Capital expenditure			
(a) Investment	511.9	702.2	205.6
(b) Financial investment	16.7	132.0	7.6
(c) Capital transfers	569.8	305.8	12.7
	SUB-TOTAL	1,140.0	225.9
	TOTAL	3,404.2	606.8

Source: Ministry of Finance, Technical Council for Economic and Financial Affairs.

^a Covering only 2,131 of the 4,414 municipalities in the country.

thousand million corresponded to Central Government transfers.¹²

These forecasts and estimates give a fairly accurate picture of over-all capital expenditure by the public sector in 1965, from which the share of the different bodies in the high public investment figures recorded that year can be distinguished in some detail (see table 108).

(c) *Financing and distribution of public investment*

For a closer examination of the way in which the necessary resources were assembled and distributed, other types of background information must be drawn upon, mainly the projections for 1965 contained in the Government's plan of action, and some calculations up to September.¹³

The projections, which were based on the assumption that gross fixed capital formation should be 17 per cent in 1965, provided for an aggregate investment of 4,950 thousand million cruzeiros, with 57 per cent earmarked for public investment (see the proposed use and origin of these funds, by the agencies concerned, in table 109).

Up to September, the funds actually allocated by the public sector for capital outlays were slightly over 2,500 thousand million cruzeiros, which is more than the figure allowed for. Table 110 gives more detailed information on the sources of these funds and their distribution to organs of the central and decentralized administration. Of the latter, Petrobras used 9.1 per cent, Eletrobras 9 per cent, the National Development Bank 7.6 per cent and the Departamento

¹² The extra-budgetary funds that make up the bulk of the income consist of revenue from the flat tax on fuels, real estate instalment bills, the national housing fund, other special funds connected with the decentralized administration and the resources of the autonomous agencies themselves.

¹³ More than one discrepancy will doubtless be found because of the heterogeneity of the figures used.

Table 108. Brazil: Capital expenditure by the public sector,^a 1965

(Thousands of millions of cruzeiros)

Central Government	1,016.6
1. Investment	560.0
2. Financial investment	87.9
3. Capital transfers	368.7
Decentralized administration	1,808.3
Budget resources	391.9
Extra-budgetary resources	1,416.4
States and municipalities (own resources)	470.0
TOTAL, capital expenditure	3,294.9

^a Central Government transfers consisted solely of the proportion corresponding to the autonomous public bodies not included by the Ministry of Planning in the programme, and capital transfers to the private sector. The index of 83 per cent was applied to the other capital transfers included in the item "Budget resources of the decentralized administration". The resources of the States and municipalities have been estimated on the basis of provisional figures supplied by the Ministry of Planning.

Nacional de Estradas de Rodagem 7.6 per cent. The States and municipalities required 15.6 per cent of the total.

External financing represented 9.4 per cent of all capital expenditure by the public sector (see again table 110), and by September about two-thirds of the external funds allocated for the year had been spent.

In keeping with the order of priority set by Government policy, the 1965 programme laid particular stress on investment in transport, electric energy and petroleum which constituted 29, 18 and 8 per cent of total capital expenditure in the public sector. Substantial investment was also contemplated in industry and mining and, on a smaller scale, for developing agriculture and education.

Up to September, the volume of resources actually used in comparison with estimated requirements varied considerably from one sector to another. Investment in railways, shipping and

Table 109. Brazil: Planned investment, 1965

(Thousands of millions of cruzeiros)

Source and use	National	State and municipal	Private	Total
National Government	1,540	35	345	1,920
States and municipalities	55	860	—	915
Private sector through the public sector	80	—	30	110
Private sector (direct)	—	—	1,615	1,615
External sector	225	35	130	390
TOTAL	1,900	930	2,120	4,950

Source: Ministry of Planning, Public Investment Programme (1965).

port facilities had a particularly low coefficient of use, with the difference that the 1965 programme represented a considerable improvement over the 1964 levels for the first two but a sharp reduction for the third. Even less use was made of investment in the housing sector, although there again the programme had allowed for a considerable increase over the 1964 level. A fairly small increase had been expected in the 1964 figures for investment in energy, industry, mining, education and public health, but full use was not made of the funds available; the same applies to road building, for which the increase provided for was the largest of all. Actual investment in coal-mining, the petroleum industry and agriculture came fairly close to the targets set, as did investment in regional development, for which the estimate was 45 per cent below the 1964 level.

4. ANTI-INFLATIONARY POLICY IN 1965

The measures taken to relax inflationary pressure were one of the salient factors in Brazil's economic policy in 1965. Their immediate objective was to prevent prices from rising more than 25 per cent in the course of the year, instead of over 90 per cent as in 1964. In this they were not wholly successful, since, although the rise in retail prices was 27 per cent, the respective increases of 45 and 44 per cent in the cost-of-living and construction indexes led to an increase of 34 per cent in the general price index.¹⁴

The main instruments used for this purpose were the traditional devices for restricting the money supply and wage adjustments, with the addition of a "voluntary price restriction" which consisted essentially in a number of incentives offered to enterprises not to raise their prices by more than a certain percentage.

The limit set for the expansion of the money supply was 30 per cent over the balance on 31 December 1964. The actual increment proved to be 57 per cent, and although less than in 1964, when it was 69 per cent, and 1963 (72 per cent), it outstripped the rise in the over-all price index for the first time in the last three years.

The trend of currency issues was determined by several factors, some favourable and others the reverse. A paramount factor on the positive side was the reduction in the fiscal deficit, as a

result of the increase in tax revenue, the restriction of current expenditure and other measures designed to obtain resources from the private sector. The latter included exchange transactions, the minimum price policy and purchases of coffee surpluses.

A glance at the account for the monetary authorities will show that the item entitled "Exchange transactions controlled by the Treasury" accounted for the biggest sum (over 1,000 million cruzeiros up to November 1965). Its main components are thought to have been the accumulation of foreign exchange reserves (about 300 million dollars), payment of trade arrears (176 million) and the settlement of swaps (close to 178 million dollars). Around 230,000 million cruzeiros were required for the minimum price policy up to November because of the particularly good harvest that year. Then, too the big coffee crop made it necessary to use funds to buy up the surpluses while the quotas payable by exporters remained the same. As a result, this factor acted in the opposite way from its normal function as a source of non-inflationary funds for the Government.

The monetary supply was also affected by a sizable bank expansion in the course of the year. Although the maximum rediscount period was shortened from 120 to 15 days, and the ratio of compulsory deposits to total demand deposits held by commercial banks in the Central Bank expanded from 22 to 25 per cent, bank loans to the private sector had gone up 42 per cent by the end of November. This, coupled with the increased demand for liquidity, led to a rise of 62 per cent in demand and short-term deposits up to the same date.

The sharpest rise in the monetary supply took place towards the end of the year which is probably the reason why the means of payment increased more than the over-all price index, i.e. 57 per cent as against 34 per cent. This indicated that, unless other steps were taken, the effects of the expansion would be felt more intensely in the first few months of 1966.¹⁵

Wage policy was founded on two key decisions, namely, that a year should elapse between wage adjustments, and that any adjustment should aim at raising remuneration to the level of the real average wage over the last twenty-four months rather than the maximum real wage paid at the time of the previous adjustment. Thus no wage increases in line with productivity increases would be permitted until the second half of 1966. The policy was actually launched in 1965, since it

¹⁴ The general price index is a weighted average of the indexes for retail prices, for the cost of living and for construction, the weighting factors being 3, 6 and 1 respectively. The difference between the increments in the first two indexes was mainly due to the rise of 116 per cent in rents and of 71 per cent in public utilities, which are both components of the cost-of-living index.

¹⁵ The retail price index rose 8.2 per cent in January 1966 compared with 4.8 per cent in January 1965.

Table 110. Brazil: Capital formation for public expenditure,^a 1965
(Thousands of millions of cruzeiros)

Institution	National budget resources	Extra-budgetary resources							Total	Grand total	
		Flat tax on fuels	Real estate instalment bills	National housing plan	Other special funds	Electricity enterprises and companies	Funds from autonomous agencies	External financing			
Centralized administration											
Legislature	4.3								—	4.3	
Judiciary	0.7								—	0.7	
Office of the President of the Republic	0.6								—	0.6	
MECOR	56.1							10.0	10.0	66.1	
Air Ministry	27.1	15.0						0.8	15.8	42.9	
Ministry of Agriculture	28.5								—	28.5	
Ministry of Education and Culture	84.5								—	84.5	
Ministry of Finance	22.5								—	22.5	
War Ministry	36.9								—	36.9	
Ministry of Industry and Trade	—								—	—	
Ministry of Justice and Internal Affairs	1.1								—	1.1	
Ministry of Marine	18.7								—	18.7	
Ministry of Mines and Energy	64.3								—	64.3	
Ministry of Foreign Affairs	—								—	—	
Ministry of Health	22.8							1.7	1.7	24.5	
Ministry of Labour and Social Welfare	—								—	—	
Ministry of Transport and Public Works	138.9				8.0		35.0	4.0	47.0	185.9	
Unclassified resources	41.6								—	41.6	
	TOTAL	548.6	15.0	—	—	8.0	—	35.0	16.5	74.5	623.1
Decentralized administration											
OMM	39.6				8.2		57.9			66.1	105.7
Federal Rail Network (RFF)	21.3	52.6			19.0					71.6	92.9
National Highways Department (DNER)	1.0	163.5					18.8	12.0		194.3	195.3
National Development Bank (BNDE)	75.2						63.7	56.0		119.7	194.9
Banco do Brazil—Department of Agricultural and Industrial Credit (BB-CREAI)	—						113.6	10.0		123.6	123.6
ELETOBRAS	85.9						73.0			144.5	230.4
National Housing Bank (BNH)	—		5.0	36.7			2.5	—		44.2	44.2
Banco do Nordeste do Brasil (BNB)	—						67.2	8.0		75.2	75.2
Other financial organizations	7.3						—	—		—	7.3
PETROBRAS	—						233.3	—		233.3	233.3
State industrial organizations	5.6						91.5	44.7		136.2	141.8

to exceptionally good weather and the contrast between the new level of coffee output and the unusually small harvest obtained in 1963 and 1964 as a result of the damage done by frost and fire in 1963 (see table 111).

Of the other traditional export items apart from coffee, production of cocoa rose 16 per cent, while that of sugar cane was almost stationary. Raw materials for industry also showed large increments. Cotton climbed about 35 per cent thanks to the increase in the cotton-growing area and more intensive use of fertilizers and insecticides, while both jute and sisal rose by approximately 15 per cent, which was much the same proportion as in 1964, also partly because a bigger area was devoted to these crops (10 per cent for jute and 15 per cent for sisal). Weather conditions enabled more food crops to be grown for direct consumption, and these, in several cases, produced large enough surpluses for stockpiling after exports had been deducted. For instance, sales of rice, which is the major commodity in this group, amounted to nearly 200,000 tons, while the total production increase was about 1 million tons (see table 112).

As in other aspects of development in recent years, changes were made in agricultural policy, one of them being the adoption of new instruments of action. The credit facilities for crop and stock farming were increased by 43 and 63 per cent respectively, although, in real terms, the latter was the only significant increment. Institutional changes included the transfer of the functions of the former National Rural Credit Co-ordination Service to the Central Bank, in which the Department of Agricultural and

Industrial Credit was set up to establish a Fund for Agriculture and Industry. Meanwhile, credit policy continued to depend mainly on existing machinery in the Banco do Brasil, Banco Nacional de Crédito Cooperativo and private banks.

In order to promote the mechanization of agriculture and improve productivity, special facilities were established for purchases of machinery and tools. The main effects of these facilities were to raise sales of equipment (in real terms) to the sugar sector, and to increase the use of fertilizers and insecticides, particularly for cotton.

Minimum price policy remained much the same as in the past, which meant that more resources had to be mobilized for its purposes. The benefits of guaranteed prices were extended to such basic food as maize, beans, rice, and wheat, and also to the cotton grown in the south.

The activities of the National Agricultural Development Institute, which is responsible for applying the Land Statutes approved at the end of 1964, were focused almost entirely on building up its internal structure. The Brazilian Land Reform Institute, which is also at the stage of organization, was mainly engaged in zoning work and making a land register of the rural areas and holdings, while pursuing research with a view to revising the rural land tax. Lastly, three areas to receive priority for land reform were designated, but expropriation, involving a mill and the 16,000 hectares of cane-growing land surrounding it, took place in only one of those areas—the Nordeste.

Table 111. Index of the real gross product for the agricultural sector, 1962-65
(1949 = 100)

	1962	1963	1964	1965 ^a	Annual growth rate		
					1962-1963	1963-1964	1964-1965 ^a
Total crop sector . . .	176.0	176.7	174.4	222.9	+0.4	-1.3	+27.8
Total excluding coffee . . .	...	...	...	...	+4.4	+3.1	+13.9
Livestock production . . .	178.7	181.8	192.8	201.9	+1.7	+6.1	+4.7
Extractive activities (excluding fisheries) . . .	197.2	209.5	217.0	225.2	+6.2	-3.6	+3.8
Total crop and livestock production . . .	177.1	178.9	181.3	217.6	+1.0	+1.3	+20.0
Total crop and livestock production excluding coffee . . .	...	...	...	...	+4.0	+3.8	+10.8

Sources: Up to 1964: data supplied by the Getúlio Vargas Foundation (FGV); estimates based on data from the Crop Forecasting

Service of the Ministry of Agriculture and the publication, *Análise e Perspectiva Econômicas*.

^a Provisional figures.

Table 112. Brazil: Evolution and growth rate of crop production, 1962-65

Commodity	Tons				Percentage		
	1962	1963	1964	1965	1963/62	1964/63	1965/64
Cotton	1,902,335	1,956,895	1,770,288	2,393,059	+2.9	-9.5	+35.2
Rice	5,556,834	5,740,065	6,344,931	7,269,064	+3.3	+10.5	+14.6
Groundnuts	647,811	603,840	469,671	606,181	-6.8	-22.2	+29.1
Potatoes	1,133,860	1,167,774	1,263,812	1,297,323	+3.0	+8.2	+2.7
Cocoa	140,363	143,495	153,685	177,805	+2.2	+7.1	+15.7
Sugar-cane	62,534,516	63,722,895	66,398,978	67,679,807	+1.9	+4.2	+1.9
Bahia coconuts ^a	429,067	493,855	503,160	426,774	+15.1	+1.9	-15.2
Beans	1,708,983	1,942,363	1,950,683	2,108,118	+13.7	+0.4	+8.1
Jute	47,477	44,122	51,235	59,054	-7.1	+16.1	+15.3
Oranges ^a	9,254,518	10,532,360	10,274,799	7,648,266	+13.8	-2.5	-25.6
Manioc	19,843,422	22,248,644	24,355,602	26,111,273	+12.1	+9.5	+7.2
Maize	9,587,285	10,418,267	9,408,043	11,371,408	+8.7	-9.7	+20.9
Black pepper	3,753	6,454	6,461	8,427	+72.0	+0.1	+30.4
Sisal	147,255	199,299	228,606	264,497	+14.4	+14.7	+15.7
Soya beans	342,175	322,915	304,897	436,028	-5.6	-5.6	+43.0
Wheat	705,619	392,363	643,004	651,389	-44.4	+63.9	+1.3
Coffee ^b	34,007	25,641	16,178	35,844	-24.6	-36.9	+122.0

Sources: Up to 1964: Brazilian Institute of Geography and Statistics; 1965: Ministry of Agriculture, Crop Forecasting Service. The data on coffee have been supplied by the Brazilian Coffee Institute.

^a In terms of thousands of units.

^b In terms of thousands of bags.

(b) Mining

Estimates for the four main products in this sector—iron ore, manganese ore, crude petroleum and coal—show that the volume of output increased by an average of 12 per cent in 1965. The highest increment—49 per cent—was registered by iron ore. In addition, exports of hematite increased from 9.7 to 12.7 million tons between 1964 and 1965, reaching a value of over 100 million dollars.

Manganese ore production expanded by 7.5 per cent between the same two years, while exports rose from 0.8 to 1.1 million tons, their value in 1965 being 29 million dollars.

Crude oil output is estimated to have increased by around 3 per cent, thereby checking the downward trend maintained since 1963. The Carmópolis well in Sergipe entered into production, and the new oil fields in Bahia are expected to yield a good deal more in future.

Coal production was only 4 per cent more than in 1964, but it was then nearly 27 per cent above its 1963 level.

(c) Manufacturing industry

Manufacturing was the sector that experienced the sharpest contraction during the first half of 1965. Estimates by the Getúlio Vargas Foundation show a decrease of 4.3 per cent in the sector's

activities as a whole.¹⁶ Its recovery in the second half of the year was fairly rapid, and the balance for the whole year will probably show a fractional increase of about 1 per cent over the 1964 level.

These unfavourable trends were echoed in most branches of industry. Textile production dropped more than 7 per cent in the first six months. During the latter half of the year, the industry was granted a moratorium on payment of consumption taxes which, combined with the other general incentives offered by the Government, led to its subsequent recovery. Another important contributory factor was the substantial increase in textile exports (from 4 to 8.5 million dollars between 1964 and 1965).

During the first half of the year, the steel industry also had a lower level of production than in 1964, but recent estimates based on ingot output indicate that a 3.3 per cent increment took place in 1965. The notable recovery that must have been made in the second half of the year can be traced to the growth of the industries producing end goods and of exports of steel products. As regards the programme for developing the

¹⁶ These estimates, which are limited to the first half of the year, are virtually the only figures available. The supplementary estimates for the whole year, which have been used in the present section, are mainly based on figures for electric energy consumption and incomplete sectoral data.

steel industry, USIMINAS' second blast furnace with a daily capacity of 700 tons entered into operation in September 1965, COSIPA's blast furnace, capable of turning out 1,200 tons per day, began production, and an agreement was concluded between the Government and the World Bank to undertake an extensive study of the development of the steel sector. The importance of this will be better understood if it is realized that the expansion of the Brazilian steel industry may entail an investment of around 1,000 million dollars in the next five or six years.

The motor vehicle industry first suffered a sharp setback at the beginning of the year, but stepped up its production rapidly after June thanks to a progressive reduction in consumption taxes and the financing of approximately 14,000 low-cost vehicles by the Caixas Economicas (at an operating cost of about 40,000 million cruzeiros). However, its recovery does not seem to have been vigorous enough, because some of the major branches of the motor vehicle industry failed to obtain good results for the year as a whole. This is also true of tractor production, which was likewise encouraged by a reduction in consumption taxes, but even so fell 30 per cent below its level in the previous year (8,118 units as against 11,532 in 1964).

Within the electrical materials industry, the branch producing motor vehicle parts understandably developed on very similar lines to the motor vehicle industry, while the industry manufacturing electrical appliances for household use succeeded in recovering from its critical state in the first half of the year, partly as a result of changes in consumption taxes, and, by the end of the year, had apparently reached much the same level as in 1964. The electrical equipment industry is thought to have pursued the same trend as the light metal-transforming industry in general.

The evolution of the chemical industry was very different. During the first half of the year, production expanded by nearly 14 per cent, but in the second half it suffered from foreign competition as a result of the abolition of the financial charges and prior deposits that had previously been required for imports of chemical products.

Lastly, in the metal-transforming industry, the heavy metal-transforming sector, which works to orders placed well ahead of time, was almost unaffected by the depression. On the other hand, the medium and light metal-transforming industries that produce equipment on an assembly-line basis, were more sluggish in 1965, although special financing machinery for private investment was set up, i.e. the Fund for the Purchase of Industrial Equipment and Materials.

(d) *Housing construction*

In the general context of recent development policy, housing construction was expected to play a key role in encouraging private industrial activities and absorbing the labour that might be laid off from other branches of industry. In view of this, one of the measures taken was to set up contractual and financial machinery to make it easier for the lower-income groups to buy houses, including a system comprising the National Housing Bank, housing loan corporations, foundations and co-operatives. The resources of this system, which were centralized in the Housing Bank, came from a compulsory payment of 1 per cent on the total sum of the payrolls of all enterprises in the country, the issue of real estate instalment bills, compulsory and voluntary subscriptions, and loans from abroad or from the agencies forming part of the system.

The Bank's holdings came to 55 per cent of the sum established as a target, and actual applications for funds amounted to only 11 per cent of the planned figure. The number of units built was therefore 10,000 instead of the 30,000 provided for.

To judge from the calculations made on the basis of cement and asphalt output, the level of activity in the sector as a whole—including public investment—remained much the same as in 1964.

(e) *Transport*

As far as transport was concerned, Government action had two main aims in 1965: to eliminate the operational deficit of the transport organizations and to integrate transport policy. Measures were therefore taken to lower operating costs and to shift the burden of the deficit on to users by gradually raising the rates. Particular attention was paid to cutting down the operational deficit of the autonomous bodies that request Government subsidies. As a result, the subsidies were appreciably reduced in the course of the year, eventually amounting to slightly over 386,000 million cruzeiros as against more than 650,000 million in 1964.

In view of the need for a rational and integrated policy, an agreement was concluded between the Government and the IBRD under which the Executive Group for the Integration of Transport Policy was set up towards the end of the year. Its first task, for which four firms of consultants have been engaged from a list of names supplied by the Bank, is to draw up a programme for the integrated development of the transport system. The Bank regards a programme of this kind as a prerequisite for undertaking to lend money to the sector.

The resources planned for 1965 totalled nearly 735,000 million cruzeiros, in financial rather than real terms, since the figure does not tally completely with real capital expenditure and investment in the sector. Under the terms of this programme, the bulk of the funds are for highways (476,000 million cruzeiros), with smaller sums for rail transport (140,000 million), shipping (63,000 million), air transport (32,000 million) and ports (23,000 million). The main sources of this financing were specific funds and resources transferred from the States (nearly 40 per cent in each case) and central budget appropriations, as external sources contributed less than 5 per cent of the total, and were assigned entirely to road building.

Chapter IV

CENTRAL AMERICA

1. CENTRAL AMERICAN ECONOMIC TRENDS IN 1965

(a) *General features*

The salient characteristic of the Central American economy in 1965 was its relatively high growth rate. This continued the steadily rising trend of the past five years, which started with the area's economic recovery after a period of stagnation at the end of the fifties. The increase in the domestic product for the area as a whole is estimated to have been approximately 6.8 per cent, in real terms, which compares favourably with the rates of 6.6 and 6.4 per cent for 1964 and 1960-65 respectively (see table 113 and figure XXVII (a)). Moreover, the average growth rate attained in 1965 was the result of the economic expansion of all the Central American countries, as distinct from the situation in 1960-64. Noteworthy in this respect were the rates of over 8.5 per cent annually attained by Honduras and Nicaragua, due essentially to the substantial growth of external demand, which created the incentives needed for a rapid increase in the agricultural sector. Similarly, the recovery of Costa Rica's agricultural production—especially coffee-growing—permitted an over-all economic growth of over 7 per cent. The growth rate was lower in the two remaining countries—between 5 per cent and 6 per cent—owing to the smaller increase in exports and the relative stagnation of the agricultural sector.

As in the immediately preceding periods, the factor mainly responsible for Central America's economic development has been the increase in exports of goods and services (7.3 per cent) which, in conjunction with a slight improvement in the terms of trade, raised the area's purchasing power in 1965 by a little over 8.0 per cent (see table 114 and figure XXVII (b)).

This growth was based, on the one hand, on exports of traditional commodities—particularly bananas and cotton, which increased in volume by 20 and 25 per cent, respectively—and, on the other, on the stepping up of intra-area trade, which has influenced Central America's recent economic trends and become one of the dynamic factors of growth. Provisional figures indicate that intra-area trade amounted to 140 million dollars in 1965, or approximately 20 per cent of total exports of goods (see table 115). Besides

the rapid growth of this economic factor—34 per cent in that year—the volume attained is an important stimulus to Central America's economic development.

The rapid expansion of intra-area trade has been the main spur to industrial development—9.3 per cent in 1960-65 and 7.4 per cent in 1965—and to the allocation of increasing resources to industry by the private sector (see tables 116 and 117 and figure XXVII (c)).

Although in the early stages of the common market, the industrial sector undoubtedly used to take advantage of the immediate opportunities opened up by free trade by making fuller use of current capacity, in all probability its possibilities have gradually been exhausted and since 1962 and 1963 the specific opportunities afforded by free trade have rather tended to give rise to private investment for the expansion of existing plants or the installation of new ones, especially in the traditional industries (foodstuffs, textiles, pharmaceutical products and toilet preparations). The renewed interest in exploiting a wide range of natural resources led the private sectors and official agencies in 1965 to implement a number of long pending integration projects in connexion with steel making, sheet glass, glass containers, pulp and paper, caustic soda and chlorinated insecticides, etc.

The interest aroused in these and other industrial projects has, among other factors, resulted in the establishment of co-ordination machinery early in 1966, as the culmination of a series of efforts made in that respect during 1965. Each country's present and future of industrial development possibilities have been made known principally through these programmes.

Another factor underlying the area's steady economic growth has been the increasing inflow of foreign capital. This is estimated to have been over 200 million dollars in 1965, of which direct foreign investment was still the major item (see table 118). Besides the increasing volume of official credit at the governments' disposal, additional resources for the development of the economic infrastructure were obtained from the economic integration fund established on the basis of contributions from the Government of the United States and the Central American countries. This increased supply of resources

Table 113. Central America: Evolution of the total and per capita gross products, 1960-65

	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965 ^a	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Total gross domestic product</i>												
Central America . . .	2,797.8	2,927.0	3,109.7	3,355.4	3,577.0	3,820.0	6.4	4.6	6.2	7.9	6.6	6.8
Costa Rica . . .	480.9	492.7	513.8	548.4	554.3	595.7	4.4	2.5	4.3	6.7	1.1	7.5
El Salvador . . .	573.1	602.8	672.0	704.8	771.7	810.5	7.2	5.2	11.5	4.9	9.5	5.0
Guatemala . . .	1,020.5	1,059.3	1,086.7	1,223.5	1,295.6	1,366.6	6.0	3.8	2.6	12.6	5.9	5.5
Honduras . . .	376.7	402.7	423.8	436.7	465.8	515.3	6.5	6.9	5.2	3.0	6.7	10.6
Nicaragua . . .	346.6	369.5	413.4	442.0	489.6	531.9	8.9	6.6	11.9	6.9	10.8	8.6
<i>Dollars at 1960 prices</i>												
	1960	1961	1962	1963	1964	1965	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Per capita gross domestic product</i>												
Central America . . .	259	262	270	282	291	301	3.1	1.2	3.1	4.4	3.2	3.4
Costa Rica . . .	399	393	394	404	393	406	0.3	-1.5	0.3	2.5	-3.0	3.3
El Salvador . . .	230	235	254	258	273	278	3.9	2.1	8.1	1.6	6.2	1.8
Guatemala . . .	272	274	272	297	305	312	2.8	0.7	-0.7	9.4	2.7	2.3
Honduras . . .	193	200	203	202	208	222	2.8	3.6	1.5	-0.5	3.0	6.7
Nicaragua . . .	245	254	276	286	308	324	5.7	3.7	8.7	3.6	7.7	5.2

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 114. Central America: External sector trends, 1960-65

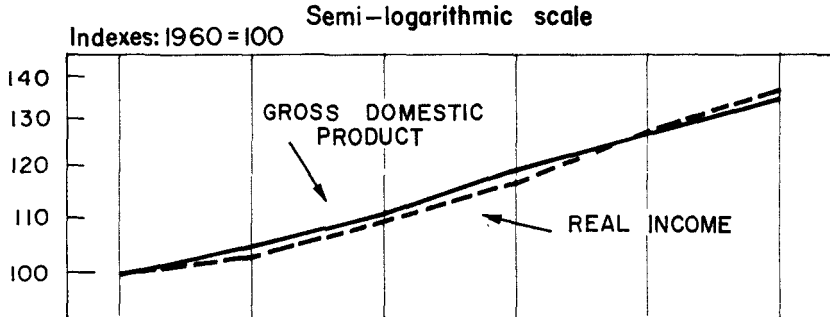
	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965 ^a	1960-65 ^a	1960-61	1961-62	1962-63	1963-64	1964-65 ^a
Quantum of exports of goods and services	493.9	531.4	587.8	712.7	748.5	803.4	10.2	7.6	10.6	21.2	5.0	7.3
Quantum of imports of goods and services	584.2	545.7	606.6	713.5	823.1	930.8	9.8	-6.6	11.2	17.6	15.4	13.1
Purchasing power of exports of goods and services	493.9	509.7	570.7	656.9	749.7	810.4	10.4	3.2	12.0	15.1	14.1	8.1
Terms-of-trade effect	—	-21.7	-17.1	-55.8	1.2	7.0						

Source: ECLA, on the basis of official statistics.

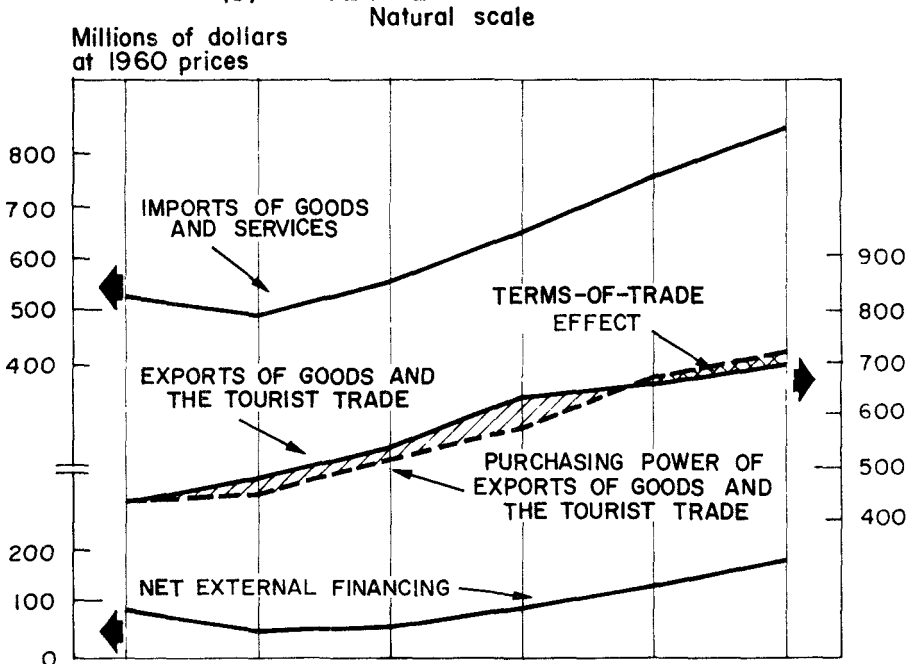
^a Provisional figures.

Figure XXVII. Central America, 1960-65

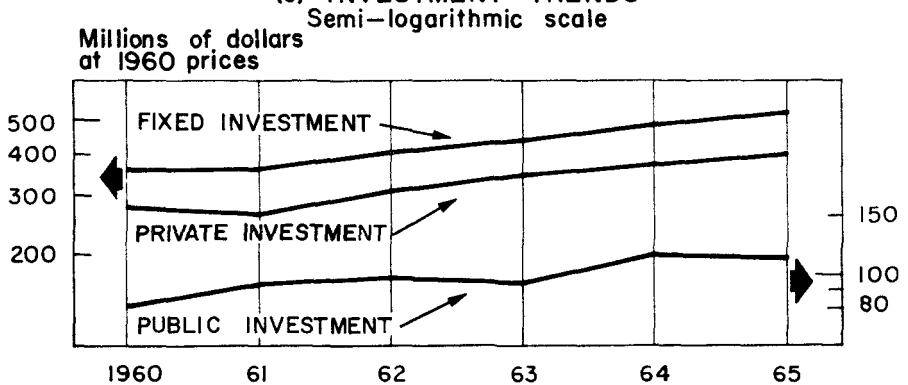
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

Table 115. Central America: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
	<i>Millions of dollars</i>					
Total	430.0	459.4	518.7	589.4	675.0	738.7
Exports to Central America	32.7	36.8	50.8	66.2	105.9	142.2
Exports to the rest of the world	397.3	422.6	467.9	530.5	569.1	596.5
<i>Principal products</i>						
Cotton	36.7	50.1	80.6	104.0	114.6	133.7
Bananas	66.3	68.0	71.4	69.1	71.5	85.8
Coffee	212.0	206.8	209.4	225.7	248.3	257.5
	<i>Percentages</i>					
Exports to Central America	7.6	8.0	9.8	11.2	15.7	19.2
Exports to the rest of the world	92.4	92.0	90.2	88.8	84.3	80.8

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

from abroad made it possible to finance the imports of raw materials and of intermediate and capital goods that were needed for accelerated industrial development and are concurrently Central America's major imports. In fact, their growth rate doubled in the past five years (see table 119). However, the accelerated growth of imports, unsupported by attempts to make important changes in their composition, has led to a growing deterioration in the balance of payments position, mainly because imports of consumer goods have been increasing in step with the growth of imports required for the development of manufacturing. The deficit on current account, covering goods, services and factor payments, is likely to have risen from 150 million dollars in 1964 to over 200 million dollars in 1965.

Within this general economic framework the public sector continues to follow a fluctuating trend, especially as regards investment. The standstill in the revenue obtained from import duties, as a result of the gradual change in the origin of the items involved and the policy of giving incentives to industrial development through tax exemptions for the necessary imports, has limited the chances of tapping resources to meet the growing economic and social development needs of the Central American countries. To judge from the piecemeal data on current income and expenditure furnished by the central governments, expenditure has grown steadily while domestic income has remained at virtually the same level; hence, public investment has come to depend increasingly on external financial resources. Whereas it increased by approximately 20 per cent in 1964, it is estimated to have dropped by 1.4 per cent in 1965 (see again table 116 and figure XXVII (c)). The tax

reforms required to compensate for the decrease in revenue deriving from import duties and to raise the necessary funds to implement public investment programmes have not been adopted by all the Central American countries, and this constitutes one of the most serious obstacles to their future economic growth.

To the continuing dependence of public investment on the rigid structure of the tax system must be added the weakness that is still to be found in the State agencies responsible for the preparation and execution of projects, and has limited the possibility of making any substantial increase in public investment to the level proposed for the first year of implementation of the economic development programmes in the Central American countries.

(b) Growth of agricultural production and exports

The growth of Central America's production in 1965 was largely due to the expansion of the agricultural sector, which accounts for approximately 32 per cent of the total product. In 1965 its growth rate was over 7 per cent, which is one of the highest recorded in the period 1960-65, when the average annual rate was 5.4 per cent.

This over-all situation contrasts with developments at the national level. While agricultural production increased dynamically in some countries (the growth rate of the agricultural product ranged from 8 to 16 per cent in 1965), a state of relative stagnation was observed in others.

During the 1965/66 crop year,¹ as in earlier

¹ The discrepancies between the data based on crop years and the value added for the sector are mainly attributable to the different systems used by the various countries to distinguish between the crop year and the calendar year.

Table 116. Central America: Expenditure on the gross domestic product, 1960-65

	Millions of dollars at 1960 prices						Annual growth rates					
	1960	1961	1962	1963	1964	1965 ^a	1960-65 ^a	1960-61	1961-62	1962-63	1963-64	1964-65 ^a
Gross domestic product	2,797.8	2,927.0	3,109.7	3,355.4	3,577.0	3,820.0	6.4	4.6	6.2	7.9	6.6	6.8
Total consumption	2,531.6	2,582.8	2,726.8	2,915.8	3,158.1	3,417.1	6.2	2.0	5.6	6.9	8.3	8.2
Private	2,185.5	2,326.1	2,469.2	2,643.3	2,868.5	3,105.3	7.3	6.4	6.2	7.1	8.5	8.3
Public	246.7	256.7	257.6	272.6	289.6	311.8	4.8	4.3	0.4	5.8	6.8	7.7
Gross domestic fixed capital formation	356.5	358.5	401.7	440.4	493.5	530.3	8.3	0.6	12.1	9.6	12.1	7.5
Public	80.4	95.6	99.6	98.6	118.0	116.4	7.7	18.9	4.2	-1.0	19.7	-1.4
Private	276.1	262.9	302.1	341.8	375.5	413.9	8.5	-4.8	14.9	13.1	9.9	10.2
Exports of goods and services	493.9	531.4	587.8	712.7	748.5	803.4	10.2	7.6	10.6	21.2	5.0	7.3
Less: Imports of goods and services	584.2	545.7	606.6	713.5	823.1	930.8	9.8	-6.6	11.2	17.6	15.4	13.1

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 117. Central America: Gross domestic product, by sector, 1960-65

	Millions of dollars at 1960 prices						Annual growth rates					
	1960	1961	1962	1963	1964	1965 ^a	1960-65 ^a	1960-61	1961-62	1962-63	1963-64	1964-65 ^a
Gross domestic product	2,797.8	2,927.0	3,109.7	3,355.4	3,577.0	3,820.0	6.4	4.6	6.2	7.9	6.6	6.8
Agriculture	928.4	964.2	1,036.8	1,087.5	1,126.1	1,206.4	5.4	3.9	7.5	4.9	3.5	7.1
Mining and quarrying	18.8	19.8	17.9	20.7	21.6	21.0	2.2	5.3	-9.6	15.6	4.3	-2.8
Manufacturing	389.2	411.7	440.7	499.5	564.5	606.1	9.3	5.8	7.0	13.3	13.0	7.4
Construction	69.7	77.4	84.3	78.0	87.0	88.7	4.9	11.0	8.9	-7.5	11.5	2.0
Electricity and gas	32.3	34.6	37.7	43.0	47.5	54.7	11.1	7.1	9.0	14.1	10.5	15.2
Transport	133.6	140.9	159.8	155.7	166.8	182.9	6.5	5.5	13.4	-2.6	7.1	9.7
Trade	607.8	630.4	659.5	749.9	812.1	853.7	7.0	3.7	4.6	13.7	8.3	5.1
Banking and insurance ^b	36.1	39.5	45.8	51.4	58.1	65.3	12.6	9.4	15.9	12.2	13.0	12.4
Ownership of dwellings	187.1	192.5	199.2	223.6	229.6	238.6	5.0	2.9	3.5	12.2	2.7	3.9
Public administration	183.9	197.8	197.6	199.2	205.3	226.9	4.3	7.6	-0.1	0.8	3.1	10.5
Services	210.9	218.2	230.4	246.9	258.4	275.7	5.5	3.5	5.6	7.2	4.7	6.7

Source: ECLA, on the basis of official statistics.

^a Provisional figures.^b For Costa Rica this item is included under "Services".

Table 118. Central America: Balance-of-payments summary, 1960-64
(Millions of dollars)

	1960	1961	1962	1963	1964 ^a
A. Goods and services . . .	-81.7	-53.1	-62.6	-96.7	-145.9
Merchandise f.o.b. ^b . . .	-34.4	9.5	20.9	-7.5	-37.8
Freight and insurance . . .	-41.6	-38.5	-43.0	-49.6	-58.9
Travel	-3.7	-5.9	-8.4	-18.6	-21.2
Investment income . . .	-6.0	-17.5	-29.4	-26.2	-37.4
Government	4.3	2.6	2.6	6.6	5.9
Other services	-0.3	-3.3	-5.3	-1.4	3.5
B. Transfer payments . . .	25.3	33.9	22.6	24.2	35.7
TOTAL (A+B)	-56.4	-19.2	-40.0	-72.5	-110.2
C. Capital and monetary gold	63.2	48.4	74.2	99.3	114.0
Non-monetary sectors . . .	30.8	15.5	71.5	115.5	113.9
Direct investment . . .	17.0	17.4	31.8	26.9	42.7
Private long-term capital	-1.9	4.8	19.5	31.0	39.5
Private short-term capital	11.2	3.0	18.4	30.4	21.0
Local government . . .	0.2	0.3	0.3	-0.1	-0.1
Central government . . .	4.3	-10.0	1.5	27.3	10.8
Monetary sectors	32.4	32.9	2.7	16.2	0.1
D. Errors and omissions . .	-6.8	-29.2	-34.2	-26.8	-3.8
TOTAL (C+D)	56.4	19.2	40.0	72.5	110.2

Source: IMF.

^a Provisional figures.

^b Includes non-monetary gold.

periods, production for export increased faster than production for the home market (6.3 per cent); this is reflected in the accelerated growth of export commodities, particularly in Honduras and Costa Rica.

The growth of Guatemala's production for domestic consumption and the substantial

increment obtained in Honduras in the crop year 1965/66 influenced the level of production for the whole area, which was 4.2 per cent higher than in the previous crop year.

The position with regard to export crops was satisfactory on the whole. In Honduras, bananas contributed directly to the 16 per cent increase in

Table 119. Central America: Imports of goods, 1960-65
(Millions of dollars)

	1960	1961	1962	1963	1964	1965 ^a
Total^b	515.8	498.2	553.6	649.3	759.3	886.2
Non-durable consumer goods . . .	133.5	128.0	132.8	159.8	166.7	199.5
Durable consumer goods	54.0	50.1	52.3	69.4	79.7	94.8
Fuels	38.1	39.1	39.8	47.4	51.1	53.7
Raw materials and intermediate products for agriculture	33.2	34.9	36.6	45.8	58.6	68.2
Raw materials and intermediate products for industry	113.5	117.6	135.1	146.1	174.5	207.5
Construction materials	35.7	32.9	38.2	41.2	45.3	55.3
Agricultural machinery and equipment	15.0	15.2	19.4	23.0	25.5	33.6
Industrial machinery and equipment .	60.4	56.1	72.1	82.9	107.8	126.0
Transport machinery and equipment .	22.9	17.4	20.6	28.4	36.9	42.8

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

^b Includes imports of a small group of unspecified items.

the agricultural product between 1964 and 1965. The growth rate of production was over 23 per cent, mainly owing to the fact that new plantations of disease-resistant species had matured and that up-to-date marketing systems were being widely adopted. The result was a rise in output from 10.4 million to 17.6 million stems and an increase of 45 per cent in the volume of exports with respect to 1964 (see table 120).

In Costa Rica, partly for the same reasons and partly because of the results obtained from the plantations of new varieties on the Caribbean coast, output rose to 17.2 million stems, which represents an increase of 12.3 per cent in production volume and an equal increment in the value of exports, compared with the previous year's levels.

In Guatemala, 1965 marked a partial recovery following the sharp decline in the production of bananas in 1964, but a considerable drop in the value of exports was unavoidable.

The coffee output of the Central American countries as a whole amounted to around 364,000 tons in 1965/66, which compares favourably with the 330,000 tons produced in the previous crop year. The increase was particularly marked in Costa Rica (22.1 per cent) and signified a notable recovery from the damage sustained in 1964/65. In Guatemala, production continued to expand, improving 12.5 per cent

over the previous year's level and even topping the peak figure reached by the 1962/63 harvest. Exports, however, were the same as in 1964. With a bumper harvest which passed the previous year's high level, Honduras' production of coffee, combined with its output of bananas and cotton, did much to strengthen the export position. The value of coffee sales rose from 16.9 million dollars in 1964 to 21.6 million in 1965. Production increments were also recorded in El Salvador and Nicaragua, although the former failed to regain the 1963/64 level.

In all countries of the area, cotton production was affected to a greater or lesser degree by drought and pests, the latter proving particularly virulent in 1965/66. However, the effects will be apparent in Central America's foreign trade in 1966 rather than in its 1965 exports. The cotton-growing area was increased, but poor weather conditions prevented a production increment and the 1964/65 level was maintained.

Nicaragua, the major cotton-growing country, increased its output by only 3.2 per cent (128,000 tons), although an additional 21,000 hectares were sown to cotton. Conversely, production in 1964/65 was one-third higher than the figure for the previous crop year, and Nicaragua was thus able to export about 90,000 tons of fibre in 1965, as against 77,700 tons in 1964.

Table 120. Central America: Volume of exports of principal products, 1960-65
(Thousands of tons)

	1960	1961	1962	1963	1964	1965 ^a
<i>Cotton</i>	67.7	87.2	142.8	192.3	195.2	232.3
Costa Rica	0.4	0.3	0.1	0.4	—	—
El Salvador	27.2	35.5	54.3	64.0	65.4	70.3
Guatemala	11.5	18.1	29.1	50.4	45.2	60.7
Honduras	1.2	0.8	3.6	4.4	6.9	11.3
Nicaragua	27.4	32.5	55.7	73.1	77.7	90.0
<i>Bananas</i>	827.2	815.3	755.6	735.9	760.4	950.1
Costa Rica	272.7	230.1	291.9	261.6	292.9	367.1
El Salvador	—	—	—	—	—	—
Guatemala	189.0	157.6	81.6	121.5	94.4	53.0
Honduras	360.2	425.7	372.5	337.5	343.7	500.0
Nicaragua	5.3	1.9	9.6	15.8	29.4	30.0
<i>Coffee (green)</i>	253.4	251.0	262.1	298.4	275.9	264.5
Costa Rica	46.7	52.0	57.4	54.6	51.2	43.5
El Salvador	89.5	86.6	85.8	101.1	109.0	96.6
Guatemala	79.9	79.0	82.4	98.2	76.1	76.0
Honduras	15.5	12.4	15.9	20.4	19.0	24.4
Nicaragua	21.8	21.0	20.6	24.1	20.6	24.0

Source: ECLA, on the basis of official statistics.

^a Estimates.

El Salvador's output dropped from 81,700 to 70,500 tons; which will reduce its 1966 exports and thereby aggravate the economic problems facing farmers, owing to the sharp increase in production costs as a result of the large-scale application of insecticides.²

To the circumstantial factors mentioned above would have to be added the uncertain world market prospects for cotton. The downward trend of world prices has been offset by increases in productivity, but this process cannot continue indefinitely since it is based essentially on the increasing use of fertilizers and insecticides, which has added substantially to production costs. Moreover, the growth of world output and the accumulation of surpluses which threaten to flood the market might raise serious problems as regards the marketing of Central America's output, which has been the mainspring of the area's economic growth in recent years.

With respect to crops for the home market, all the Central American countries except Costa Rica achieved sizable increments in their maize and bean production; in El Salvador the results compensated for the previous year's decreases; while Honduras produced 8 per cent more maize and 27 per cent more beans, and this, combined with the sharp rise in the 1964/65 figures, sent up its 1965 maize exports to the rest of the Central American countries to 60,000 tons.

The increments of 6.5 per cent and 10.5 per cent obtained in Nicaragua are the result of development programmes for cereal production and of additional financing for maize and sorghum sowings on cotton-growing land which had been affected by drought.

Dry farmed rice also suffered from bad weather conditions which, added to the preference for growing cotton and sorghum, caused a sharp decline in Costa Rica's rice production for the second year in succession. Not even by including Nicaragua's sowings of irrigated rice was it possible to prevent the contraction of Central America's output from 107,000 to 91,000 tons.

Sugar-cane production continued to increase. The excellent harvests in El Salvador and Nicaragua raised output to 6.5 million tons, or over 13 per cent more than in 1964/65.

Livestock production is going through a critical phase in Central America, owing to the

high rate of slaughter. Within the space of a few years, meat exports have risen to 30,000 tons annually, and this, combined with the weakness of the livestock development programmes in force, has resulted in smaller supplies for local consumption and higher domestic prices.

Export prospects are also threatened by the fact that slaughterhouses are operating well below capacity. This is reflected in a decline in the volume of livestock production.

2. EVOLUTION BY COUNTRIES

The following is a broad outline of the salient developments in each of the Central American countries in 1965.

(a) *Costa Rica*

The over-all growth rate of Costa Rica's economy in 1965 contrasted with the previous year's stagnation. The disastrous effects of the eruption of Irazú on much of the country's agricultural production were overcome in 1965, as evidenced by the increase of 7.5 per cent in the gross product, compared with 1.1 per cent the year before. But even so, as distinct from the situation in other countries of the area, 1960-65 was not a period of accelerated development for Costa Rica. If the annual population growth rate of 4 per cent—one of the highest in Latin America—is deducted from the over-all growth rate, the average increase in per capita income over the same period was only 0.4 per cent annually (see table 121).

The rapid growth of the gross product in 1965 was not influenced by radical changes in the conditions under which Costa Rica's economy has developed in recent years, but rather constituted a return to normal conditions after a year's recession. This is particularly true of the agricultural sector, which expanded by 8 per cent in 1965, following a contraction of 9 per cent in the previous year (see table 122).

Costa Rica's agricultural growth was mainly attributable to its export commodities. Bananas registered a peak harvest of 17.2 million stems; the production of coffee, which was the commodity most seriously affected by events in 1964, partly recovered from the previous year's losses; while, on the other hand, output of cocoa fell steeply, possibly in response to the particularly unfavourable market conditions, and the harvests of crops for home consumption, especially maize, rice and beans, continued to shrink for the second year in succession. Meat production followed a rising trend in 1965 while the output of sugar-cane remained at almost the same level (see table 123).

² Apart from its economic implications for farmers, the decline in the last cotton harvest is bound to affect the area's balance of payments. At the ninth session of the Central American Economic Co-operation Committee, the five countries concerned therefore set up a Central American Cotton Committee to seek a solution to these problems.

Table 121. Costa Rica: Expenditure on the gross domestic product, 1960-65

	Millions of dollars at 1960 prices						Annual growth rates					
	1960	1961	1962	1963	1964	1965 ^a	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Gross domestic product	480.9	492.7	513.8	548.4	554.3	595.7	4.4	2.5	4.3	6.7	1.1	7.5
Total consumption	417.6	405.6	423.0	451.7	460.6	...	5.3	-2.9	4.3	6.8	2.0	...
Public	56.7	55.4	60.2	72.1	74.9	78.2	6.6	-2.3	8.7	19.8	3.9	4.4
Private	360.9	350.2	362.8	379.6	385.7	...	5.0	-3.0	3.6	4.6	1.6	...
Gross domestic fixed capital formation	84.7	88.3	95.9	100.8	101.6	105.0	4.4	4.3	8.6	5.1	0.8	3.3
Public	15.9	20.5	23.2	22.1	25.2	26.9	11.1	28.9	13.2	-4.7	14.0	6.7
Private	68.8	67.8	72.7	78.7	76.4	78.1	2.6	-1.5	7.2	8.3	-2.9	2.2
Exports of goods and services	100.1	103.2	103.7	114.0	126.7	127.0	4.9	3.1	0.5	9.9	11.1	0.2
Less: Imports of goods and services	121.5	104.4	108.8	118.1	134.6	175.9	7.7	-14.1	4.2	8.5	14.0	30.0

Source: ECLA, on the basis of official statistics.

^a Provisional figures.Table 122. Costa Rica: Gross domestic product, by sector,^a 1960-65

	Millions of dollars at 1960 prices						Annual growth rates					
	1960	1961	1962	1963	1964	1965	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Gross domestic product	480.9	492.7	513.8	548.4	554.3	595.7	4.4	2.5	4.3	6.7	1.1	7.5
Agriculture	153.1	154.5	152.9	159.5	145.0	156.6	0.5	0.9	-1.0	4.3	-9.1	8.0
Mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—
Manufacturing	67.5	68.9	74.2	84.3	94.0	102.8	8.8	2.7	7.7	13.6	11.5	9.4
Construction	13.1	14.8	15.5	15.7	17.0	19.6	8.4	13.0	4.7	1.3	8.3	15.3
Electricity and gas	12.8	13.4	14.4	15.5	16.6	18.2	7.3	4.7	7.5	7.6	7.1	9.6
Transport	22.0	23.1	24.5	26.1	26.4	28.4	5.2	5.0	6.1	6.5	1.1	7.6
Trade	73.3	75.0	80.3	84.1	88.8	89.9	4.2	2.3	7.1	4.7	5.6	1.2
Banking and insurance ^b . . . . .	...	...	...	...	...	...	...	...	...	...	...	...
Ownership of dwellings	25.5	26.7	27.7	29.6	29.9	32.1	4.7	4.7	3.7	6.9	1.0	7.4
Public administration	45.6	48.1	51.5	55.9	58.0	63.7	6.9	5.5	7.1	8.5	3.8	9.8
Services	68.0	68.2	72.8	77.7	78.6	84.4	4.4	0.3	6.7	6.7	1.2	7.4

Source: ECLA, on the basis of official statistics.

^b This item is included under "Services".^a These figures are subject to revision because the Central Bank of Costa Rica is changing the method of calculation used for the national accounts.

Table 123. Costa Rica: Agricultural production, 1960/61–1965/66
(Thousands of tons)

	1960/61	1961/62	1962/63	1963/64	1964/65 ^a	1965/66 ^a
<i>Export products</i>						
Bananas ^b	15,700.0	13,670.0	13,988.0	13,564.0	15,296.0	17,178.0
Coffee (green)	53.1	58.0	54.5	62.0	47.0	57.4
Cotton (ginned)	1.2	1.3	1.5	1.7	3.2	3.6
Cotton seed	2.2	2.3	2.7	3.1	6.0	6.7
Cocoa	13.0	11.4	12.8	10.6	10.2	6.1
<i>Products for domestic consumption</i>						
Maize	79.6	83.4	82.4	82.7	64.4	62.1
Rice (husked)	35.9	37.5	38.3	37.8	28.4	17.7
Beans	19.1	20.0	20.8	21.6	21.6	20.7
Sugar-cane	1,226.6	1,594.9	1,242.9	1,338.5	1,436.0	1,460.5
Tobacco	1.0	1.2	1.5	1.4	1.2	1.6
<i>Livestock^c</i>						
Cattle	138.0	136.0	144.0	149.0	155.0	162.0
Pigs	84.0	79.0	76.0	78.0	82.0	88.0

Source: ECLA, on the basis of official statistics.

^a Subject to revision.

^b Thousands of stems.

^c Annual output (consumption plus exports) for the first calendar year, in thousands of head.

Manufacturing grew faster than agriculture in 1965, its growth rate of 9.4 per cent making it one of the most dynamic activities in 1960–65. Costa Rica's accession to the Central American free-trade treaty in 1963 encouraged the development of new industries and the expansion of those already established. The figures for this country's export trade with the Central American common market are an eloquent testimony to this: in 1963 its value amounted to 4.5 million dollars, rising to over 15 million dollars in 1964 and even higher in 1965. Manufactures, including fertilizers, canned foods, made-up textile goods and leather products constitute the bulk of these exports.

Construction also made great strides in 1965, although it is not known for certain what part was played by reconstruction and the building of new dwellings to house the population formerly living in the areas affected by the eruption.

As regards foreign trade, the export sector continues to be inelastic, as indicated by sharp fluctuations and slow growth in relation to import needs. This is making it increasingly difficult to attain the targets established in the National Development Plan. The trend was aggravated in 1965 when the volume of exports remained at a standstill and their value in current dollars declined owing to the drop in average coffee prices, while the figure for imports was 30 per cent higher than in the previous year (see table 124). Consequently, a peak deficit of

70 million dollars was recorded for the goods and services account (47 million on the merchandise account), concurrently with a drop of about 7 million dollars in the net international assets of the Central Bank (see table 125).

The stagnation of sales to other countries was due, in particular, to the reduction in the exportable coffee surplus as a result of the poor 1964 harvest. This decline was not offset by the increase in banana sales and, taken together, these two staple items of Costa Rican trade contracted by 1 per cent (see table 126).

Compared with the situation of the external sector, the internal sectors provided a certain stimulus to economic growth. Apart from private investment, which seems to have expanded just enough to offset the contraction experienced in 1964, public investment and personal expenditure on consumption were dynamic in their evolution.

The financial difficulties stemming from the balance-of-payments position duly affected public sector financing. The continuing rise in the Government's current expenditure as a result of the considerable expansion of social services over the past ten years ceased in 1965 (see table 127). The investment programmed for this sector also had to be curtailed.

(b) *El Salvador*

After a highly favourable year in which the vigorous growth of exports combined with the no less dynamic expansion of internal public and

Table 124. Costa Rica: Capacity to import, 1960-65

	Millions of dollars at 1960 prices					Annual growth rates						
	1960	1961	1962	1963	1964	1965	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Quantum of exports of goods and services	100.1	103.2	103.7	114.0	126.7	127.0	4.9	3.1	0.5	9.9	11.1	0.2
Quantum of imports of goods and services	121.5	104.4	108.8	118.1	134.6	175.9	7.7	-14.1	4.2	8.5	14.0	30.7
Index of unit price of exports	100.0	97.9	108.3	101.7	108.5	108.2	1.6	-2.1	10.6	-6.1	6.7	-0.3
Index of unit price of imports	100.0	103.4	105.0	105.5	104.1	102.1	0.4	3.4	1.5	0.5	-1.3	-1.9
Terms of trade	100.0	94.7	103.1	96.4	104.2	106.0	1.2	-5.3	8.9	-6.5	8.1	1.7
Purchasing power of exports	100.1	97.7	106.9	109.9	132.0	134.6	6.1	-2.4	9.4	2.8	20.1	2.0
Terms-of-trade effect	—	-5.5	3.2	-4.1	5.3	7.6						

Source: ECLA, on the basis of official statistics.

private investment to determine a growth of 9.5 per cent in the total gross domestic product, 1965 marked a weakening of El Salvador's economy. Provisional figures indicate an overall economic growth of 5 per cent that year, which falls short of the target of 6.5 per cent established for the first year of operation of the National Economic and Social Development Plan, 1965-69. But even so, with an average annual increase of 4 per cent in the per capita product for 1960-65, El Salvador is one of the countries recording the steadiest economic growth rates in Latin America (see table 128).

The reasons for the loss of impetus in the past year lie not only in the export sector, inasmuch as the rate of increase in the volume of external sales dropped to one-third (from 12.2 per cent to 4.0 per cent)—mainly influenced by the decline in cotton production—but also in the slower rate of domestic public and private capital formation. The rate of increase of public investment dropped from 16.0 per cent to 7.8 per cent, and that of private investment from 22.6 per cent to 9.0 per cent. Although difficult to express in quantitative terms, the 1965 earthquakes which seem to have seriously affected industrial establishments are also considered to have played some part in slowing down the growth rate.

Public and private expenditure on consumption rose by 6.6 per cent annually, easily exceeding the increase in the domestic supply of goods. This was made possible by the rapid growth of imports (11 per cent).

An improvement in the terms of trade permitted a proportionate increase in imports without aggravating the deficit on current account—in fact it was reduced—although, as has been seen, the volume of sales to other countries went up by only 4 per cent (see table 129). In effect, 1965 marked a sharp upswing in the purchasing power of exports (14.2 per cent) as a result of the rise in unit export prices (7.3 per cent), combined with the reduction in the average prices of import items (see table 130). This had the effect of raising El Salvador's foreign exchange export earnings to 197 million dollars at current prices (12 per cent). Coffee accounted for 48 per cent, and cotton 20 per cent, of this total. The combined value of these two traditional trade items increased by only 4 per cent, as against the high rate of 32 per cent for the remaining exports, which include increasing quantities of manufactured products. On the basis of the incomplete figures available, El Salvador's exports to other Central American countries in 1965 probably accounted for 25 per cent of its total foreign exchange receipts (see table 131).

Table 125. Costa Rica: Balance-of-payments summary, 1960-65
(Millions of dollars)

	1960	1961	1962	1963	1964	1965
A. Goods and services	-20.1	-19.7	-21.8	-32.8	-29.9	-70.5
Merchandise f.o.b.	-11.9	-12.7	-9.7	-20.2	-11.4	-46.8 ^a
Freight and insurance	-10.2	-9.3	-8.8	-10.8	-12.5	-15.0
Travel	1.7	1.9	1.0	2.0	1.7	0.6
Investment income	-3.7	-2.7	-8.2	-7.0	-10.8	-12.9
Government	1.6	1.4	1.8	2.0	2.0	1.9
Other services	2.4	1.7	2.1	1.2	1.1	1.7
B. Transfer payments	4.1	7.1	4.6	6.4	7.1	5.0
TOTAL (A+B)	-16.0	-12.6	-17.2	-26.4	-22.8	-65.5
C. Capital and monetary gold	17.1	14.4	23.1	34.6	27.6	68.9 ^b
Non-monetary sectors	5.4	3.8	24.9	31.4	18.4	
Direct investment	1.6	7.0	11.2	14.3	12.6	
Private long-term capital ^c	-0.4	1.5	6.7	8.6	5.1	
Private short-term capital	3.5	-4.0	3.0	2.6	-7.5	
Local government	—	—	—	—	—	
Central government	0.7	-0.7	4.0	5.9	8.2	
Monetary sectors	11.7	10.6	-1.8	3.2	9.2	
D. Errors and omissions	-1.1	-1.8	-5.9	-8.2	-4.8	-3.4
TOTAL (C+D)	16.0	12.6	17.2	26.4	22.8	65.5

Source: IMF.

^a Including all types of goods: machinery and equipment, intermediate goods, and consumer goods.

^b Including:

Public and private long-term capital	65.4
Public and private short-term capital	5.4
Changes in reserves	-1.9

TOTAL 68.9

^c Excluding direct investment.

Table 126. Costa Rica: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
	<i>Millions of dollars</i>					
Total	85.3	85.2	93.7	94.9	114.4	112.4
Exports to Central America	1.9	2.0	1.9	4.4	15.4	...
Exports to the rest of the world	83.4	83.2	91.8	90.5	99.0	...
<i>Principal products</i>						
Cotton	0.1	0.4	0.1	—	—	—
Bananas	20.3	20.8	26.9	25.8	28.3	31.7
Coffee	43.9	43.3	48.4	46.0	48.0	43.8
	<i>Percentages</i>					
Exports to Central America	2.2	2.3	2.0	4.6	13.5	...
Exports to the rest of the world	97.8	97.7	98.0	95.4	86.5	...

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 127. Costa Rica: Central government current revenue and expenditure, 1960-64
(Millions of dollars)

	1960	1961	1962	1963	1964
<i>Current revenue</i>	368.2	350.6	413.7	454.0	488.5
<i>Tax revenue</i>	339.0	322.5	381.2	387.1	429.9
Profits tax	41.4	39.5	74.7	53.4	81.0
Property tax	18.4	27.9	20.6	22.9	29.9
Consumption tax	51.7	51.5	57.8	66.3	75.6
Import duties	191.2	174.2	195.5	209.9	201.4
Export tax	16.8	10.6	4.8	8.1	7.6
Tax on the production and distribution of goods	12.9	12.3	17.2	14.2	21.2
Legal transactions	4.3	4.2	4.6	5.6	5.9
Other taxes	2.3	2.3	6.0	6.7	7.3
<i>Non-tax revenue</i>	29.2	28.1	32.5	66.9	58.6
Services	8.5	9.1	9.9	11.1	11.5
Profits received	6.4	2.5	5.2	3.4	6.5
Current transfer payments	8.9	11.0	11.4	49.6	37.5
Other sources	5.4	5.5	6.0	2.8	3.1
<i>Current expenditure</i>	349.0	352.5	402.7	482.4	472.5
Salaries and wages	194.5	204.9	228.5	256.9	257.4
Purchase of goods and services	44.4	28.6	37.5	88.8	69.7
Interest on external debt	20.6	26.1	27.8	32.7	28.9
Transfer payments	89.5	92.9	108.9	104.0	116.5

Source: Office of the President, Planning Office.

Table 128. El Salvador: Expenditure on gross domestic product, 1960-65

	Millions of dollars at 1960 prices					
	1960	1961	1962	1963	1964	1965
<i>Gross domestic product</i>	573.1	602.8	672.0	704.8	771.7	810.5
<i>Total consumption</i>	522.6	522.6	583.2	614.5	680.3	725.1
Private	49.8	54.2	56.6	57.2	58.0	62.0
Public	472.8	468.4	526.6	557.3	622.3	663.1
<i>Gross domestic fixed capital formation</i>	75.8	66.2	66.0	75.0	81.0	99.0
Public	17.2	19.1	15.8	14.4	16.7	18.0
Private	58.6	47.1	50.2	60.6	74.3	81.0
<i>Exports of goods and services</i>	115.8	135.7	159.4	178.5	200.2	208.2
<i>Less: Imports of goods and services</i>	141.1	121.7	136.6	163.2	199.8	221.8

	Annual growth rates					
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Gross domestic product</i>	7.2	5.2	11.5	4.9	9.5	5.0
<i>Total consumption</i>	6.8	—	11.6	5.4	10.7	6.6
Private	4.5	8.8	4.4	1.1	1.4	6.9
Public	7.0	-0.9	12.4	5.8	11.7	6.6
<i>Gross domestic fixed capital formation</i>	5.5	-12.7	-0.3	13.6	21.3	8.8
Public	0.9	11.0	-17.3	-8.9	16.0	7.8
Private	6.7	-19.6	6.6	20.7	22.6	9.0
<i>Exports of goods and services</i>	12.5	17.2	17.5	12.0	12.2	4.0
<i>Less: Imports of goods and services</i>	9.5	-13.7	12.2	19.5	22.4	11.0

Source: ECLA, on the basis of official statistics.

Table 129. El Salvador: Balance-of-payments summary, 1960-65
(Millions of dollars)

	1960	1961	1962	1963	1964	1965 ^a
A. Goods and services	-28.7	-2.4	-1.7	-17.3	-32.0	-28.3
Merchandise ^b	-20.0	9.8	14.1	-2.0	-16.3	-13.2
Transport	-0.7	-1.0	-1.5	-0.6	-0.5	
Travel	-4.0	-4.9	-6.0	-6.5	-7.2	
Investment income	-3.9	-4.0	-5.1	-5.8	-6.2	-15.1
Government	—	-1.2	-1.4	-1.3	-1.7	
Other services	-0.1	-1.1	-1.8	-1.1	-0.1	
B. Transfer payments	1.1	2.2	4.2	7.2	8.6	13.2
TOTAL (A+B)	-27.6	-0.2	2.5	-10.1	-23.4	-15.1
C. Capital and monetary gold	30.1	19.0	4.8	10.6	27.7	...
Non-monetary sectors	8.1	11.4	10.4	20.1	30.6	...
Direct investment	4.4	3.0	7.2	6.2	9.5	
Private long-term capital ^c	0.4	1.4	3.3	2.9	4.0	15.1
Private short-term capital	3.8	8.0	2.3	9.9	13.9	
Local government	—	—	—	—	—	...
Central government	-0.5	-1.0	-2.4	1.1	3.2	12.5
Monetary sectors	22.0	7.6	-5.6	-9.5	-2.9	-10.6
D. Errors and omissions	-2.5	-18.8	-7.3	-0.5	-4.3	-1.8
TOTAL (C+D)	27.6	0.2	-2.5	10.1	23.4	15.1

Sources: 1960-64: IMF; 1965: Central Reserve Bank of El Salvador.

^a Provisional figures.

^b Includes non-monetary gold; exports f.o.b., imports c.i.f.

Excluding direct investment.

Table 130. El Salvador: Capacity to import, 1960-65

	Millions of dollars at 1960 prices					
	1960	1961	1962	1963	1964	1965
Quantum of exports of goods and services	115.8	135.7	159.4	178.5	200.2	208.2
Quantum of imports of goods and services	141.1	121.7	136.6	163.2	199.8	221.8
Index of unit price of exports	100.0	95.5	94.6	92.3	95.7	102.7
Index of unit price of imports	100.0	104.8	105.7	106.4	107.1	104.6
Terms of trade	100.0	91.1	89.5	86.7	89.4	98.2
Purchasing power of exports	115.8	123.6	142.7	154.8	179.0	204.4
Terms-of-trade effect	—	-12.1	-16.7	-23.7	-21.2	-3.8
	Annual growth rates					
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Quantum of exports of goods and services	12.5	17.2	17.5	12.0	12.2	4.0
Quantum of imports of goods and services	9.5	-13.7	12.2	19.5	22.4	11.0
Index of unit price of exports	0.6	-0.5	-0.9	-2.4	3.7	7.3
Index of unit price of imports	0.9	4.8	1.0	0.7	0.7	-2.3
Terms of trade	-0.4	-8.9	1.8	3.1	3.1	9.8
Purchasing power of exports	12.0	6.7	15.5	8.5	15.6	14.2

Source: ECLA, on the basis of official statistics.

Table 131. El Salvador: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of dollars</i>						
Total	101.7	117.8	138.9	150.2	175.5	196.7
Exports to Central America	12.7	14.4	18.5	23.9	35.5	...
Exports to the rest of the world	89.0	103.4	120.4	126.3	140.0	...
<i>Principal products</i>						
Cotton	15.5	21.0	31.7	37.0	36.7	38.7
Bananas	—	—	—	—	—	—
Coffee (green)	62.5	70.0	67.1	71.0	90.3	94.1
<i>Percentages</i>						
Exports to Central America	12.5	12.2	13.1	15.9	20.2	...
Exports to the rest of the world	87.5	87.8	86.9	84.1	79.8	...

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

If the growth of the total product is analysed by sectors, it will be seen that agriculture and industry did most to slow down the over-all rate in 1965, with rates of increase of 0.2 per cent and 9.5 per cent, respectively, compared with 9.9 per cent and 28.6 per cent the year before. Construction and public sector activities, on the other hand, forged ahead more rapidly than in previous years, the former expanding by 10.5 per cent as against the annual average of 5.6 per cent for the whole period 1960-65. The larger scale of activities in this sector is no doubt partly attributable to the reconstruction of the area affected by the earthquakes at the beginning of the year (see table 132).

The slow growth of agriculture was due to the relatively poor coffee and cotton crops. Items for domestic consumption for which production failed to expand, or declined, included rice, beef and pork. There were substantial increases, on the other hand, in the output of beans, millet and sugar-cane, and to a lesser extent in maize output, even though the level of 231,000 tons for the 1965/66 crop year is still below the levels reached in the first three years of the decade (see table 133).

During 1965 the public sector played an expansionist role. Current and capital expenditure taken together rose by 7 per cent in real terms.

Despite the increase in central government operational expenditure, it proved possible to maintain the surplus on current account at 51 million colones, through the increase in tax revenue. Table 134 shows that the increased revenue was due mainly to higher taxes on exports and consumption, while taxes on income

and property were reduced. Customs duties on imports declined slightly despite the rise in imports; this is a direct result of the change in the origin of imports, which are increasingly coming from within the area, and consequently have in the main been freed of customs duties.

(c) Guatemala

The slow growth rate during the first years of the sixties was succeeded by a sharp rise in 1963, when the gross product increased by 12.6 per cent, and a powerful stimulus was supplied by the 50 per cent rise in the export quantum. In the succeeding years economic growth continued to rise, though less rapidly; the gross product increased by 5.9 per cent in 1964 and 5.5 per cent in 1965 (see table 135).

The improvement in the growth rate during the past three years was due both to the dynamic evolution of external demand (with an average annual growth of 14 per cent), and the rapid expansion (over 15 per cent a year) in domestic capital formation, despite the irregular pattern of public investment during this period.

Domestic production for foreign markets, which accounted for 16 per cent of the total, expanded more rapidly during the past three years than production for domestic demand (the respective average annual increases being 14 and 6.9 per cent). The slower growth of production for domestic consumption, despite the expansion of domestic demand, was increasingly offset by larger imports, which rose at the rate of 17 per cent a year, at constant prices.

While private investment was 70 per cent higher during this period, public investment, which accounted for only 17 per cent of domestic

Table 132. El Salvador: Gross domestic product, by sector, 1960-65

	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Gross domestic product</i>	573.1	602.8	672.0	704.8	771.7	810.5	7.2	5.2	11.5	4.9	9.5	5.0
Agriculture	170.5	178.7	212.3	204.9	225.2	225.7	5.8	4.8	18.8	-3.5	9.9	0.2
Mining and quarrying	5.2	5.2	5.1	6.0	6.1	6.5	4.6	—	-1.9	17.6	1.7	6.6
Manufacturing	91.5	96.5	106.2	119.4	139.6	152.9	10.8	5.5	10.1	12.4	28.6	9.5
Construction	15.2	17.3	17.5	16.7	18.1	20.0	5.6	13.8	1.2	-4.6	8.4	10.5
Electricity	5.1	5.5	6.2	6.8	7.6	8.5	10.8	7.8	12.7	9.7	11.8	11.8
Transport	19.4	19.2	19.9	20.1	21.3	22.7	3.2	-1.0	3.6	1.0	6.0	6.6
Trade	137.4	143.2	158.3	176.0	190.3	200.0	7.8	4.2	10.5	11.2	8.1	5.0
Banking and insurance	11.8	12.5	13.4	14.5	16.6	18.4	9.3	5.9	7.2	8.2	14.5	10.8
Ownership of dwellings	34.9	35.4	37.4	39.0	40.6	42.4	4.0	1.4	5.6	4.3	4.1	4.4
Public administration	43.8	48.1	50.7	51.4	52.3	54.4	4.4	9.8	5.4	1.4	1.8	4.0
Services	38.3	41.2	45.0	50.0	54.0	59.0	9.0	7.6	9.2	11.1	8.0	9.3

Source: ECLA, on the basis of official statistics.

Table 133. El Salvador: Agricultural production, 1960/61-1965/66
(Thousands of tons)

	1960/61	1961/62	1962/63	1963-64	1964-65 ^a	1965-66 ^a
<i>Export products</i>						
Coffee (green) . . .	92.9	122.7	96.6	121.9	113.4	118.1
Cotton (ginned) . . .	41.9	58.7	72.4	75.1	81.7	70.5
<i>Products for domestic consumption</i>						
Maize	234.6	237.6	240.5	233.9	215.7	231.3
Rice (husked) . . .	15.6	17.8	18.1	14.6	23.3	21.6
Beans	20.5	20.1	20.2	15.9	13.6	17.3
Tobacco	1.0	1.0	1.2	1.3	1.4	1.5
Millet (sorghum) . .	125.8	128.7	131.5	143.3	128.1	151.8
Sugar cane	545.9	567.3	643.0	655.4	1,052.6	1,513.0
Cotton seed	74.8	101.4	119.6	121.2	132.3	95.7
<i>Livestock products^b</i>						
Cattle	118.0	132.0	132.0	143.0	126.0	125.0
Pigs	140.0	118.0	100.0	132.0	146.0	146.0

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

^b Annual output (slaughtering plus exports of cattle on-the-hoof minus imports of cattle on-the-hoof) for the first calendar year of the crop year, in thousands of head.

Table 134. El Salvador: Central government current revenue and expenditure, 1960-65
(Millions of colones)

	1960	1961	1962	1963	1964	1965 ^a
<i>Current revenue</i>	171.0	161.1	171.7	181.2	210.5	224.5
Tax revenue	155.7	142.6	153.4	165.5	199.6	212.4
Income tax ^b	13.4	15.4	23.1	24.7	35.8	34.7
Personal . . . . .	...	...	...	...	17.1	18.3
Corporation and other . . . . .	...	...	...	...	18.0	16.4
Tax on property and property transfers	5.9	6.0	6.0	6.8	8.2	7.7
Property tax ^c	3.8	3.9	3.9	4.2	4.9	5.3
Inheritance and gifts	2.1	2.1	2.1	2.6	3.3	2.4
Import duties	69.8	57.9	60.0	60.2	63.9	62.7
Export tax	26.3	23.0	21.1	22.7	31.6	36.8
Taxes on consumption, sales, etc. ^d	40.3	40.3	43.2	51.1	60.1	70.5
Non-tax revenue	15.3	18.5	18.3	15.7	10.9	12.1
<i>Current expenditure</i>	132.3	139.4	145.3	150.1	158.8	173.5
Wages and salaries	87.9	91.2	97.1	98.0	98.8	103.4
Purchase of goods and services	16.4	17.9	18.0	15.8	17.7	21.3
Interest on debt	1.7	1.0	1.5	2.1	2.4	2.3
Current transfers	26.4	29.3	28.7	34.2	39.8	46.5
To the private sector	8.2	9.7	11.0	12.4	13.0	14.5
To public agencies	16.2	18.3	16.9	20.7	25.7	28.7
Abroad	2.0	1.3	0.8	1.1	1.1	3.3

Source: ECLA, on the basis of data provided by the National Economic Planning and Co-ordination Council and the Central Reserve Bank.

^a Provisional figures.

^b Including income tax fines for not providing separate information for each year.

^c Including road and paving taxes.

^d Including taxes on consumption (on alcoholic products, cigarettes, sugar, carbonated beverages and other products), legal instruments and procedures (tax stamps, sealed documents, registration of vehicles, migration, etc.), and other miscellaneous taxes (on boat and airline tickets, insurance premiums, public entertainments, permits, licences, etc.).

Table 135. Guatemala: Expenditure on gross domestic product, 1960-65

	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965 ^a	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Gross domestic product</i>	1,020.5	1,059.3	1,086.7	1,223.5	1,295.6	1,366.6	6.0	3.8	2.6	12.6	5.9	5.5
<i>Total consumption</i>	937.6	953.8	979.9	1,063.2	1,157.5	1,220.2	5.4	1.7	2.7	8.5	8.9	5.4
Private	857.7	870.1	903.4	989.1	1,078.1	1,135.2	5.8	1.4	3.8	9.5	9.0	5.3
Public	79.9	83.7	76.5	74.1	79.4	85.0	1.4	4.8	-8.6	-3.1	7.2	7.1
<i>Gross domestic fixed capital formation</i>	103.2	108.1	110.1	124.8	151.3	168.8	10.3	4.7	1.9	13.4	21.2	11.6
Public	26.6	32.0	27.4	23.5	32.0	28.7	1.5	20.3	-14.4	-14.2	36.2	-10.3
Private	76.6	76.1	82.7	101.3	119.3	140.1	12.8	-0.7	8.7	22.5	17.8	17.4
<i>Exports of goods and services</i>	131.9	138.7	145.4	218.9	201.5	216.3	10.4	5.2	4.8	50.6	-7.9	7.3
<i>Less: Imports of goods and services</i>	152.2	141.3	148.7	183.4	214.7	238.7	9.4	-7.2	5.2	23.3	17.1	11.1

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

capital formation, declined by about 14 per cent a year in 1962-63, rose by 36 per cent in 1964, and again declined, by 10 per cent, in 1965. The slow growth and sharp fluctuations in public investment were due partly to the drop in the volume of public savings, because of the failure of tax revenue to expand in line with the rise in public expenditure, and partly to the sharp fluctuations in external public financing, which for most years in the present decade has shown net outflows, as a result of the increasing burden of servicing the external public debt (see table 136).

The lower net inflow of external loans to the public sector, and the decline in foreign official donations compared with earlier years (2.6 million in 1964 as against 18.9 million in 1957) was offset by additional use of internal credit.

The rapid expansion of exports during the past three years was partly attributable to increased diversification both of the products sold and of export markets. There has been a rapid rise in the exportable cotton output, and at the same time many new products are being added to the export schedule, many of them manufactured goods, not substantial in volume individually, but of dynamic growth; in 1965 such items already totalled 70 million dollars, thus almost equalling the exports of coffee.

Exports of cotton have increased 5.5 times in the past five years; this item now represents 18 per cent of total exports, and has displaced bananas as the second largest export item. However, cotton exports have developed very erratically; they doubled in 1961 and increased by about 60 per cent in both 1962 and 1963, fell by 6 per cent in 1964 and rose by 38 per cent in 1965.

Coffee exports also fluctuated sharply during this period. After the decline in 1961 and 1962, due to a fall of 13 per cent in coffee prices, sales rose by 15 per cent in 1963. In 1964, as a result of drought and plagues of insects, the volume of exports fell by more than 20 per cent, but as prices had risen considerably the value of coffee exports fell by only 8 per cent (see table 137). Coffee's contribution to total exports fell from 64 per cent in 1960 to 40 per cent in 1965.

Banana exports have been declining for a number of years. In 1965 they amounted to only 3.7 million dollars, slightly over 2 per cent of total exports. This decline coincided with the abandonment of the plantations on the south coast and the transfer of the operations of the main producing company to the Izabal area on the Atlantic coast.

All other exports taken together tripled during the past three years. They consist mainly of

Table 136. Guatemala: Central government current revenue and expenditure, 1960-65
(Millions of quetzales)

	1960	1961	1962	1963	1964	1965 ^a
<i>Current revenue</i>	89.0	86.0	85.1	92.9	102.1	109.1
<i>Tax revenue</i>	81.2	79.1	75.6	83.9	93.4	101.1
Income tax	7.5	7.5	7.3	8.9	9.1	13.5
Land tax	1.4	1.4	1.7	2.3	2.2	2.6
Import duties and consular fees	28.3	27.9	25.7	27.9	26.2	30.9
Export tax	9.1	8.4	7.4	6.1	6.2	8.5
Alcohol tax	12.2	11.2	10.7	11.2	11.4	12.3
Stamps and sealed documents	5.5	5.7	6.1	8.6	14.2	15.6
Tax revenue for special purposes	9.3	9.2	8.6	9.0	8.5	...
Other tax revenue	7.9	7.8	8.1	9.9	15.6	...
<i>Non-tax revenue</i>	7.8	6.9	9.5	8.9	8.7	7.9
Public services	2.1	2.1	2.1	2.4	2.5	2.6
Pension contributions	1.4	1.5	1.6	1.8	1.8	2.0
Other	4.3	3.3	5.8	4.7	4.4	3.3
<i>Current expenditure</i> ^b	74.4	73.1	73.6	75.7	87.4	98.0
Wages and salaries	55.7	61.3	54.7	60.9	62.4	63.0
Purchase of goods and services	11.0	8.5	9.8	8.0	13.7	19.3
Interest on public debt	2.2	2.5	2.9	3.5	4.2	4.4
Other current expenditure	5.5	0.8	6.2	3.3	7.1	11.3

Sources: Bank of Guatemala, National Economic Planning Council of Guatemala, and ECLA estimates based on official statistics.

^a Provisional figures.

^b Estimates.

Table 137. Guatemala: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of dollars</i>						
Total	116.2	114.4	114.1	154.1	165.2	180.0
Exports to Central America	7.3	10.3	13.4	20.7	29.7	...
Exports to the rest of the world	108.9	104.1	100.7	140.7	135.5	...
<i>Principal products</i>						
Cotton	5.7	10.1	15.4	24.7	23.2	32.1
Bananas	17.2	13.9	9.5	9.1	6.9	3.7
Coffee (green)	74.6	67.1	67.1	77.1	71.1	73.6
<i>Percentages</i>						
Exports to Central America	6.3	9.0	11.7	13.4	18.0	...
Exports to the rest of the world	93.7	91.0	88.3	86.6	82.0	...

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

products exported to the other Central American countries, principally El Salvador, which took 17 million dollars' worth of Guatemalan exports in 1964. Exports to Central America as a whole increased six times between 1960 and 1964, and now represent over 18 per cent of Guatemala's total exports.

In line with the expansion of exports, imports of goods and services, which supply about 17 per cent of domestic demand, have risen rapidly and steadily since the end of 1962, at an average annual rate of 17 per cent in terms of volume, and 22 per cent in value at current prices, since the average price also rose during this period (see table 138).

The sharpest increases were in imports of capital goods, which account for a quarter of total imports, and of intermediate goods, which now account for 41 per cent. Imports of non-durable consumer goods, which represent a fifth of total imports, rose by over 50 per cent during the last three years.

The increase in imports, as well as in the payments under services on current account, resulted in an unprecedented deficit on current account in the 1965 balance of payments, amounting to 70 million quetzales. This deficit was partly met by the sharp increase in inflows of private capital, mainly long-term; however, the evolution of the various items making up the capital account did not make it possible to cover the deficit on current account, and there was a reduction of 6.5 million quetzales in net international reserves (see table 139).

In the evolution of the sectors of production during the last few years, the manufacturing sector stands out, with very rapid growth rates in 1963 and 1964, of 17.3 and 12.3 per cent,

respectively, as a result of the stimulus both of internal demand, and of external demand (through the rise in sales of ginned cotton, and in exports of manufactures to other Central American countries). Expansion was encouraged by the increased credit available (industry absorbs 17 per cent of all credit within the banking system), which doubled between 1962 and 1964. During this period the industries that expanded most rapidly were those producing wood products, non-metallic materials, chemicals, clothing, and textiles. Preliminary figures show, however, that the manufacturing sector as a whole had a growth rate of only 4.5 per cent in 1965 (see table 140).

The agricultural sector, which accounts for 28 per cent of the total product, expanded more slowly and irregularly than the industrial sector, since it is more affected by the fluctuations in external demand, in view of the predominance of export output. (Coffee represents one-third of the total agricultural product.)

Agricultural production mainly for export rose at an average annual rate of 9.7 per cent during the last few years, despite the sharp fluctuations in coffee production, whereas the increase in the rate of agricultural production for domestic consumption was only 7.4 per cent (see table 141).

(d) Honduras

For the second successive year the Honduran economy expanded rapidly. Preliminary estimates of the gross product for 1965 indicate a growth rate of over 10 per cent, which well exceeds the annual target laid down in the development plan for 1964-69. This was largely due to a very good harvest resulting in peak export levels.

Table 138. Guatemala: Capacity to import, 1960-65

	Millions of dollars at 1960 prices						Annual growth rates					
	1960	1961	1962	1963	1964	1965 ^a	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Quantum of exports of goods and services	131.9	138.7	145.4	218.9	201.5	216.3	10.4	5.2	4.8	50.6	-7.9	7.3
Quantum of imports of goods and services	152.2	141.3	148.7	183.4	214.7	238.7	9.4	-7.2	5.2	23.3	17.1	11.1
Index of unit price of exports	100.0	92.8	89.7	82.4	98.1	102.0	0.4	-7.2	-3.3	-8.1	19.1	4.0
Index of unit price of imports	100.0	103.5	101.5	106.8	107.4	115.0	2.8	3.5	-1.9	5.2	0.6	7.1
Terms of trade	100.0	89.7	88.4	77.4	91.3	88.7	2.4	-10.3	-1.4	-12.4	18.0	-2.9
Purchasing power of exports	131.9	124.4	128.2	169.4	184.0	191.9	7.8	-5.7	3.1	32.1	8.6	4.3
Terms-of-trade effect	—	-14.3	-17.2	-49.5	-17.5	-24.4						

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Although Honduran exports to the Central American common market have expanded rapidly and now exceed 20 per cent of all exports to the rest of the world, the behaviour of the traditional export items was largely responsible for the extraordinary growth of export volumes, which rose by 23 per cent (see table 142).

There was a 40 per cent increase in foreign exchange earnings from banana exports, which continue to account for two-fifths of total earnings. At the same time conditions were very favourable for coffee and cotton, which also attained peak levels (see table 143).

Public expenditure, which in previous years was the main stimulus to growth, during a period of slow expansion in the export sector, played no major role in the past two years, when the external sector once again, as in the early fifties, fulfilled this function, with some assistance from private investment and increasing domestic demand for consumer goods. The preliminary figures available indicate that in 1964 there was slow growth, and in 1965 decline, in public investment, whereas private investment and expenditure on consumption rose by an annual average of 6.6 and 7.5 per cent, respectively, during those two years.

The country is continuing its efforts to diversify the productive base of its economy, which relies mainly on an agricultural sector that employs about three-quarters of the total active population and generates almost half the gross domestic product. Industry, despite its recent rapid expansion, still represents a small proportion of total activity, and its structure is typical of the initial stages of industrialization. Further evidence of progress in this direction are the emphasis in recent years on the building of roads to facilitate the integration of the domestic market and to provide closer links with the other members of the Central American common market; the completion in 1963 of the first stage of the largest hydroelectric project ever undertaken in the country³ which will double generating capacity; the special treatment recently accorded Honduras by the other signatories of the General Treaty with regard to the establishment of new industries; and, in general, the advances made in economic planning.

With respect to 1965, table 144 shows that the sectors that contributed most to the general high growth rate were agriculture (16 per cent), industry (9 per cent), mining (15 per cent), the generation of hydroelectric power (23 per cent), transport (14 per cent) and current government

³ Cañaveral stage of the Yojoa-Rio Lindo project.

Table 139. Guatemala: Balance-of-payments summary, 1960-65
(Millions of quetzales)

	1960	1961	1962	1963	1964	1965 ^a
A. Goods and services	-25.6	-24.2	-23.0	-20.8	-54.1	-75.8
Merchandise f.o.b.	-8.9	-6.6	-3.9	3.0	-25.8	-42.4
Freight and insurance	-14.2	-13.4	-13.1	-16.1	-18.7	-20.6
Travel	2.3	2.1	1.8	-7.1	-7.6	-9.8
Investment income	5.0	-6.7	-8.6	-4.7	-9.8	-16.1
Government	3.4	3.1	3.6	4.0	4.4	4.4
Other services	-3.2	-2.7	-2.8	0.1	3.4	8.7
B. Transfer payments	14.6	16.3	7.3	3.5	8.4	6.0
TOTAL (A+B)	-11.0	-7.9	-15.7	-17.3	-45.7	-69.8
C. Capital and monetary gold	12.8	15.7	26.6	29.9	35.9	...
Non-monetary sectors	18.8	9.6	12.3	32.8	36.9	...
Direct investment	16.8	7.6	9.3	0.5	6.1	54.6 ^c
Private long-term capital ^b	-2.5	2.0	1.3	2.0	13.9	32.7 ^d
Private short-term capital	1.1	3.5	6.0	17.3	19.7	21.9
Local government	—	—	0.1	—	-0.1	—
Central government	3.4	-3.5	-4.4	13.8	-2.7	15.2 ^e
Monetary sectors	-6.0	6.1	14.3	-2.9	-1.0	—
D. Errors and omissions	1.8	7.8	-10.9	-12.6	9.8	—
TOTAL (C+D)	11.0	7.9	15.7	17.3	45.7	69.8

Sources: 1960-64: IMF; 1965: Central Bank of Guatemala.

^a Provisional figures.

^b Excluding direct investment.

^c Total private capital.

^d Including direct investment.

^e Including non-compensatory official and banking capital: long-term, 17.1; short-term, 8.4; and changes in international monetary reserves, 6.5.

Table 140. Guatemala: Gross domestic product, by sectors, 1960-65

	Millions of dollars at 1960 prices					
	1960	1961	1962	1963	1964	1965 ^a
Gross domestic product	1,020.5	1,059.3	1,086.7	1,223.5	1,295.6	1,366.6
Agriculture	311.3	316.3	331.3	371.1	369.5	382.0
Mining and quarrying	2.0	1.3	0.4	1.6	1.7	1.7
Manufacturing	129.6	137.2	143.3	168.1	188.7	197.1
Construction	21.4	25.7	22.9	19.6	24.5	25.2
Electricity and gas	7.1	7.9	8.6	10.8	11.8	14.6
Transport	49.0	53.9	65.8	57.8	65.0	71.9
Trade	281.7	287.6	285.6	341.4	372.1	389.9
Banking and insurance	15.3	16.8	20.6	23.9	26.5	29.6
Ownership of dwellings	79.6	80.9	82.2	100.2	103.0	106.6
Public administration	61.2	67.9	59.6	58.7	59.0	71.3
Services	62.3	63.8	66.4	70.3	73.8	76.7
	Annual growth rates					
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Gross domestic product	6.0	3.8	2.6	12.6	5.9	5.5
Agriculture	4.2	1.6	4.7	12.0	-0.4	3.4
Mining and quarrying	-3.2	-35.0	-69.2	300.0	6.3	—
Manufacturing	8.8	5.9	4.4	17.3	12.3	4.5
Construction	3.3	20.1	-10.9	-14.4	25.0	2.9
Electricity and gas	15.5	11.3	8.9	25.6	9.3	23.7
Transport	8.0	10.0	22.1	-12.2	12.5	10.6
Trade	6.7	2.1	-0.7	19.5	9.0	4.8
Banking and insurance	14.1	9.8	22.6	16.0	10.9	11.7
Ownership of dwellings	6.0	1.6	1.6	21.9	2.8	3.5
Public administration	3.1	10.9	-12.2	-1.5	0.5	20.8
Services	4.2	2.4	4.1	5.9	5.0	3.9

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 141. Guatemala: Agricultural production, 1959/60–1965/66
(Thousands of tons)

	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
<i>Export products</i>							
Bananas ^a	8,169.0	7,241.0	4,525.0	6,316.0	6,044.0	4,686.0	5,111.0
Coffee	102.2	99.9	103.0	117.1	95.5	106.6	119.9
Cotton (ginned)	16.4	22.1	33.5	56.3	68.0	81.2	86.9
Cotton seed	26.3	36.0	54.7	91.7	110.6	132.8	142.1
<i>Products for domestic consumption</i>							
Maize	526.3	537.4	559.3	588.3	664.8	685.4	706.6
Rice (husked)	8.6	7.9	10.0	10.3	11.3	10.8	11.0
Beans	79.3	80.6	81.9	94.0	97.6	100.6	103.7
Wheat	21.2	24.6	25.8	29.4	33.9	39.7	39.7
Tobacco	2.2	2.2	2.2	3.2	3.3	3.5	3.5
Potatoes	12.9	14.2	16.7	16.7	17.2	17.7	18.3
Sugar-cane ^b	970.8	922.1	1,289.5	1,323.8	1,462.2	1,563.6	1,663.3
<i>Livestock products^c</i>							
Cattle	184.0	196.0	191.0	195.0	209.0	214.0	214.0
Pigs	239.0	257.0	276.0	275.0	275.0	250.0	250.0

Source: ECLA, on the basis of statistics from the Central Bank of Guatemala.

^a Thousands of stems.

^b Includes only cane for sugar production.

^c Annual output (slaughtering plus exports) for the first calendar year of the crop year, in thousands of head.

Table 142. Honduras: Expenditure on the gross domestic product, 1960–65

	Millions of dollars at 1960 prices					
	1960	1961	1962	1963	1964	1965
<i>Gross domestic product</i>	376.7	402.7	423.8	436.7	465.8	515.3
<i>Total consumption</i>	334.3	366.5	373.8	401.3	427.6	462.5
Public	29.7	31.1	31.0	32.6	34.2	36.5
Private	304.6	335.4	342.8	368.7	393.4	426.0
<i>Gross domestic fixed capital formation</i>	47.9	44.3	59.4	62.5	65.6	67.8
Public	10.1	9.6	16.2	16.9	17.4	16.0
Private	37.8	34.7	43.2	45.6	48.2	51.8
<i>Exports of goods and services</i>	71.1	72.9	77.7	77.9	84.0	103.1
<i>Less: Imports of goods and services</i>	76.6	81.0	87.1	105.0	111.4	118.1
	Annual growth rates					
	1960–65	1960–61	1961–62	1962–63	1963–64	1964–65
<i>Gross domestic product</i>	6.5	6.9	5.2	3.0	6.7	10.6
<i>Total consumption</i>	6.7	9.6	2.0	7.4	6.6	8.2
Public	4.2	4.7	-0.3	5.2	4.9	6.7
Private	6.9	101.1	2.2	7.6	6.7	8.3
<i>Gross domestic fixed capital formation</i>	7.2	-7.5	34.1	5.2	5.0	3.4
Public	9.6	-5.0	68.8	4.3	3.0	-8.0
Private	6.5	-8.2	24.5	5.6	5.7	7.5
<i>Exports of goods and services</i>	7.7	2.5	6.6	0.3	7.8	22.7
<i>Less: Imports of goods and services</i>	9.1	5.7	7.5	20.6	6.1	6.0

Source: ECLA, on the basis of official statistics.

Table 143. Honduras: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of dollars</i>						
Total	64.4	74.0	82.6	84.4	95.1	115.0
Exports to Central America	7.4	8.3	13.8	13.2	18.3	...
Exports to the rest of the world	57.0	65.7	68.8	71.2	76.8	...
<i>Principal products</i>						
Cotton	0.7	0.3	2.1	2.5	3.8	6.3
Bananas	28.7	33.3	34.2	32.8	34.2	48.2
Coffee	11.8	9.0	11.4	14.1	16.9	21.6
<i>Percentages</i>						
Exports to Central America	11.5	11.2	16.7	15.6	19.2	...
Exports to the rest of the world	88.5	88.8	83.3	84.4	80.8	...

Source: ECLA, on the basis of official statistics. ^a Provisional figures.

Table 144. Honduras: Gross domestic product, by sector, 1960-65

	<i>Millions of dollars at 1960 prices</i>					
	1960	1961	1962	1963	1964	1965
<i>Gross domestic product</i>	376.7	402.7	423.8	436.7	465.8	515.3
Agriculture	173.3	186.9	196.6	199.4	216.3	251.0
Mining and quarrying	3.8	5.3	3.3	4.4	4.6	5.3
Manufacturing	53.1	58.7	60.6	66.0	72.1	78.3
Construction	11.3	11.2	15.7	14.4	15.0	12.7
Electricity and gas	2.3	2.4	2.6	2.8	3.1	3.8
Transport	24.8	26.0	28.8	30.2	31.8	36.3
Trade	44.5	47.3	49.0	53.2	54.2	55.7
Banking and insurance	3.0	3.7	4.5	5.0	5.7	6.1
Ownership of dwellings	26.4	27.1	27.8	28.5	29.2	30.0
Public administration	12.4	11.4	12.9	9.7	10.4	11.6
Services	21.8	22.7	22.0	23.1	23.4	24.5
<i>Annual growth rates</i>						
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Gross domestic product</i>	6.5	6.9	5.2	3.0	6.7	10.6
Agriculture	7.7	7.8	5.2	1.4	8.5	16.0
Mining and quarrying	6.9	39.5	-37.7	33.3	4.5	15.2
Manufacturing	8.1	10.5	3.2	8.9	9.2	8.6
Construction	2.4	-0.9	40.2	-8.3	4.2	-15.3
Electricity and gas	10.6	4.3	8.3	7.7	10.7	22.6
Transport	7.9	4.8	10.8	4.9	5.3	14.2
Trade	4.6	6.3	3.6	8.6	1.9	2.8
Banking and insurance	15.2	23.3	21.6	11.1	14.0	7.0
Ownership of dwellings	2.6	2.7	2.6	2.5	2.5	2.7
Public administration	-6.4	-8.1	13.2	-24.8	7.2	11.5
Services	2.4	4.1	-3.1	5.0	1.3	4.7

Source: ECLA, on the basis of official statistics.

activities (11.5 per cent). As a result of the decline in public investment, building fell off sharply (15 per cent).

Peak levels were attained in nearly all the main agricultural branches, including both production for export to traditional markets—bananas (24 per cent), coffee (8 per cent), cotton (10 per cent)—and items for domestic consumption and also for the Central American market—maize (12 per cent) and beans (27 per cent). These figures reflect a strengthening of Honduras' role as the main supplier of primary commodities to the Central American market, the main purchaser being El Salvador. Conditions were also favourable for wheat, tobacco, millet and sugar-cane. On the other hand there was no increase in the output of rice, sesame or potatoes (see table 145).

The industrial growth rate, although relatively high, was below the rate for agriculture and the rate for the economy as a whole. Industry accounts for only 15 per cent of the total product, and four-fifths of its production is of consumer goods. The common market does not yet seem to have led to increased industrial diversification, although one integration industry (sheet glass) has already been established, final studies are under way for the installation of a large pulp and paper plant, and there is a project for the install-

ation of a steel plant. Thus far, the structure of Honduras' trade with the other signatories of the General Treaty on Central American Economic Integration has remained practically unchanged. In recent years imports of manufactures from the other Central American countries have still accounted for 85 per cent of all Honduran imports. Similarly, the export structure has remained unchanged, three-quarters of all exports being primary commodities.

The sharp rise in the volume of exports (23 per cent) was accompanied by a much smaller increase in imports (6 per cent). There were various reasons for this. There was a slight decline in the unit prices of exports, and at the same time a substantial increase in the average price of imports, the result being a decline of 7 per cent in the terms of trade, and the total increase in the purchasing power of exports was therefore only 14 per cent (see table 146). In addition certain items under the heading of invisibles, which have traditionally represented outflows for Honduras, became an increased burden on the balance of payments. In line with the higher volume of exports, expenditure under the heading of transport and insurance rose to 11 million dollars. With the rise in the income of the banana companies, there was a parallel

Table 145. Honduras: Agricultural production, 1960/61–1965/66
(Thousands of tons)

	1960/61	1961/62	1962/63	1963/64	1964/65 ^a	1965/66 ^a
<i>Export products</i>						
Bananas ^a . . .	871.0	959.0	921.0	885.0	917.0	1,133.0
Coffee (green) . . .	22.8	21.2	27.6	28.6	33.1	35.9
Cotton (ginned) . . .	1.3	3.7	4.8	7.1	11.3	12.4
Cotton seed . . .	2.2	6.2	8.0	11.9	18.9	20.7
<i>Products for domestic consumption</i>						
Maize . . .	262.0	277.0	299.0	302.0	371.7	401.8
Rice (husked) . . .	13.3	13.4	14.6	14.0	14.4	14.4
Beans . . .	36.0	38.4	40.0	44.0	52.7	67.2
Wheat . . .	0.9	1.1	1.1	1.1	1.6	3.2
Sesame . . .	0.6	0.5	0.4	0.5	0.5	0.5
Tobacco . . .	3.6	4.1	4.1	4.2	5.1	5.7
Millet (sorghum) . . .	52.6	51.9	56.5	59.1	65.9	67.3
Potatoes . . .	1.7	1.6	1.3	1.7	1.6	1.4
Sugar-cane . . .	608.0	630.0	623.0	650.0	661.0	676.2
<i>Livestock products^b</i>						
Cattle . . .	140.0	167.0	165.0	159.0	160.0	...
Pigs . . .	128.0	127.0	117.0	114.0	107.0	...

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

^b Annual output (slaughtering plus exports) for the first calendar year of the crop year, in thousands of head.

Table 146. Honduras: Capacity to import, 1960-65

	Millions of dollars at 1960 prices					
	1960	1961	1962	1963	1964	1965
Quantum of exports of goods and services	71.1	72.9	77.7	77.9	84.0	103.1
Quantum of imports of goods and services	76.6	81.0	87.1	105.0	111.4	118.1
Index of unit price of exports	100.0	107.6	110.8	115.3	119.8	118.6
Index of unit price of imports	100.0	95.3	97.8	96.3	97.8	103.9
Terms of trade	100.0	112.9	113.3	119.7	122.5	114.1
Purchasing power of exports	71.1	82.3	88.0	93.2	102.9	117.6
Terms-of-trade effect	—	9.4	10.3	15.3	18.9	14.5

	Annual growth rates					
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Quantum of exports of goods and services	7.7	2.5	6.6	0.3	7.8	22.7
Quantum of imports of goods and services	9.1	5.7	7.5	20.6	6.1	6.0
Index of unit price of exports	3.5	7.6	3.0	4.1	3.9	-1.0
Index of unit price of imports	0.8	-4.7	2.6	-1.5	1.6	6.2
Terms of trade	2.7	12.9	0.4	5.6	2.3	-6.9
Purchasing power of exports	10.6	15.8	6.9	5.9	10.4	14.3

Source: ECLA, on the basis of official statistics.

Table 147. Honduras: Balance-of-payments summary, 1960-65
(Millions of dollars)

	1960	1961	1962	1963	1964 ^a	1965 ^a
A. Goods and services	3.1	0.5	-2.8	-16.8	-15.3	-10.9
Merchandise f.o.b. ^b	-1.1	7.8	8.7	-3.9	0.0	7.9
Freight and insurance	-6.5	-5.6	-6.2	-7.2	-8.6	-10.6
Travel	-0.4	-0.4	-0.5	-0.5	-0.4	-0.5
Investment income	8.5	-1.0	-4.4	-6.0	-5.2	-6.8
Government	0.2	0.3	1.0	1.4	-0.7	-1.2
Other services	2.4	-0.6	-1.4	-0.6	-0.4	0.3
B. Transfer payments	2.6	4.5	3.0	3.0	6.2	3.3
TOTAL (A+B)	5.7	5.0	0.2	-13.8	-9.1	-7.6
C. Capital and monetary gold	-5.0	-4.0	5.6	16.2	8.4	13.8
Non-monetary sectors	-5.5	-7.2	5.3	15.9	10.8	14.4
Direct investment	-7.5	-6.2	-1.3	2.0	5.2	6.1
Private long-term capital ^c	0.4	0.2	4.7	7.4	2.9	5.6
Private short-term capital	-0.7	-0.3	-0.5	0.3	-0.5	—
Local government	—	—	—	—	—	—
Central government	2.3	-0.9	2.4	6.2	3.2	2.7
Monetary sectors	0.5	3.2	0.3	0.3	-2.4	-0.6
D. Errors and omissions	-0.7	-1.0	-5.8	-2.4	0.7	-6.2
TOTAL (C+D)	-5.7	-5.0	-0.2	13.8	9.1	7.6

Sources: 1960-63: IMF; 1964 and 1965: Central Bank of Honduras.

^a Provisional figures.

^b Including non-monetary gold.

^c Excluding direct investment.

rise in remittances in the form of profits and interest which, together with the interest on the external public debt, amounted to about 7 million dollars. Moreover, there was a decline in the level of transfer payments received from abroad. The end result was that despite the surplus of 8 million dollars on the merchandise account, the balance of payments closed with a deficit of 8 million dollars, much the same as in 1964 (see table 147 on page 191).

(e) *Nicaragua*

Since the beginning of the sixties Nicaragua's gross product has risen steadily at the average annual rate of 8.9 per cent, with a per capita rate of 6 per cent, which means that Nicaragua's economic expansion is one of the most rapid in Latin America.

In line with the traditional structural features of the country's economy, the results for 1965 were largely determined by the behaviour of external demand, which absorbs 28 per cent of the domestic production of goods and services (production of coffee and cotton alone—the two main export products—generates 56 per cent of the gross product of the agricultural sector).

The extraordinary growth of exports during 1961–65, at the annual rate of 14.7 per cent at constant prices, was the main reason for the rapid economic expansion of the last few years.

In 1965 the gross domestic product rose by 8.6 per cent and exports by 9.3 per cent. About 28 per cent of the production of goods and services went to foreign markets, while one-third of domestic demand had to be met by imports, which rose faster than exports (at an annual rate of 13.7 per cent). In the meantime production for domestic consumption increased by an annual average of 7 per cent (see table 148).

In 1960–62 gross fixed investment rose by 60 per cent, but thereafter growth declined, until in 1965 it was only 6.8 per cent, while public investment failed to expand at all in that year, after increasing 2.5 times during 1961–64.

Public investment has been another major factor in stimulating the national economy, through infrastructure construction in the form of roads, hydroelectric dams and plants, irrigation works, etc., and social development projects. Private investment has also provided an impetus, especially in industry and in agricultural crop expansion.

Current central government expenditure up to 1964 increased less than current income, which permitted central government savings to double during 1961–64, and provide 65 per cent of the financing of public fixed investment. In 1965, however, government revenue rose less than

Table 148. Nicaragua: Expenditure on the gross domestic product, 1960–65

	Millions of dollars at 1960 prices						Annual growth rates				
	1960	1961	1962	1963	1964	1965 ^a	1960–61	1961–62	1962–63	1963–64	1964–65
Gross domestic product	346.6	369.5	413.4	442.0	489.6	531.9	6.6	11.9	6.9	10.8	8.6
Total consumption	319.5	334.3	366.9	385.1	432.1	469.7	4.6	9.8	5.0	12.2	8.7
Public	30.0	32.3	33.3	36.5	43.1	50.1	7.7	3.1	9.6	18.1	16.2
Private	289.5	302.0	333.6	348.6	389.0	419.6	4.3	10.5	4.5	11.6	7.9
Gross domestic fixed capital formation	44.9	51.6	70.3	77.3	84.0	89.7	14.9	36.2	10.0	8.7	6.8
Public	10.6	14.4	17.0	21.7	26.7	26.8	35.8	18.1	27.6	23.0	0.0
Private	34.3	37.2	53.3	55.6	57.3	62.9	8.5	43.3	4.3	3.1	9.8
Exports of goods and services	75.0	80.9	101.6	123.4	136.1	148.8	7.9	25.6	21.5	10.3	9.3
Less: Imports of goods and services	92.8	97.3	125.4	143.8	162.6	176.3	4.8	28.9	14.7	13.1	8.4

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 149. Nicaragua: Central government current revenue and expenditure, 1960-65
(Millions of cordobas)

	1960	1961	1962	1963	1964	1965
<i>Current revenue</i>	243.1	254.9	282.4	343.5	376.5	399.5
<i>Tax revenue</i>	219.3	234.0	260.8	316.2	335.7	364.1
Income and profits taxes	20.6	20.9	21.1	30.3	26.7	28.5
Tax on property and property transfers	8.0	8.4	10.7	18.8	22.2	24.9
Property tax ^a	8.0	8.4	9.9	18.1	21.0	23.0
Inheritance and legacy tax	—	—	0.8	0.7	1.2	1.9
Import duties	133.5	136.1	152.7	162.0	159.4	174.1
Export tax	5.8	7.0	6.1	6.1	5.3	5.4
Taxes on consumption, sales, etc. ^b	51.4	61.6	70.2	99.0	122.1	131.2
<i>Non-tax revenue</i>	23.8	20.9	21.6	27.3	40.8	35.4
<i>Current expenditure</i>	186.0	193.9	207.2	241.6	257.9	322.2
Wages and salaries	116.1	121.9	131.4	145.7	156.8	179.8
Purchase of goods and services	37.0	39.4	40.5	50.8	44.1	60.2
Other current expenditure	32.9	32.6	35.3	45.1	57.0	82.2

Source: ECLA, on the basis of official statistics.

^a Including taxes on capital and on movable and immovable property.

^b Including taxes on consumption, registered trade marks, patents, medicaments, pharmaceutical products, vehicle registrations, etc.

current expenditure, and hence the domestic financing of public investment was reduced (see table 149 above).

Year by year it is becoming more difficult for current government revenue to finance the rising costs of consumption and investment in the public sector, because of the decline in tax revenue from the external sector resulting from the increase in tax exemptions on imports of capital and intermediate goods for domestic industry, as part of the policy of providing incentives to industrial development. In 1960 taxes on foreign trade yielded 55.5 per cent of current revenue, while five years later they amounted to only 45 per cent.

Throughout the five-year period the structure of the country's production remained largely unchanged. The production of goods continues to account for 54 per cent of the total gross product, and industrial production for only about 14 per cent, despite the activities of the National Development Institute and the policy of providing tax incentives to facilitate the growth of domestic industry, with a view to expanding both import substitution and exports of manufactures to the other Central American countries.

In 1965 industrial production rose by 7 per cent—the lowest rise since 1961—while agricul-

tural production rose by 12.3 per cent.⁴ Over the whole of the five-year period manufacturing developed at about the same pace as agricultural production (see table 150).

An analysis of agricultural output on the basis of the main destination of the principal products shows that since 1960 production for domestic consumption has followed a very different course from production for foreign markets (see table 151). Agricultural production for domestic consumption, consisting of such items as rice, maize, beans, etc., rose 32 per cent in 1961-62, fell 10 per cent in 1963, and then recovered in 1964 and 1965, with annual growth rates of 12 and 7.5 per cent, respectively. Agricultural production for export, on the contrary, rose steadily throughout the period at an annual rate of 19 per cent, largely as a result of the extraordinary expansion in cotton production, which increased at an average annual rate of over 30 per cent.

The steady expansion in the supply of cotton, despite the decline in world prices, was due to a substantial increase in the area under cultivation. In the 1964/65 crop year 134,500 hectares of the best land in the Pacific area were given over to cotton growing, 68,000 hectares more than in 1960. At the same time there was an extraordinary improvement in yields, which nearly doubled between 1960 and 1964, as the result of the introduction of agricultural machinery and the increasing large-scale use of improved seed,

⁴ For the purpose of analysis and comparison the output for the crop year is regarded as the output for the second of the calendar years concerned.

Table 150. Nicaragua: Gross domestic product, by sectors, 1960-65

	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Gross domestic product</i>	346.6	369.5	413.4	442.0	489.6	531.9	8.9	6.6	11.9	6.9	10.8	8.6
Agriculture . . .	120.2	127.8	143.7	152.6	170.1	191.1	9.7	6.3	12.4	6.2	11.5	12.3
Mining and quarrying .	7.8	8.0	9.1	8.7	9.2	7.5	-0.8	2.6	13.8	-4.4	5.7	-18.5
Manufacturing . . .	47.5	50.4	56.4	61.7	70.1	75.0	9.6	6.1	11.9	9.4	13.6	7.0
Construction . . .	8.7	8.4	12.7	11.6	12.4	11.2	5.2	-3.4	51.2	-8.7	6.9	-9.7
Electricity . . .	5.0	5.4	5.9	7.1	8.4	9.6	13.9	8.0	9.3	20.3	18.3	14.3
Transport . . .	18.4	18.7	20.8	21.5	22.3	23.6	5.1	1.6	11.2	3.4	3.7	5.8
Trade . . .	70.9	77.3	86.3	95.2	106.7	118.2	10.8	9.0	11.6	10.3	12.1	10.8
Banking and insurance	6.0	6.5	7.3	8.0	9.3	11.2	13.3	8.3	12.3	9.6	16.3	20.4
Ownership of dwellings	20.7	22.4	24.1	26.3	26.9	27.5	5.8	8.2	7.6	9.1	2.3	2.2
Public administration .	20.9	22.3	22.9	23.5	25.6	25.9	4.4	6.7	2.7	2.6	8.9	1.2
Services . . .	20.5	22.3	24.2	25.8	28.6	31.1	8.7	8.8	8.5	6.6	10.9	8.7

Source: ECLA, on the basis of official statistics.

Table 151. Nicaragua: Agricultural production, 1960/61-1965/66
(Thousands of tons)

	1959/60	1960/61	1961/62	1962/63	1963/64	1964-65 ^a	1965/66 ^a
<i>Export products</i>							
Cotton (ginned)	27.7	33.2	57.0	74.0	93.8	124.8	128.8
Coffee (green)	23.8	26.3	24.8	27.8	29.5	31.4	32.7
Sesame	9.8	9.6	7.3	5.9	5.8	5.8	5.5
Cotton seed	47.8	57.3	98.5	127.0	161.9	215.4	222.4
Cocoa beans	0.7	0.6	0.6	0.6	0.7	0.7	0.6
<i>Products for domestic consumption</i>							
Maize	98.9	119.0	123.2	149.7	142.4	158.1	168.4
Beans	22.0	22.8	32.0	24.1	32.2	36.1	39.9
Millet (sorghum)	39.2	39.0	50.0	37.0	41.7	47.1	50.6
Sugar-cane	954.6	1,046.6	1,307.3	930.1	1,012.9	1,020.3	1,151.0
Hulled rice	20.3	21.2	24.2	23.2	29.1	30.2	36.2
Potatoes	1.7	1.6	1.5	1.4	1.3	1.3	1.2
<i>Livestock^b</i>							
Cattle	192.1	174.1	202.8	199.4	210.6	212.3	192.8
Pigs	137.6	147.1	125.8	119.5	131.7	144.0	150.0

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

^b Annual output (slaughtering plus exports) for the first calendar year, in thousands of head.

fertilizers and insecticides. However, cotton production for the 1965/66 crop year was affected by droughts and plagues that reduced yields, thus no doubt reducing the level of exports for 1966.

There was ample backing for the cotton sector in the form of banking credit, although at the expense of other sectors. In the 1964-65 crop year 74.6 per cent of the area sown to cotton was financed by banking credit, and cotton growing accounted for 69.7 per cent of all credit for agricultural development.

Coffee production, on the other hand, followed a very uneven course during 1961 and 1962, and since then has risen by an annual average of 8.3 per cent. This increase is due to the extension of the area under cultivation, since there has been no notable improvement in yields, and credit support amounted to only 18.5 per cent (in 1964/65) of the total agricultural credit granted by commercial banks.

These trends were naturally reflected in the behaviour of exports. Exports expanded at an average annual rate of 19 per cent in 1961-64,

Table 152. Nicaragua: Exports of goods, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of dollars</i>						
Total	62.4	68.0	89.4	105.8	124.8	134.6
Exports to Central America	3.4	1.8	3.2	4.0	7.0	...
Exports to the rest of the world	59.0	66.2	86.2	101.8	117.8	...
<i>Principal products</i>						
Cotton	14.7	18.3	31.3	39.8	50.9	56.6
Bananas	0.1	—	0.8	1.4	2.1	2.2
Coffee	19.2	17.4	15.4	17.5	22.0	24.4
<i>Percentages</i>						
Exports to Central America	5.4	2.6	3.6	3.8	5.6	...
Exports to the rest of the world	94.6	97.4	96.4	96.2	94.4	...

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

Table 153. Nicaragua: Capacity to import, 1960-65

	<i>Millions of dollars at 1960 prices</i>						<i>Annual growth rates</i>					
	1960	1961	1962	1963	1964	1965 ^a	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
Quantum of exports of goods and services	75.0	80.9	101.6	123.4	136.1	148.8	14.7	7.9	25.6	21.5	10.3	9.3
Quantum of imports of goods and services	92.8	97.3	125.4	143.8	162.6	176.3	13.7	4.8	28.9	14.7	13.1	8.4
Index of unit price of exports	100.0	99.0	100.1	100.0	106.0	105.0	1.0	-1.0	1.1	-0.1	6.0	-0.9
Index of unit price of imports	100.0	97.9	97.0	95.2	95.1	96.5	-0.7	-0.7	-0.9	-1.9	-0.1	1.5
Terms of trade	100.0	101.1	103.2	105.0	111.5	108.8	1.7	-1.1	2.1	1.7	6.2	-2.4
Purchasing power of exports of goods and services	75.0	81.7	104.9	129.6	151.8	161.9	16.6	-8.9	28.4	23.5	17.1	6.7
Terms-of-trade effect	—	0.8	3.3	6.2	15.7	13.1						

Source: ECLA, on the basis of official statistics.

^a Provisional figures.

but in 1965 the rate was only 7.9 per cent. The extraordinary growth up to 1964 was due almost entirely to the boom in the production of cotton, exports of which rose in value from 14.7 million dollars in 1960 to 56.6 million in 1965, when they accounted for 42 per cent of all exports (see table 152 on page 195). Japan bought 40 per cent of all cotton exports, and the remainder went mainly to Germany and other European markets.

Sales abroad of coffee, which was the main export product until the mid-fifties, and now represents 18 per cent of total exports, rose 43 per cent in 1962-64 as a result of the decline in world supplies. In 1965 coffee exports increased 11 per cent in value and about 17 per cent in volume, prices having declined by about 5 per cent.

Exports of other products, which account for 40 per cent of the total, rose by only 3.2 per cent, because of the behaviour of such items as exports of non-monetary gold, which declined by 1.3 million dollars, and of frozen meat, which

was affected by the falling off in production.

Intra-area trade, which in 1965 amounted to 142 million dollars, and represented about 19 per cent of the total trade of the Central American countries, is not at present a major item for Nicaragua; its exports to the other Central American countries amounted to only 5.6 per cent of its total exports for 1964.

The sharp rise in exports went hand in hand with an annual rise in imports of 13.7 per cent over the past five years (8.4 per cent in 1965), because of the higher demand for intermediate and capital goods for domestic production (see table 153 on page 196).

This rise in exports (which was higher than the rise in imports), together with the favourable evolution of the terms of trade up to 1964, resulted in a substantial increase in the capacity to import (16.6 per cent a year in 1960-65). However, it was not possible to make any inroads in absolute terms, on the deficit on current account (see table 154).

Table 154. Nicaragua: Balance-of-payments summary, 1960-64
(Millions of dollars)

	1960	1961	1962	1963	1964
A. Goods and services	-10.4	-7.3	-13.3	-9.0	-14.6
Merchandise f.o.b. ^a	7.5	11.2	11.7	15.6	15.7
Freight and insurance	-10.0	-9.2	-13.4	-14.9	-18.6
Travel	-3.3	-4.6	-4.7	-6.5	-7.7
Investment income	-1.9	-3.1	-3.1	-2.7	-5.4
Government	-0.9	-1.0	-2.4	0.5	1.9
Other services	-1.8	-0.6	-1.4	-1.0	-0.5
B. Transfer payments	2.9	3.8	3.5	4.1	5.4
TOTAL (A+B)	-7.5	-3.5	-9.8	-4.9	-9.2
C. Capital and monetary gold	8.2	3.3	14.1	8.0	14.4
Non-monetary sectors	4.0	-2.1	18.6	15.3	17.2
Direct investment	1.7	6.0	5.4	3.9	9.3
Private long-term capital ^b	0.2	-0.3	3.5	10.1	13.6
Private short-term capital	3.5	-4.2	7.6	0.3	-4.6
Local government	0.2	0.3	0.2	-0.1	—
Central government	-1.6	-3.9	1.9	1.1	-1.1
Monetary sectors	4.2	5.4	-4.5	-7.3	-2.8
D. Errors and omissions	-0.7	0.2	-4.3	-3.1	-5.2
TOTAL (C+D)	7.5	3.5	9.8	4.9	9.2

Source: IMF.

^a Including non-monetary gold.

^b Excluding direct investment.

Chapter V

COLOMBIA

1. GENERAL FEATURES OF ITS RECENT EVOLUTION

Colombia's economic evolution during the last five years has been characterized by an irregular growth rate, fluctuating considerably from year to year, although always below the level of 5.6 per cent which was the target of the general development plan for 1959-64. This instability has manifested itself again in the last two years. While appreciable progress was made in 1964, with aggregate rates of 5.3 per cent for the domestic product and of 6.7 per cent for real income, the corresponding increases in 1965 were only 3.9 and 3.8 per cent (see table 155 and figure XXVIII (a)).

Table 155. Columbia: Growth rates of the gross product and income, 1961-65

	<i>Gross domestic product</i>	<i>Gross income</i>
1961	4.9	4.4
1962	5.0	4.4
1963	3.3	3.5
1964	5.3	6.7
1965 ^a	3.9	3.8

Source: ECLA on the basis of official statistics.

^a Provisional figures.

The continued existence of well-known structural obstacles has been limiting the country's possibilities of achieving higher rates of growth, and the changes in its external economic relations have had an immediate impact on the levels of domestic activity. It is precisely the changes in the situation of the external sector that are largely responsible for the differences noted in the last two years.

In 1964, exports of goods showed a record for the last ten years, chiefly thanks to high prices for coffee. Imports of goods were 16 per cent more than in the previous year, and the gross inflow of long-term capital amounted to 190 million dollars. At current prices, exports of goods and services were worth nearly 650 million dollars, and imports of goods and services were more than 700 million.

In 1965, exports did not merely cease to grow but even declined slightly, while imports

plummeted from the highest to the lowest level recorded since 1960, as a result of the steps taken by the Government to improve the balance of payments and lighten the pressure on international reserves, which had sunk to a dangerous point. The credit balance on current account achieved as a result of these changes reversed the trend of the last five years, and this was also true of net external savings, which, from the relatively high figure of 170.4 million dollars in 1962, fell to a little over 137 million in 1963 and to about 130 million in 1964, finally turning into a deficit of nearly 42 million dollars in 1965 (see figure XXVIII (b)).

The increase in the product in 1965 was too little to offset the changes in external transactions, the result being an absolute decrease in the supply of goods and services for domestic consumption that was proportionately larger if limited to production and trade in goods (see table 156). This underlines another characteristic of Colombia's economic evolution over the last five years, namely, the stagnation and even decline of gross investment in absolute terms (see figure XXVIII (c)).

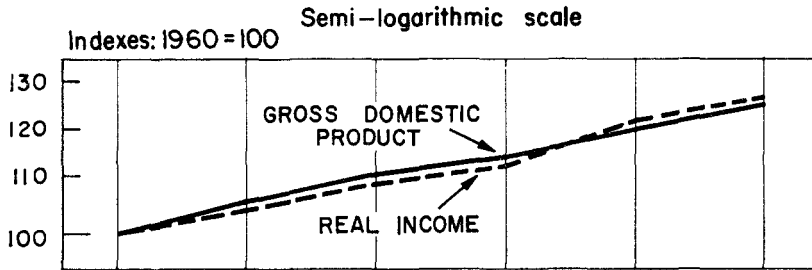
During the last five years, consumption of goods and services has been the most forceful element of aggregate demand, increasing annually by about 5 per cent as against 3.5 per cent in external demand and virtual stagnation in investment.

Although the over-all investment coefficient is fairly high, it has undergone a gradual and significant reduction from 20.7 per cent in 1960 to 19 per cent in 1964 and 17 per cent in 1965. This decline may be an offshoot of inadequate growth on the part of the capacity to import, since imports constitute no less than 40 per cent of gross investment, but other forms of investment that depend much less on imports have also been affected. In fact, no real difference can be detected between the evolution of total investment and that of fixed investment, or, within the latter, between machinery and equipment, on the one hand, and construction on the other.

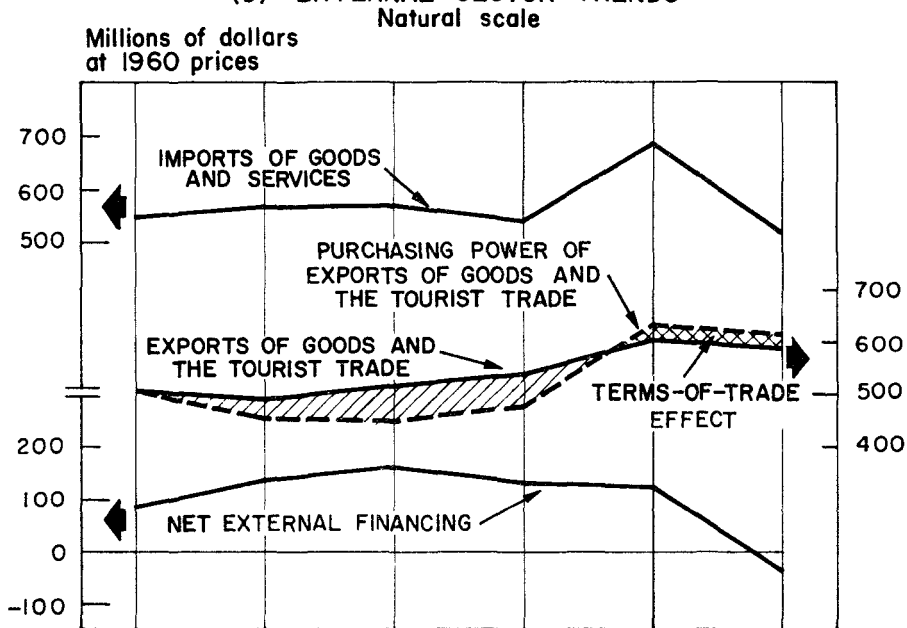
One reason for this may well be the fact that, during the period in question, public investment has been far less dynamic in Colombia than in other countries, since its share of total gross capital formation has remained around 27 per

Figure XXVIII. Colombia, 1960-65

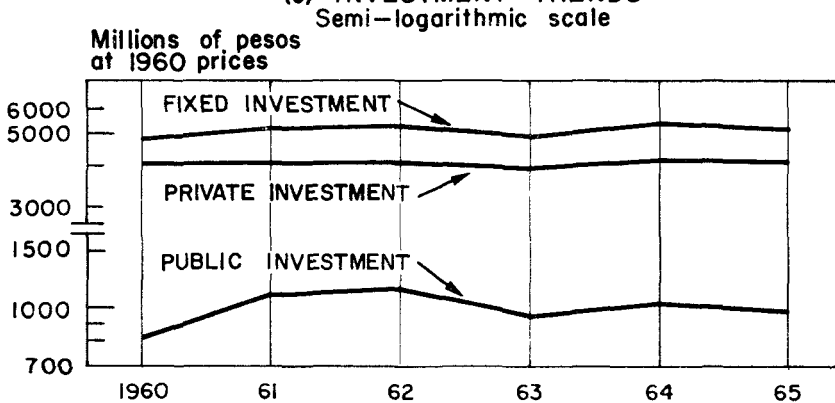
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

Table 156. Colombia: Gross product, consumption and investment, 1960-65
(Millions of pesos at 1960 prices)

	1960	1961	1962	1963	1964	1965 ^a
<i>Gross domestic product</i>	26,418	27,722	29,117	30,082	30,674	32,912
<i>Total investment</i>	5,477	6,038	5,520	5,502	6,019 ^b	5,600
<i>Fixed investment</i>	4,827	5,218	5,257	4,921	5,325 ^b	5,100
Machinery and equipment	2,130	2,255	2,103	1,938	2,325 ^b	2,000
Construction	2,697	2,963	3,154	2,983	3,000 ^b	3,100
<i>Total consumption</i>	21,468	22,320	24,117	24,747	26,510	26,830
Public	1,659	1,750	1,896	2,006	2,310	2,120
Private	19,809	20,570	22,221	22,741	24,200	24,710
<i>Exports of goods and services</i>	3,792	3,764	3,918	4,077	4,603	4,510
<i>Imports of goods and services</i>	4,320	4,400	4,438	4,244	5,458	4,028
<i>Supply and demand in respect of goods</i>						
<i>Production^c</i>	15,293	15,990	16,713	17,087	17,991	18,562
<i>Imports</i>	4,090	4,252	4,082	3,904	4,533	3,634
<i>Exports</i>	3,621	3,570	3,786	3,932	4,400	4,307
<i>Domestic demand</i>	15,762	16,672	17,009	17,059	18,124	17,889

Source: ECLA, on the basis of information from the Banco de la República and the Department of Planning.

^a Provisional figures.

^b Estimates.

^c Including the domestic product for the following sectors: agriculture, hunting, fishing and forestry, mining, manufacturing and construction.

cent.¹ Both investment and operational expenditure by the public sector, which accounted for about 18 per cent of the gross product, have been decreasing in real terms since 1962, owing to the inability of the current sources of general government revenue to provide more funds. As a result of this, the general government deficit during the last five years rose to over 1,000 million pesos in 1962, and the slight reduction in subsequent years was achieved at the cost of restricting investment expenditure. In 1964, the deficit was 1,029 million pesos and is tentatively estimated to have been 961 million in 1965 (at constant prices, these figures are well below the 1962 level).

Loan repayments were responsible for about half the deficit. In 1964, loans to the Government by the Banco de la República amounted to 372 million pesos, 271 million were obtained from the sale of bonds (under Act 21), and only 45 million came from abroad. This is considerably below the 1963 figure for foreign loans, which was 324 million pesos. In 1965, direct loans from the same Bank to the fiscal sector were 448 million pesos, and a further 200 million

were obtained from the sale of economic development bonds.

Direct financing by the issuing bank to the Central Government, and loans by the same bank to the National Coffee Growers Federation and the Caja de Crédito for expanding agricultural credit, gave rise to acute inflationary pressure in the last few years.

Pressure from the external sector and the budget imbalance had a number of effects. The most striking was the rapid increase in the price of the dollar on the free market, which climbed 50 per cent between December 1964 and August 1965, and accentuated the climate of economic instability and uncertainty prevailing since the beginning of the year, when the two big trade unions, which were calling for government measures to check the rise in the cost of living and to stimulate the creation of new employment possibilities, threatened to back up their demands by calling a nation-wide strike. The price of the dollar had begun to rise in October 1964, when the Banco de la República was no longer authorized to use foreign exchange to maintain the exchange rate.

Domestic prices varied less than the dollar, since the cost-of-living index in 1965 rose 14.8 per cent over its December 1964 level.

For these and other reasons, a number of exchange, monetary and fiscal policy measures

¹ Direct investment by the Government accounted for only about a quarter of total public investment. A slightly larger proportion (in 1964) consisted of capital transfers to decentralized institutions and local government authorities.

were adopted in September 1965 as part of a government stabilization programme.

The exchange measures included an increase in the dollar exchange rate from 9 to 13.50 pesos for the majority of imports. Only a few essential goods remained at the lower rate of 9 pesos. The price of the dollars accruing from coffee sales was also raised from 7.67 to 8.50 pesos, while the exchange incentive allowing exporters of other goods to sell their foreign exchange on the free market was abolished and they were henceforth compelled to sell at the official rate of 13.50 pesos to the dollar. The object of these measures was to increase the supply of foreign exchange and improve its distribution, as part of a new longer-term policy of import liberalization, which is also to include the gradual reduction of existing restrictions and their replacement by tariff protection.

As regards fiscal policy, steps were taken to increase public revenue by levying an extra tax on income, with surcharges of 15 per cent in 1965 and 10 per cent in 1966. In this way, it was hoped to raise current revenue and public investment without any further drain on domestic credit, which was creating inflationary pressures.

In November, the Government was empowered to issue bonds (economic development bonds) of up to 600 million pesos against the internal public debt in order to finance specific economic

and social development programmes. The issue for 1965 amounted to 200 million pesos.

It is still too early to gauge the effect of these measures, but one immediate result was to relieve the pressure of speculation on the free dollar, whose price, after reaching a record of 19.26 pesos in August, thereafter declined. By the end of the year imports had returned to normal, government revenue had been stepped up, and external public credit was reopened with a loan of 65 million dollars from the Agency for International Development and another of 36.5 million dollars from the International Monetary Fund.

2. SECTORAL PRODUCTION TRENDS

Despite the relatively slow rate of aggregate growth between 1960 and 1965, some changes took place in the sectoral composition of the gross product, of which the two most important were the contraction in the share of the agricultural sector (from 32.6 to 30.1 per cent) and the increase in that of manufacturing industry (from 17.9 to 19.2 per cent) (see table 157).

Taken as a whole, the sectors producing goods saw their share of the gross product decline from 57.9 to 56.4 per cent in favour of services. Production of goods expanded by only 21.4 per cent between 1960 and 1965, as against 29 per cent for services, which thus maintained their

Table 157. Colombia: Changes in the structure of the gross product, 1960-65
(Percentages)

	1960	1962	1963	1964	1965 ^a
Agriculture	32.6	31.7	30.9	30.9	30.1
Hunting and fishing	0.2	0.3	0.2	0.2	0.2
Forestry	0.3	0.4	0.3	0.3	0.3
Mining	3.9	3.3	3.5	3.5	3.8
Manufacturing	17.9	18.4	18.7	18.9	19.2
Construction	3.0	3.4	3.1	2.9	2.7
TOTAL	57.9	57.5	56.7	56.7	56.3
Trade	15.5	15.3	15.3	15.2	15.4
Transport	5.9	5.9	5.9	6.0	6.2
Communications	0.6	0.7	0.7	0.7	0.7
Electricity, gas and water	0.8	0.9	1.0	1.0	1.0
Finance	2.1	2.5	2.6	2.6	2.6
Housing	5.2	5.4	5.5	5.6	5.8
Personal services	7.2	7.0	7.2	7.2	7.2
Government	4.8	4.8	5.1	5.0	4.7
GROSS DOMESTIC PRODUCT ^b	100.0	100.0	100.0	100.0	100.0

Source: Banco de la República and Department of Planning.

^a Provisional figures.

^b At market prices.

already substantial share of the gross domestic product.

Agricultural production increased very slowly during that period, at an average yearly rate of 2.8 per cent, which was slightly less than the growth rate of the population. This average was largely due to the agricultural expansion of 1964, when output went up by 5.2 per cent and there was a sizable increase in the production of maize, beans, oil-seeds, sugar-cane and potatoes, as a result of the additional acreage used for these crops and an increase in yield. However, there were reductions in the output of other items of domestic consumption, such as wheat, cocoa and barley, which had to be supplemented by imports.

Economic and monetary instability, which had become particularly glaring by the end of 1964, credit restrictions, and the quota limitations on the export of coffee—the commodity that accounts for more than 40 per cent of total agricultural output—were some of the factors that acted as a brake on agricultural production, which increased by only 1.4 per cent in 1965. Ever since 1960 coffee production has been virtually stationary, and current reserves are estimated at about 5 million bags.

Partial estimates up to September, compared with the same period in 1964, show that, of the new loans granted by commercial banks, those for coffee were 0.5 per cent less, those for other crops 18.7 per cent less and those for livestock 14.7 per cent less.

During 1965, the Colombian Land Reform Institute (INCORA) continued with its research and studies on large-scale irrigation and land reclamation, and with a programme of supervised credit for agriculture. All these projects fall into the first stage of the land reform plan.

The slaughtering of livestock of all kinds fell 3.4 per cent up to October. However, exports of beef cattle during the year were fairly substantial amounting to nearly 40,000 head for a value of about 4 million dollars.

During the last five years, manufacturing expanded at an average annual rate of 6 per cent. Although below the target of 9.7 per cent set for the sector in the General Development Plan of 1959–64, it was thanks to this expansion that manufacturing became the main dynamic force behind the growth of domestic production.

After the relatively sizable increase of 6.8 per cent in 1964, mainly from the petrochemical, paper, basic chemicals, machinery and metal-transforming industries, the growth rate of manufacturing production slowed down to 5.4 per cent in 1965. During that year, industry

suffered considerably from the reduction in imports of raw materials, and intermediate and capital goods, but even so, the statistics for seven months of the year show that there was no appreciable change in industrial employment.²

There is no information available on the trends of the different branches of industry in 1965, but a few indicators exist for specific products. For instance, by October of that year, petroleum refining had risen 12 per cent more than over the same period in 1964, while cement production increased by 8 per cent during the year, and the output of steel ingots by 4 per cent.

Viewed over the longer term, it is doubtful whether this relatively dynamic trend in industry can be maintained unless more intensive efforts are made to broaden the domestic market. Under present conditions, manufacturing is beset by market problems that detract from its chances of developing more rapidly.

The industrialization process has been based, as in other Latin American countries, on import substitution. Much of the phase of easy substitution has already been completed, as is indicated by the fact that consumer goods represent no more than 11 per cent of total imports, and the next step is to replace imports of intermediate and capital goods, for which more advanced technologies and bigger markets are required.

The past year saw the conclusion or progress of projects on sugar chemistry, maize products, man-made fibres, paper, sugar-cane and metallurgy. In 1966 industries have been established for producing carbon black, petrochemicals and tinplate.

Mining—the other sector producing goods—does not contribute more than about 4 per cent of total production, and has pursued a very uneven course since 1960. In 1965, it expanded considerably (by about 13 per cent), mainly because of the exceptional boom in the output of crude oil (estimated up to October at 20 per cent more than during the same period in 1964), a commodity which makes up about three-quarters of the total production of the mining industries. As regards other mining products, there was a decline of around 10 per cent in gold and silver output during 1965.

Construction was one of the sectors most severely affected by the instability of the economy

² Index numbers of employment in manufacturing, *Monthly Bulletin of Statistics*, December 1965. The preliminary findings of an unemployment survey taken in Bogotá (*Revista del Banco de la República*, November 1965) indicate, however, that the number of unemployed rose from 32,800 in 1964 to 50,800 in 1965.

and the decline in public investment. Its product, which has been shrinking since 1962, decreased by 4.7 per cent in 1965. Information on eighteen towns indicates that the area built over was 5 per cent smaller in that year. Furthermore, the price of building materials in Bogotá increased by 8 per cent.

The electricity, gas and water utilities sector expanded appreciably (by 9 per cent) in 1965, thereby continuing the upward trend it has been pursuing for some years mainly as a result of the increase in energy generating capacity, which has been financed by the Government with funds from abroad.

During 1965, some headway was made with basic works. In Cali, the Corporación del Valle del Cauca finished the first stage of the Calima project for 60,000 kW, and embarked on the second phase of the work, also for 60,000 kW. In Medellín, the Nare power plant project for 400,000 kW is making good progress, and in Bogotá, major projects were carried out to increase the power supply to the city. A study was also begun on the possibility of linking up the country's three main power stations.

The share of transport services in the product expanded by nearly 8 per cent. The Ministry of Public Works earmarked about 745 million pesos in 1965 (65 million more than in the previous year) for investment in infrastructural works, mainly highway construction. With the aid of the Inter-American Development Bank, a start was also made on reconditioning and enlarging the port of Buenaventura. In addition, work continued on the Barranquilla airport, and a start was made on the construction of the new Cali airport.

3. THE EVOLUTION OF THE EXTERNAL SECTOR

In 1964, exports increased substantially, earning 150 million dollars more than in 1963, mainly because of the improvement in coffee prices and the expansion of the export quantum. In 1965, on the other hand, there was a reduction of 2.1 per cent in the volume of exports, and they went down slightly in value, since the average price remained the same. The over-all reduction in volume was the result of a 9 per cent reduction in coffee exports, which was not offset by the sizable increases in the output of other products. Petroleum and banana production, for example, increased by around 30 per cent and cotton by 39 per cent (see table 158).

Sales of coffee to the United States—which normally represent 54 per cent of the total—dropped nearly 10 per cent during the year as a result of the restriction of coffee imports by that country. By October, the United States had cut down its aggregate coffee purchases by 1.9 million bags.

On the other hand, exports of Colombian coffee to European markets, mainly the Federal Republic of Germany, remained much the same as in 1964, and these markets are now absorbing 43 per cent of total coffee exports.

Coffee prices were low between March and August but picked up in the following months and their average fell only slightly below the high figure recorded in 1964.

Except for bananas and tobacco, the prices of which rose by about 25 per cent, all other major export items were quoted at lower prices. Petroleum prices, for example, fell 10 per cent in the course of the year.

Table 158. Colombia: Exports of some major commodities, 1964-65
(Millions of dollars)

Product	1964	1965 ^a	Percentage change	
			Value	Quantum ^b
Coffee	394.2	348.0	-11.7	-9.0
Bananas	12.4	20.0	61.3	29.7
Cotton	6.3	8.0	27.0	39.3
Tobacco	9.4	8.5	-9.6	-27.7
Sugar	3.3	6.5	97.0	...
Crude petroleum	75.6	85.0	12.4	32.0
Fuel oil	6.7	5.4	-19.4	-9.2

Source: Data from official publications and IMF, *International Financial Statistics*, April 1966.

^a Provisional figures.

^b The quantum changes relate to January-September 1965 in comparison with the same period in 1964, except for petroleum (which covers the whole year) and coffee (which covers eleven months).

As regards trade with other ALALC countries, Colombia's exports increased and in 1965 were in the neighbourhood of 15 million dollars as against 10 million in the previous year. Its imports from those countries exceeded 30 million dollars.

It became apparent that the country's supply of foreign exchange would have to be expanded to make up for the steady increase in its external debts, which had been accumulating for some time and exerting heavy pressure on its gold and foreign exchange reserves. An additional factor was the growing demand for dollars for speculative purposes in view of the expected devaluation, with the result that the price of the free dollar was pushed up rapidly. Both these factors led to a drastic curtailment of imports through the registers controlled by the Department of Foreign Trade (Superintendencia de Comercio Exterior). Total imports were thus reduced by about 22 per cent in 1965, which is equivalent to a reduction of 128 million dollars in the value of goods imported, the lowest level recorded by imports since 1959.

About half Colombia's imports consists of capital goods and around 38 per cent of raw materials and intermediate goods (see table 159).

The reduction of imports mainly affected consumer goods (which dropped 24 per cent), non-durable goods, in particular, and raw materials and intermediate goods (which fell 23 per cent). The reduction in imported capital goods amounted to around 16 per cent, transport and construction sector imports being reduced

by 31 and 23 per cent respectively. Machinery and equipment for agriculture and industry were cut by about 10 per cent.

Imports of capital goods are estimated to cover approximately 80 per cent of the country's requirements.³ According to a recent study by the International Bank for Reconstruction and Development,⁴ a group of industries constituting 40.7 per cent of the total value added in manufacturing in 1962 imported 50 per cent of their inputs.

These data, coupled with the high proportion of imports in total fixed investment, give a better idea of the impact which the drop in imports of goods had on national investment and production.

During the last few months of 1965, when the exchange imbalances had been remedied to some extent, the economic recession and unemployment that had been partly caused by the import restrictions led to the adoption of measures for facilitating import registration, while import deposits, which was another of the devices used for curtailing imports, began to be reduced by 5 per cent monthly. However, the full effect of these measures was not felt by the purchases made in that year.

The reduction in total imports of goods and services in 1965 amounted to 185 million dollars. The result was a trade surplus of 109 million

³ *Revista del Banco de la República*, June 1965.

⁴ Report of 30 April 1965.

Table 159. Colombia: Composition of imports of goods, 1962-65
(Percentages)

	1962	1963	1964	1965
<i>Consumer goods</i>	13.1	12.2	11.9	11.1
Non-durable	8.3	8.5	8.2	7.2
Durable	4.8	3.7	3.7	3.9
<i>Fuels</i>	1.7	1.8	1.1	0.7
<i>Raw materials and intermediate goods</i>	40.9	41.4	39.5	38.1
<i>Capital goods</i>	42.7	42.4	45.9	48.0
For industry	24.1	24.3	26.3	29.4
For agriculture	5.2	4.4	4.6	5.3
For construction	4.8	4.1	5.1	4.8
For transport	8.6	10.1	9.9	8.5
<i>Miscellaneous imports</i>	1.6	1.7	1.6	2.1
TOTAL	100.0	100.0	100.0	100.0
TOTAL (millions of dollars)	540.0	506.0	586.0	470.0

Source: ECLA, on the basis of official statistics.

dollars for the first time in several years (see table 160).

In 1961-63, the capacity to import was less than the total sum of imports of goods and services. Capital outgoings under the head of transfers of profits and interest and of amortization payments on non-compensatory and balance-of-payments loans exceeded the capital inflow in the form of direct investment, loans, transfer payments, etc. by 370 million dollars over the three-year period. The difference, added to the trade deficit, resulted in a cumulative balance-of-payments deficit (before compensation) of 630 million dollars for those three years. (See again table 160.)

Gross international reserves of gold and foreign exchange dropped from 178 million to 106 million dollars between the end of 1960 and the end of 1963.

The situation changed radically in 1964, when the inflow of long-term capital increased substantially, and enabled the capacity to import to exceed the value of exports. As a result, the balance-of-payments deficit was reduced, despite the high level of imports in that year.

In spite of the reduction of 60 million dollars

in the capacity to import in 1965, the balance-of-payments closed with a surplus of 100 million dollars, due entirely to the drastic cut in imports. The balance-of-payments surplus in that year improved Colombia's net position vis-à-vis the monetary authorities and led to an increase in its gold and foreign exchange holdings.

In the same year, external loans received by Colombia amounted to about 65 million dollars, which was less than in 1964. The loans received were mainly allocated to energy (16.4 million), agriculture (12.8 million), and the stabilization of the balance of payments (10.3 million dollars). The remainder consisted of loans for other infrastructural works, industry and housing.

The behaviour of the terms of trade played a special part in increasing the capacity to import in 1964, and minimizing its decline in 1965 (see table 161 and figure XXVIII (b)).

The unit values of exports increased more than 17 per cent in 1964, thanks to the sharp rise in coffee prices, and remained at the same level in 1965. As import prices changed very little, in the last two years the terms of trade effect was more favourable than in 1960.

Table 160. Colombia: Capacity to import and imports of goods and services, 1961-65
(Millions of dollars at current prices)

	1962	1963	1963	1964	1965 ^a
Exports of goods and the tourist trade	485.1	474.5	493.3	647.8	630.0
Net investment income	-50.4	-57.3	-80.6	-73.2	-67.0
Current capacity to import	434.7	417.2	412.7	574.6	563.0
<i>Goods and services and amortization of loans</i>					
Long-term capital	36.7	52.5	62.9	182.0	...
Official transfer payments, direct net investment and loans received	62.4	80.4	90.4	188.8	...
Amortization of non-compensatory loans	-25.7	-27.9	-27.5	-.68	...
Short-term capital (liabilities)	6.6	8.2	-3.5	-12.9	...
Total external non-compensatory funds	43.3	60.7	59.4	169.1	68.0
Domestic funds and errors and omissions	-26.5	36.7	1.7	-63.5	-5.0
Total official transfer payments and non-compensatory capital	16.8	97.4	61.1	105.6	63.0
Amortization of balance-of-payments loans	-35.6	-178.9	-144.2	...	...
Capacity to import goods and services	415.9	335.7	329.6	680.2	621.0
Imports of goods and services	576.5	587.6	549.9	705.9	521.0
Balance	-160.6	-251.9	-220.3	-25.7	100.0
Balance-of-payments loans	91.4	190.9	182.1	49.0	...
External monetary reserves (increase -)	79.4	30.2	42.5	-26.9	-123.0
Liabilities	0.3	-0.1	0.6	7.0	-70.0
Assets (increase -)	14.1	22.8	-6.6	-21.4	-29.0
Net IMF position	65.0	7.5	48.5	-12.5	-24.0
Official monetary gold (increase -)	-10.2	30.8	-4.3	3.6	23.0

Source: ECLA on the basis of the IMF, *Balance of Payments Yearbook*.

^a Provisional figures.

Table 161. Colombia: Evolution of the external sector, 1960-65
(Millions of dollars at 1960 prices)

<i>Year</i>	<i>Volume of exports of goods and services</i>	<i>Terms-of-trade effect</i>	<i>Purchasing power of exports of goods and services</i>	<i>Net external factor payments</i>	<i>Imports of goods and services including the tourist trade</i>	<i>Balance on current account</i>
1960	502.9	—	502.9	39.6	547.8	-84.5
1961	499.2	-29.6	469.6	48.8	558.0	-137.2
1962	519.6	-65.1	454.5	54.9	562.8	-163.2
1963	540.7	-58.0	482.7	78.9	538.1	-134.3
1964	610.4	+24.7	635.1	71.1	692.1	-128.1
1965	598.0	+19.6	617.6	67.0	510.8	+39.8

Source: ECLA, on the basis of information from the IMF.

Chapter VI

CHILE

1. OVER-ALL APPRAISAL

Several events had an important and conflicting effect on Chile's economic development in 1965. As in other countries of the region, the international situation, together with the support provided by external credit, made it possible to increase primary commodity export earnings. On the other hand, natural disasters such as the earthquake in the north central zone at the beginning of the year and the subsequent storms seriously affected the population and the supply of agricultural products. These include certain crops, forest plantations and imports of livestock from Argentina. Lastly, to mention only the most outstanding factors, the change of administration at the end of 1964 led the following year to the application of new economic policy guidelines, which resulted in important fiscal and other changes and in plans of even wider scope whose significance cannot yet be evaluated for certain.

The over-all indicators available for 1965 enable a broad outline to be sketched of the salient economic developments in 1965. After two years in which the over-all growth rate barely kept pace with population growth in 1965 there was an increase of about 4 per cent in the gross product. The favourable world market conditions for copper since 1964 enabled Chile to raise its real income faster than the product: 5.0 per cent (see table 162 and figure XXIX (a)).

Concomitantly with the recovery of the over-all economic growth rate, certain changes in 1965 reveal the entry into force of economic policy measures which served to mitigate some of the more visible signs of the chronic disequilibrium characterizing the Chilean economy. These measures have had the effect of slowing down inflation—the increase in the cost-of-living index dropped from 38 per cent in 1964 to 26 per cent in 1965—appreciably improving Chile's external financial position, to judge from the reduction in the deficit on current account; and reducing the public sector deficit despite a considerable increase in total expenditure.

By contrast, no important changes are noted—at any rate in an over-all analysis—in the internal variables responsible for the slow rate of Chile's economic growth. Total internal investment, whose coefficient in relation to the product is one of the lowest in Latin America (12 per

cent, as against the regional average of 16 per cent over the last three years), contracted somewhat in 1965. It would have declined even further had it not been for the strong impetus given to construction, since capital formation in terms of machinery and equipment went down by 7 per cent (see table 163). The rise of over 28 per cent in public sector investment, compared with the sharp contraction of nearly 5 per cent in private investment, is also a reflection of general investment trends (see figure XXIX (c)).

Table 162. Chile: Growth of total and per capita gross domestic product and real income
(Cumulative annual rates)

Period	Gross domestic product		Real income	
	Total	Per capita	Total	Per capita
1955-60	3.8	3.8	1.3	1.3
1960-64	3.6	3.4	1.2	1.0
1960-61	3.5	3.9	1.1	1.5
1961-62	6.5	4.6	4.1	2.2
1962-63	1.7	2.4	-0.7	—
1963-64	2.5	2.7	0.1	0.3
1964-65 ^a	4.1	5.0	1.7	2.6

Source: Basic statistics: Corporación de Fomento de la Producción (CORFO), *Cuentas Nacionales de Chile, 1958-63* (Santiago, June 1964) and *Cuentas Nacionales de Chile, 1940-62* (Santiago, June 1963). The figures for 1964 were furnished by the Office of the President of Chile, Planning Department (ODEPLAN).

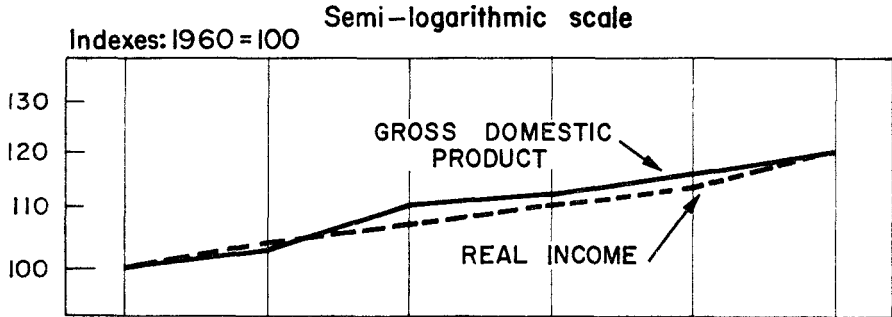
^a ECLA, estimates based on official statistics.

Imports declined by 7 per cent and changed in structure to the detriment of capital goods, while the share of non-durable consumer goods and raw materials increased, thereby supplementing the inadequate growth of certain basic items of domestic consumption and supplying inputs for import substitution industries. Thus, notwithstanding the limitations of agricultural supply and the relatively slow industrial growth, public and private consumption together were able to expand at the same rate as the total product (see table 164).

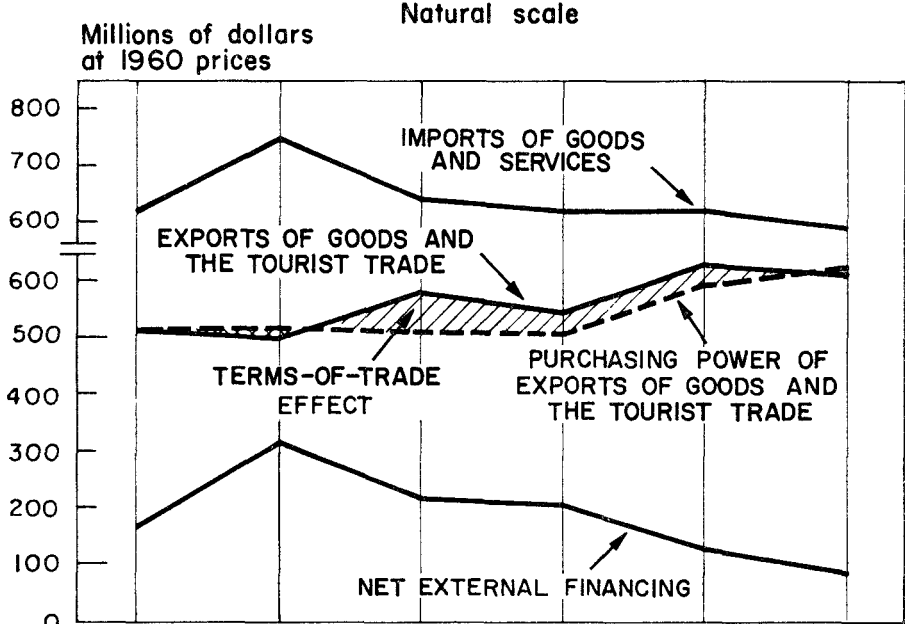
These and other important recent developments have to be interpreted in the light of certain long-standing characteristics of Chile's

Figure XXIX. Chile, 1960-65

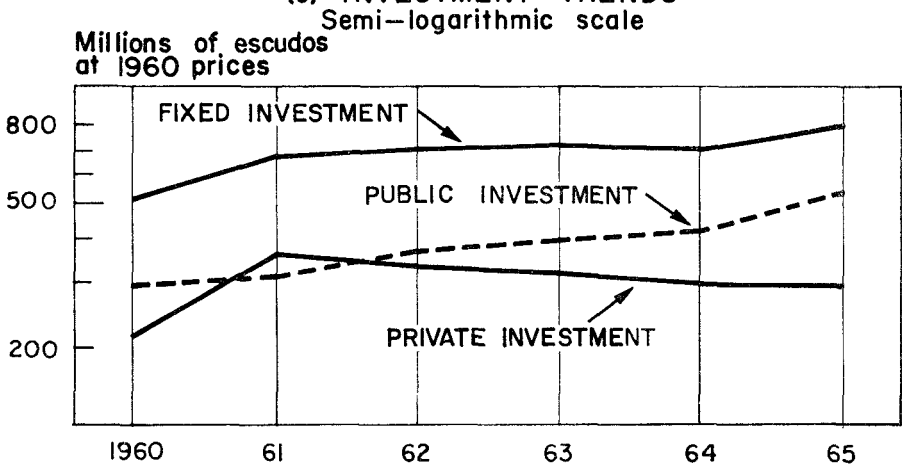
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

Table 163. Chile: Gross product, consumption and investment, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of escudos at 1960 prices</i>						
Gross domestic product	4,974.3	5,150.0	5,485.0	5,579.0	5,719.8	5,952.0
Total investment	535.0	687.0	709.0	704.0	716.0	...
Fixed	513.0	664.0	690.0	704.0	696.7	797.0
(a) Machinery and equipment	308.0	383.0	387.0	430.0	404.6	376.0
(b) Construction	205.0	281.0	303.0	274.0	292.1	421.0
(c) Public sector ^b	(300.0)	306.8	360.5	389.5	406.4	521.1
(d) Private sector	(213.0)	357.2	329.5	314.5	290.3	276.0
Total consumption	4,547.9	4,732.7	4,850.5	4,956.3	4,998.9	5,120.2 ^c
Public	510.7	518.0	631.0	556.0	524.3	574.0
Private	4,037.2	4,214.7	4,219.5	4,400.3	4,474.6	4,546.2 ^c
Exports of goods and services	582.3	572.2	653.3	620.5	706.5	688.3
Imports of goods and services	690.9	841.9	727.8	701.8	701.6	653.5
	1960-61	1961-62	1962-63	1963-64	1964-65	1960-64
<i>Annual growth rates</i>						
Gross domestic product	3.5	6.5	1.7	2.5	4.1	3.6
Total investment	28.4	3.2	-0.7	1.7	...	7.6
Fixed	29.4	3.9	2.0	-1.0	14.4	8.0
(a) Machinery and equipment	24.4	1.0	11.1	-5.9	-7.1	7.1
(b) Construction	37.1	7.8	-9.6	6.6	44.1	9.3
(c) Public sector ^b	2.3	17.5	8.0	4.3	28.2	7.9
(d) Private sector	67.7	-7.8	-4.6	-7.7	-4.9	8.1
Total consumption	4.1	2.5	2.2	0.9	2.4	2.4
Public	1.4	21.8	-11.9	-5.7	9.5	0.7
Private	4.4	0.1	4.3	1.7	1.6	2.6
Exports of goods and services	-1.7	14.2	-5.0	13.9	-2.6	4.9
Imports of goods and services	21.9	-13.6	-3.6	—	-6.9	0.4

Source: The figures for the product, investment and public sector consumption in 1960-64 were furnished by the Corporación de Fomento de la Producción (CORFO), *Cuentas Nacionales de Chile, 1958-63* (June 1964), and the Office of the President of Chile, Planning Department (July 1965). The figures for exports and imports were worked out by ECLA on the basis of the IMF, *Balance of Payments Yearbook*.

^a ECLA, estimates based on official statistics.

^b The figures for real investment financed by the public sector were prepared by the Ministry of Finance, Budget Office, and expressed directly in terms of 1960 prices. The figures in brackets are ECLA estimates. Actual 1961-64 figures; 1965: Budget figures. The public sector includes general government, decentralized agencies and public enterprises.

^c Including variations in stocks.

economic development. They include two key factors: first, the fact that the production system is not dynamic, as shown by the low rate of over-all growth and the scant diversification of the sectoral structure of the economy, as a result, *inter alia*, of the early reduction of incentives to the development of import substitution industries which in turn was due to a number of interrelated factors ranging from the size of the market to institutional obstacles; the second factor is linked to the growing social pressures and their political expression, in that they are not only the embodiment of more far-reaching hopes and expectations but are supported by specific organizational systems and by increasing access

to the generation of public power through a steady increase in the size of the electorate.

Social pressure to improve living conditions, in the face of the contradictory fact that the production system lacked the dynamic force and flexibility to satisfy such claims, was intensified in 1963-65, spurred on by the prospect of a change of administration.

Up to 1964, the Government had recourse to certain fairly obvious expedients in dealing with those conflicting factors. In the first place, it sought to restrict the source of demand mainly by adjusting salaries and wages by a lower percentage than the cost-of-living increase, and

Table 164. Chile: Structure and sectoral growth rate of the gross product,^a 1960-65

Sector	1960	1962	1963	1964	1965	1960-64	1964-65 ^b
	<i>As a percentage of the gross domestic product</i>					<i>Annual growth rates</i>	
Agriculture	11.5	9.8	9.4	10.1	9.7	0.3	-1.0
Mining	6.4	6.1	5.9	6.3	6.0	3.0	0.0
Manufacturing	19.3	18.0	18.2	19.5	19.7	3.8	5.4
Construction	2.4	3.7	3.4	3.4	3.7	13.6	10.0
Electricity, gas and water	0.9	1.0	1.0	1.1	1.1	7.4	5.8
Transport and communication	6.3	7.3	7.6	8.0	8.2	10.2	...
Total goods and basic services	46.8	45.9	45.5	48.4	48.4	4.5	3.9
Trade and finance	23.2	26.6	27.1	25.6	...	6.1	...
Housing	11.8	8.8	9.0	8.3	...	-5.3	...
Government	8.5	8.9	8.1	7.3	7.4	-0.3	5.9
Other services	9.7	9.8	10.3	10.4	...	5.3	...
Total services	53.2	54.1	54.5	51.6	51.6	2.7	4.2
Gross domestic product	100.0	100.0	100.0	100.0	100.0	3.6	4.1

Source: 1960 and 1964: basic statistics: *Cuentas Nacionales de Chile, 1958-63*, op. cit., and the Office of the President of Chile, Planning Department (ODEPLAN).

Note: The absolute figures for 1960-64 on which the above growth rates are based relate to expenditure on the gross geographical product at constant market prices, published by CORFO and the Planning Department. In line with the

methodology used for these calculations, the figures actually represent the domestic purchasing power of the income generated by each sector and are therefore not a suitable basis for assessing the evolution of production volume.

^a Relates to the gross domestic product at 1960 market prices.

^b ECLA estimates based on physical production data.

through the operation of other mechanisms which served to spread the latent or existing disequilibrium.¹ Secondly, it made use of external credit to step up supply in general and that of certain essential goods in particular. The part played by imports may be gauged from the trade balance deficits recorded, which totalled some 520 million dollars between 1960 and 1964. During the same period, Chile's total foreign currency debt rose from just over 800 million to 1,800 million dollars.² Lastly, on the basis of borrowing and some improvement in exports, it is proposed to stimulate production by increasing imports of capital goods and public investment in construction. The importance ascribed to the housing programme is also compatible with the desire to alleviate the existing social pressures.

In spite of intensive and consistent effort and appreciable gains, the basic problems and imbalances still persisted at the end of 1964. Social pressures had increased; the production system had made no further headway; the inflationary gap had widened; and public expenditure and imports were still dependent upon an increasing volume of borrowing.

¹ In 1962, prices increased by 27.7 per cent and the average adjustment was 15 per cent. In 1963, while prices rose by 45.4 per cent, the average adjustment was only 15.5 per cent.

² Ministry of Finance, Budget Office, *Exposición sobre el estado de la Hacienda Pública*, Report No. 108, November 1965, table 1.

These features remained essentially unchanged in 1965. During this period of transition, an outstanding role continued to be played by the fiscal sector in the promotion of production and the provision of social services, and by external credit as an expedient for securing the above aims without aggravating inflationary tensions. However, over and above these points of similarity, new guidelines were proposed or established and marked changes took place in the allocation of priorities.

Perhaps the principal shift was in income policy, in both quantitative and qualitative terms. In the first place, the general principle was adopted of effecting nation-wide salary and wage adjustments in proportion to the rise in the cost of living. Secondly, preferential percentages were established in favour of certain underprivileged groups such as agricultural workers, while at the same time the burden of direct personal income tax was increased. These movements were supplemented by a notable increase in the fiscal sector's contribution to over-all investment and consumption, a fact which enhanced its role as a supplier of social services and promoter of economic activities (see table 165).

These marked changes in fiscal operations reveal a second aspect of redistribution policy, which is concerned with distribution between the public and private sectors instead of among the various social groups.

Table 165. Chile: Consolidated public sectors expenditure,^a 1963-65
(Millions of escudos at 1960 prices)

	Fiscal sector			Percentage increase 1964-65	Public sector ^b			Percentage increase 1964-65
	1963	1964	1965		1963	1964	1965	
I. Current expenditure . . .	691	709	804	13.4	1,209	1,236	1,448	17.2
A. Operating expenditure . . .	308	318	346	8.8	695	714	867	21.4
(a) Wages and salaries . . .	229	246	270		433	457	543	
(b) Purchase of goods . . .	79	72	76		262	257	324	
B. Transfer expenditure . . .	383	391	458	17.1	514	522	581	11.3
(a) Social security pay- ments and family allowances . . .	120	120	146		390	412	453	
(b) Transfers to the private sector . . .	43	40	41		54	59	59	
(c) Transfers to the public sector . . .	200	209	250		45	25	39	
(d) Interest on the public debt . . .	20	22	21	-4.5	25	26	30	15.4
(i) Internal . . .	(8)	(6)	—		(11)	(6)	(11)	
(ii) External . . .	(12)	(16)	—		(14)	(20)	(19)	
II. Capital expenditure . . .	318	288	428	48.1	644	644	813	26.2
A. Total investment . . .	240	218	350	59.8	546	560	647	15.5
(a) Real investment . . .	270	266	—		390	406	521	
(b) Financial investment . . .	-30	-48	—		156	154	126	
B. Amortization . . .	79	70	78	11.4	98	84	166	97.6
(a) Internal debt . . .	57	40	—		67	46	95	
(b) External debt . . .	22	30	—		31	38	71	
TOTAL expenditure	1,009	997	1,232	23.4	1,853	1,879	2,261	20.3

Source: Ministry of Finance.

^a Actual 1963-64 figures; 1965: Budget figures.

^b The public sector embraces the fiscal sector and auton-

omous institutions (social security institutions, State-owned enterprises, development and investment institutions and welfare institutions, including the University of Chile and the Universidad Técnica del Estado).

An analysis of the shifts between groups and sectors suggest that the redistribution policy was aimed on the one hand, at increasing the share of wage-earners as a whole, as well as of the fiscal sector, which devotes a sizable proportion of its resources to services and investment designed to benefit that group. On the other hand, these shifts obviously imply a corresponding reduction in the income of enterprises and of persons in relatively more comfortable financial circumstances.

In spite of the substantial increase in public revenue, the Treasury deficit remained essentially unchanged because of the simultaneous expansion of expenditure. Thus the fiscal sector continued to depend on external and internal credit, especially the latter, which increased its share of total income (see tables 166 and 167).

The pattern of external transactions in 1965 reveals other contrasts with previous years. (See figure XXIX (b).) To start with, although exports increased, imports declined slightly in

comparison with 1964; hence over-all supply was not reinforced as in former years. There were likewise changes in the foreign currency debt. Total public and private foreign currency debts rose by slightly under 38 million dollars between 1964 and 1965, as compared with about 120 million dollars between 1963 and 1964. There were also important changes in their composition, with reductions in the following items: the internal public debt in foreign currency; the balance of the private sector's external liabilities; and the share of short-term liabilities, through renegotiation of debts and the contracting of additional credit (see table 168).

To sum up, although the functioning of the system, in particular of the fiscal sector, continued to depend largely on external borrowing, both the above-mentioned changes and the increase in exports helped to make the general payments position more manageable.

If due account is taken of trends and movements in redistribution policy, fiscal expenditure

Table 166. Chile: Consolidated public sector income, 1963-65
(Millions of escudos at 1960 prices)

	Fiscal sector			Percentage increase 1964-65	Public sector			Percentage increase 1964-65
	1963	1964	1965		1963	1964	1965 ^a	
I. Current income . . .	788	829	1,008	21.6	1,495	1,552	1,809	16.6
1. Sale of services . . .	14	12	25	108.3	291	286	339	18.5
2. Investment income . . .	17	19	15	-21.1	43	44	32	-27.3
3. Contributions . . .	—	—	—	—	306	320	340	6.3
4. Direct taxes ^b . . .	179	216	293	35.6	179	216	293	35.6
5. Large-scale copper mining . . .	91	110	143	30.0	91	110	144	30.9
6. Indirect taxes . . .	477	462	522	13.0	477	462	522	13.0
7. Other income . . .	11	10	10	0.0	108	114	139	21.9
II. Capital income . . .	209	164	231	40.9	347	320	452	41.3
1. Sale of assets . . .	1	1	—	—	15	7	5	-28.6
2. Recovery of loans . . .	—	—	—	—	39	44	46	4.5
3. Internal loans . . .	66	78	80	2.6	86	105	104	-1.0
4. External loans . . .	138	80	150	87.5	189	156	297	90.4
5. United States donation . . .	—	—	—	—	—	—	—	—
6. Other income . . .	4	5	—	—	18	8	—	—
III. Adjustment for discrepancy in deflating current prices . . .	12	4	—	—	11	7	—	—
TOTAL income	1,009	997	1,239	24.3	1,853	1,879	2,261	20.3

Source: Ministry of Finance.

^a Budget figures.

^b Excluding large-scale copper mining.

Table 167. Chile: Fiscal indicators, 1963-66
(Percentage of total expenditure)

Year	Surplus on current account ^a	Gross deficit ^b	Net deficit ^c
1963 . . .	9.6	21.9	14.1
1964 . . .	12.0	16.8	9.8
1965 . . .	16.6	18.8	12.3
1966 ^d . . .	14.3	19.4	16.1

Sources: Tables 165 and 166.

^a Difference between current (tax and non-tax) income and current expenditure in relation to total expenditure in the fiscal sector.

^b Difference between current income and total expenditure in relation to total expenditure in the fiscal sector.

^c Gross deficit less amortization in relation to total expenditure in the fiscal sector.

^d Budget estimates.

and the external sector, the strength of the forces operating on the demand side will be easily understood, to say nothing of possible changes in composition as a result of the shifts among the groups and sectors referred to above. Nevertheless, the response of the production system was far from dynamic and no major change was recorded in the share of the various economic sectors.

Although the growth rate of income was stepped up to 5 per cent, this was partly due to the recovery of the terms of trade (see again table 165). If this factor is excluded, the increase in the product is seen to be 4.1 per cent, which must be evaluated in the light of the fact that the two preceding years were relatively unfavourable; in other words, the 1965 increment represents some recovery in the use of existing production capacity.

The inflexible nature of the system, coupled with the relatively unchanging proportion of each sector's contribution calls for a thorough examination of the evolution of certain major activities (see again table 166).

The building of dwellings is manifestly an exception to the rule. Both the number and floor area of the dwellings built increased considerably compared with 1964 (see table 169). Although the figures are for only ten months of 1965, they reflect a recovery from the decline in 1963 and 1964 and a return to the high 1961-62 levels. On the other hand, the variations in average floor space per housing unit and in the share of the public and private sectors are worthy of mention. The reduction in the former was a result of the extension in scope of the housing programme to cover a larger proportion

Table 168. Chile: Short, medium and long-term external credit obtained by the public sector, 1959-65
(Millions of dollars)

	1959	1960	1961	1962	1963	1964	1965	Total
I. Short-term credit (1-3 years)	—	—	137.5	72.0	109.6	50.0	52.1	421.2 (28%)
II. Medium-term credit (4-10 years)	32.6	23.8	26.7	37.0	31.8	34.6	146.6 ^a	333.1 (22%)
III. Long-term credit (over 10 years)	92.6	30.9	202.3	114.2	87.7	116.0	123.5	767.1 (50%)
TOTAL	125.1	54.7	366.5	223.2	229.1	200.6	322.2	1,521.4 (100%)

Source: Information furnished by the Corporación de Fomento de la Producción (CORFO), Departamento de Promoción Financiera.

Notes: The above repayment periods include the period of grace. IMF credit is included in the short-term credit. The

public sector includes central government, decentralized institutions and the Central Bank. Private sector credit, goods on consignment and the banking system are excluded.

^a Including the sums involved in the multilateral re-negotiation of Chile's external debt, i.e. 96 million dollars.

of the low-income sector and of the construction of emergency dwellings after the earthquake. The public sector's share in the total number of dwellings increased to the extraordinarily high proportion of 73 per cent between 1964 and 1965, thus re-establishing the ratios that existed at the beginning of the sixties.

The intensive increase in house construction presents a marked contrast with the unsatisfactory course followed by certain industries supplying the main building materials. The output of the Huachipato steel mill declined by nearly 19 per cent and cement production by 6 per cent in 1965. The disparity is partly attributable to the change in building standards and, therefore, in the composition of the materials used for dwellings, but the increase of only 10 per cent³ in the timber industry is not enough to explain the situation.⁴

The progress made in house construction also contrasts strongly with the slump in agricultural production due to weather conditions, particularly the autumn storms in 1965, combined with the inflexibility of supply in this sector. The over-all index dropped by 1.1 per cent with

respect to 1964, owing mainly to the drop of 3.5 per cent in agricultural output, which was the result of a decline of 6 per cent in yields, since the area under cultivation increased by 1.6 per cent.⁵

Chile's mining output was also affected by adverse circumstances in 1965 and as a whole failed to increase. Although iron and coal production increased by 30 per cent, there were reductions in the remaining items, especially copper (3.8 per cent) and petroleum (7.2 per cent). The two sectors were affected by labour disputes.

Industry—which broadly speaking was the dynamic nucleus of the system up to the mid-fifties—registered a relatively even growth rate over the past three years, which was lower than the average for 1960-65 (see table 170). However, the growth attained during the first half of the sixties represented a recovery from the stagnation experienced in 1956-60.⁶

It can be seen from the evolution of the various groups of industries that there was rapid growth in the traditional industries, especially those manufacturing non-durable consumer goods, which might be accounted for by the changes in income distribution. By contrast, the intermediate goods industries hardly expanded at all and were affected by labour disputes (mainly in the Huachipato steel mill). Lastly, the growth of the hitherto vigorously expanding metal-transforming industries was not

³ Statistical Department, data for January-November 1964 and January-November 1965.

⁴ There was no marked increase in the cost of inputs during the first half of 1965. The price index for building materials increased less than the consumer price index (on the basis of 1960 = 100, the former rose to 308.5 and the latter to 315.1). On the other hand, this period marked a considerable increase in wages (356.7) and especially in overheads (422.1). Conversely, investment in public works declined slightly in real terms compared with the first half of 1964 (4 per cent), although there were substantial increments in specific projects such as irrigation works (23 per cent). See Chilean Steel Institute, *La construcción en el primer semestre de 1965*, September 1965.

⁵ Data furnished by the Planning Department.

⁶ The per capita volume of manufacturing output in 1960 was practically the same as in 1953. See Institute of Economics, *La economía de Chile en el periodo 1950-63* (Santiago, 1963), table 116.

Table 169. Chile: Construction of dwellings, 1960-65

Year	I. Dwellings started by the public sector and authorized for construction by the private sector			II. Floor space per dwelling (square metres)			III. Distribution of dwelling construction between the private and public sectors (percentage)				
	Number of dwellings			Floor space (thousands of m ²)			Total				
	Private	Public	Total	Private	Public	Total	Private	Public	Total		
1960	7,771	22,080	29,851	684	1,054	1,738	88.02	47.74	58.22	26.0	74.0
1961	12,512	25,060	37,572	1,021	1,312	2,333	81.60	52.35	62.09	33.3	66.7
1962	20,399	17,615	38,014	2,248	888	3,136	110.20	50.41	82.50	53.7	46.3
1963	15,655	11,988	27,643	1,370	702	2,072	87.51	58.56	74.96	56.6	43.4
1964	14,901	6,938	21,839	1,297	438	1,735	87.04	63.13	79.45	68.2	31.8
January-October 1964	11,345	5,094	16,439	993	300	1,293	87.53	58.89	78.65	69.0	31.0
January-October 1965	11,187	29,669	40,856	876	1,458	2,334	78.31	49.14	57.13	27.4	72.6

Source: Central Bank, statistical bulletins.

very impressive in 1965, a noteworthy fact in view of the significance of this group in the second stage of industrial development. Although there were appreciable gains in 1963-64, which are attributable to the installation of assembly plants for durable goods and vehicles, the precarious basis on which these industries are established, combined with the evident lack of continuity in their growth, detracts for the time being from the importance of those gains.

The structure of the industrial sector is reflected in the share of each group of industries in 1960. On the whole, taking into account its stage of development and the length of time the manufacturing sector has been in existence, Chile's industrial system appears to present a favourable position as regards the production of intermediate goods (notably steel, pulp and paper, and cement) and a relative deterioration in the metal-transforming industries.⁷ From another standpoint, this situation is made quite clear by the meagre contribution of local industry to fixed capital investment under the head of machinery and equipment. In 1964, for example, its share was less than 10 per cent, while the remainder was accounted for by imported means of production.⁸ In short, the structure of Chilean industry is characterized by a marked lagging of the dynamic group, which is called dynamic precisely because it is usually the principal motive force of manufacturing and over-all growth once the initial stages of the process are safely past. The resulting disequilibrium thus entails an excessive dependence on other countries.

The failure of the production system to expand rapidly is attributable in some cases to circumstances. However, the phenomenon is not limited to a single year but extends over a long period, during which it has been impossible to attain a more accelerated—and particularly a more sustained—rate of growth, in spite of the notably favourable and stable external transactions, which are always considered a decisive factor.

It can therefore be concluded that the expansion and diversification of the production system—vital processes both for their own sake and as a response to the trends followed by social pressures—are still hampered by what are aptly

⁷ For relevant data, see Institute of Economics, *La economía de Chile en el período 1950-63*, op cit., pp. 118 et seq.

⁸ For estimates, see Planning Department, *Cuentas Nacionales de Chile, 1964* (mimeographed version). The situation described above might be compared with that prevailing in Brazil in 1958, where locally produced machinery and equipment accounted for 67 per cent of total supply (see Office of the President of Brazil, *Three-Year Development Plan, 1962*).

Table 170. Chile: Industrial production

Year	Total	Traditional industries ^a	Industries manufacturing intermediate goods ^b	Metal transforming industries ^c	Other industries ^d
<i>Index (1960=100)</i>					
Weighting	100.0	48.83	33.89	11.68	5.60
<i>Annual growth rates</i>					
1962-63	5.3	1.8	6.3	11.0	7.2
1963-64	5.4	2.6	0.9	15.6	4.7
1964-65 ^e	5.4	6.8	1.6	7.1	17.1
1960-65	6.5	5.2	7.4	8.5	6.5

Source: ECLA, on the basis of official statistics.

Notes: The weighting of the industrial production index by the Department of Statistics and Censuses reflects the structure of production in 1953. In order to evaluate the structure of industrial production for a later year, the value added for each group of industries was estimated for 1960. The new structure thus obtained was used to re-weight the indexes of the various groups. The results are shown in the present table. The growth rate of industrial production based on the new index is slightly higher than that shown by the original index for 1964 and 1965. The index prepared by the Department of Statistics and Censuses for 1965 shows a growth of 4.8 per cent, compared with the 5.4 per cent produced by the index in the present table. The Manufacturing Development Association (Sociedad de Fomento Fabril) has prepared an industrial production index which

gives over 10 per cent for 1965. Although this index has the same coverage with respect to value added as that calculated by the Department of Statistics and Censuses, the sample embraces a much smaller number of enterprises since it consists primarily of large-scale manufacturing industries.

^a Food, beverages and tobacco; textiles; footwear and clothing; furniture and fittings; leather and leather products; and wood.

^b Paper; rubber and rubber products; chemicals and chemical products; petroleum and coal products; non-metallic mineral products; and basic metal industries.

^c Metal products; machinery other than electrical; electrical machinery and appliances; and transport equipment.

^d Printing, publishing and allied industries; and miscellaneous industries.

^e Provisional figures.

described as structural obstacles. Some of them relate to the reduction in incentives to the development of import substitution industries. This means, among other things, that if the manufacturing process is to continue steps must be taken to overcome the difficulties represented by the size of the domestic market and the lack of complementarity with other countries; the volume and complex nature of investment required for a new stage of industrial development; and the external and internal saving involved, etc.⁹ Other obstacles derive from the long-standing inflexibility of such key sectors as agriculture and from the undefined nature of the relationships and the division of tasks between the public and private sectors, a question which

⁹ Saving is seldom given the attention it deserves. The Chilean system still reflects a marked inability to generate personal saving. The latest estimates available for 1964 show a deficit of some 737 million escudos under the head of saving of persons and non-profit-making institutions, compared with a total gross domestic saving of 1,657 million escudos. In other words, had it not been for the above-mentioned deficit which had to be covered by part of the saving accrued by the Government and enterprises, the total might have increased by about 45 per cent (see Planning Department, *Cuentas Nacionales de Chile, 1964*, op. cit.).

is gaining in importance as the need arises to establish new areas for the expansion of the production system.

Some features of Chile's 1965 policy are indicative of its anxiety to tackle certain structural problems. Examples in the economic field include proposals for amending the statutes governing copper mining and agrarian reform. As regards the former, in addition to the expansion of production as a broader source of foreign trade, a supplementary aim is to promote the internal industrialization of copper and secure a larger participation in the control and management of the copper companies for the State and Chilean interests in general. The second set of proposals, which are still before Congress, include ambitious changes in the rural sector with regard to social and production questions.

Also noteworthy are Chile's efforts to establish the planning system on a firmer basis, and certain major tasks connected with the new six-year plan, the final version of which has not yet been officially published.

In the light of the above observations it will be noted that in 1965 the disparity between the pressures exerted by demand and the trends

followed by the production system was aggravated, in particular because the pressures concerned were strengthened by the income policy adopted, the considerable increase in public expenditure and the surplus on the merchandise account.

In spite of the dangers of inflation resulting from this disparity which was counteracted mainly by price increases, the situation took a decidedly favourable turn compared with 1964. The consumer price index rose by only 26 per cent in 1965, as against over 38 per cent in 1964.

It is not easy to identify and weigh the factors contributing to that result, which in any case was in line with government aims. Nevertheless, an attempt can be made to single out the most important ones.¹⁰

Notwithstanding the above considerations on external accounts and the fact that total imports declined slightly, there is no doubt that the high level at which external purchasing power was maintained provided strong support and considerable flexibility in respect of the domestic supply position. It was thanks to this factor that, for instance, partial disequilibria such as those caused by the drop in agricultural prices could be smoothed out, and dangerous distortions in the price system averted. On this basis, of support for prices, the authorities were apparently able to exercise a fairly efficient control over the goods and services with most influence on the cost of living; to that end recourse was also had to fiscal transfers to the private and public sectors, which went up in 1965.

Various other circumstances in the fiscal-monetary sector affected the trends described above. Despite a chronic deficit, the fiscal sector balance improved somewhat as a result of the substantial increase in direct taxes, which have

¹⁰ Other references to the problem of inflation in Chile are included in Part One, chapter II of this *Survey*, which deals with regional economic policies.

less effect on prices than taxes on expenditure. By contrast, the monetary system seems to have followed a markedly expansionist trend. The private and public sectors had additional means of payment which represented an increase of 52.5 per cent over the level at the end of 1964. The inflationary potential of this expansion was apparently counteracted in the monetary sector by such factors as the tendency to maintain higher monetary balances, in view of the tapering off of inflation expectations, credit control measures, the pressure of taxes and the slower turnover of deposits.¹¹

Lastly, attention should be paid to the variations in the exchange rate which have in the past been largely responsible for spreading inflationary pressures in Chile. In this respect, the situation is somewhat paradoxical, since there were successive increases in the official exchange rates during 1965, which closely followed the movements registered by the price index, but this policy seems to have caused less distortion than the previously predominating practice of belated and substantial devaluation which seriously affected all the variables of the process (see table 171).

2. SOME SALIENT FEATURES

(a) *The evolution of the fiscal sector*

One of the salient features of Chile's development during the sixties has been the growing importance of public activities. To some extent, this is the continuation of a trend originating in the thirties and strengthened in the ensuing decade, which may be ascribed to the heavier responsibilities assigned to the State in the promotion of the economy and the provision of social services.

However, certain factors in recent years are worthy of attention. In the first place, fiscal

¹¹ See Central Bank, *Boletín Mensual*, No. 455, January 1966.

Table 171. Chile: Variations in exchange rates, 1965

	Seller's rate for the dollar (escudos)		Percentage increase January–November
	January 1965	30 December 1965	
Free market bank rate (futures)	3.109	3.560	14.5
Free market bank rate (cash)	2.855	3.470	21.5
Stock exchange rate	3.428	4.210	22.8
Consumer price index (1958=100)	449.3	558.4	24.3

Source: Central Bank, *Boletín Mensual*, No. 455, January 1966.

responsibilities were increased after an unsuccessful attempt to curtail them as part of the anti-inflation policies adopted in 1956–58. Secondly, State economic and social action in 1959–65 was designed expressly to breathe new life into the production system or to give it the impetus it was apparently incapable of generating on its own. Furthermore, there was a difference between that purpose and the aim underlying the increase in public responsibility during the forties, for example. In the early sixties, the social aims and the efforts to maintain a high level of real demand went hand in hand with—and were perhaps even more important than—the development objectives.

Fiscal activities followed a particularly vigorous upward trend in 1965. As shown in table 165, total expenditure increased by 23.4 per cent in terms of constant prices, a movement which contrasts with the stability of the level of expenditure in the two previous years. As a result, the proportion of total fixed expenditure and in gross national product went up appreciably, exceeding even the exceptional figures for 1961–62 (see table 172).¹²

Table 172. Chile: Relationships between fiscal expenditure and the national product, 1961–65

Year	Current expenditure	Total expenditure
	As a percentage of the national product	
1961	13.4	19.1
1962	14.2	20.6
1963	12.5	18.3
1964	12.5	17.6
1965 ^a	13.5	20.7

Source: Ministry of Finance.

^a Budget estimates.

Table 165 also shows that a serious effort was made in 1965 to raise the share of capital expenditure in total disbursements. Whereas capital expenditure rose by 48 per cent with respect to the previous year (and nearly 60 per cent if amortization payments are excluded), current expenditure went up by only 13.4 per cent, with transfer expenditure accounting for the bulk of this increase, a feature which was characteristic of earlier periods.

As a result of the above-mentioned trend, from

¹² Fiscal expenditure accounted for 14.5 per cent of the national product in 1940–49, and 15.8 per cent in 1950–59 (see *La economía de Chile en el período 1950–63*, op. cit., table 165).

1964 to 1965 the share of capital expenditure rose from 28.9 per cent to 34.9 per cent of total expenditure. If amortization of the public debt is excluded, the increase was from 21.9 per cent to 28.4 per cent, a far higher proportion than that recorded in the fifties—which averaged about 18 per cent—or in the early sixties.

Although fiscal investment underwent no radical change in composition during 1965, some variations began to occur, as reflected in the reduction in relative importance of certain expenditure on infrastructure—e.g., transport—and housing, although the latter is still the major item of the whole group (see table 173).

In table 165, the data for autonomous institutions have been added to those for the fiscal sector, in order to present an over-all picture of public sector expenditure. From this standpoint, 1965 marked a slightly lower rate of expansion and, above all, a smaller increase in capital expenditure, even though energy, transport, petroleum and other powerful State enterprises were included. It is also of interest to note that total public sector expenditure absorbed 38 per cent of the national product in 1965. This would be approximately the share of resources administered more or less directly by the State.

Table 166 contains the principal data on the evolution of fiscal sector and public sector income. In the fiscal account, the budget estimates for 1965 allowed for a considerable increase in current income, which easily exceeded the increase in current expenditure (21.6 per cent as against 13.4 per cent). Also noteworthy are the absolute and relative increases in direct taxes, which were mainly due to the higher revenue obtained from taxes on income and large-scale copper mining. The former almost doubled their contribution, rising from about 66 million to 129 million escudos at constant prices between 1964 and 1965.¹³ By contrast, indirect taxes rose by only 13 per cent during that period and their share of the total declined, although they remained at a fairly high level, i.e., over half the total current income in 1965.

In spite of these advances in the total and composition of tax and non-tax revenue, the rise in total expenditure made it necessary once again to rely on the contribution of capital income. This climbed by 41 per cent, and there was a drastic change in the relationship between internal and external loans. While the former remained at the same level as in 1964, the latter increased by 87 per cent.

¹³ Budget Office, *Exposición sobre el estado de la Hacienda Pública*, op. cit., table 11.

Table 173. Chile: Composition of fiscal investment, 1965-66, and percentage comparison, 1963-66
(Millions of escudos, dollars at each year's prices, and percentages)

Sector	1965			1966			Percentages			
	Escudos	Dollars	Total (1 dollar = 3.3 escudos)	Escudos	Dollars	Total (1 dollar = 3.3 escudos)	1963	1964	1965	1966
I. Transport	346.0	12.3	386.6	387.3	21.9	464.0	29.0	25.3	21.8	18.1
II. Agriculture	183.8	3.0	193.7	295.3	12.5	339.0	10.0	9.9	10.9	13.2
III. Manufacturing	53.1	2.7	62.0	69.1	25.3	157.6	2.7	5.1	3.5	6.1
IV. Mining	32.9	11.9	72.2	120.8	14.5	171.5	3.1	4.7	4.1	6.7
V. Energy and fuels	244.4	18.2	304.5	236.4	36.0	362.5	14.7	15.4	17.2	14.1
VI. Urbanization and communications	114.6	1.3	118.9	135.5	2.4	143.9	5.2	5.1	6.7	5.6
VII. Building, education and health	174.0	2.8	183.2	217.4	2.1	224.9	7.2	6.8	10.3	8.8
VIII. Housing	392.5	—	392.5	586.8	—	586.8	25.5	24.4	22.2	22.8
IX. Miscellaneous	22.0	2.3	29.6	61.4	2.9	71.5	1.0	1.5	1.7	2.8
X. Defence	11.0	5.3	28.5	16.9	8.5	46.7	1.6	1.8	1.6	1.8
TOTAL	1,574.3	59.8	1,771.7	2,126.9	126.1	2,568.4	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Budget Office, *Exposición sobre el estado de la Hacienda Pública*, Report No. 108, November 1965, table 14.

Taking the three years covered by the table, it will be seen that the proportion of total income represented by public borrowing averaged about 20 per cent. This situation may be compared with earlier periods. In 1940-49, for example, capital income represented an average of only 1 per cent of fiscal revenue; it rose to 13.1 per cent in 1950-59, and to 15.1 per cent in the five years 1955-59.¹⁴ In short, there is clearly a tendency to finance an increasing proportion of public expenditure by means of internal and external State liabilities, which might be interpreted as a result of the pressure to increase fiscal responsibilities without at the same time providing the current resources to finance them.

The over-all picture of the public sector is not very different from that of the fiscal sector, except that owing to the influence of the autonomous institutions there was a smaller increase in total income and, particularly, in current income.

As previously noted, current income has been persistently insufficient in recent years to cover fiscal commitments. This has given rise to a chronic deficit. In table 167 an attempt has been made to summarize this imbalance from various standpoints, by comparing various representative balances with total expenditure in order to establish certain quantitative indicators. The first relates to the difference between total income and current expenditure, which constitutes the so-called surplus or deficit on current account. If this balance is compared with total expenditure, an improvement is noted between 1963 and 1965 which, according to budget estimates, would diminish in 1966.¹⁵ This is largely due to the fact that current expenditure rose more slowly than total expenditure and also, especially in 1965, than tax and non-tax revenue. Much the same trend, although weaker, was followed by the gross deficit (the difference between current income and aggregate expenditure) and the net deficit (the gross deficit less amortization) in relation to total expenditure, except for the net deficit in 1965 and 1966.¹⁶

These relationships highlight the dependence of the level of fiscal activities on capital income, i.e., on the various arrangements entailing an increase in the State's internal or external

¹⁴ Institute of Economics, *La economía de Chile en el periodo 1950-63*, op. cit., table 185.

¹⁵ A comparison between the balance on current account and investment expenditure (net of amortization) shows that the surplus obtained in 1965 covered 49 per cent of total fiscal investment, as against 44.4 per cent in 1964, 39.4 per cent in 1963 and 19 per cent in 1962.

¹⁶ See Central Bank, *Boletín Mensual*, No. 455, January 1966, table II-1.

liabilities. While a proportion of these liabilities is accounted for by loans from the Central Bank, which are more important from the monetary standpoint than that of the country's real wealth, the State's external liabilities give rise to very different problems.

(b) *Evolution of external transactions*

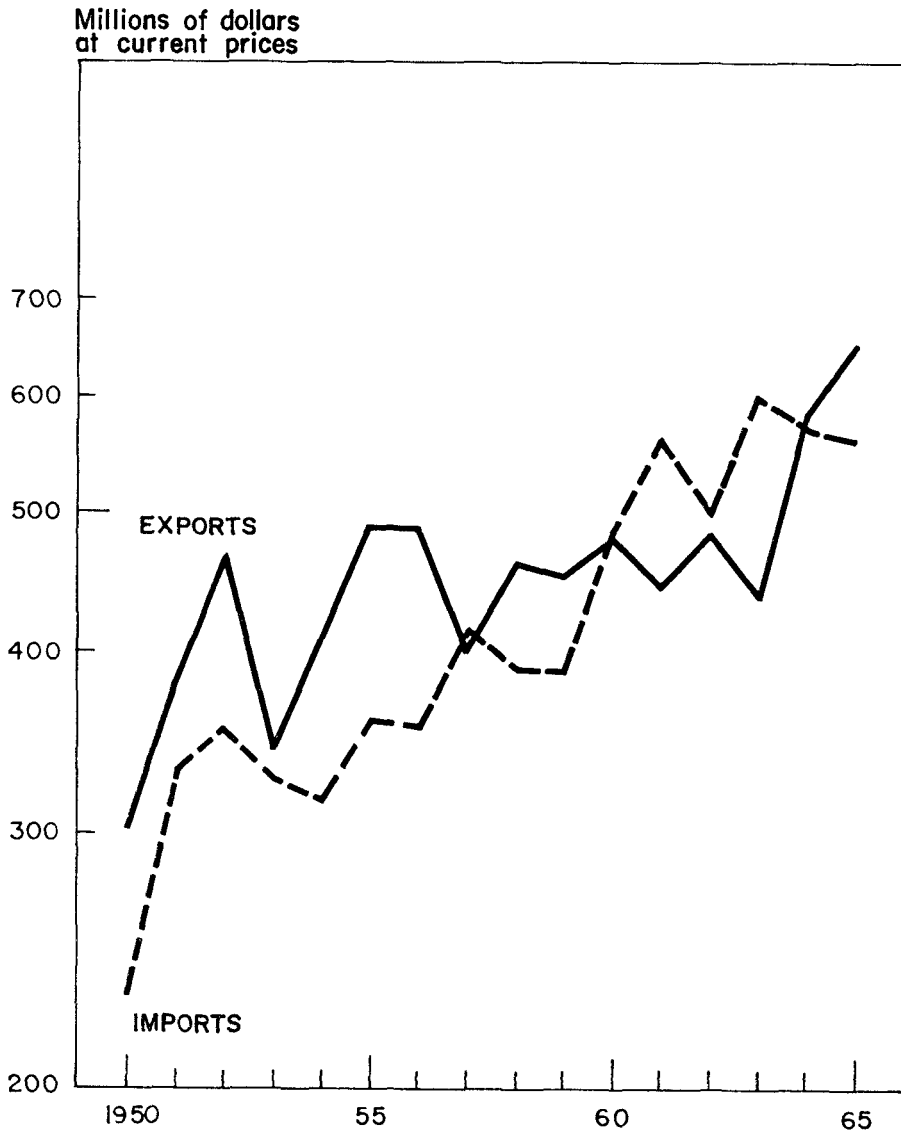
The contribution of external transactions to the dynamic force and stability of Chile's economic system was maintained and in certain respects reinforced in 1965. Although the

volume of exports declined slightly, as is shown by table 163, the rise in export prices raised the income of the sector concerned and indirectly benefited the fiscal accounts and the system as a whole. Moreover, although the volume of imports also contracted, it remained at a relatively high figure, and this had a favourable effect on over-all supply, especially in the case of items imported from other countries which are particularly important in Chile for the sake of over-all equilibrium.

Figure XXX shows the exceptionally favour-

Figure XXX. Chile: Exports and imports (f.o.b.),^a 1950-65

SEMI-LOGARITHMIC SCALE



^a Balance-of-payments values.

able evolution of export and import flows in the last few years. Not only are higher figures recorded but the rise has been relatively stable and sustained, a fact which stands out both because of the contrast with earlier periods and because of its significance for the functioning and basic relationships of the economy. Generally speaking, in 1961-65 the average value of exports increased by 24 per cent and that of imports by 34 per cent in relation to the previous quinquennium. In the last five years imports averaged 610 million dollars annually, compared with 454 million dollars in 1956-60 and 270 million dollars in the second half of the forties.¹⁷

Figure XXX also shows the variations in the evolution of each flow. The curve representing imports remained below the export curve practically throughout the fifties, and this gave rise to a trade surplus which served to offset the deficits on other balance-of-payments accounts. In the sixties, however, although exports rose steadily, imports followed them closely and in some years even exceeded them, with an adverse effect on the trade balance.

This initial review can be supplemented by referring to the principal balance of payments figures for 1964 and 1965, as set out in table 174.

Table 174. Chile: Balance-of-payments summary, 1964-65
(Millions of dollars)

	1964	1965
A. Exports	692.4	750.7
Merchandise	585.6	645.9
Services	106.8	104.8
B. Imports	725.7	719.4
Merchandise	568.8	556.1
Services	156.9	163.3
(A-B) Balance on merchandise and services account	-33.3	31.3
C. Investment service (interest and dividends)	-103.4	-123.8
(A-B+C) Balance on current account	-136.7	-92.5
D. Autonomous capital account	145.1	101.0
E. Errors and omissions	12.1	32.1
F. Compensatory financing	-20.5	-40.6

Source: ECLA, on the basis of data furnished by the Central Bank.

¹⁷ *Informe sobre el desarrollo económico y social, 1961-1965*, presented by the Government of Chile at the Fourth Annual Meeting of the Inter-American Economic and Social Council (IA-ECOSOC) at the Expert and Ministerial Levels, Buenos Aires, Argentina, 15 March to 1 April 1966.

It will be seen that in 1965, in addition to the increase in the value of exports, further efforts were made to obtain a surplus on the merchandise account, which more than sufficed to cover the deficit on the services account. However, this surplus was too small to counterbalance the outflow of interest and returns on foreign investment, particularly as this item increased substantially during the year, mainly as a result of the boom in copper. Thus, the deficit on current transactions had to be financed, as in former years, by the net inflow of autonomous capital, which amounted to 101 million dollars as against 145 million dollars in 1964.

The trends and relationships of the external accounts have resulted in a considerable increase in Chile's foreign currency liabilities, which rose from a total of about 569 million dollars in 1958 to 1,833 million dollars at the end of 1965.¹⁸

A highly important aspect of the above-mentioned trends is the repayment structure of the debt. Table 168 presents the figures for the liabilities contracted by the public sector in 1959-65. Particularly striking are the total volume of loans and the high levels recorded in the last few years, although in this respect 1960 was an exception. For present purposes, however, the variations in the composition of loans between 1961-63 and the last two years are more significant. In the former period, short-term liabilities ranged from approximately one-third (1962) to nearly half (1963) of the total. By contrast, in 1964 their share was reduced to one-fourth and in 1965 to just over one-sixth. In short, this represents a marked improvement, added to the fact that the changes concerned were accompanied by a reduction in the interest rates.¹⁹

Another factor is the relationship between the obligations contracted and regular inflows of foreign currency. It was precisely the number of short-term loans contracted in 1961-63 that was responsible for the gloomy outlook for 1965 as regards amortization, which amounted to 342 million dollars or approximately 40 per cent of the value of exports envisaged for that year. There was, in addition, the problem of the arrears in exchange coverage, which by the end of 1964 amounted to over 90 million dollars.²⁰

¹⁸ See *Economic survey of Latin America, 1964*, United Nations publication, Sales No.: 66.II.G.I, table 308, and *Exposición sobre el estado de la Hacienda Pública*, op. cit.

¹⁹ For example, the interest payable on the credit of 80 million dollars granted by the Agency for International Development (AID) in January 1965 is 1 per cent for the first ten years and 2.5 per cent for the remaining 30 years.

²⁰ *Informe sobre el desarrollo económico y social, 1961-1965*, op. cit.

The renegotiation of pending liabilities considerably eased the situation for 1965 and the ensuing years. Moreover, the improvement in transactions in the past year made it possible to reduce the arrears of over 120 days in the payment of imports.

(c) *Composition of exports and imports*

The sixties witnessed virtually no important changes in the share of the main export commodities (see table 175). Copper sales continued to be the main source of income and, thanks to favourable market conditions and the fact that no other items gained preponderance, the importance of copper rose in comparison with the forties and the fifties.²¹

Nevertheless, the only important change in the

²¹ Copper exports represented over 55 per cent of the total in 1950-59, and slightly below that level in the forties (see Institute of Economics, *La economía de Chile en el período 1950-63*, op. cit.).

contribution of the various products is also connected with copper, since it relates to the substantial absolute and relative increase in exports of copper manufactures, stimulated by their sale to other countries at prices which were more in line with the London market than the so called producers' market. Exports of copper manufactures rose from a maximum of 4,288 tons in 1962 to 35,792 tons in 1964 and 52,300 tons in 1965.

There were more noticeable changes in the structure of imports, particularly in the last few years (see table 176).

A point deserving special attention was the increase in the share of group 5, "raw materials and intermediate non-metal products". Under this heading are grouped the most important of industrial inputs from abroad—e.g., cotton and sugar—and some primary products for general consumption, such as meat and wheat. The share of these imports went up from just over 29 per

Table 175. Chile: Principal exports, 1960-65

Products	1960	1961	1962	1963	1964	January-October
						1965
<i>Thousands of dollars at current prices</i>						
Copper	340,981	331,047	346,704	348,585	365,744	382,000
Nitrate and iodine	28,705	39,965	33,974	32,926	32,897	23,700
Iron	35,237	44,415	56,258	57,194	69,585	61,200
Wool	5,536	8,466	5,789	8,353	7,176	5,300
Beans	3,819	3,899	3,253	2,676	3,728	1,700
Lentils	4,696	3,728	2,926	2,666	3,358	800
Copper manufactures	2,282	2,502	4,288	1,920	35,792	52,300
Pulp and paper	^a	^a	^a	5,700	6,600	7,400
Fish meal	1,305	2,921	7,075	9,230	15,866	8,000
Unworked wood	516	1,604	1,243	943	2,092	2,800
Other products	66,929	69,553	70,590	71,807	82,962	31,100
TOTAL	490,000	508,100	532,100	542,000	625,800	576,300
<i>As a percentage of the total</i>						
Copper	69.5	65.2	65.2	64.3	58.4	66.3
Nitrate and iodine	5.9	7.8	6.4	6.1	5.3	4.1
Iron	7.2	8.7	10.6	10.6	11.1	10.6
Wool	1.1	1.6	1.1	1.5	1.1	0.9
Beans	0.8	0.8	0.6	0.5	0.6	0.3
Lentils	1.0	0.7	0.5	0.5	0.5	0.1
Copper manufactures	0.5	0.5	0.8	0.4	5.7	9.1
Pulp and paper				1.1	1.1	1.3
Fish meal	0.3	0.6	1.3	1.7	2.5	1.4
Unworked wood	0.1	0.3	0.2	0.2	0.4	0.5
Other products	13.6	13.8	13.3	13.1	13.3	5.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Up to 1964: foreign trade yearbooks; 1965: Central Bank, op. cit.

^a Included in other products.

Table 176. Chile: Import trends, 1960-65

	1960	1961	1962	1963	1964	1965
<i>Thousands of dollars at current prices</i>						
1. Non-durable consumer goods	58,138	67,534	64,764	71,313	66,003	81,500
2. Durable consumer goods	20,193	25,744	19,581	16,873	15,594	11,900
3. Fuels	52,627	36,047	29,480	25,102	28,591	29,800
4. Raw materials and intermediate metal products	17,143	20,445	14,384	15,521	18,574	16,700
5. Raw materials and intermediate non-metal products	146,199	172,139	150,375	204,794	215,702	227,900
6. Construction materials	19,095	32,650	27,654	24,602	38,806	28,600
7. Agricultural machinery and equipment	11,795	17,619	13,773	10,317	9,113	8,900
8. Industrial machinery and equipment	106,426	130,112	121,954	127,097	147,644	132,700
9. Transport machinery and equipment	65,883	85,626	67,524	51,408	61,305	51,200
10. Miscellaneous imports	2,169	2,548	2,085	10,493	5,846	5,800
TOTAL	499,668	590,464	511,574	557,519	607,178	595,000
<i>As a percentage of the total</i>						
1. Non-durable consumer goods	11.6	11.4	12.7	12.8	10.9	13.7
2. Durable consumer goods	4.0	4.4	3.8	3.0	2.6	2.0
3. Fuels	10.5	6.1	5.8	4.5	4.7	5.0
4. Raw materials and intermediate metal products	3.4	3.5	2.8	2.8	3.1	2.8
5. Raw materials and intermediate non-metal products	29.3	29.2	29.4	36.7	35.5	38.3
6. Construction materials	3.8	5.5	5.4	4.4	6.4	4.8
7. Agricultural machinery and equipment	2.4	3.0	2.7	1.9	1.5	1.5
8. Industrial machinery and equipment	21.3	22.0	23.8	22.8	24.3	22.3
9. Transport machinery and equipment	13.2	14.5	13.2	9.2	10.1	8.6
10. Miscellaneous imports	0.5	0.4	0.4	1.9	0.9	1.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLA, on the basis of official statistics.

cent in 1960-62 to an average of nearly 37 per cent in 1963-65, a particularly steep increase being recorded in 1965.

Furthermore, their value reached the high annual average of some 215 million dollars, or slightly over 35 per cent of total purchases.

These changes were linked mainly to the trends in domestic agricultural production and to the policy of obtaining supplies from abroad in order to balance the latent disequilibria between the pressure of demand and the supply of goods.

As regards purchases of capital goods, no advantage was taken—except in 1961-62—of the high absolute level of imports to increase the share of machinery and equipment for the basic production sectors, a failure that was particularly evident in 1965. Various factors may well have influenced these trends, mainly, of course, the aforementioned pressure to step up imports of items for direct consumption. However, the fact should not be ignored that

the demand for equipment and machinery—especially after a period of considerable increases in external supply—is also contingent upon the existing opportunities and possibilities for internal investment. While the limitations might not be too considerable in the case of capital formation in the public sector—even though there will no doubt be difficulties on the financing side—the situation is very different with regard to private investment and new ventures in the public sector. In such cases there arise difficulties which stem from the failure to prepare projects in earlier years, indecision regarding the division of responsibility between the private and public sectors, and the low level of personal saving.

(d) *Income and employment trends*

One of the chief aims of economic policy in 1965 was the improvement, in both absolute and relative terms, of the position of wage-earners, especially in the lower-income brackets. The

course followed with respect to taxes and public expenditure was an important feature of the campaign. One of the means most directly used in pursuit of that objective was the establishment of norms for salary and wage adjustments, although they were not always applied as universally or as strictly as was originally envisaged.

It is generally agreed that salary and wage statistics are inadequate, but the trends followed can be traced on the basis of various partial indicators. Moreover, official estimates of the share of the various social groups in national income in 1961-65 have been published for the first time after several years. In the same way, the information on taxable income and salaries and wages furnished by the social security institutions is one of the essential bases for an evaluation of the question.

On the basis of the earnings declared as liable to contributions to the appropriate social security institution, 1965 marked a significant increase, in real terms, in the total salaries of private employees (about 14 per cent), which was no doubt proportionately far larger than the increase in the number of contributors, although there is no information available on this point. Much the same situation is noted with regard to workers' wages, in respect of which the statements presented to the Social Security Service in 1965 show an increase of 15 per cent in total wages in real terms.

Other significant partial indicators are the legal provisions governing minimum salaries and wages and family allowances. The minimum salary for private employees and the minimum industrial wage for urban workers have been adjusted in the last three years to keep pace with the increase in the consumer price index of the year immediately preceding, a policy which

reveals the intention of maintaining the real value of the salaries and wages of workers subject to these provisions.

The same did not occur with the minimum wage and family allowance paid to the rural worker, which underwent considerable changes (see table 177). In 1965 the former rose by about 24 per cent in real terms in the Santiago province,²² and the family allowance also improved substantially, although in 1960-62 it had reached comparable levels.

A broader view, although confined to Greater Santiago (where 34.8 per cent of the total population lives), is provided by the data gathered in two surveys conducted by the Institute of Economics, University of Chile, which convey some idea of the changes that took place in personal income levels and distribution between 1964 and 1965. The principal data collected are shown in table 178.

In the first place, the number of families in the various income brackets as a percentage of the total reflects a type of upward mobility, in that a proportion of the families in the lowest-income sector shifted to the intermediate group, and a proportion of the latter to the highest-income sector. In 1964, for example, nearly 32 per cent of the total number of family units declared incomes of less than the minimum salary for that year, i.e., 150 escudos; in 1965, a survey based on the same sample showed that only 24.3 per cent were in that position. Accordingly, the proportion of families in the middle-income group rose from 47.8 per cent to 52.6 per cent, and those in the higher-income bracket from 17.6 per cent to 22.4 per cent. In absolute

²² There were bigger increases in the minimum rural wage in other provinces.

Table 177. Chile: Minimum rural wage and workers' family allowance, 1960-65
(Escudos)

Year	Annual variations in the consumer price index	Minimum daily wage in Santiago rural sector			Workers' per capita family allowance		
		Escudos at each year's prices	Variation with respect to the previous year	Escudos at 1960 prices ^a	Escudos at each year's prices	Variation with respect to the previous year	Escudos at 1960 prices ^a
1960	5.4	0.700	...	0.700	0.097	...	0.097
1961	9.7	0.868 ^b	24.0	0.806	0.112	15.5	0.104
1962	27.7	0.950	9.4	0.775	0.117 ^b	4.5	0.095
1963	45.5	1.350	42.1	0.763	0.130	11.1	0.073
1964	38.4	2.045	51.5	0.792	0.170	30.7	0.066
1965	25.9	3.264	59.6	0.981	0.330	94.1	0.099

Sources: *Informe sobre el desarrollo económico y social, 1961-1965*, op. cit.

^a Deflated by the average annual consumer price index.

^b Average weighted by the number of months for which the incomplete values were applicable.

Table 178. Chile: Family income distribution in Greater Santiago

<i>Family income in escudos at May 1964 prices</i>	<i>Number of families in each income bracket</i>	<i>Percentage of total number of families</i>	<i>Total monthly income in each income bracket (millions of escudos)</i>	<i>Percentage of total income</i>
<i>May 1964</i>				
Up to E° 125	163,647	31.9	15.41	9.44
E° 126 to E° 450	245,204	47.8	68.67	42.09
Over E° 450	90,288	17.6	79.06	48.47
TOTAL MONTHLY INCOME			163.14	
<i>May 1965</i>				
Up to E° 125	115,762	24.3	12.07	6.18
E° 126 to E° 450	272,232	52.6	76.54	39.15
Over E° 450	115,919	22.4	106.90	54.67
TOTAL MONTHLY INCOME			195.51	

Source: University of Chile, Institute of Economics, June 1965 (article published in *El Mercurio* on 29 December 1965).

terms, the first group declined by nearly 40,000 families, the second increased by 27,000, and the third by 25,000. As will be noted, the last group underwent the largest relative increase.

From a different standpoint, it might be stated that the principal changes took place at the two extremes of the scale, i.e., the reduction in the number of families in the lowest-income bracket and the increase in the number belonging to the highest-income bracket.²³ It should be remembered, however, that the figures make no allowance for the effect of direct taxes and that the absolute level in the highest-income bracket might well have been affected by the heavier burden of income tax in 1965.

If attention is turned to the share of total income, other significant facts emerge. The middle-income sector, which in 1965 included a higher percentage of the total number of families, absorbed a smaller share of total income, while the absolute level of income remained practically the same. The highest-income sector increased its share of total income; although this is partly attributable to the greater number of families included in the group, its average income also went up in absolute terms. The lowest-income bracket accounted for a lower proportion of the total number of families in 1965; its share of total income contracted more sharply, a fact

²³ These and the following conclusions must be treated with reserve, in view of the distortion that might be caused by the fact that the 1965 survey covers nearly 15,000 more families than the survey for 1964.

which accentuated the difference in income with respect to the average, although in absolute terms the average family income in this group rose slightly because of the generally higher income levels. In any case, it should be noted that the income of nearly one-fourth of the total number of families (each of which might include more than one economically active person)²⁴ is lower than the minimum salary. Moreover, the two lower-income sectors, which together covered 78.7 per cent of the total number of families in 1964 and 76.9 per cent in 1965, absorbed only 51.4 per cent and 45.2 per cent of total income in each of the two years concerned.

Obviously, the upward mobility described was possible only because of the increase in total income, which—according to the results of the survey—was apparently about 16 per cent. This figure appears somewhat exaggerated, especially in view of the fact that national income was estimated to have risen by only 5 per cent. The disparity must be ascribed to the particular features of the surveys on which the figures are based, as pointed out by the authors themselves.

Lastly, attention should be drawn to the information on movements in the social distribution of income, which is specially interesting since they are the first official estimates of the kind to be issued for over ten years (see table 179). The period 1961–65 as a whole registered

²⁴ An average of 1.5 active persons was recorded per family.

Table 179. Chile: Domestic income, by type of remuneration, 1961-65

Year	Values as a percentage of domestic income						Growth rate		
	Salaries	Wages	Employers' contributions to social security	Wage-earners' income	Income other than salaries or wages	Total	Product	Wage-earners (annual percentage)	Persons other than wage-earners
1961	20.1	20.0	6.1	46.2	53.8	100.0	3.2	1.3	4.9
1962	20.5	19.5	6.3	46.3	53.7	100.0	6.9	7.1	6.7
1963	19.1	18.2	6.1	43.4	56.6	100.0	2.4	-3.9	7.8
1964	19.0	19.4	6.1	44.5	55.5	100.0	2.4	4.9	0.6
1965	19.6	20.6	6.6	46.8	53.2	100.0	4.8	10.0	0.7

Sources: *Informe sobre el desarrollo económico y social, 1961-1965*, op. cit., and Office of the President of Chile, Planning Department.

no major changes. The share of both wages and salaries fluctuated at around 20 per cent, which, added to the fixed percentage representing employers' contributions to social security institutions, brought their combined share to an average of 45 per cent of the national income. The lowest percentages were recorded in 1963, while 1964 and 1965 saw an improvement in the share of total income represented by salaries and wages, which was more marked in the case of the latter.

To sum up, the partial data indicate that income levels and wage-earners' benefits have had a certain effect on income redistribution over the past two years, particularly in 1965. To supplement these data it is useful to consider employment and unemployment trends, which are important both in themselves and as an indirect factor indicative of income levels and distribution.

The reports on employment and unemployment issued by the Institute of Economics represent a valuable periodical record, even though the latest are confined to Greater Santiago.

Table 180 contains the main comparative data on the situation and changes therein between December 1964 and December 1965.

In the first place, it will be seen that the total population of Greater Santiago increased by 3.9 per cent, thus easily outstripping Chile's total population, whose estimated growth was about 2.4 per cent. Moreover, the number of employed went up by 6.1 per cent, lagging only a little behind the rise of 6.6 per cent in the available labour force. This explains the 5.3

Table 180. Chile: Employment and unemployment in Greater Santiago, 1964-65
(Thousands of workers)

	December		Percentage variation
	1964	1965	
Manufacturing	212	237	11.4
Construction	47	50	7.5
Basic services	48	51	4.3
Government and financial services	63	67	7.7
Other services	256	271	6.0
Trade	126	127	1.1
Primary sector	9	8	-6.8
1. Total employment	761	812	6.1
2. Total population	2,359	2,451	3.9
3. Labour force	800	853	6.6
4. Unemployed	38	40	5.3

Source: University of Chile, Institute of Economics, *Ocupación y Desocupación. Gran Santiago*, December 1965.

per cent increase in the number of unemployed, which in absolute terms was only 2,000 persons. Accordingly, the proportion of employed in relation to the total population rose from 32.3 per cent to 33.1 per cent, while the share of both employed and unemployed in the total labour force remained the same. Industry registered the largest relative increase (11.4 per cent), followed by construction (7.5 per cent) and government and financial services (7.7 per cent). Whereas the number of workers employed in trade went up very little, other services recorded a substantial increase, and earlier trends have thus been maintained.

Chapter VII

MEXICO

1. THE EVOLUTION OF THE MEXICAN ECONOMY IN 1965

The Mexican economy continued to progress in 1965, although more slowly than in the preceding two-year period. Provisional estimates place the real increase in the gross domestic product at slightly over 5 per cent as against 10 per cent in 1964 and 6.3 per cent in 1963 (see table 181 and figure XXXI (a)).

The slackening off in economic activity that year was mainly due to domestic factors, in particular, the less favourable weather conditions for the crops grown for the home market, which had the effect of slowing down the growth in agricultural production to only 3.1 per cent in comparison with 6.5 per cent the year before. The same result was produced by the stabilization of public expenditure and other measures taken to relieve the pressure on prices and the balance of payments in 1964 because of the tremendous upsurge of domestic demand.

The Mexican economy had responded vigorously in 1964 to the stimulus of this expansion, as is shown by the record increments achieved in nearly every sector of production, especially construction and manufacturing. Together with the increase in domestic food supplies, this helped to keep internal prices from rising more than a moderate 4 per cent that year. Having broken the relative stability of past years, the

upward trend persisted during the first few months of 1964 because of the pressure exerted on costs by the wage and salary increases granted in 1963.

In these circumstances, it was thought best to slow down the growth of domestic demand and, in addition, to strengthen the balance of payments. In this connexion, it should be remembered that the expansion of production and investment in 1964 brought about a rise of over 20 per cent in the value of imports, which was partly financed by short-term external credits.

Investment expenditure by the Federal Government was therefore cut from 5,685 million pesos in 1964 to 4,812 million in 1965; investment by State enterprises was restricted to bring it into line with the reduced inflow of foreign credit and, at the same time, measures were taken to improve the co-ordination of public investment, such as the incorporation, for the first time, of the budgets of decentralized enterprises into the Federal budget. The growth of current expenditure was also kept down to the minimum, and tax reforms were put through to raise tax revenue and encourage investment activities.¹ Fiscal revenue thus increased more rapidly than

¹ One of the most important of these was the over-all tax on personal or corporate income provided for in the new Income Tax Act in place of the former system of schedules.

Table 181. Mexico: Gross domestic product by sectors, 1962-65

	Millions of pesos at 1950 prices				Annual growth rates		
	1962	1963	1964	1965 ^a	1962-63	1963-64	1964-65
Gross domestic product (total)	80,742	85,865	94,615	99,501	6.3	10.0	5.2
Agriculture and livestock ^b	15,175	15,498	16,512	17,016	2.1	6.5	3.1
Mining	1,599	1,655	1,670	1,670	3.5	0.9	0.0
Petroleum and petroleum products	2,662	2,827	3,084	3,213	6.2	9.1	4.2
Energy	1,047	1,147	1,318	1,443	9.6	14.9	9.5
Manufacturing	18,862	20,597	23,522	25,169	9.2	14.2	7.0
Construction	2,649	3,065	3,568	3,461	15.7	16.4	-3.0
Trade	20,769	22,077	24,461	25,806	6.3	10.8	5.5
Transport	3,671	3,830	4,066	4,257	4.3	6.2	4.7
Government	2,264	2,382	2,620	2,803	5.2	10.0	7.0
Others	12,044	12,787	13,794	14,663	6.2	7.9	6.3

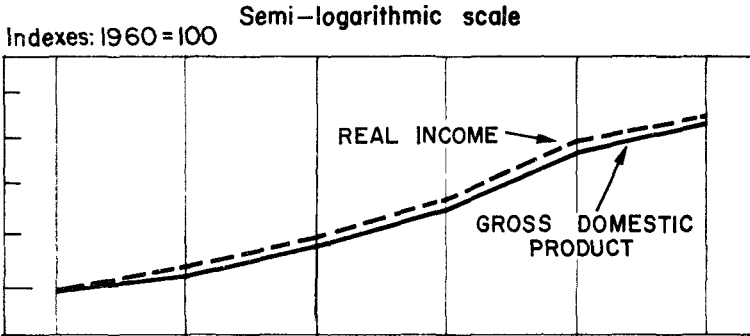
Source: Bank of Mexico, *Informes anuales*, 1962-65.

^b Including forestry and fisheries.

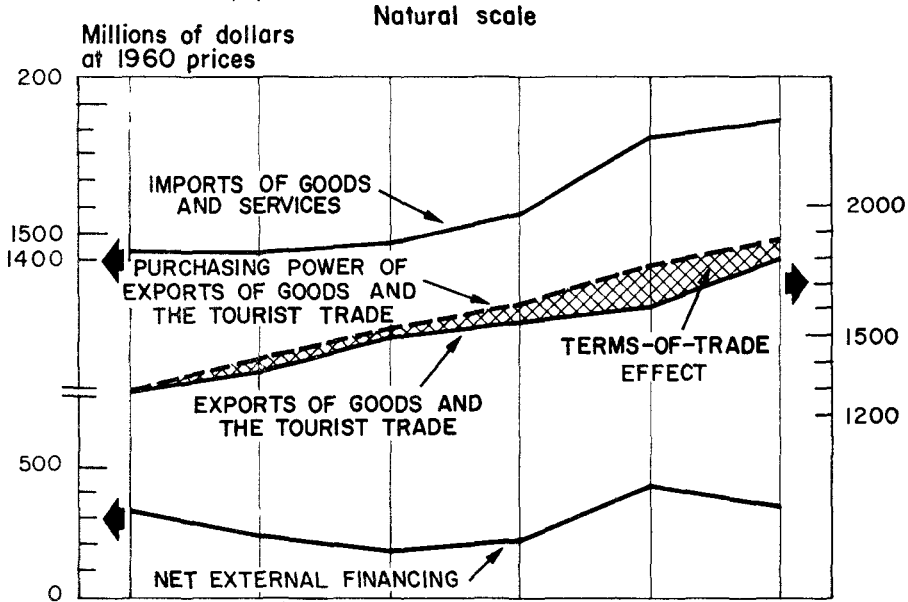
^a Estimates.

Figure XXXI. Mexico, 1960-65

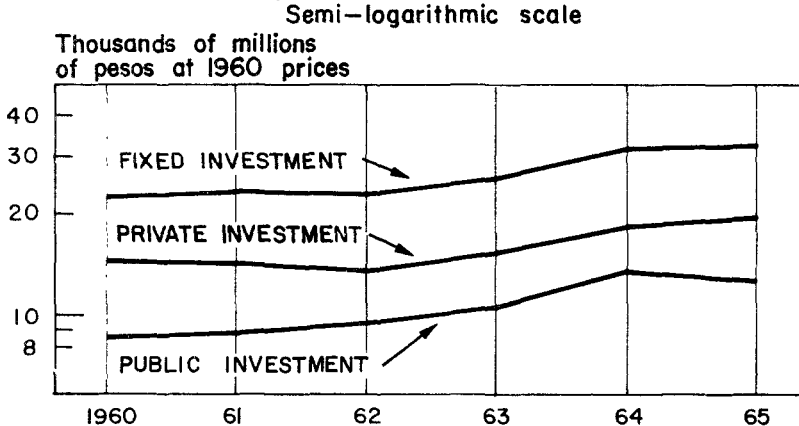
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

national income at current prices, mainly thanks to the high yield from income tax. This, coupled with the fairly modest increase in the Federal Government's total expenditure, reduced the budget deficit from 2,591 million pesos in 1964 to 1,151 million in 1965 (see table 182).

Monetary and credit policy were also aimed at stabilization and at stimulating certain productive activities, especially the export trade, agriculture and private investment. The increase in the total funds made available by the banking system in 1965 (13,113 million pesos) was almost the same as in the previous year (see table 183). But more than half this increase (7,629 million) was used for the purchase of Federal Government securities, and the expansionist effect was limited by the fact that a large part was used to refinance official debts to the banks, especially the Bank of Mexico. This type of operation partly offset the impact of that Bank's financing on the primary money supply.² In fact, the money in circulation, which largely depended on financing by the deposit and savings banks, remained fairly stable during most of 1965, and at the end of the year rose only 7 per cent over its level in December 1964, as compared with the rise of nearly 20 per cent during 1964.

The increase in bank loans to enterprises and private persons (5,484 million pesos) was much smaller than in 1964, mainly because of the lower rate of investment by State enterprises. However, credit had soared to record heights in 1964 as a result of the sharp rise in public and private investment. Compared with the

credit situation in 1963, when the economy developed fairly rapidly, the growth of bank credit was a good deal swifter in 1965 for all sectors save that of trade. Moreover, the tendency in recent years to allocate more funds to agriculture and livestock production continued (see again table 183).

Housing credit was also increased, and this acted as a spur to private investment and helped to lighten the depressive effects of the cutback in public works investment. There was also a good deal more private investment in other sectors, particularly manufacturing. Imports of industrial machinery and equipment were more than 50 per cent higher in value than in 1964, especially those for the motor vehicle industry and for modernizing the textile industry. The increase in private investment was more than enough to make up for the drop in public investment, and raised total investment in real terms to 2 per cent above its already high level in 1964. (See figure XXXI (c).)

The external sector also helped to keep the economy growing, although export prices fell on an average nearly 4 per cent. (See figure XXXI (b).) As a result of the impetus given to the cotton industry by the abolition of export taxes, easier credit facilities and the sale of large wheat and maize surpluses abroad on the basis of special agreements, the total volume of exports was nearly 13 per cent larger than in 1964. Another factor that helped to raise the total value of exports of goods and services 8.1 per cent over their level in the previous year was the rapid growth of income from the tourist trade.

² Bank of Mexico, *Informe anual*, 1965, pp. 80-81.

Table 182. Mexico: Real revenue and expenditure of the Federal Government, 1962-65
(Millions of pesos)

	1962	1963	1964	1965
I. <i>Current revenue</i>	12,829	14,557	17,297	19,329
Income tax	4,724	5,458	7,262	8,511
Production and trade taxes	1,802	1,902	2,211	2,517
Business income taxes	1,449	1,532	1,860	1,974
Import taxes	1,688	1,850	2,411	2,562
Export taxes	863	872	880	666
Taxes on exports of natural resources	239	258	271	341
Other income	2,064	2,685	2,402	2,758
II. <i>Current expenditure</i>	10,824	12,018	14,203	15,668
Balance on current account (I-II)	2,005	2,539	3,094	3,661
III. <i>Investment expenditure</i>	3,589	4,200	5,685	4,812
IV. <i>Total federal expenditure</i> (II+III)	14,413	16,218	19,888	20,480
Budget deficit (I-IV)	-1,584	-1,661	-2,591	-1,151

Sources: Revenue and expenditure of the Federal Government, 1962: Bank of Mexico, *Informes anuales*; 1963-65: Department of Finance and Public Credit.

Table 183. Mexico: Distribution of bank financing;^a variations in holdings of securities and credit balances, 1961-65
(Millions of pesos)

	1961	1962	1963	1964	1965 ^b
Total financing	6,276	7,264	7,976	13,183	13,113
To private enterprises	6,443	7,126	4,631	9,285	5,484
Securities	628	670	483	548	1,063
Credit	5,815	6,456	4,148	8,737	4,421
To trade	1,024	...	1,339	2,275	140
To production	4,791	...	2,809	6,462	4,281
Industry	3,995	...	1,960	5,351	2,653
Agriculture and livestock	781	...	876	1,081	1,617
Mining	15	...	-27	29	11
To the Federal Government	-168	137	3,345	3,898	7,629
Securities	-73	123	1,637	5,814	7,315
Credit	-95	14	1,708	-1,916	314

Source: Bank of Mexico, *Informes anuales*.

^a Excluding inter-bank transactions, but including credit and holdings of securities in the

joint funds of share certificates of the Nacional Financiera, S.A.

^b Estimates.

The value of imports of goods and services, on the other hand, increased only 4.5 per cent as against over 20 per cent in 1964, mainly because fewer capital goods were imported by the public sector while purchase of consumer goods remained at the same level as the year before. The balance-of-payments deficit was thus reduced from 407.2 million dollars in 1964 to 359.6 million in 1965. Much of this deficit was financed by movements of domestic capital, because the net availability of official medium and long-term credit had decreased. However, net gold and foreign exchange reserves increased by 7.4 million dollars, while gross holdings, which stood at 575.2 million at the end of 1965, were a little below their level in the preceding year because of the slight decrease in the Bank of Mexico's internal foreign exchange liabilities.³

As regards the evolution of domestic prices, the over-all wholesale price index for Mexico City climbed less than 2 per cent in 1965 as against 4.2 per cent in 1964 (see table 184).

2. FOREIGN TRADE AND THE BALANCE OF PAYMENTS

(a) Exports

Except for ores, the main commodities exported by Mexico (cotton, coffee and sugar) dropped in price in 1965, thereby bringing down the unit value of exports by nearly 4 per cent. However, the quantum of exports rose sufficiently (12.6 per cent) for their total value to go

up to 1,154 million dollars, or 8.1 per cent more than in 1964 (see tables 185 and 186).

Although this expansion was partly due to bigger sales of traditional agricultural exports (excluding coffee), the main factors were the exceptionally large sales of maize and wheat. The volume of maize exports rose from 282,000 tons in 1964 to over 1.3 million in 1965, their value in the latter year being 77.2 million dollars. Wheat exports were in the neighbourhood of 685,000 tons for a value of 41.6 million dollars, whereas their volume and value the year before were 576,000 tons and 35.8 million dollars respectively. In both cases these sales of exportable surpluses from the 1964/65 harvest fetched very much lower prices than on the domestic market. In the next few years they may cease to be an important source of foreign exchange income because of the measures taken in 1965 to gear their cultivation to the growth of domestic consumption.

The supply of agricultural commodities for export was satisfactory on the whole, with the notable exception of coffee. The volume of coffee exports dropped from nearly 101,000 tons in 1964 to 78,079 tons in 1965 as a result of the smaller harvest in 1964/65 and, to a certain extent, the reduction in the export quota under the terms of the International Coffee Agreement. Moreover, lower prices brought down the value of coffee exports to 72.7 million dollars, that is, 22.5 million less than in the year before.

Thanks to a bumper harvest, cotton exports made a sound recovery after their decline in

³ Bank of Mexico, *Informe anual*, 1965, p. 57.

Table 184. Mexico: Wholesale price index and cost of living for wage-earners in Mexico City (1954 = 100)

Year	Wholesale price index			Cost of food	Cost of living for wage-earners
	Over-all index	Consumer goods	Production goods		
1959 . . .	131.0	134.7	126.0	147.8	146.4
1960 . . .	137.5	139.8	134.3	151.7	155.0
1961 . . .	138.8	141.1	135.6	157.1	156.4
1962 . . .	141.3	145.6	135.4	157.2	157.8
1963 . . .	142.1	145.2	137.8	156.6	159.3
1964 . . .	148.1	151.9	142.7	163.8	164.2
1965 . . .	150.9	155.4	144.3	166.4	170.3

Sources: Wholesale and food prices: Bank of Mexico, cost of living for wage-earners: Department of Industry and Trade.

1964, rising in value from 170.1 million dollars to 212.1 million in 1965. This improvement was entirely due to the increase in the volume of sales (from 320,000 to 409,000 tons), since Mexican cotton fetched slightly lower prices on the Liverpool and Bremen markets because of the glut of cotton on the world market in general.

External demand for sugar was much lower, with the result that the average price of Mexican

sugar fell 24 per cent, although most of it was sent to the United States protected market. The amount exported in 1965 (527,000 tons) was slightly larger than in the previous year, which indicates that the drop in the value of sales from 76.8 to 58.9 million dollars was due to lower market prices.

The expansion of demand in the United States market led to a substantial increase in exports

Table 185. Mexico: Value of exports of goods, 1962-65 (Millions of dollars)

Products	1962	1963	1964	1965 ^a
<i>Primary commodities</i>				
Cotton	218.3	195.6	170.1	212.1
Coffee	70.1	49.1	95.2	72.7
Sugar	43.4	59.6	76.8	58.9
Maize	0.2	—	15.9	77.2
Wheat	0.1	5.0	35.8	41.6
Beef cattle	53.2	40.2	22.8	34.1
Shrimps	46.0	51.7	53.5	43.4
Tomatoes	20.2	24.5	33.9	35.1
Lead	25.7	27.5	23.2	28.4
Zinc	28.3	29.8	42.6	44.7
Copper	24.4	22.5	14.6	8.2
Sulphur	30.3	34.3	37.6	33.6
Petroleum	16.9	16.2	14.5	16.5
<i>Manufactures</i>	<i>105.7</i>	<i>131.2</i>	<i>125.2</i>	<i>133.1</i>
Food products	22.7	29.5	37.8	37.8
Textiles	40.0	40.2	32.7	27.9
Chemical products	26.4	30.5	26.4	36.4
Iron and steel products	3.7	14.9	10.5	...
Other manufactures	12.9	16.1	17.8	...
Other	261.2	300.8	306.2	314.7
TOTAL	944.0	988.0	1,067.9	1,154.3

Sources: ECLA, on the basis of data from the Statistical Office and the Bank of Mexico.

^a Estimates.

Table 186. Mexico: Annual variations in the quantum of staple export products, 1962-65
(Percentages)

Products	1962	1963	1964	1965 ^a
Cotton	39.3	-13.0	-13.0	27.0
Coffee	2.3	-27.1	51.5	-22.6
Sugar	-37.1	10.6	32.9	0.6
Beef cattle	39.6	-27.8	-35.4	55.7
Shrimps	-5.0	-0.1	-7.3	-15.7
Tomatoes	42.6	3.8	8.2	5.6
Lead	-20.7	1.5	-23.1	2.4
Zinc	15.7	6.0	12.1	-2.6
Copper	20.3	-14.1	-29.5	-46.3
Sulphur	15.2	13.2	22.2	-16.3
Petroleum for fuel and diesel oil	41.5	-1.5	-12.1	9.3
TOTAL	10.5	0.5	2.6	12.6

Sources: ECLA, on the basis of data from the Statistical Office and the Bank of Mexico.

^a Estimates.

of beef cattle. The value of cattle sales climbed from 22.8 million dollars in 1964 to 34.1 million in 1965, without, however, regaining the relatively high levels reached in 1961-63. On the other hand, the value of beef exports went down by 1.2 million dollars to 17.2 million in 1965 because of a reduction in volume, apparently as a result of inadequate supplies. The export quotas were lowered for beef cattle and meat in 1966 in order to guarantee supplies for the home market and lighten the pressure to which meat prices had been subjected in 1965.

In contrast to the trend of agricultural exports, sales of mineral products continued to be limited for want of adequate supplies. Although prices improved considerably,⁴ the volume of copper exports shrank still further, that of zinc contracted by 2.6 per cent, and only lead exports rose slightly after a drop of 23 per cent in 1964. As a result, the aggregate value of exports of the three minerals (81.3 million dollars) was very little more than in the previous year.

The stagnation of lead and zinc sales was due to a drop in output in 1965. In the case of copper, the reduction in the volume exported was due to the fact that the production increment of 8.9 per cent was outstripped by the vigorous growth of domestic demand. Furthermore, sulphur exports, which had been expanding rapidly in recent years, fell by 16 per cent in 1965 as a result of the restrictive measures

taken to stabilize the ratio of annual production to reserves.

Exports of manufactured goods recovered after their decline in 1964, reaching a total value of 133.2 million dollars in 1965 against 131.2 million in 1963. Their loss of dynamism in 1963 and 1964 was partly due to the weakening of external demand for textiles, whose sales underwent a further reduction in 1965 to 27.9 million dollars from 43.8 million in 1961.

Exports of chemical and steel products have increased fairly rapidly in the last five years. But they are still largely marginal and tend to be limited by the expansion of domestic demand, as in 1964 (see again table 185).⁵ The investment effected to enlarge the production capacity of the industries concerned will make for an expansion of exports in the next few years. However, it seems unlikely that exports of these commodities, or of other production goods, will achieve substantial proportions until agreements have been concluded with ALALC and other countries to guarantee markets for specific products and to promote the requisite investment.

In recent years the ALALC countries have offered a fairly dynamic market for Mexican manufactures. Exports of these goods to the Free-Trade Area rose from 4.2 million dollars in 1961 to nearly 20 million in 1964, thereby

⁴ The prices of zinc (ore concentrate), lead (bars) and copper (bars) increased respectively by nearly 8 per cent, 17.5 per cent and 3.6 per cent.

⁵ Exports of steel products, for instance, dropped from 177,000 tons in 1963 to 113,400 in 1964, but recovered to some extent in 1965 when they reached 157,000 tons (see Association of the Iron and Steel Industry, *Informe del Presidente*, Mexico, D.F., 1966).

bringing about the rapid growth of total exports to that market during the same period (from 7.9 to 34 million dollars). However, this trend slackened off in 1965, when the aggregate value of sales to the ALALC countries was only 2.2 million dollars higher than in 1964 (i.e. 6.4 per cent). The data available while incomplete, show that the growth rate of exports of manufactures slowed down, as did that of transport equipment sales although for incidental reasons. In any case, it would be premature to conclude from one year's experience that initial trading possibilities with ALALC are nearly exhausted.

Mexico's imports from ALALC soared 71 per cent in 1965, to a total value of 29.6 million dollars. Its trade surplus with the ALALC countries was thus slashed to 6.6 million dollars from 16.7 million in 1964. As this halted the trend towards a rising credit balance for Mexico, it may have a favourable effect on future negotiations for speeding up the liberalization of trade and developing it on a firmer footing.

(b) Imports

The present structure of Mexican exports, in which consumer goods account for less than 20 per cent of the total value, makes it difficult for the balance-of-payments stabilization policy to be effective without having a critical effect on investment and domestic production. The growth rate of imports (at current prices) fell from over 20 per cent in 1964 to 4.5 per cent in 1965, when their total value was 1,560 million dollars. As the average rise in import prices was 2.5 per cent in 1965, the increase in the quantum of imports was only 2 per cent against 18 per cent in the previous year.

This was largely due to the fact that the public sector reduced its purchases of capital goods. Imports of machinery and equipment by the private sector continued to rise rapidly, however, thereby bringing the total value of purchases of investment goods (710 million dollars) up to slightly over the high figure of 706 million reached in 1964.

Imports of consumer goods remained stable at close to 300 million dollars because of the slower growth of domestic demand. Those of raw materials and intermediate goods, on the other hand, increased by 13 per cent in 1965, reaching a total value of 566 million dollars. This is an increment of over 10 per cent in real terms, or twice the growth rate of the gross domestic product in 1965. Despite the rapid headway made by import substitution in industrial raw materials and intermediate goods during the last decade (chemical products, fertilizers, steel products and

inputs for the electrical equipment industry), aggregate demand continued to outstrip domestic supplies. The more intensive use made of agricultural inputs, the expansion of the metal-transforming industries—especially motor vehicle production—and the establishment of new industries on the basis of imported raw materials such as aluminium were all instrumental in keeping imports of production goods at a high level.

(c) *The balance of payments*

Net income from the tourist trade and border transactions again increased at a rapid pace in 1965 (12.4 per cent), and this, together with the rise in the value of exports, helped the current capacity to import to climb to 1,200 million dollars, or 10.6 per cent above its level in the previous year. An appreciable reduction from 418 to 360 million dollars was thus made in the deficit on current account thanks to the moderate increase in imports.

Long-term net capital revenue fell far short of the unprecedentedly high level of 1964, mainly because medium and long-term credit shrank from 752 to 393 million dollars, which is very little more than the sum of the amortization payments made in 1965 (see table 187). It appears from the surplus against "errors and omissions" that part of the deficit on current account was covered by direct investment and unrecorded movements of capital. It was, however, the substantial reduction in the net inflow of long-term capital that finally compelled the monetary authorities to draw on their reserves.

3. PRODUCTION

As a result of the decline in domestic demand and, more especially, the stagnation of investment, the rate of economic activity was much slower in 1965 than in the previous year. Even so, most sectors obtained appreciable increments on a scale similar to the annual average for 1962-63 (see again table 181), but construction activities decreased by 3 per cent because of the lower rate of investment in public works.

Manufacturing expanded 7 per cent in 1965 against 13.5 per cent the year before, with similar increments in both production and consumer goods. In the latter case, production readjusted itself to the normal growth of domestic demand, except for textiles whose relative stagnation was partly due to the decline in exports. Food production, on the other hand, rose at a fairly high rate, and so did production of electrical appliances, which helped to stabilize imports of consumer goods in 1965.

Other manufacturing activities were limited

Table 187. Mexico: Balance of payments, 1962-65
(Millions of dollars)

	1962	1963	1964	1965 ^a
1. Exports of goods (f.o.b.)	941	986	1,071	1,154
2. Tourist trade (net)	113	126	137	158
3. Border transactions (net)	162	181	187	210
4. Direct foreign investment income	-237	-266	-330	-316
5. Other items (net)	-9	-2	10	-6
6. Current capacity to import	970	1,025	1,075	1,200
7. Imports of goods (c.i.f.)	1,143	1,240	1,493	1,560
8. Balance on current account (6-7)	-173	-215	418	-360
9. Long-term capital (net)	248	301	497	191
(a) Direct foreign investment	127	118	152	156
(b) Long-term credit	401	426	752	393
(c) Amortization of long-term credit	-268	-234	-379	-362
(d) Other long-term capital movements (net)	-12	-9	-28	4
10. Short-term capital	-47	-27	120	7
11. Errors and omissions	-19	64	-149	90
12. Net variation in international reserves of Bank of Mexico (-increase)	-9	-123	-50	+72

Source: ECLA, on the basis of the IMF, *Balance of Payments Yearbook*, vol. 17.

^a Estimates.

in 1965 by the decline in demand for construction materials and the slower growth of industrial investment. The result was a reduction in the output of cement, sheet glass and piping, and a drop in the growth rate of rolled steel products to 10 per cent from 18 per cent in 1964 (see tables 188 and 189).

The increase in output of rolled products was partly achieved by importing more scrap and material for rerolling, since installed capacity was too small to allow for increments of more than 2.6 per cent for pig iron and of 5.5 per cent for steel ingots. The shortage of supplies will be remedied in 1966 with the completion of two spongy iron plants, which are expected to cover domestic demand up to 1970. The projects for the two large blast furnaces to be installed at Monterrey and Monclova are also well under way.

Mining production barely maintained its 1964 level. Lead and zinc output dropped in spite of the improvement in export prices (see table 190). Copper production increased appreciably from 63,000 to 69,200 tons, but as this was still too little to meet the rise in domestic demand, exportable surpluses had to be drawn on to the detriment of sales abroad.

The drop in sulphur production from 1.7 to 1.6 million tons was the result of the restrictive measures taken to rationalize the use of sulphur reserves after the rapid growth of production in the last ten years.

Iron ore production made a very good recovery after its decline in 1964, reaching a level of 1.4 million tons. Coal output, which has increased steadily over the past five years, fell slightly in 1965 to around 2 million tons owing to the reduction in the steel industry's requirements.

Weather conditions were less favourable for domestic food crops in 1965 with the result that over-all agricultural production increased less than 4 per cent against 9.7 per cent in the previous crop year⁶ (see table 191). All in all, however, the 1965/66 crop year was satisfactory as regards both exports and supplies for the home market. Thus agriculture again played a decisive part in the expansion of exports in 1965.

Maize production did not rise above the already high level of 8.5 million tons reached in 1964, thus warding off the danger of an accumulation of surplus stocks that would not readily find a market abroad. Wheat was in a different situation, since production continued to increase in 1965 (7 per cent) thanks to a rise in unit yield, and finally totalled 2.3 million tons. New surpluses were thus piled up in 1965,

⁶ These rates refer to the crop year, and differ from the previous figures which have been adjusted to the calendar year for purposes of calculating the gross product. Moreover, the estimates for 1964/65 have been revised in the light of more recent data which indicate that the increments for certain commodities (e.g. maize) were larger than had been thought.

Table 188. Mexico: Index of manufacturing production and volume of production in selected branches, 1962-65

	1962	1963	1964	1965 ^a	Annual percentage increase			
					1962-63	1963-64	1964-65	
	(1950=100)							
Production index	223.6	244.2	277.2	296.6	9.2	13.5	7.0	
	(Thousands of tons)							
<i>Volume of production</i>								
Pig iron and spongy iron	967	1,003	1,130	1,159	3.7	12.7	2.6	
Ingot steel	1,711	2,026	2,326	2,455	18.1	14.9	5.5	
Cement	3,266	3,680	4,339	4,198	12.7	17.9	-3.2	
Sheet glass (thousands of square metres)	9,500	8,300	10,963	10,144	-12.6	39.3	-7.5	
Sulphuric acid	399	390	440	466	15.0	12.8	5.9	
Caustic soda	83	91	95	102	8.4	4.4	7.4	
Nitrogenous fertilizers (in terms of nutrients)	73	91	128	145	24.7	40.7	13.3	
Pulp	285	304	357	416	6.7	17.4	16.6	
Paper and paperboard	459	505	558	591	10.0	10.5	5.9	
Man-made fibres	25	29	35	37	16.0	20.7	6.0	
Tires (thousands of units)	2,395	2,666	3,118	3,350	11.3	16.9	7.4	
Cotton and rayon textile fabrics	121	127	143	147	5.0	13.0	3.0	
Beer (millions of litres)	858	849	1,016	1,098	-1.0	19.7	8.1	
Vegetable oils	291	306	321	369	5.2	4.9	15.1	
Sugar	1,427	1,618	1,815	1,983	13.4	12.2	9.2	

Sources: Index of production: Bank of Mexico; Volume of production: Nacional Financiera, S.A., *Informes anuales*, 1962-64.

^a ECLA estimates, based on official statistics and information from producers' associations.

despite substantial sales at much lower prices than those prevailing on the domestic market. Support prices were therefore reduced and other measures taken to lop 30 per cent off the wheat-growing area and use it for cultivating carthamus and other oil-bearing plants.

The sugar industry has also been troubled by problems of surpluses in the last two years, because of the huge increase in the cane-growing area as a result of high world market prices for sugar in 1962 and 1963. In 1965, sugar output increased by more than 9 per cent to a total of nearly 2 million tons. Of this, 527,000 tons, or slightly more than in 1964, were exported. Hence, export supplies increased, and are estimated to have been around 190,000 tons at the end of 1965. The expansion of 15 per cent in cane production during the 1965/66 crop year is an augury of further surpluses, since the world market is glutted and the situation of the United States market is such that it is doubtful whether Mexico's sugar exports can improve much on their 1965 level of 413,000 tons.

Weather conditions for the crops mainly intended for export were good on the whole, and

production was nearly 6 per cent more than in 1964/65. The cotton crop increased again in 1965/66 (by 4.3 per cent), thereby reaching a total of 563,000 tons. With the surpluses left over from the year before, this enabled exports to expand by as much as 27 per cent in 1965. Cotton production has been stimulated in the last two years by the abolition of export taxes, the provision of more credit and other measures, which resulted in an addition of about 30,000 hectares to the cotton-growing area and an appreciable increase in yield per hectare.

Coffee output increased by more than 13 per cent to 180,000 tons, thereby fully recovering from its decline (8.6 per cent), which had been due to the cyclical nature of production in the neighbourhood of the Gulf of Mexico. Production has increased fairly quickly in the last five years, because greater attention is being paid to the areas that are suitable for coffee-growing and uneconomical trees have been uprooted. The plantation area has been reduced by more than 50,000 hectares in the last three years, the coffee trees being replaced by fruit trees or other crops.

Table 189. Mexico: Apparent consumption and production of rolled steel products, 1961-64
(Thousands of tons)

	1962	1963	1964	1965	Annual percentage increase			
					1963-62	1964-63	1965-64	
<i>Non-flat products</i>								
Apparent consumption	693	769	934	1,072	11.1	21.5	14.8	
Domestic production	592	666	787	918	12.5	18.2	16.6	
Ratio of production/consumption (percentage)	85.5	86.6	84.3	85.6				
<i>Flat products</i>								
Apparent consumption	514	578	789	850	12.5	36.5	7.7	
Domestic production	485	706	841	902	45.6	19.1	7.2	
Ratio of production/consumption (percentage)	94.4	122.1	106.6	106.1				
<i>Tubes</i>								
Apparent consumption	211	238	265	213	12.8	11.3	-19.7	
Domestic production	214	273	283	246	27.6	3.7	-13.1	
Ratio of production/consumption (percentage)	101.4	114.7	106.8	115.5				
<i>Total</i>								
Apparent consumption	1,336	1,481	1,864	2,035	10.8	25.9	9.2	
Domestic production	1,197	1,499	1,769	1,948	25.2	18.0	10.1	
Imports	152	159	209	292	4.6	31.4	39.7	
Exports	45	171	111	142	293.3	-35.1	27.9	
Ratio of production/consumption (percentage)	89.6	101.3	94.9	95.7				

Source: ECLA, on the basis of data from the National Association of the Iron and Steel Industry.

^a Welded tubes were not included because the raw material used for making them was entered under the head of rolled products.

Table 190. Mexico: Indexes of mining and petroleum production, 1962-65

	1962	1963	1964	1965
<i>Mining production</i>				
Over-all index (1950=100)	128.6	133.1	135.1	135.2
<i>Volume of production (thousands of tons)</i>				
Gold (kilogrammes)	7,364.0	7,401.0	6,531.0	6,711.0
Silver (tons)	1,282.0	1,330.0	1,297.0	1,254.0
Lead	193.3	190.0	174.8	170.1
Zinc	250.7	239.8	235.6	224.8
Copper	47.1	55.9	63.0	69.2
Manganese	62.9	54.3	64.1	58.8
Iron ore	1,353.6	1,396.9	1,211.0	1,415.0
Coal	1,893.0	2,071.0	2,049.0	1,970.0
Sulphur	1,448.0	1,554.0	1,701.0	1,589.0
<i>Production of petroleum and petroleum products</i>				
Over-all index (1950=100)	236.4	250.6	273.1	284.5
Crude petroleum extraction	163.8	171.7	176.0	179.3
Refinery products	318.7	339.7	372.6	394.6

Sources: Indexes of mining and petroleum production: Bank of Mexico; volume of mining production: Department of Industry and Trade and the Statistical Office.

Table 191. Mexico: Agricultural production, 1961/62-1965/66

	1961/62	1962/63	1963/64	1964/65	1965/66 ^a
<i>Index (1954-56=100)</i>					
Crop and livestock production	124.9	137.1	139.5	153.0	158.7
Crop production	122.8	135.0	137.7	154.4	160.0
For the domestic market	125.4	135.7	141.9	163.3	168.7
For export	117.0	132.1	129.0	137.4	145.1
Livestock production	139.9	152.9	153.7	148.9	151.2
<i>Main agricultural commodities (Thousands of tons)</i>					
<i>For export</i>					
Cotton fibre	450	547	476	540	563
Coffee	141	132	174	159	180
Raw henequen	156	156	158	160	161
Tomatoes	397	434	464	482	490
Cocoa beans	27	29	30	31	32
Groundnuts (unshelled)	94	90	93	96	98
Pineapples	177	178	198	201	207
Chickpeas	118	135	136	104	105
Strawberries	25	27	28	35	39
<i>For the domestic market</i>					
Paddy rice	333	289	266	274	333
Sesame	147	156	158	161	173
Maize	6,261	6,706	6,895	8,454	8,500
Sugar-cane	15,765	17,720	19,799	22,431	25,896
Beans	754	844	868	892	900
Wheat	1,402	1,455	1,786	2,134	2,282
Tobacco	67	69	71	68	70
Cotton seed	827	1,006	875	992	1,035

Sources: ECLA, on the basis of data from the Department of Agriculture and Livestock, Division of Rural Economy. The figures for cotton come from the main exporting company, those for coffee from the Mexican Coffee

Institute, and those for sugar-cane from the National Union of Sugar Producers, S.A. (UNPASA).

^a Estimates.

Chapter VIII

PARAGUAY

I. MAIN FEATURES OF RECENT EVOLUTION

After a decade of virtual stagnation, Paraguay's economy has gradually been expanding since 1960, and speeded up its pace in 1964 and 1965. The growth rate of the gross domestic product was 3.1 per cent in 1963, 6.5 per cent in 1964, and 4.9 per cent in 1965, with corresponding per capita rates of 0.6, 3.8 and 2.3 per cent (see table 192 and figure XXXII). The recent expansion was due to favourable conditions, especially in the export trade, which has risen at a rate of over 11 per cent since 1964. The highest growth rate, in terms of both volume and value, was recorded for livestock products and is attributable to a simultaneous improvement in world market conditions, and in the country's ability to meet demand to judge by the fairly high number of head of livestock per inhabitant, and the progress in domestic production.

Various factors have helped to increase the capacity of certain sectors to respond to the stimulus of external demand, as shown by the recent rise in exports. Infrastructure investments made during the fifties were instrumental in improving communications for both internal traffic and international transport. Similarly, the agricultural frontier was pushed back through the inclusion of new land, endeavours to attract more foreign capital and the increase of credit facilities and technical assistance aimed at raising productivity. Other domestic policy measures helped to strengthen the relative position of the exporting sectors, and provided additional incentives for the growth of investment in the activities concerned.

The economy's increased capacity to respond to the stimulus of external demand contrasts with the continued scarcity of dynamic factors on the side of domestic demand, as indicated by the unpromising evolution of the sectors producing for the home market. This market is limited by Paraguay's small population and low level of income, and by the fact that a large proportion of the inhabitants are subsistence farmers who make virtually no contribution to the monetary economy. The incorporation of these people into the economic system is thus one of the main dynamic features in the strategy of the Government's two-year Economic and Social Development Plan for 1965-66.

This views the expansion of exports as a key factor in the development of the national system of production on the lines of what has been described as a "basic pattern for planned and externally-directed growth". While recognizing that the domestic market will have to play an increasingly important part, its basic premise is that exports will continue to be the driving force behind the growth of over-all economic demand for many years to come.

The development policy pursued in the light of this plan aims at improving and increasing agricultural settlement in order to bring new land into cultivation and raise productivity, and providing more technical and financial aid for small farmers, but the task is so vast and complex and resources so scarce that it is impossible to make more rapid progress.

Despite the characteristics of the domestic market, manufacturing production has been expanding at a relatively high rate owing to its close connexion with the processing of agricultural products and consequently with the dynamic influence of external demand.

Thanks to the inauguration of the two-year plan and the help of external funds, there has been a rise in the level of public investment for strengthening the productive infrastructure. At the same time, more credit has been made available, and as this is increasingly channelled through the National Development Bank, an ever-growing proportion is being earmarked for agricultural and industrial development (see figure XXXII (c)).

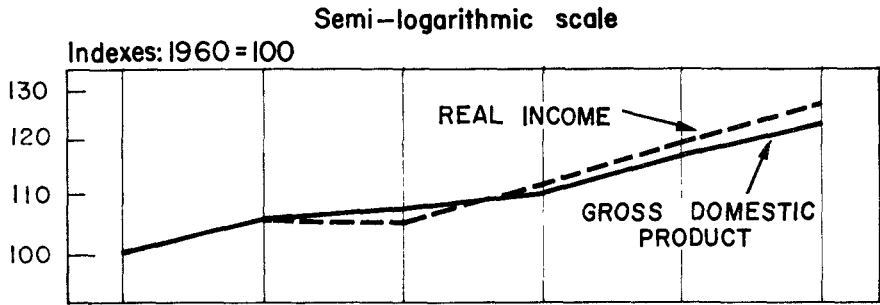
Domestic supplies were supplemented in 1965 by a substantial increase in the volume of imports, with the accent on capital goods in keeping with the growth of investment.

2. RECENT EVOLUTION OF THE AGRICULTURAL SECTOR

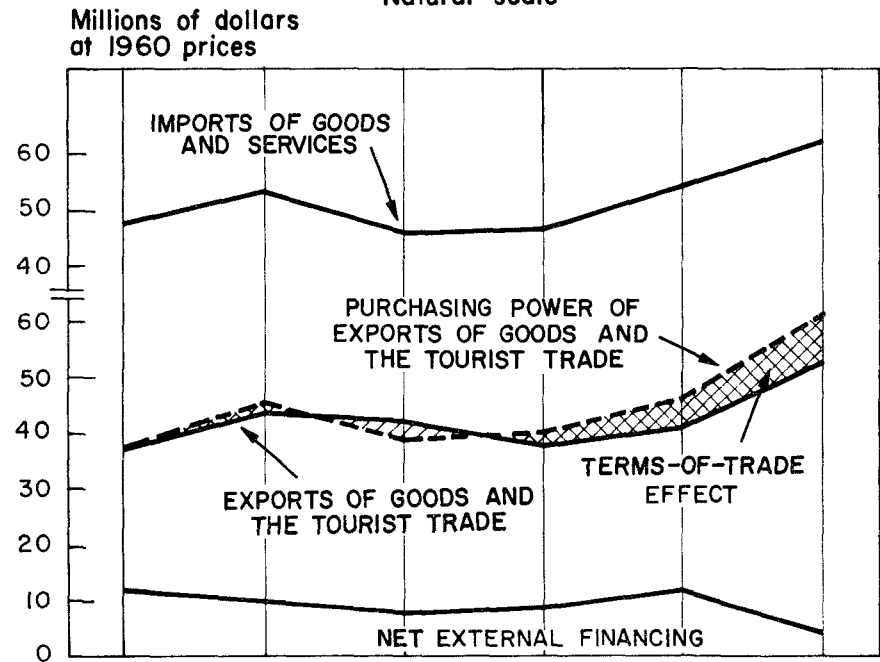
After a considerable expansion of nearly 8 per cent in 1963, agricultural production remained stationary in 1964 but increased again in 1965, by 4.4 per cent. These changes were the result of fluctuations in external demand, good weather conditions—particularly in 1964—and the evolution of domestic demand, but their trends differed depending on whether the agricultural commodities were for export, for

Figure XXXII. Paraguay, 1960-65

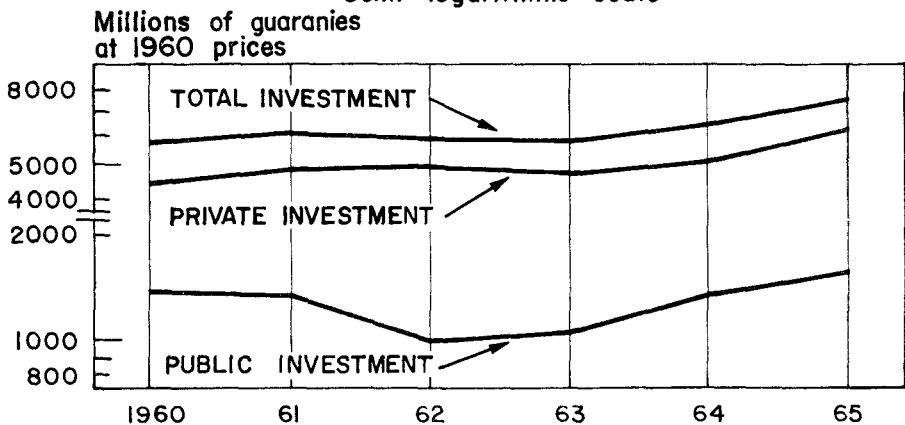
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS
Natural scale



(c) INVESTMENT TRENDS
Semi-logarithmic scale



Source: ECLA, on the basis of official statistics.

Table 192. Paraguay: Gross product by sectors at factor cost, 1960-65
(Millions of 1960 guaraníes)

	Annual percentage variation				
	1960-65	1962-63	1963-64	1964-65	
	1960	1962	1963	1964	1965
1. Agriculture, forestry, hunting and fishing	12,553	13,621	13,716	14,710	15,255
2. Mining and quarrying	42	34	52	52	56
3. Manufacturing	5,577	6,145	6,424	7,005	7,436
4. Construction	787	803	839	859	883
5. Electricity, gas, water and sanitary services	268	297	311	318	339
6. Transport and communications	1,295	1,456	1,493	1,601	1,703
7. Trade and banking	5,951	6,166	6,466	6,721	7,091
8. Ownership of dwellings	1,336	1,418	1,460	1,631	1,730
9. Public finance and defence	1,436	1,413	1,483	1,541	1,611
10. Services	3,076	3,288	3,477	3,617	3,814
TOTAL	32,321	34,641	35,721	38,054	39,918
					4.3
					3.1
					6.5
					4.9

Source: ECLA, on the basis of official statistics.

industrial use, or constituted the staple foods of the population.

Some export items such as cotton, tobacco, tung and tartago developed unevenly. After a sizable increase in 1963, they declined slightly in 1964 and then recorded a small increment in 1965. There is no information available on citrus and other fruits and coconuts, but their trends were probably less irregular. Production of these commodities was affected by weather conditions (e.g. cotton in 1964), by sharp fluctuations in external market prices or by the accumulation of exportable surpluses (viz. tobacco and sugar).

Of the principal commodities sold on the domestic market, maize and manioc—which are staple subsistence crops—increased at a slow pace that was hardly faster than population growth. In the case of maize, this was partly the result of fluctuating external prices, since a certain surplus was available for export. Rice production has fallen steadily since 1963, due in part to the high cost of mechanizing rice cultivation in small fields, which prevents it from competing with foreign-grown rice sold in Paraguay. Bean production also declined, particularly in 1964, the only commodity to show an improvement being potatoes, which rose from 6,400 tons in 1964 to 8,400 tons in 1965 thanks to import controls.

Of agricultural commodities for industrial use, output of soyabeans, which are used for making flour and good quality edible oil, increased from 4,286 tons in 1963 to 16,480 and 18,000 tons in 1964 and 1965 respectively. Groundnuts and alfalfa production declined.

The livestock sector expanded vigorously under the stimulus of demand and good external market prices. The growth of external demand compensated for the drop that took place in domestic requirements when local market prices were pushed up by the increase in export prices. Slaughtering, which had fallen by 7 per cent in 1963, rose by 23 per cent in 1964, and 7 per cent in 1965 when it was equivalent to 195,300 tons of cattle-on-the-hoof.

3. MANUFACTURING INDUSTRY

Manufacturing recorded annual growth rates of 4.5, 9.1 and 6.1 per cent in 1963, 1964 and 1965 respectively. The main activities in this sector are closely connected with the processing of agricultural products, and are thus very sensitive to the stimulus of external demand.

In 1965, 225,000 head of cattle were slaughtered. This is an increase of 20 per cent over the 1964 level, which, in its turn, was 8 per cent higher than in 1963. Canned meat, meat

extracts, soup concentrates and bone meal—which together make up the output of the meat industry—have taken a similar course, increasing 9 per cent in 1964 and 38 per cent in 1965.

The rest of the industries working for or related to the export trade have evolved in different ways. Production of maté grew steadily from 16,315 tons in 1962 to 22,253 tons in 1965, mainly in response to external demand.

Sugar and cotton fibre production varied in line with the movements of external demand. Tannin production fell off considerably when one of the plants was closed down, the level maintained being much lower than in past years.

Wheat flour production has dropped uninterruptedly since 1962, probably because of the use of substitutes. Processed rice also went down from 27,000 tons in 1962 to only 18,000 in 1965.

Beer output, which had expanded fairly considerably in 1963 as a result of the improvements made in Paraguay's only brewery, that enabled it to cover demand, developed less rapidly in 1964 and 1965. Cement processing, however, increased consistently from 15,900 tons in 1962 to 23,000 tons in 1965 in spite of a temporary work stoppage, thanks to the dynamic influence of increased Government investment and import substitution.

4. OTHER SECTORS

The other sectors were indirectly affected by the expansion of agricultural and industrial activities in response to external demand and the direct impact of the Government's social and economic policy.

Construction, mining and quarrying and housing administration, which are internally linked to and influenced by public expenditure, thus developed rapidly in the last few years.

Other branches of activity connected with the public sector, such as public administration expenditure itself and electricity, gas, water and sanitary services, also evolved favourably at an annual rate of about 4.5 per cent, thanks to greater State action and an extension of the basic services.

The dynamic force of the economy was also reflected in transport, storage, communications, commerce, banking and other services, although no details are available on their recent evolution.

5. TAXATION

Government tax revenue remained the same from 1962 to 1964, but there was an increase in non-recurrent income, as well as in revenue obtained under the head of special legislation and, to a lesser extent, from consumption taxes.

During the first eleven months of 1965, there was a blanket increase of 24 per cent, mainly from indirect taxes, particularly consumption taxes (including taxes on fuels, stamped paper and livestock), which were raised 36 per cent. External sector taxes went up by 25 per cent, owing to an increase in exchange charges, and, on a smaller scale, to customs duties and consular fees. Income tax also rose 24 per cent and non-recurrent income 20 per cent.

The increase in revenue is attributable to the new taxes introduced, the improved methods of tax collection, and the higher taxes levied on stamped paper and stamps as well as on civil and business contracts and transactions and livestock slaughtered for industrial processing and general consumption. The measures taken to aid exports by freeing them from taxes coupled with the sizable increase in duty-free imports of capital goods reduced the revenue obtained from the external sector, but the effects of this were offset by the general rise in imports and in the rates of surcharge payable.

Current expenditure rose rather more than 10 per cent in 1964, and the increase in 1965 is provisionally estimated to have been slightly higher. The administration accounted for 15 per cent of the total in 1965, security (home and defence) for 49 per cent and social and economic activities for 36 per cent.

Real investment was particularly dynamic, expanding 18.4 per cent in 1964 and 30.8 per cent in 1965, but financial investment decreased, thereby freeing resources for the former. The decentralized organizations more than doubled their expenditure and trebled their real investment in those two years.

This expansion in investment was made possible by the execution of the two-year plan, an influx of external funds and the increase in revenue, which together enabled the Government to proceed with its task of creating a productive infrastructure to speed up the growth of the economy.

Provisional estimates indicate that the current public sector deficit shrank appreciably, and may have been converted into a surplus in 1965 although the possible inclusion of external credits as part of current income will affect the issue.

6. PRICE LEVELS, AND THE MONETARY AND CREDIT SITUATION

In comparison with the acute inflationary pressures experienced by the economy of Paraguay in the fifties, conditions in recent years

have been relatively stable and price increases on the moderate side. In 1963, the rise in the wholesale price index was 2.6 per cent, in 1964 3.8 per cent and in 1965 8.9 per cent, while the retail price index for wage-earners varied from 2 per cent in 1963 and 1964 to 4 per cent in 1965.

Both indexes were strongly affected by the rise in the prices of livestock products. The wholesale price of livestock dropped 1.9 per cent in 1963, and then rose by 13.5 per cent in 1964 and 28.8 per cent in 1965. In the consumer index, the two sub-groups of meat, fish and poultry, and oils and fats, showed increments of 12.6 and 3.5 per cent respectively in 1965. Prices of other products increased nearly 4 per cent in 1963, and then remained stable. There were incidental fluctuations in some groups, such as that of tobacco, the price of which declined in 1962 but rose appreciably in 1963. The index for fuels was affected by the sharp increase in the price of firewood owing to the rains in the hills which made woodcutting difficult.

The recent variations in the price indexes are directly traceable to the external sector. The rise in the export prices of livestock pushed up domestic market prices, and efforts to hold these down affected exports. In 1963 cattle slaughtering decreased 7 per cent because the stock farmers were not sufficiently attracted by slaughterhouse prices, which had fallen as a result of the drop in the export price of hides and the steps taken by the Paraguayan Meat Corporation (COPACAR) to limit the rise in domestic prices. But the reduction in slaughtering by COPACAR from 58,000 head of cattle in 1963 to 48,000 and 21,000 in 1964 and 1965 respectively was offset by the increase in slaughterhouse operations under the spur of the higher prices paid by industry and the abolition of slaughtering controls, which eventually led to a rise in the retail price of meat. Although domestic meat demand fell by about 7 per cent in 1965 as a result, production expanded 23 per cent thanks to the high prices commanded on the world market.

The new dynamic force of the external sector, which influenced domestic price trends, also affected the monetary sector, including Government monetary and credit policies and the financial structure of the country.

A glance at the monetary transactions of the the Central Bank will show that virtually the whole expansion was financed by net movements of foreign capital, with lesser variations in loans to the public and private sectors. Consequently, in 1965, the restricted nature of the money supply was effective in curbing most of

the factors involved in the monetary expansion, as their evolution indicates.

The expansion of both the secondary and the primary money supply increased the amount of currency in circulation by about 11 per cent in 1963, 21 per cent in 1964 and 5 per cent in 1965, and by even more if official deposits are added. Although its speed of circulation slowed down, it should be remembered that this had risen considerably during the inflation, and was nearly twice as high in the sixties as in the early fifties. If the public sector deposits are taken into account, the contribution made by external sources of supply to the expansion of the means of payment was 40 per cent in 1964 and 98 per cent in 1965.

This expansion was accompanied by an increase in credit. Bank loans to the private sector rose 20 per cent in 1963, 42 per cent in 1964 and 13 per cent up to November 1965, and the respective balances of accounts went up by 12, 19 and 21 per cent, to 6,279 million guaranies in that month.

Apart from the loans made by the Bank of Paraguay to the private sector, which totalled 1,311 million guaranies by the end of November 1965, 40 per cent of the balance came from the National Development Bank and 60 per cent from commercial and private banks. The distinction is important as regards the length of the credit and the purposes for which it was given.

The National Development Bank gives mainly medium-term credits, 47 per cent being for more than a year and only 8 per cent for less than 90 days. The position is reversed for private banks, short-term credits accounting for 52 per cent while those for over a year represent less than 1 per cent. Medium-term financing is a fairly new practice in Paraguay, and its future progress is basically contingent on the economic development programme that is being carried out by the National Development Bank. The funnelling of credit into industry and agriculture for purposes of investment is thus a relatively recent development, which complements the short-term financial aid provided by private banks.

As regards the sectoral distribution of credit, more loans were made to agriculture and industry, whose respective shares of the banks' balance of credit expanded from 15.2 and 24.6 per cent in 1962 to 27.2 and 30.7 per cent by November 1965. The change reveals the increasing part played by the Development Bank, which gave less than 20 per cent in 1962 against 40 per cent in 1965. The private banks are still primarily suppliers of commercial credit, which they have even stepped up to some extent, but

the loans made by the National Development Bank to agriculture soared from 130 million guaranías in 1962 to 1,002 million in 1965, while those to industry jumped from 85 to 719 million guaranías. Thus, credit is obviously being channelled more and more towards productive activities, and spread over all the phases of production, including marketing.

The resources mobilized for the credit expansion differed considerably depending on whether they came through the Development Bank or private banks. The former drew largely on external funds, while the other banks had to rely on internal sources of supply. The increase in the operations of the Development Bank in 1965 was financed from external credit (53 per cent), public deposits (20 per cent) and net Central Bank loans (13 per cent) as well as from an increase in its own capital mainly obtained from an additional 5 per cent charge on imports.

Private banks used public deposits, although in 1965 they drew on the short-term credits made available by their head offices to cover transactions involving advance payments and discounting on bills of exchange for exports. The regulatory measures adopted by the Central Bank to lighten the expansionist pressures on the currency in circulation, which consisted essentially in increasing legal cash reserves, had a restrictive effect on private banking and on the mobilization of funds from the general public for Government bodies and development institutions.

The savings deposits have maintained the dynamism they acquired in 1959 thanks to the changes in the rate of interest and to monetary stability. They increased about 50 per cent in 1964 and 33 per cent in 1965, thereby raising their relative share of total deposits from 39 per cent in 1963 to 49 per cent in 1965.

Credit was offered freely to the public sector, but no significant increase took place because of the improved state of the public finances. Treasury bills climbed from 538 million guaranías in 1963 to 1,533 million in 1965, but the increment of nearly 1,000 million was partly offset by the reduction of roughly 500 million guaranías in the advance payments made to the Ministry of Finance on a short term basis. There was hardly any change in credit allocations to autonomous bodies with the result that the total amount conceded to the central Government and its agencies expanded 18 per cent in 1964 and only 5.6 per cent in 1965, which, in view of the rise in the over-all price level, is very little.

7. THE EVOLUTION OF THE EXTERNAL SECTOR

A number of measures have been taken to strengthen the positive elements in the Paraguayan economy that are connected with the external sector. The improvement of the means of communication and of the stages of marketing, the channelling of credit towards dynamic activities, the monetary stability, the extension of the economic frontier and the provision of technical assistance are all factors that have enhanced the economy's ability to respond to external stimuli. Moreover, their effects coincided with the notable improvement in external market prices for Paraguay's exports, which has brought about a rapid and steady expansion of its export trade.

Paradoxically, this very same growth harbours elements of uncertainty for the future. The introduction of new export activities, the low per capita level of exports, the improvements made, and the very dynamism of exports are all auguries of further growth, but the fact that meat exports have come to be a significant proportion (5 per cent) of world supplies, and that the present internal potential of the economy is being exploited almost to the full, indicate that further growth, involving a larger share of the world market for Paraguay, will be hard to achieve without a substantial rise in productivity.

Exports made good headway from 1963 onwards, their rate of growth for that year being 20 per cent, for 1964 24 per cent, and for 1965 25 per cent when they totalled 57.2 million dollars against 33.5 million in 1962. In this fairly short space of time, exports of processed meat more than doubled, while sales of maté, fruit, cotton fibres, and coconut and other oils rose more than 80 per cent, and sizable, if smaller, increments were achieved by roundwood, sawnwood, hides, tobacco and quebracho extract.

Of the dynamic export lines, both the staples—meat, wood and cotton fibres—and the new commodities—tobacco and fruit—hold out good prospects for the near future.

Meat is expected to rise by a record 10 per cent or so in 1966. In fact, a slight increase in the average weight of the animals was already noted in 1965 as a result of the investment made to improve farm administration. There is a satisfactory programme of technical and financial aid for the development of the sector.

Wood, which went through a recession in the fifties, has recovered slowly and nearly all the lots that have been awaiting a market since 1957 have now been sold. Thanks to high prices, a number of workshops and half-abandoned

sawmills have been refitted, new investment is planned in sawnwood production and the first exports of wood for parquet floors have sold well. Sizable improvements have been made in equipment, such as the addition of artificial dryers, which will change the traditional process by reducing the specific weight of the wood and, consequently, the freight costs. The increase in the cotton-growing area also indicates that a bigger supply of cotton fibre will be available in 1966.

Of the new export lines, tobacco has gained a footing on foreign markets and more land is being taken over for tobacco cultivation towards the Paraná in the hope of a rapid increase in exports. As regards fruit, a modern canning factory to be opened in 1966 will can pineapples, citrus fruits and other products such as sweet potatoes and tomatoes, and a new packing plant is also to be set up.

The prospects for oil-seeds are unpromising. There are misgivings about the competition between Brazilian *babú* oil and coconut oil; the prices of tung oils have dropped more than 20 per cent because of the competition from mainland China and because substitutes are easily found, while the castor oil market has been pre-empted by Brazil. The only items with good prospects are essential oils, and oil of petitgrain in particular.

The other products have a market in the neighbouring areas of the southern tip of Latin

America and can also compete at a disadvantage with producers in the importing countries themselves (e.g., maté), although the growth of this trade will depend on regional agreements.

Imports have taken a different course from exports. In 1963, they fell 4.8 per cent, in 1964 increased 3.6 per cent and in 1965 climbed again, by 30 per cent. These sharp fluctuations were largely determined by imports of capital goods, which decreased 22.4 per cent in 1963 only to expand by 23.7 and 66.7 per cent in the next two years. Imports of machinery increased most of all, being almost twice as much in 1965 as in 1964, and purchases of building iron also went up steadily.

Other groups of products showed sizable increases, including purchases of such luxury goods as whisky, silk fabrics and electrical appliances. Imports of intermediate goods such as fuels and chemical products (fertilizers) did not expand very much, while those of food products dropped from 7.1 million current dollars in 1962 to 5.7 million in 1965, mainly because of the fluctuations in wheat flour production.

As a result of export and import trends the balance-of-payments deficit on current account shrank from 11 million dollars in 1964 to 3.6 million in 1965, while the country's foreign exchange reserves have been growing from 1963 onwards (see table 193 and figure XXXII (b)).

Table 193. Paraguay: Balance of payments, 1963-65
(Millions of dollars)

	1963	1964	1965
<i>Exports</i>	44.1	49.8	64.8
Goods	38.7	45.4	60.0
Services	5.4	4.4	4.8
<i>Imports</i>	55.4	61.8	69.6
Goods	40.6	45.1	51.0
Services	14.8	16.7	18.6
<i>Private transfer payments</i>	2.7	0.7	1.2
<i>Total current account</i>	-8.6	-11.3	-3.6
<i>Financing</i>			
1. Official transfer payments	3.2	4.0	...
2. Private long-term capital	4.6	5.5	...
3. Official long-term capital	1.5	2.9	...
4. Short-term capital	5.6	3.0	...
5. Monetary reserves (-increase)	-0.5	-2.6	...

Source: ECLA, on the basis of official statistics.

Chapter IX

PERU

I. RECENT TRENDS

The growth rate of the Peruvian economy, after slackening in 1963, subsequently regained the dynamic vigour which had characterized it since 1960, and which places it among the steadiest and most intensive in Latin America during the period under review. Provisional estimates for 1965 indicate rates of increase of 6 per cent and 3 per cent, in total and per capita terms respectively, for the country's gross product and real income (see table 194 and figure XXXIII (a)).

Table 194. Peru: Annual growth rates of gross domestic product and real income (total and per capita), 1960-65

Period	Total		Per capita	
	Gross product	Real income	Gross product	Real income
1960-65	6.3	7.3	3.3	4.3
1960-61	9.2	8.6	6.3	5.7
1961-62	7.4	7.7	4.4	4.7
1962-63	3.7	5.2	0.7	2.2
1963-64	5.4	9.1	2.3	6.0
1964-65 ^a	6.0	6.0	2.9	2.9

Source: For gross product, National Planning Institute; for real income, ECLA, on the basis of Planning Institute statistics.

^a Provisional figures.

The favourable trends registered in 1965 were influenced by circumstances rather different from those which had been responsible for the growth achieved in previous years. The marked expansion of exports had been the determining factor in the high over-all rates of development up to 1964, whereas in 1965 the export sector did not play the same role. The falling-off in the *anchoveta* catch during the last quarter of the year, the stagnation of cotton exports and the drastic contraction in the volume of external sales of sugar reduced the quantum of exports by about 7 per cent; but thanks to the improvement in world prices for fish meal and for the mining products exported by Peru, total foreign exchange income remained practically the same as in the preceding year. It should be recalled that the income in question had increased by 23 per cent in 1964 in relation to 1963.

Imports, on the other hand, kept up their sharply rising trend, with a growth rate more than four times higher than that of the gross product. In 1965 their value amounted to 730 million dollars at current prices, i.e., twice as much as in 1960 and 28 per cent more than in the preceding year. The Peruvian economy's increasing dependence on supplies from abroad is reflected, on the one hand, in the high coefficient of imports of goods and services in relation to the gross product (rather more than 30 per cent in 1965, as against an average of a little under 10 per cent for Latin America as a whole) and, on the other, in the difficulty of restricting such imports should foreign exchange income fail to increase in some years, as in 1965.

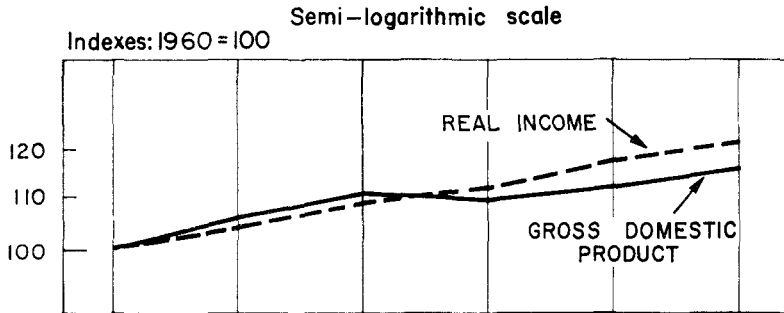
In that year, the disparity between the growth rates of exports and imports gave rise to a deficit of 135 million dollars in the balance of payments on current account. In this respect, the situation had been different in 1964, when a slight surplus was shown, and in earlier years, when the deficit, if any, had been very much smaller (see table 195 and figure XXXIII (b)). The margin by which purchases from abroad exceeded the capacity to import generated by exports was financed by greater use of public and private external capital, the net aggregate of 21 million dollars recorded in 1964 soaring to about 100 million in 1965 (see table 196 later). Despite the heavy deficit on current account, the Central Bank increased its international reserves by purchasing the dollar surplus on a loan obtained from United States commercial banks to supplement Government budget financing.

As has been shown, the failure of exports to expand was not matched by a similar behaviour pattern in the volume of supplies from abroad; on the contrary, the use of external financing on a larger scale enabled imports to increase more rapidly than in the preceding three-year period. They thus provided a means of bridging the gap created by the exceptional dynamism of internal demand in 1965 in relation to the increment in the gross product. In the aggregate, consumer and capital expenditure expanded by 12 per cent, i.e., twice as fast as the gross domestic product.

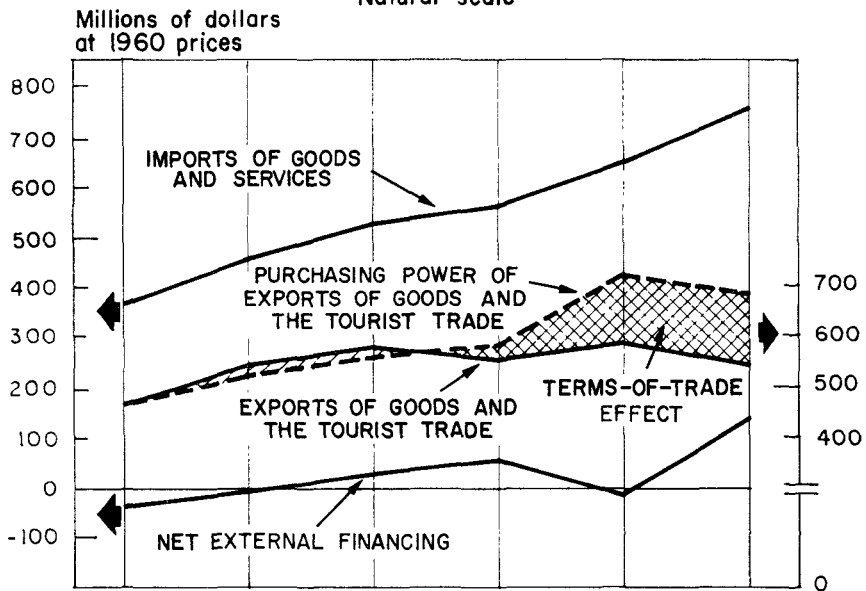
Hence it would appear that in 1965 the prime mover of the Peruvian economy was no longer

Figure XXXIII. Peru, 1960-65

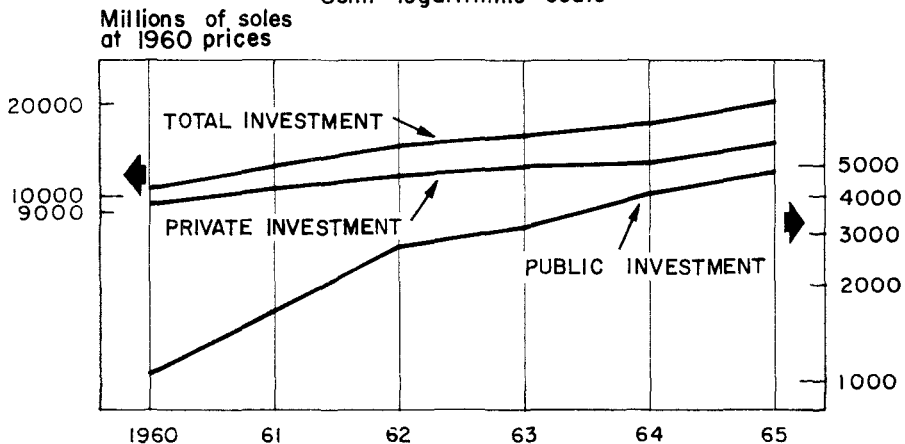
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS
Natural scale



(c) INVESTMENT TRENDS
Semi-logarithmic scale



Source: ECLA, on the basis of official statistics.

Table 195. Peru: Evolution of the external sector, 1960-65
(Millions of dollars at 1960 prices)

Year	Volume of exports of goods and the tourist trade	Terms-of-trade effect (in relation to 1960)	Purchasing power of goods and the tourist trade	Net external factor payments	Imports of goods and services, including the tourist trade	Balance on current account
1960	462.4	—	462.4	62.0	368.7	31.7
1961	540.7	-13.7	527.0	56.2	458.3	12.5
1962	574.0	-7.7	566.3	62.3	523.7	-19.7
1963	547.9	32.3	580.2	65.7	565.0	-50.5
1964	588.8	135.3	724.1	71.2	644.3	8.6
1965 ^a	544.4	144.2	688.6	74.0	750.1	-135.5

Source: ECLA, on the basis of IMF publications.

^a Provisional figures.

to be found in the export sector but in internal factors of expansion, although the forces by which their operation was determined had also been partly generated by the earlier dynamism of the export sector. It should not be concluded, however, that Peru's development model altered substantially in 1965, since industry was still characterized by a lack of diversification in relation to domestic demand for manufactured goods.

The inelasticity of the agricultural food supply, to which reference will be made later, combined with the inability of manufacturing activity to satisfy the increase and qualitative changes in domestic demand, made the subsequent progress of the economy very largely contingent upon the behaviour of the capacity to import. It has already been shown how, in face of the stagnation of exports, recourse was had to the expedient of larger-scale external financing. Although this path cannot, of course, be pursued indefinitely, the incidence of the external debt on foreign exchange income is still far less in Peru than in other countries of the region.

There is also some connexion between the failure of domestic production to keep pace with the steady expansion of demand, and the upward trend of prices, which has become so much sharper in the last three years that it has been causing the Peruvian authorities increasing concern. In the Lima-Callao area, the consumer price index rose at the following rates: 4.8 in 1962, 8.8 in 1963, 11.2 in 1964 and 14.9 in 1965. In view of the relatively high level of the upswing registered in the last of these years, the uneasiness felt in official circles found expression in specific measures in the monetary field.

Among the various sectors of internal demand, it was public investment that proved most dynamic, increasing at the exceptionally rapid

average annual rate of 34 per cent in the years succeeding 1960 (see table 196). Between 1960 and 1965 its value in absolute terms quadrupled, and in the latter year reached 4,700 million soles (at 1960 prices). The steady expansion of the Government's consumer expenditure and the changes that took place in its structure reflect the new lines pursued by official development policy. Furthermore, steps were taken to channel this policy through a more strenuous planning effort. The legal adoption of performance budgeting for the central Government, its subsequent extension to the whole of the public sector, and the marked degree in which the budget took into account the successive public investment programmes prepared by the Planning Institute for 1964-65 and for 1966, all represent ways and means of rechannelling public expenditure and establishing priorities compatible with the over-all economic and social development plan formulated by the Institute.

Public investment seems to have increased by about 16 per cent in 1965, outstanding components being expenditure on highways, docks, sewage systems, irrigation works and housing. The Government's consumer expenditure registered the high growth rate of 14 per cent.

Private investment, which in quantitative terms amounted to three times as much as public investment, increased slowly in 1963 and 1964, but the rate shot up in 1965, when it was virtually as dynamic as that registered in the public sector (see figure XXXIII (c)). This recovery was partly attributable to the official policy designed to attract foreign capital, which was invested mainly in the installation of several motor-vehicle assembly plants. To judge from some indicators, there was also a significant increase in housing investment, which, in conjunction

Table 196. Peru: Gross product, investment, consumption and external sector, 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of soles at 1960 prices</i>						
Gross domestic product	55,650	60,782	65,260	67,650	71,270	75,550
Total investment	10,700	12,555	14,659	15,292	16,816	19,514
Public	1,095	1,752	2,741	3,188	4,069	4,739
Private	9,605	10,803	11,918	12,104	12,747	14,776
Total consumption	42,691	46,427	49,843	53,652	56,996	63,171
Public	5,383	6,001	6,379	7,608	8,955	10,213
Private	37,308	40,426	43,464	46,044	48,041	52,958
Exports of goods and services	13,686	16,004	16,989	16,217	17,427	16,113
Imports of goods and services	11,427	14,204	16,231	17,511	19,969	23,248
	1960-65	1960-61	1961-62	1962-63	1963-64	1964-65
<i>Annual growth rates</i>						
Gross domestic product	6.3	9.2	7.4	3.7	5.4	6.0
Total investment	12.8	17.3	16.8	4.3	10.0	16.0
Public	34.0	60.0	56.4	16.3	27.6	16.5
Private	9.0	12.5	10.3	1.6	5.3	15.9
Total consumption	8.1	8.8	7.4	7.6	6.2	10.8
Public	13.7	11.5	6.3	19.3	17.7	14.0
Private	7.3	8.4	7.5	5.9	4.3	10.2
Exports of goods and services	3.3	16.9	6.2	-4.5	7.5	-7.5
Imports of goods and services	15.3	24.3	14.3	7.9	14.0	16.4

Source: For 1960-64, ECLA, on the basis of national statistics from the National Planning Institute, *Estadísticas preliminares básicas para la programación del desarrollo*

económico y social, April 1965. For 1965, direct information.
^a Provisional figures.

with the impetus acquired by investment in public works, created a cement supply problem that had to be solved by means of imports.

This brief account of salient economic events in the recent past needs supplementing with a few facts relating to social participation in the country's development process.

A backward glance at the evolution of the Peruvian economy reveals that during the last three five-year periods it has registered a satisfactory over-all annual growth rate, which may be estimated at 2.8 per cent of the per capita product. To ascertain how far so dynamic a rate of development has affected the welfare of the various sectors of the population, statistical information would be needed on the changes in income distribution that have taken place during the same lapse of time. The only study in existence is one relating to a recent year¹ which, although shedding some light on the present situation, affords no basis for reducing the scale or direction of the changes in question. How-

¹ Provisional research in relation to 1961 carried out by the Department of National Accounts of the Planning Institute.

ever, the data it presents are clearly illustrative of the state of affairs. They indicate that rather more than half the wage-earning population, consisting mainly of urban and rural workers, small farmers and domestic servants—responsible for the maintenance of some 6 million persons—received about one-sixth of the national income in 1961 (see table 197). Their earnings averaged 4,550 soles per household or, in other words, were equivalent to an annual per capita income of 1,380 soles.²

These huge population sectors have virtually no share in the country's economic life or in the benefits of the progress achieved in some areas and sectors of activity. While this situation is common to other countries of the region in whose economic structure two sectors exist side

² This figure would be equivalent to an average income of 50 to 80 dollars, according to whether the official rate of exchange were applied or a parity rate estimated on the basis of ECLA research conducted for other purposes. See "A measurement of price levels and the purchasing power of currencies in Latin America, 1960-62", an excerpt from document E/CN.12/653 reproduced in the *Economic Bulletin for Latin America*, vol. VIII (1963), pp. 195-235.

Table 197. Peru: Distribution of personal income,^a 1961

Annual income steps (Soles)	Wage-earning population		Total remuneration	
	Thousands of persons	Percentage of total	Millions of soles	Percentage of total
Up to 4,160 .	697.0	22.25	1,531.4	3.3
4,160- 7,280 .	827.5	26.42	4,813.5	10.6
7,280- 9,360 .	158.7	5.07	1,321.1	2.9
9,360- 12,480 .	167.5	5.35	1,829.0	4.0
12,480- 15,600 .	557.9	17.81	7,833.6	17.2
15,600- 23,920 .	416.2	13.29	7,669.7	16.9
23,920- 41,600 .	144.0	4.59	4,660.9	10.3
41,600- 62,400 .	86.4	2.76	4,466.5	9.8
62,400-100,000 .	43.8	1.40	3,467.6	7.6
100,000-300,000 .	25.3	0.81	4,132.7	9.1
300,000 and over .	7.6	0.25	3,761.7	8.3
TOTAL	3,131.9	100.00	45,487.7	100.0

Source: National Planning Institute, Department of National Accounts.

^a Provisional figures.

by side—one highly dependent upon exports, and the other under-developed, lacking both internal cohesion and points of contact with the first—it is particularly striking in Peru, where recent years have witnessed the emergence of certain favourable circumstances that have determined the high over-all growth rates cited above.

The Peruvian authorities have adopted measures to secure fuller social participation in the development process. These include a national plan for the integration of the indigenous population designed to provide the sector in question with the means of improving its productivity. Mention may also be made of the work done in this connexion by the Ministry of Labour and Indigenous Affairs and the Popular Co-operation Agencies. Early in 1965 the National Community Development Council was established, to be specifically responsible for formulating development programmes for the indigenous communities and co-ordinating the activities undertaken in this field. In its initial phase, the Joint Action Plan (Plan de Acción Conjunta), whose objective is the integration of the indigenous sectors, will cover seven different areas with an aggregate population of 1,250,000 inhabitants. The plan envisages an outlay of 40 million dollars, and external credits for its purposes have apparently already been approved. It comprises fifteen sub-projects prepared by the departmental authorities and by participating agencies in their respective spheres of action. These sub-projects relate to the socio-economic infrastructure, agricultural credit and extension services, technical assistance, development of

livestock production, soil conservation, promotion of folkcrafts and cottage industries, development of co-operatives, rural housing, health and education, etc.³

Among the institutional measures adopted, the Land Reform Act (May 1964) deserves mention, although the difficulties encountered in applying it precluded the attainment of the targets programmed for its first year of operation.

The evolution of the key factors in Peru's recent development—namely, external transactions, changes in the sectoral product and fiscal trends—will be analysed in fuller detail below.

2. EXTERNAL TRANSACTIONS

(a) Exports

The figure reached by exports of goods in 1965 was 687 million dollars, which was scarcely higher than in 1964. The smallness of this increment in comparison with those registered in previous years is imputable to several causes. The volume of fish meal exports contracted, owing to the declaration of a closed season during August and to several months of bad weather. Nevertheless, total exports of fisheries products did not decrease in volume, as fish meal carry-overs were turned to account and sales of other fisheries products, such as fish oils and shell-fish, expanded. The value of these exports increased by 11.8 per cent, owing to the

³ For further details of this Plan, see *El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo económico del Perú* (Washington, 20 September 1965), a report presented to the appropriate Sub-Committee of the Inter-American Committee on the Alliance for Progress.

Table 198. Peru: Exports, by major items, 1960-65

Commodity	1963	1964	1965	1963-64	1964-65	1964	1965
	Millions of dollars			Annual percentage variation		Percentage structure	
Fish and fish meal	122.6	166.8	186.5	36.0	11.8	24.4	27.1
Copper	87.3	103.0	121.2	18.0	17.6	15.0	17.6
Cotton	91.4	91.3	87.4	-0.1	-4.2	13.3	12.7
Sugar	64.9	63.9	37.5	-1.5	-43.0	9.3	5.5
Iron	36.5	38.9	47.0	6.5	20.8	5.7	6.8
Lead	16.4	32.9	37.8	100.6	14.8	4.8	5.5
Silver	35.8	45.2	39.1	26.3	-13.5	6.6	5.7
Zinc	15.8	39.1	35.8	147.4	-8.4	5.7	5.2
Coffee	25.6	37.0	29.0	44.5	-21.6	5.4	4.2
Petroleum and petroleum products	9.8	9.6	9.3	-2.0	-3.1	1.4	1.4
Other products	49.0	56.9	56.4	15.4	-0.7	8.3	8.2
TOTAL	555.1	684.6	687.0	23.3	0.4	100.0	100.0

Source: Banco Central de Reserva del Perú, *Reseña Económica y Financiera*, No. 9, January 1966.

considerable rise in world market prices for fish meal.⁴ But cotton, sugar and coffee were the crops that kept the total value of exports stationary in 1965 (see table 198). The fall in world prices for cotton and sugar caused contractions of 4 and 43 per cent respectively in foreign exchange income, and the decrease in production of coffee for export reduced the corresponding foreign exchange earnings by 22 per cent. Among exports of mining products, those of silver declined by 13.5 per cent, those of zinc by 8.4 per cent and those of petroleum and petroleum products by 3.1 per cent, while iron exports increased by 20.8 per cent, and under the auspices of favourable world market conditions copper sales expanded by 17.6 per cent.

The structure of Peru's exports is fairly diversified, comprising fisheries, mining, agricultural, and, on a much smaller scale, industrial products. The principal item is fish meal, which in 1965 accounted for 27 per cent of the total value of exports followed by copper (18 per cent), cotton (13 per cent), and a group of six commodities (sugar, coffee, iron, lead, silver and zinc) whose individual shares ranged from 4 to 6 per cent.

A break-down of Peru's exports by major categories shows that over the long term their composition has altered in favour of fisheries products. Agricultural commodities represented more than half of total exports in 1950 and are now approximately one-fourth, whereas the proportion corresponding to fisheries products has shot up since 1960. The share of mining products has

fluctuated around 40 per cent of the total, although it increased in 1964 and 1965 (see table 199).

Table 199. Peru: Composition of exports by major categories, 1950-65
(Percentages of total)

Year	Agricultural products	Fisheries products	Mining products	Miscellaneous
1950	57.1	3.0	37.9	2.1
1955	47.4	4.7	45.3	2.6
1960	35.7	12.1	49.4	2.8
1962	36.2	22.5	39.1	2.1
1963	37.2	22.6	38.4	1.8
1964	31.9	25.6	41.7	1.3
1965	24.3	28.1	45.4	2.2
Averages				
1950-59	51.1	5.4	41.4	2.1
1960-65	33.7	20.8	43.5	2.0

Source: Ministry of Foreign Affairs, Department of Economic Affairs, *Actualidad Económica del Perú*, year VII, No. 47, January 1966.

Lastly, as regards Peru's export markets, Europe was the leading purchaser in 1965 (45.8 per cent of the total). Next came the United States (34 per cent), followed by Latin America (10 per cent) and the remaining countries (with a similar aggregate share).

(b) Imports

The expansion of domestic demand boosted imports appreciably to 730 million dollars, or 26 per cent more than in the preceding year (see table 200).

⁴ From 110 dollar cents per pound at the end of 1964 to 122 dollar cents at the close of 1965.

Table 200. Peru: Imports, c.i.f., 1960-65

	1960	1961	1962	1963	1964	1965 ^a
<i>Millions of dollars at current prices</i>						
1. Non-durable consumer goods	54.0	63.7	71.5	85.0	86.8	104.6
2. Durable consumer goods	30.6	42.0	44.3	53.5	60.5	71.4
3. Fuels	17.1	15.6	16.3	15.6	17.7	23.0
4. Metallic raw materials	20.6	23.8	24.3	24.4	24.5	36.2
5. Non-metallic raw materials	99.1	119.8	125.9	124.9	142.1	183.1
6. Building materials	17.2	24.8	31.5	24.2	28.0	46.0
7. Agricultural machinery and equipment	10.6	13.6	14.0	14.4	14.8	13.6
8. Industrial machinery and equipment	78.8	105.4	140.8	137.7	130.2	169.6
9. Transport and communications equipment	43.5	57.7	63.5	71.5	63.4	79.4
10. Miscellaneous	1.3	2.0	2.2	2.0	2.9	2.8
TOTAL	372.8	468.1	534.3	553.2	570.9	729.7
<i>Percentages of total</i>						
1. Non-durable consumer goods	14.5	13.6	13.4	15.3	15.2	14.3
2. Durable consumer goods	8.2	9.0	8.3	9.7	10.6	9.8
3. Fuels	4.6	3.3	3.1	2.8	3.1	3.2
4. Metallic raw materials	5.5	5.1	4.5	4.4	4.3	5.0
5. Non-metallic raw materials	26.6	25.6	23.6	22.6	24.9	25.1
6. Building materials	4.6	5.3	5.9	4.4	4.9	6.3
7. Agricultural machinery and equipment	2.8	2.9	2.6	2.6	2.6	1.9
8. Industrial machinery and equipment	21.1	22.5	26.4	24.9	22.8	23.2
9. Transport and communications equipment	11.7	12.3	11.9	12.9	11.1	10.8
10. Miscellaneous	0.4	0.4	0.3	0.4	0.5	0.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLA, on the basis of official foreign trade statistics.

^a Provisional figures.

Imports of consumer goods, especially foodstuffs, seem to have expanded in order to satisfy the requirements generated by higher income levels and population growth, in face of the inelasticity of the internal supply. In the aggregate, the non-durable consumer goods group showed an increment of 18 million dollars.

Imports of capital goods increased considerably, particularly those for industrial purposes and, to a lesser extent, transport equipment. This expansion is basically attributable to the infrastructure projects executed with the aid of new external credits, and to the installation of motor-vehicle assembly plants in the course of 1965.

The essential changes that took place in the structure of imports between 1960 and 1965 may be summed up as follows: imports of non-durable consumer goods increased by 50 million dollars, and their share in total imports hovered around 14 per cent, while their contribution to the total supply of the goods in question gradually increased. The import content of total personal expenditure on consumption rose from

3.9 to 5.3 per cent between 1960 and 1965. This situation, indicative as it is of the special growth pattern of the Peruvian economy, whose export sector has developed vigorously, differs from the trend characteristic of other Latin American countries where the mainspring of development in recent years has been import substitution in consumer goods. In response to the increased demand deriving from the rise in urban income levels, imports of durable consumer goods gained in relative importance, and in terms of absolute value more than doubled.

Domestic supplies of fuels and metallic raw materials developed on a fairly considerable scale, the proportion of imports represented by these two groups falling from 4.6 to 3.2 per cent and from 5.5 to 5 per cent, respectively, between 1960 and 1965 (see again table 200). External purchases of non-metallic raw materials grew in step with total imports, since in 1965 they amounted to 183 million dollars, i.e., one quarter of total purchases abroad. With respect to building materials, the data for Peru show a different trend from that usually registered in

other countries of the region, where the coefficient of imports of this type has decreased.

Certain changes have taken place in the composition of imports of capital goods, which in 1965 accounted for 36 per cent of total imports. The share of agricultural equipment has dwindled, while that of industrial machinery and equipment has increased. Foremost among the latter have been capital goods for the fish meal industry. The proportion represented by transport material and equipment has remained much the same.

(c) Foreign exchange income and the capacity to import

Allusion has already been made to the exceptional dynamism of Peru's exports up to 1964 and their relative stagnation in 1965. Gross income from the tourist trade reached a maximum of 30 million dollars in 1963, but afterwards contracted slightly. The trends pursued by these two items, on which foreign exchange income basically depends, led to a small reduction of the income in question (696 million dollars in 1965 as against 710 million in 1964), in contrast with the sharp upward movement registered in previous years (see table 201). Conversely, net income from foreign loans and investment climbed from 73 million dollars to 134 million, an increase which—despite the heavier transfers abroad under the head of service and amortization payments on foreign loans—raised total foreign exchange receipts, including capital inflows, by about 33 million dollars. Owing to the change of sign in the errors and omissions account, which may well indicate a repatriation of private capital, total purchasing power rose above its previous figure, to 767 million dollars, which was more than enough to finance the high value of imports of goods and services (758 million dollars), and even enabled the monetary authorities to augment their net international reserves by about 10 million dollars.

3. SECTORAL PRODUCTION TRENDS

The most striking feature of Peru's sectoral production is that, despite the country's rapid economic growth in the first half of the sixties—as borne out by the increase of over 40 per cent in real income between 1960 and 1965—no major changes can be seen in the internal structure of production, at least at the level of aggregation at which the analysis is made. There was a slight reduction in the share of agriculture, and a somewhat larger one in that of mining, while manufacturing industry and construction registered an increase and the relative importance

Table 201. Peru: Total purchasing power and imports of goods and services, 1960-65
(Millions of dollars at current prices)

Year	Exports		Purchasing power					Imports of goods and services	Balance	
	Goods	Tourist trade (gross income)	Total	Net autonomous capital movements	External factor payments (net income)	Amortization of trade arrears and balance-of-payments loans	Sub-total			Errors and omissions	Grand total
1960	443.3	19.1	462.4	+ 5.5	-62.0	-15.7	390.2	-4.6	385.6	+16.9
1961	508.9	23.4	532.3	+11.3	-56.8	—	486.8	+10.4	497.2	+34.3
1962	554.2	28.5	582.7	+53.4	-64.1	—	572.0	-27.0	545.0	+6.2
1963	556.0	30.0	586.0	+62.2	-66.4	—	581.8	+7.4	589.2	+18.5
1964	684.6	25.7	710.3	+72.7	-69.8	—	713.2	-33.0	680.2	+48.1
1965 ^a	669.5	26.0	695.5	+134.3	-74.7	—	755.1	+12.0	767.1	+9.5

Note: Import and export data were obtained from balance-of-payments statistics, and differ from those previously presented, which were taken from customs records.
^a Provisional figures.

Source: IMF, *Balance of Payments Yearbook*, vols. 12 et seq. (figures rounded by ECLA).

of current government activities remained unchanged (see table 202).

(a) *Agricultural sector*

The agricultural sector—including the rapidly growing fishing industry and forestry—has been losing ground in the last three years, its share of the total product in 1965 being 21.3 per cent, or slightly less than in 1960. This sector and that covering commercial operations, whose growth has been closely in line with the evolution of the total product, carry most weight in the formation of the total product, which is analysed below.

Table 203 shows the trends followed by Peru's agricultural products, which determine the sector's over-all evolution. In 1965, agricultural production (excluding forestry and fisheries) barely maintained the per capita levels reached at the end of the previous decade, the index (1957-59=100) being 99. Even more unfavourable was the trend of food production, which reflected a decided drop in the per capita figures (10 per cent between 1960 to 1965). This trend was influenced by the absolute contraction in the production volume of wheat, rice, sugarcane, beef and pork, and by the rate of increase for the supply of other products—potatoes, barley and cotton seed for the oil industry—which was equal to or slower than population growth.

As a result of pests and serious floods in the Department of Piura, the cotton harvest was 6 per cent smaller than the 1964 figure, which, in turn, had been below the average for the preceding years.

The decline of nearly 10 per cent in the production of rice with respect to the previous year (20 per cent in relation to 1960) was due to the inadequate system of irrigation in the main producing valleys. There is now a shortage of this important item of popular consumption in Peru.

Maize is a notable exception to the static situation described above, its larger output being due to an increase in yield through the use of selected seed and to the incentive provided by the greater demand for this commodity for industrial use and for the recently developing poultry industry.

The problems confronting the sector in the last few years have led to the creation of various incentives—tax exemptions, recovery credit, authorization to raise the sales price of certain items, etc.—and in general to programmes aimed at improving the storage and marketing of agricultural products. With the same end in view, steps have been taken to extend the land devoted to agriculture by building the Tinajones dam

Table 202. Peru: Growth rates of the real gross domestic product, by economic sector, 1960-65

Sector	Annual growth rates					Percentage of total gross domestic product					
	1960-61	1961-62	1962-63	1963-64	1964-65 ^a	1960	1961	1962	1963	1964	1965 ^a
Agriculture, forestry, hunting and fishing	10.1	10.8	-1.2	4.6	5.7	21.8	21.9	22.6	21.6	21.4	21.3
Mining and quarrying	6.4	-5.4	7.0	3.1	2.3	8.8	8.6	7.6	7.8	7.6	7.4
Manufacturing	10.0	8.6	5.6	5.6	7.1	18.8	19.0	19.2	19.5	19.6	19.8
Construction	18.0	18.5	7.0	10.4	12.9	3.2	3.4	3.8	3.9	4.1	4.4
Transport and communications	6.1	7.2	5.1	6.1	5.4	5.4	5.3	5.2	5.3	5.3	5.3
Trade and finance	11.7	9.1	3.9	5.6	7.0	20.4	20.8	21.2	21.2	21.3	21.5
Ownership of dwellings	3.5	3.7	4.5	5.0	3.7	8.0	7.6	7.3	7.4	7.4	7.2
Public administration and defence	8.2	5.8	5.9	6.2	5.8	7.7	7.6	7.5	7.7	7.8	7.7
Other services ^b	6.1	3.2	3.5	4.5	3.7	5.9	5.8	5.6	5.6	5.5	5.4
TOTAL	9.2	7.4	3.7	5.4	6.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: 1960-64: National Planning Institute.

^a Provisional figures.

^b Including electricity, gas and water.

Table 203. Peru: Output of the main agricultural products and over-all per capita production indexes, 1960-65

	1960	1961	1962	1963	1964	1965
	<i>Thousands of tons</i>					
Wheat	154	153	193	156	150	150
Barley	195	217	200	196	207	220
Maize	339	380	358	362	380	420
Rice	358	332	391	270	315	284
Sugar-cane	8,734	8,663	7,288	7,439	7,380	7,400
Potatoes	1,145	1,244	1,245	1,230	1,300	1,320
Sweet potatoes	129	145	146	159	152	160
Yucca	350	365	377	395	418	420
Dried beans	37	37	42	45	46	56
Cotton seed	269	318	327	303	312	290
Beef	75	78	78	73	70	73
Pork	37	35	44	31	31	32
Mutton	39	38	38	38	40	42
Milk	439	451	464	551	562	573
Coffee	32	43	46	49	52	53
Cotton	121	143	149	136	140	131
Tobacco	2	3	3	3	3	3
Wool	10	10	11	11	10	10
	<i>Per capita production index (1957-59=100)</i>					
Crop and livestock production	105	111	109	102	103	99
Crop production	106	114	111	103	103	100
Food production	106	107	103	96	96	95

Source: United States Department of Agriculture, Economic Research Services, *Indices of agricultural Production for the 20 Latin American Countries*, revised ed., January 1966.

and preparing irrigation projects for the Olmos and Majes areas.⁵

In order to meet the sector's financing needs in 1965, the resources of the agricultural development bank were increased by 26 million dollars with the aid of external funds.

(b) Fisheries

The fisheries industry, which in its brief but dynamic existence had topped its production record year after year, failed to keep up the pace in 1965, when output dropped by 300,000 tons, i.e., 20 per cent. As previously noted, Peru's fish meal exports were maintained thanks to the stocks carried over from the previous year.

The financing of the fisheries industry is likely to become easier with the granting of a 25-million-dollar loan by private North American and European banks to be channelled through the Banco Industrial del Perú. With a view to mitigating the effects of the sharp fluctuations that tend to occur in *anchoveta* catches, the Government set a ceiling for fishing as a whole and declared certain periods to be closed seasons.

It is hoped thus to ensure a more regular flow of raw material for the processing industry.

(c) Mining

Mining, which completes the group of extractive activities, has seen its growth rate decline drastically in the last two years; consequently, its share in the total gross product dropped from 8.8 per cent in 1960 to 7.4 per cent in 1965. Table 204 contains the production series for the principal mining products. There were reductions in the production volume of copper and iron in 1964 and 1965, while 1965 marked a slight increase in the output of lead and crude petroleum and a somewhat larger one in that of silver and zinc.

(d) Manufacturing

Manufacturing has grown faster than the total product, but, owing to the considerable increase in over-all internal demand, its share in total consumption and investment expenditure gradually declined from 19.6 per cent in 1960 to 18.1 per cent in 1965. This sector's growth rate is provisionally estimated to have been 7.4 per cent in 1965 against 5.6 per cent the year before. Its share in the total product was approximately 20 per cent in 1965.

⁵ See the 78a. *Memoria del Banco de Crédito del Perú*.

Table 204. Peru: Output of the principal mining products, 1955-65

Product	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 ^a
Copper ^b (thousands of tons)	43.4	46.2	57.2	53.6	49.8	181.7	198.0	166.8	177.4	174.5	176.1
Iron ^c (thousands of tons)	1,056	1,752	2,148	2,017	1,949	2,818	3,057	3,247	4,081	3,877	3,751
Silver (tons)	714	715	773	806	847	957	1,063	1,024	1,145	1,152	1,205
Lead ^b (thousands of tons)	119	129	137	134	116	132	136	128	146	149	156
Zinc ^b (thousands of tons)	166	175	154	135	143	178	174	162	196	231	272
Petroleum (thousands of m3)	2,741	2,923	3,052	2,979	2,820	3,063	3,083	3,358	3,416	3,676	3,750

Sources: *Anuario de la industria minera del Perú*; National Industrial Development Institute, Department of Economic Analysis, and Banco Industrial del Perú, Bureau of Economic Studies, *Situación de la industria peruana en 1964*, Lima, 1965, table 8 (e); information furnished directly.

^a Provisional figures.

^b Recoverable metal content.

^c Metal content.

Table 205 shows the production trends followed by a sample of industries up to 1964. From one year to the next the over-all growth rates have differed considerably from those of the total product taken from the national accounts, although they combine to show a high degree of dynamic force in recent years and a decline in 1963, considered in relative terms. Many of the discrepancies are attributable to the fact that table 205 excludes artisan industry whose incidence is considerable in Peru and whose growth in all probability is slower than that of factory industry. If the trends followed by the main branches of industry up to 1964 are analysed, it will be seen at a first glance that the traditional industries represent over 50 per cent of the value added in total industrial production. Their share would be even larger if small-scale industry were included.

Broadly speaking, the evolution of industrial production reflects the movements of three major sectors. The first comprises industries based on export demand—fish meal, sugar and the refining of certain metals—which have a comparatively high standard of efficiency and productivity. Fish meal recorded the fastest production increase (an average of about 30 per cent in 1960-64), despite the static position in 1963. Its share of total production rose from 3.5 per cent in 1960 to 7.5 per cent in 1964. The second group consists of industries manufacturing finished products and durable goods, for which the market is large enough for them to have fairly efficient facilities. Chief among these are the chemical industries, which in 1962-64 registered an average annual growth rate of 13 to 15 per cent. The third group is composed of industries producing non-durable consumer goods and other activities including a considerable proportion of small-scale establishments. Of these, textiles, leather manufactures and beverages in general registered smaller increases than other sectors, while significant progress was made in footwear and made-up goods.

The data for 1965 indicate that there were substantial production increments in certain industries which had curtailed their output the year before. These include shipyards, factories producing machinery and equipment for fish meal plants, and factories manufacturing fishing-nets. Less favourable trends are noted in textiles—both cotton and man-made fibres—and the leather industry. The most important development in the industrial sector in 1965 was undoubtedly the establishment of motor-vehicle assembly plants. Also important, although less so, was the installation of plants for assembling refrigerators, washing-machines and television sets.

Table 205. Peru: Industrial production trends, 1960-64
(Percentages)

Industrial sector	Annual growth rates				Percentage of the total	
	1961	1962	1963	1964	1960	1964
Total industrial production	8.3	7.7	5.4	9.7	100.0	100.0
Food	10.7	4.6	1.3	10.8	24.6	29.7
(a) Fish meal	50.4	33.1	1.2	37.1	3.5	7.5
(b) Other food	4.0	-2.3	1.3	4.1	21.1	22.2
Beverages	2.5	15.5	10.1	5.1	7.5	5.2
Tobacco	8.7	-9.9	-11.7	-11.6	1.6	0.5
Textiles	2.3	5.7	5.4	-1.4	13.6	10.2
Footwear and made-up goods	6.5	12.2	5.4	11.5	6.1	6.5
Wood	3.6	25.6	0.3	13.6	2.8	2.3
Pulp and paper	11.6	2.0	14.5	6.7	1.6	1.7
Printing, publishing and allied industries	13.1	10.1	13.7	13.2	2.9	2.6
Leather	7.4	0.4	2.1	-10.9	1.3	1.6
Rubber	12.4	7.3	-8.2	-8.1	1.8	1.7
Chemicals	15.3	13.3	7.7	14.3	6.9	8.2
Petroleum and coal products	0.4	8.4	5.6	13.0	4.0	6.4
Non-metallic minerals	4.6	6.0	6.1	8.3	4.4	3.6
Basic metal trades	9.5	-13.6	11.5	1.3	12.4	10.6
Metal transforming	19.2	14.1	6.3	4.8	6.1	5.9
Diverse manufacturing	4.8	19.0	7.6	44.1	2.4	3.3

Sources: 1960-63: Banco Industrial del Perú, Bureau of Economic Studies, and National Industrial Development Institute, Department of Economic Analysis. 1964: National

Industrial Development Institute, *Situación de la industria peruana, 1964*, and Banco Industrial del Perú.

Noteworthy, too, are the first steps towards the creation of industrial estates in Arequipa, Tacna and Huancayo. Industries set up there will enjoy tax exemptions.

(e) Construction

The construction industry, which in 1964 was already expanding vigorously, expanded still more in 1965. The product for this sector went up by nearly 13 per cent, which brought its share of the total product to 4.4 per cent, as against 3.2 per cent in 1960.

This trend was mainly influenced by the public sector, owing to the increase in the construction of dwellings, dams, irrigation works and roads in 1965.

(f) Electric energy

The electric energy industry maintained a high rate of growth in 1965. Installed capacity rose from 786,000 to 996,000 kW between 1960 and 1965, and easily exceeded 1 million kW in 1965, when approximately 4,000 million kWh were generated.

The projects completed in 1965 include the entry into operation in February of the second 60,000-kW group in the Huinco hydroelectric plant, which is the most powerful in Peru. During the course of the year the third and fourth groups

also started to operate, thereby raising the plant's installed capacity to 240,000 kW.

Under the law promoting interconnexions, the Lima networks were linked up with those of the seaside resorts south of the city, which now have a satisfactory service.

An event of vital importance for copper mining was the establishment at Toquepala of a new thermoelectric plant with a capacity of 66,000 kW, which will generate enough energy to exploit the Cuacone and Quellaveco mines in the Department of Noquegua.

The most important projects undertaken by the public sector and about to be completed include the works for expanding the capacity of the Cañón del Pato hydroelectric plant from 54,000 to 108,000 kW. Once those projects are finished in 1966, it will be possible to meet the increasing needs of the Chimbote steel mill and the industries established in that town, as well as of the lighting system in Trujillo and many urban population centres in the Callejón de Huaylas. In the Cuzco area, work has been completed on the installation of the second group of the Machu Pichu hydroelectric plant, which, once it is ready, will have a capacity of 120,000 kW, that is, enough to satisfy the area's needs for several years.

(g) *Public sector*

In 1965, total public sector expenditure—both current and capital—amounted to 28,900 million soles, or 25 per cent of the gross national product. This large share is explained by the expansionist role played by the fiscal sector that year.

Central Government expenditure totalled 17,400 million soles, or 18 per cent more than the figure for 1964 (see table 206). However, whereas total expenditure was more than 1,000 million soles above the budgeted figure, income was well in line with budget estimates, and this gave rise to a total deficit of 2,700 million soles—755 million on current account and 1,950 million on capital account.

The deficit was covered in part by new external and internal loans (640 million, and 2,064 million

soles net, respectively). It should be noted that in 1965 the funds used for internal financing were not forthcoming from the Banco Central de Reserva, as in other years, but were obtained by the Caja de Depósitos y Consignaciones from banks and agents in the country and abroad.

The aggregate deficit of the public sector as a whole, which, besides the Central Government, includes the independent public sub-sector and local government, is estimated at 4,310 million soles, which is almost double the 1964 figure (see table 207). External credit covered approximately half the deficit, and the increase of 500 million soles over the previous year defrayed nearly the whole increment in public investment, which rose from 5,800 million soles in 1964 to 6,660 million in 1965.

Table 206. Peru: Central government revenue and expenditure, 1964–65
(Millions of soles)

	1964 <i>Real</i>	1965 <i>Budgeted</i>	1965 <i>Real</i> (<i>estimates</i>)
I. <i>Revenue (excluding loans)</i>	13,345	14,616	14,694
II. <i>Expenditure (excluding amortization)</i>	14,812	16,254	17,399
(a) <i>Operating expenditure</i>	11,192	12,209	13,611
(b) <i>Net transfers</i>	1,798	2,083	1,838
(c) <i>Gross fixed investment expenditure</i>	1,822	1,962	1,950
III. <i>Surplus or deficit (I–II)</i>	–1,467	–1,638	–2,705
(a) <i>On current account (I–IIa–IIb)</i>	355	324	–755
(b) <i>On capital account</i>	–1,822	–1,962	–1,950
IV. <i>Financing (1+2)</i>	1,467	1,638	2,705
1. <i>External (net)</i>	255	403	641
2. <i>Internal (net)</i>	1,212	1,235	2,064
(a) <i>Banco Central de Reserva (net)</i>	1,104		112
(b) <i>Caja de Depósitos (net)</i>	245		1,693
(c) <i>Other (net)</i>	–137		259

Sources: The Budget and the Banco Central de Reserva.

Table 207. Peru: Public sector income and expenditure, 1964-65
(Millions of soles)

	1964 Real	1965 Real (estimates)
I. <i>Income (excluding loans)</i>	21,243	23,809
II. <i>Expenditure (excluding amortization)</i>	23,428	28,121
(a) <i>Operating expenditure</i>	17,622	21,459
(b) <i>Investment expenditure</i>	5,806	6,662
III. <i>Surplus or deficit (I-II)</i>	-2,185	-4,312
(a) <i>On current account (I-IIa-IIb)</i>	3,621	2,350
(b) <i>On capital account</i>	-5,806	-6,662
IV. <i>Financing (1+2)</i>	2,185	4,312
1. <i>External (net)</i>	1,535	2,035
2. <i>Internal (net)</i>	650	2,277
(a) <i>Banco Central de Reserva (net)</i>	1,102	105
(b) <i>Caja de Depósitos (net)</i>	—	1,855
(c) <i>Other (net)</i>	-452	317

Sources: The Budget and the Banco Central de Reserva.

Chapter X

URUGUAY

1. INTRODUCTION

The intensification of inflationary pressures, largely owing to the long process of economic stagnation and instability that has prevailed since 1957, was one of the outstanding features of the evolution of the Uruguayan economy during 1965. In the last four years, prices rose steadily. Consumer prices climbed 10.9 per cent in 1962, 20.5 per cent in 1963 and 43.2 per cent in 1964, with an estimated increase of more than 55 per cent for 1965.¹ The trend pursued by the economy in the past, which had evolved in a context of relative price stability, was altered by the stagnation of agricultural production and the slowing down of the industrialization process.

The Uruguayan economy has had to contend for years with obstacles deriving from the rigidity of agricultural supplies and the lack of favourable conditions for industrial growth. Although the agricultural sector satisfies domestic demand, it does not produce sufficient surpluses to increase exports that consist mainly of meat, wool and certain crop products. The slow growth of agriculture with its sharp annual fluctuations has given rise to a structural external disequilibrium which has led to a series of currency devaluations and generated inflationary pressures. Added to these facts are the increasingly limited possibilities of continuing import substitution in the lines with the lowest requirements with respect to capital, techniques and scale of production, the difficulties of developing certain kinds of non-traditional industries in Uruguay's narrow domestic market,² and the defence mechanisms set up by the different social groups to protect themselves against instability and to preserve their share of the national income.

The persistence of these phenomena speeded up the spread of the inflationary process, since the solutions proposed were concerned with price mechanisms rather than with the problems affecting the domestic production structure.

¹ This index was taken because its annual variations correspond approximately to the implicit index of the economy, but if the variations in December of each year are taken into account, the price rise for 1965 will be 88 per cent.

² See the Uruguayan Commission on Investment and Economic Development (CIDE), *Estudio Económico del Uruguay*.

In 1965 the development of the country's economic activities encountered a number of obstacles which kept the growth of the total product at a very low level. The main problems were:

(a) The temporary suspension of imports because of the critical external situation of the country, and the subsequent changes in the existing import and exchange systems;

(b) The moratorium requested by various private banks owing to lack of liquidity;

(c) The currency devaluation, the effects of which were not fully apparent in domestic prices for 1965;

(d) The sharper rise in prices, especially in the last few months of the year;

(e) The social pressures and labour disputes on wage increases, particularly in the public sector (Government and State-owned enterprises);

(f) The prolonged drought which affected summer crops and livestock production;

(g) The electricity rationing from May to October as a result of the drought.

Other factors, however, helped to offset the adverse effects of these events, namely:

(a) The good recovery made by agricultural production during the winter months;

(b) The increase in the tourist trade at all seasons of the year as a result of the favourable exchange rates offered by the country;

(c) The recovery in the volume and value of exports of goods through devaluation;

(d) The relatively successful negotiations for refinancing the monetary authorities' short-term debt; and

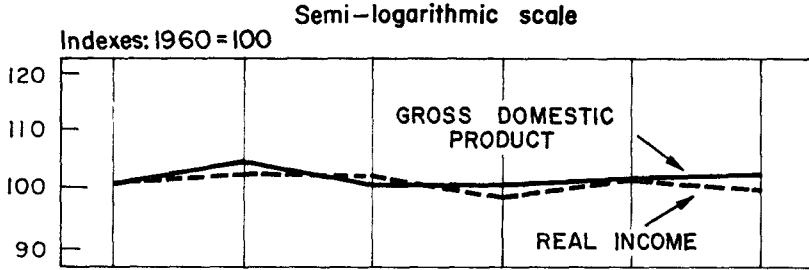
(e) The adoption of a short-term programme mainly designed to check inflation, speed up the economic growth rate and implement a number of measures for stabilizing the external sector and promoting both traditional and non-traditional exports. In general these measures stem from the objectives set forth in the National Development Plan recently approved by the Executive.

2. MAIN OVER-ALL CHANGES

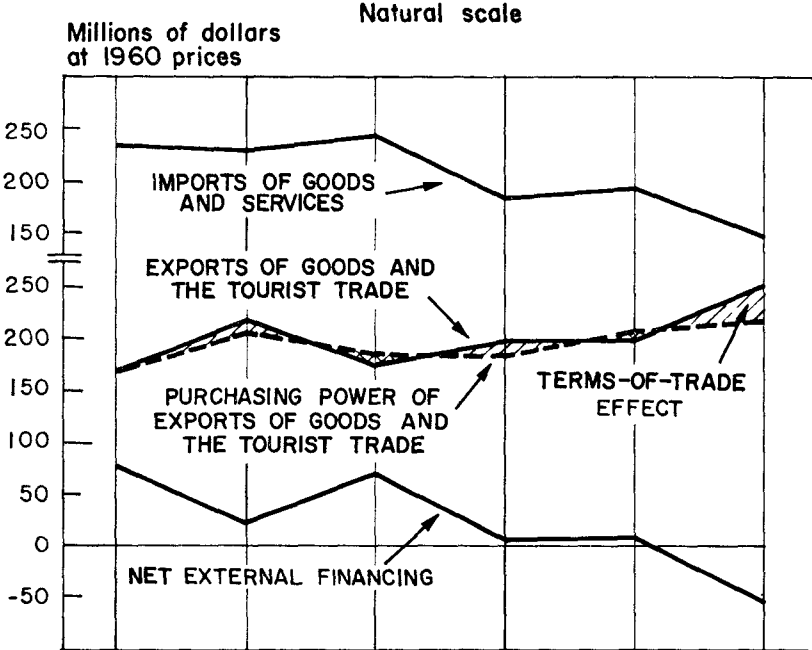
Uruguay's domestic product increased by 1.1 per cent in 1964 and 1.0 per cent in 1965,

Figure XXXIV. Uruguay, 1960-65

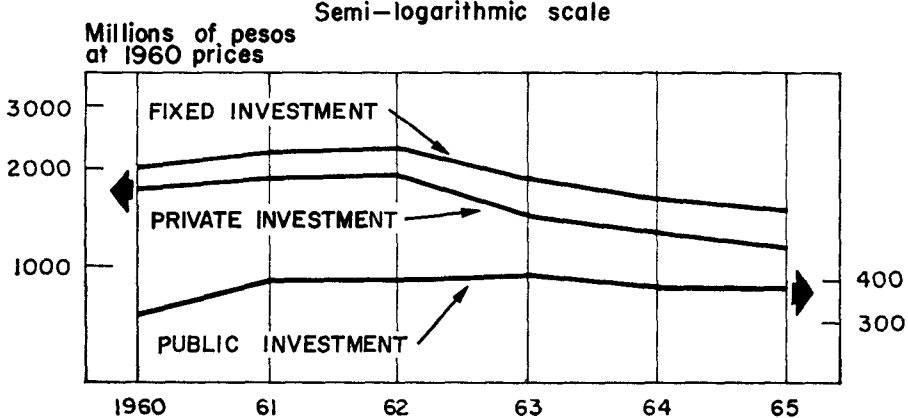
(a) EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



(b) EXTERNAL SECTOR TRENDS



(c) INVESTMENT TRENDS



Source: ECLA, on the basis of official statistics.

which was very little in comparison with population growth, even though the latter was only 1.2 per cent. Consequently, the decline of the per capita product, which had begun in 1957, reached 12 per cent, more than half the reduction taking place in the last four years (see table 208 and figure XXXIV (a)).

Table 208. Uruguay: Total and per capita growth rates of the product and income, 1961-65

Year	Total rate		Per capita rate	
	Product	Income	Product	Income
1961	3.0	3.0	1.5	1.4
1962	-2.2	-2.1	-3.6	-3.6
1963	-1.0	-1.4	-2.4	-2.8
1964 ^a	1.1	1.5	-0.1	0.2
1965 ^b	1.0	0.7	-0.3	-1.9

Source: ECLA, on the basis of data furnished by the Banco de la República.

^a Provisional figures.

^b Preliminary estimates.

The small headway made in the last two years was based on the recovery of industrial production in 1964 and the improvement of the export trade in 1964 and 1965. This improvement was due to a rise in world prices in the first year and to an increase in the volume of exports in the second.

The changes in aggregate income³ followed the same trend as the product, but, thanks to a slight improvement in the terms of trade, per capita income rose slightly in 1964, whereas in 1965 the fall in export prices and the rise in import prices caused a loss in aggregate income corresponding to 1.7 per cent of the product, thus nullifying the country's efforts to recover and still further reducing per capita income.

Total supply—defined as the sum of the domestic product and imports—showed an even clearer tendency towards stagnation (see table 209). Between 1960-62 and 1963-65 the product remained practically at a standstill, but the sharp drop in imports (22.7 per cent) meant a reduction of 3.1 per cent in the volume of supplies, which limited the possibilities of re-activating the economy through investment and consumption. Thus, the import restrictions policy adopted in 1963 because of the critical external payments position has been yet another obstacle to Uruguay's economic development in recent years.

In the face of the 3.1 per cent reduction in total demand (in real terms), domestic demand contracted by 7.2 per cent, while exports grew by more than 15 per cent. The disparity between the trends of domestic demand and exports reflects the effects of the economic policy measures put into practice in recent years. The incentives to increase exports and the restrictions

³ Value adjusted to allow for the improvement or deterioration in the terms of trade with respect to 1960.

Table 209. Uruguay: Total supply and demand, 1960-65
(Millions of pesos at 1960 prices)

	1960	1961	1962	1963	1964	1965 ^a	Percentage variation 1963-65 1960-62
<i>Total supply</i>	16,299	16,652	16,485	15,675	15,946	15,776	-3.1
Gross domestic product	13,583	13,989	13,681	13,541	13,695	13,832	-0.4
Imports of goods and services	2,716	2,663	2,804	2,134	2,251	1,944	-22.7
<i>Total demand</i>	16,299	16,652	16,485	15,675	15,946	15,776	-3.1
Domestic demand	14,347	14,125	14,376	13,367	13,571	12,838	-7.2
Gross domestic investment	2,392	2,449	2,320	2,099	1,704	1,505	-25.9
Gross fixed investment	2,045	2,273	2,324	1,910	1,621	1,511	-24.1
Machinery and equipment	674	1,022	1,279	978	756	670	-19.2
Construction	1,371	1,251	1,045	932	865	841	-28.1
<i>Total consumption</i>	11,955	11,676	12,056	11,268	11,867	11,333	-3.4
Government consumption	1,228	1,251	1,309	1,293	1,307	1,232	+1.1
Household consumption	10,727	10,425	10,747	9,975	10,560	10,101	-4.0
<i>Exports of goods and services</i>	1,952	2,527	2,109	2,308	2,375	2,938	+15.7

Source: ECLA, on the basis of data furnished by the Banco de la República.

^a Estimates.

on imports were introduced to lighten the pressures deriving from the external payments position; but the stagnation of the agricultural sector, which is also a source of exports, inevitably brought the increase in exportable supplies down to a level compatible with the reduction in domestic demand.

This reduction was achieved through stringent import restrictions (described in detail further on), the use of price mechanisms to that end and the prohibition of meat consumption on certain days of the week. These last two measures reduced consumption and created larger exportable surpluses.

This group of decisions had an unfavourable, though varying, effect on the components of domestic demand. While total consumption dropped by 3.4 per cent in the last three years, gross fixed capital formation shrank by 24.1 per cent, owing to a contraction of 28.1 per cent in construction investment and of 19.2 per cent in investment in machinery and equipment (see figure XXXIV (c)). The sharpest impact of the decline in imports was therefore felt in domestic capital formation, particularly investment in machinery and equipment, which is almost entirely imported, thereby mainly affecting private investment. The continuing decline of construction investment in the last five years has prevented this component from helping to counteract the effects of the contraction of imports on the volume of investment and on the weakening economy.

The lack of a compensatory public construction policy cannot be dealt with independently, but must be considered within the context of government action as a whole. Table 209 shows that government consumption is the only variable of domestic demand that rose slightly in the last three-year period. If the deterioration in the real wages of government employees is taken into account together with the reduction in the supply of goods for essential public services, it would appear that the increment in government consumption was due exclusively to the increase in the number of persons employed. This would mean that the pressure to create jobs generated by the stagnation of the economy was shifted to the Government, not only in its functions as such but also to State enterprises in which over-employment—in conjunction with the prevailing low rates—is likewise recognized as a cause of their financial disequilibrium. This brings another element of inflexibility into play which limits the channelling of funds into public investment, since the deficits in public enterprises have to be covered from current government revenue.

Moreover, the machinery set up to protect the different social groups against the instability of the economy also tend to make current government expenditure less flexible through the establishment of unemployment subsidies, early retirement pensions, and other pensions and grants. Since all these allowances are periodically adjusted, social security institutions often present a deficit, which must be borne by the central Government.

In short, several of the problems which affect the production structure of the economy have been shifted to the Government, which has been compelled to allocate funds to over-all consumption in order to avert a sharper decline in this factor of domestic demand. This has raised current public expenditure to a high level and has also made it very rigid *vis-à-vis* inelastic revenue, thereby severely limiting the creation of surpluses that could be used for public investment. This process, which has intensified in recent years, accentuates the public sector disequilibrium and combines with other factors to spread inflationary pressures.

In these circumstances, inflationary pressures have had a serious effect on real wage levels (see table 210). In practice, the process has operated not only through wage adjustments that are lower than the rise in the cost of living, but also through the use of price mechanisms to restrict domestic consumption and increase exportable surpluses. A significant result, for example, was the marked decline in meat consumption, which dropped from 80 to 40 kilogrammes per capita between 1960 and 1965.

The most striking deterioration in real wages was experienced by the central Government employees and also by those working in public sector agencies. In 1965 their wages were 28.5 per cent less than in 1961, as compared with 26.3 per cent in the construction industry, 17 per cent in manufacturing and 14.7 per cent in the official banking system. The first three activities show a steady loss throughout the decade, but in the fourth, wage increases in 1963 and 1964 exceeded the rise in the cost of living.

3. EVOLUTION OF THE PRINCIPAL SECTORS OF ACTIVITY

Table 211 contains data on the evolution of the domestic product by main sectors of economic activity. It shows the relative stagnation of agricultural production and the traditional industries, as well as the rapid growth of the supply of electricity, gas and water, in contrast to a certain falling off in the dynamic industries,

Table 210. Uruguay: Price and wage indexes, 1961-65
(1960 = 100)

Year	Cost of living	Central Government		Banco de la República		Manufacturing		Construction	
		Nominal wages	Real wages	Nominal wages	Real wages	Nominal wages	Real wages	Nominal wages	Real wages
1961	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1962	123.1	108.3	88.0	120.9	98.2	114.7	93.2	110.9	90.1
1963	152.0	116.7	76.8	165.7	109.0	136.0	89.5	138.7	91.3
1964	210.2	161.1	76.6	224.4	106.7	184.5	87.8	171.6	81.6
1965	330.1	236.1	71.5	281.7	85.3	274.1	83.0	243.4	73.7

Source: ECLA, on the basis of data furnished by the Banco de la República.

Table 211. Uruguay: Sectoral evolution of the gross product, 1960-65

	1960	1961	1962	1963	1964 ^a	1965 ^b	Percentage variation 1963-65
							1960-62
(Index: 1960 = 100)							
Agriculture ^c	100.0	115.8	99.2	117.7	108.1	108.8	6.2
Crops	100.0	168.9	159.1	185.6	116.9	155.4	7.0
Livestock	100.0	103.8	85.8	102.7	106.5	98.6	6.2
Manufacturing ^d	100.0	97.5	97.6	96.6	101.8	101.3	1.6
Traditional industries	100.0	102.9	104.7	109.1	109.5	108.9	6.5
Developing industries	100.0	92.2	90.6	84.1	94.1	93.9	-3.8
Construction	100.0	91.2	76.8	68.7	63.7	62.0	-27.5
Electricity, gas and water	100.0	110.1	119.8	120.2	129.8	125.0	13.7
Transport and communications	100.0	97.6	98.6	92.3	100.0	100.0	-1.4
Trade	100.0	111.4	113.6	96.3	97.0	103.2	-8.8
Other services	100.0	100.7	101.9	102.7	104.8	105.7	3.5
TOTAL	100.0	103.0	100.8	99.8	100.9	101.9	-0.4
							Average
							1960-62 1963-65

Structure of the gross product (Percentage of the total)									
Agriculture ^c	14.3	16.0	14.0	16.8	15.3	15.2	14.8	15.7	
Manufacturing ^d	23.1	21.9	22.4	22.4	23.3	23.0	22.5	22.9	
Construction	6.1	5.4	4.7	4.2	3.9	3.7	5.4	3.9	
Electricity, gas and water	1.6	1.8	2.0	2.0	2.1	2.0	1.8	2.0	
Transport and communications	8.9	8.4	8.7	8.2	8.8	56.1	8.7	8.7	
Trade	15.2	16.4	17.1	14.7	14.6		16.2	14.8	
Other services	30.8	30.1	31.1	31.7	32.0		30.6	32.0	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: ECLA, on the basis of data furnished by the Banco de la República.

^a Provisional figures.

^b Estimates.

^c Including hunting and fishing.

^d Including mining, which is of little significance.

a marked decline in construction and a smaller one in trade. The instability of agricultural production and the general slowing up of industrial development are the two key factors which explain the rigidity acquired by the production structure in the effort to maintain a satisfactory rate of growth.

(a) *Agricultural production*

The agricultural sector has shown itself to be highly unstable, with annual fluctuations caused by the sharp variations in rainfall and the summer droughts. The small agricultural output in 1960, 1964 and, to some extent, 1965 (when the summer crops were spoilt) was partly due to adverse weather conditions, and the same applies to the reduction in livestock production in 1962 and 1965. Apart from these developments, there were the problems deriving from the inadequate use made of agricultural resources, production organization and methods, and domestic and external price trends which together are responsible for the rigidity of this sector. The combined impact of domestic and external demand on the livestock supply, which aggravates the instability of sales abroad, is another factor with far-reaching consequences. Under such conditions, the agricultural sector becomes a source of basic inflationary pressures which spread to the whole economy through the external sector, domestic prices and government machinery.

If the evolution of the agricultural sector over the last few years is examined, it will be seen that, in spite of its fluctuations and sluggish growth, agriculture's contribution to the total product has actually increased because of the stagnation of the economy as a whole. Production reached its peak in 1963, when for the first time it topped the level attained in 1955; but in 1964 it dropped by 8.2 per cent owing to a 37 per cent decrease in crop farming. In 1965, although crop production rose by 33 per cent, the total output of the sector remained practically the same as in the previous year, because the 7.4 per cent contraction in livestock production nullified the whole of that increase.

In view of these trends, particular importance is given to the action initiated in relation to technical, structural and institutional questions through various instruments and institutions. Among the latter should be mentioned the Alberto Boerger Agricultural Research Centre, which works on soil surveys and the use of fertilizers, seed and plant selection and improvement, and the development of new varieties. Animal health problems are attended to by the Miguel C. Rubino Veterinary Research Centre.

The Commission of the Agricultural Development Plan provides farms with technical assistance and supervised credit for the improvement of grass crops, the use of nitrogenized fertilizers, the development of new pastures, watering-places, fencing, and additional machinery and buildings, with the aid of financing from the Banco de la República and the International Bank for Reconstruction and Development (IBRD). Lastly, the Committee on Investment and Economic Development drew up the Agricultural Development Plan, approved by the Executive, with the necessary legislation for undertaking structural reforms and investment projects.

In other aspects of agricultural policy, results have been limited by its inadequate scope and co-ordination. For example, in 1964, the Banco de la República established a system of supervised credit to promote wheat production, a measure which was extended to other crops in 1965. As a result of this support, wheat production in 1965 doubled, but the lack of price incentives combined with marketing problems in 1965/66 led to a reduction of 28 per cent in the area sown. This is a serious matter, since wheat represents almost 70 per cent of the winter crops. The short-term plan and the launching of the Agricultural Development Plan will help to increase the efficacy of these and other agricultural policy measures and instruments.

(b) *Industrial production*

The rate of industrial production growth has slowed down. Only in 1964, after three years of recession and stagnation, was there a 5.4 per cent recovery, which enabled the gross domestic product virtually to regain the 1957 level. But in 1965 stagnation set in once more. This situation contrasts with the 6.9 per cent increment achieved annually from 1950 to 1954 when the agricultural growth rate was 2.8 per cent.

A more detailed grasp of these trends will be obtained if the sector is divided into traditional and dynamic industries,⁴ which contribute around 53 per cent and 47 per cent, respectively, to the total industrial product. The former increased by 6.2 per cent (1.5 per cent annually) in the last three-year period with respect to the first three years of the decade, which is the same

⁴ The traditional industries comprise food, beverages, tobacco, textiles, made-up textile goods and footwear, wood, furniture and leather. The dynamic industries cover: paper, printing, rubber, chemicals, petroleum products, non-metallic mineral products, basic metals, metal products, machinery, electrical appliances and miscellaneous articles.

as the growth rate of agricultural production during the same period. Since there is a close correlation between the growth of agriculture and that of the traditional industries, because the branches composing this group process agricultural and livestock products, the rigidities which affect agricultural supply, as well as the influence of the factors that affect domestic demand and agricultural exports, extend to the manufacturing sector.

The stagnation or decline of the food industry in the last two years was partly offset by the revival of industries manufacturing textile made-up goods and footwear—as a result of the influx of tourists, who spent more freely because of the favourable exchange rates—and, on a lesser scale, beverages.

Unlike the traditional industries, the dynamic industries contracted by 3.8 per cent (1.3 per cent annually) during the last three-year period. The decline became more and more pronounced up to 1963; it was followed by a slight recovery the following year and more or less the same level was maintained in 1965.

Production fell in the following industries: printing, rubber, chemical products, non-metallic mineral products, basic metals and electrical appliances. An expansion took place, however, in the output of paper, metal products and, up to 1962, petroleum products, which then remained at much the same level until 1965.

The decline of these industries (whose evolution in other countries is increasingly dynamic) was due to a number of circumstances over and above the limiting effects of a small domestic market. They include, firstly, the evolution of the construction industry, whose steady decline over a long period, especially in the last eight years, has had a decisive influence on some important branches of industry; and, secondly, the restriction of imports, which, in the last three years, were reduced to 27 per cent below the 1960–62 level; this has had a particularly adverse effect on dynamic industries that rely heavily on imported inputs. Although import substitution made notable progress in a few branches of this group, in others it still has far to go, and it is precisely in these that the size of the domestic market constitutes a severe limitation. In this case, too, their chances of developing appear to depend on exports, since even if agriculture and construction were to expand more dynamically, thereby raising production and utilizing idle capacity, the long-term growth problems would still remain to be solved.

The sluggish growth of the traditional industries and the fall in the output of the developing

industries are reflected in an increase of only 1.6 per cent (0.5 per cent annually) for the whole industrial sector during the last three years in relation to the previous three-year period.

(c) *Construction*

Construction in the last three-year period fell 27.5 per cent below the 1960–62 level, and its share in the total gross product shrank from 5.4 per cent to 3.9 per cent.

This steep fall can be ascribed to the critical situation that has affected housing construction since 1960, especially in Montevideo. The share of housing in total construction has declined from 75 per cent in 1959 to 50 per cent at the present time. This reduction has taken place in public as well as private construction, but particularly the latter, because funds have had to be used for other purposes as a result of galloping inflation and the stagnation of the economy. At the general Government level, the pressures brought to bear on the government machinery resulted in the channelling of most of its resources into consumption at the expense of investment, as explained above. As regards general public action, there was increased de-capitalization in State financing agencies—the Mortgage Bank and Housing Institute—which failed to adjust their loans in line with price increases, while in the private sector the contrast between rent freezing and general price increases encouraged the use of savings for speculative purposes.

(d) *Electricity, gas and water*

The supply of electricity, gas and water was the only economic sector to show an increasing dynamic force over nearly the whole period, with the exception of 1965 when less hydro-electric energy was generated because of the drought and consumption restrictions.

The sector's growth in the last three-year period was 13.7 per cent (4.4 per cent annually) faster than in 1960–62, and this meant an increase in its share of the total product from 1.6 per cent to 2 per cent between 1960 and 1965.

As regards electric energy generation, whose contribution sets the trend followed by this sector, the bulk of the increase took place in household consumption, which now represents almost 50 per cent of total consumption, as against 40 per cent in 1959. This increase was due to the rise in demand as a result of rate control. Industrial consumption, on the other hand, declined owing to the stagnation of the production sectors, its share contracting from 47 per cent to about 40 per cent between 1959

and 1965. The share of commercial and public consumption increased but is still of limited importance.

(e) *Other services*

The group comprising other services—transport and communications, trade, banks, ownership of dwellings, general government and miscellaneous services—carries considerable weight in economic activities as a whole, i.e., more than 55 per cent, or the same proportion as in the United States in 1955, but with the difference that per capita income there was almost four times as high as in Uruguay. The explanation may lie in the pressure put on these sectors for the creation of jobs because of the stagnation of the production sectors.

Between the three-year periods analysed, trade, transport and communications declined, but recovered in the last two years with the growth of production. The remainder of the services showed a slight increment every year.

4. THE EVOLUTION OF THE EXTERNAL SECTOR

(a) *The balance-of-payments position on current account*

The most outstanding feature of the recent evolution of Uruguay's balance of payments is the radical reduction in the current disequilibrium which began in 1963 and culminated in 1965 in a surplus of some 58 million dollars, in contrast to the average annual debit balance of 56.8 million dollars in 1960–62 and virtually the same figure for 1957–59 (see table 212 and figure XXXIV (b)).

The external payments position was already critical in 1963, but was further aggravated at the beginning of 1965 when the short-term liabilities of the monetary authorities and deposit banks exceeded the country's gross gold and foreign exchange reserves. Foreign indebtedness on this scale, which was caused by extensive import financing on the basis of deferred payment, places a heavy burden on the external

Table 212. Uruguay: Evolution of the external sector: balance on current account, 1960–65

Year	Millions of dollars at current prices							
	Exports			Imports			Net investment income	Balance on current account
	Total goods and tourist trade	Goods f.o.b.	Tourist trade	Total goods and services	Goods f.o.b.	Net services and the tourist trade		
1960	164.9	129.4	35.5	-233.8	-187.9	-45.9	-6.6	-75.5
1961	212.7	174.7	38.0	-229.2	-182.8	-46.4	-6.4	-22.9
1962	187.3	153.5	33.8	-252.1	-207.6	-44.5	-7.4	-72.2
1963	194.5	165.2	29.3	-189.7	-151.6	-38.1	-9.8	-5.0
1964	213.9	178.9	35.0	-206.6	-169.2	-37.4	-15.9	-8.6
1965	236.2 ^a	191.2	45.0	-160.8	-129.8	-31.0	-17.0	+58.4
Average 1960–62.	188.3	152.5	35.8	238.3	-192.7	45.6	-6.8	-56.8
1963–65	214.8	178.4	36.4	185.7	-150.2	35.5	-14.2	+14.9

Year	Millions of dollars at 1960 prices					
	Exports of goods and the tourist trade	Terms-of-trade effect with respect to 1960	Purchasing power of exports	Investment income	Net imports of goods and services	Balance on current account
1960	164.9	—	164.9	-6.6	-233.8	-75.5
1961	213.5	-0.8	212.7	-6.4	-229.2	-22.9
1962	178.2	+1.2	179.4	-7.1	-241.4	-69.1
1963	195.0	-6.7	188.3	-9.5	-183.7	-4.9
1964	200.6	+0.1	200.7	-14.9	-193.8	-8.0
1965 ^a	248.2	-31.1	217.1	-15.6	-147.7	+53.8

Sources: ECLA, on the basis of data from the IMF, *Balance of Payments Yearbook*, vol. 17, and the Banco de la República.

^a Provisional figures.

liquidity of the economy because such debts fall due very quickly, while the net negative short-term and autonomous movements of capital make the external sector even more vulnerable and unstable.

A policy designed to solve the distressing external payments situation was launched in 1963, continued in 1964, and by the end of 1965 had become a fully-fledged policy of general external stabilization. Between 1963 and 1965, two exchange markets were set up, and a series of measures taken⁵ to restrict import demand by increasing surcharges and prior deposits, temporarily suspending imports, transferring goods from the official to the free market and successively devaluating the peso from 10.98 to 16.40, 18.70, 24 and 65 to the dollar, thereby activating exports, even though charges (*detracciones*) were imposed each time on exports of wool, meat, hides and linseed oil.

The rapid process of devaluation and the increase in the surcharges were partly responsible for the rise in domestic prices in recent years and these, in their turn—once a certain annual rate of inflation had been reached—gave rise to other pressures of a different nature which led to further devaluation. As domestic costs and the level of duties affecting them continued to increase, the export sector brought pressure to bear by delaying sales of wool in the hopes of a new devaluation. Meanwhile, the Treasury went through a series of crises owing to the reductions in the revenue from the *detracciones*, which brought about a transitory exchange over-

valuation, and to the inelasticity of the remaining taxes. This situation was relieved by the fact that the revenue from the *detracciones* rose in the wake of each new devaluation.

It will be observed in table 212 that the improvement in the balance on current account in the last three years is the joint result of a 22.1 per cent reduction in imports of goods and services in relation to their level in the three-year period 1960–62 and a 14.1 per cent increase in exports of goods and the tourist trade between the same periods. In contrast to these movements, the evolution of net foreign investment income led to a progressive deterioration in the balance of payments through the accumulation of debts.

Beginning in 1963, exports increased to 236.2 million dollars in value by 1965, of which 191.2 million corresponded to goods, i.e., close to their value in 1956. Meat exports contributed substantially to this increase from 1962 onwards, reaching a higher value in 1964 than in 1954. Although they declined in volume in 1965, this was offset by the rise in prices and their value continued to be higher than in 1954. Wool—greasy and washed—has followed an irregular course during this decade, because exporters held on to supplies in the hopes of a devaluation or reduction in charges. For similar reasons, they exported very little in 1964, thus failing to take advantage of the high prices fetched on the world market that year. During 1965, the successive devaluations reactivated exports of wool, although its international price had already dropped sharply. Wool tops likewise show an irregular export trend, but this was the result of barriers set up by purchasing countries. Nevertheless, the main factor limiting regular exports of wool on a long-term basis is recognized to be the development of man-made fibres whose competition keeps international prices down. Uruguay thus has to be constantly concerned with raising sheep production as otherwise exports could be kept up only by bringing more pressure to bear on the exchange rates.

The increased dynamism of meat exports raised their proportion of total exports in the last three years to 31.5 per cent, almost equal to that of wool, while in 1960–62 wool accounted for 41.3 per cent and meat only 19.5 per cent. If this upward trend persists, Uruguay's export trade will lose some of the rigidity that it has acquired because of the vicissitudes of wool exports.

On the import side, the restrictive measures of the last three years have meant a reduction for all groups of goods, although durable consumer goods and capital goods were affected to

⁵ In March, April and May 1963, the peso was devalued from 10.98 to 16.40 to the dollar, import surcharges and prior deposits were raised, and the proportion retained (draw-back) of exporters' foreign exchange earnings was modified. In September and October of the following year, official customs values were fixed for wool, and the draw-back was changed. In November, the peso was devalued from 16.40 to 18.70 to the dollar, and import surcharges raised again. In January 1965, imports were suspended, and official customs values for exports modified. In March, the peso was further devalued from 18.70 to 24 to the dollar, some imports were transferred to the free market, and official customs values and the export drawback were readjusted. In April and May, foreign exchange operations were suspended for 30 days, following the closure of five deposit banks, and imports stopped for 15 days. In July, August and September, negotiations were opened to refinance the short-term debt, and a stringent system of emergency import controls was applied between 15 June and 15 October. In October the peso was devalued to 65 to the dollar, a new exchange system was set up based on a single market for transactions, in which all but essential imported goods were made liable to payment of an additional prior import deposit over and above that already in existence, and tax measures were taken to reap the benefits of the heavy devaluation. A short-term plan was also announced to check inflation, stabilize the balance of payments, promote exports and encourage saving.

a greater extent than raw materials. As restrictions were less rigid for this latter group, they were imported in the expectation of new devaluations, which meant that importers were able to operate the following year with the stocks they had accumulated and at different terms of trade. The scale of the reductions in imports in the last three-year period—22 per cent in relation to the 1960–62 levels—and their effects on the import structure considerably limited the possibilities of a fuller economic recovery in the last two years.

The variations in the terms of trade have had a marked effect on the evolution of the balance on current account (expressed in constant 1960 values). Up to 1964, the behaviour of the terms of trade kept within the bounds of rather small gains and losses, but in 1965, with the drop in export prices and the rise in import prices, they fell 31 million dollars below their level in 1960, thus reducing the purchasing power of exports by 12.5 per cent. Over and above the country's difficult external payments situation in 1965,

was another factor that reduced its capacity to import and had a depressive effect on the economy as a whole since it called for an increase of 15.5 per cent in the volume of exports that year, at the expense of the goods and services available for consumption and investment.

(b) *The balance-of-payments position on capital account*

The movements of external compensatory and non-compensatory funds, of domestic funds and of the monetary authorities' reserves are given in table 213.

As regards the structure of capital movements, certain factors have created situations that sharpened the balance of payments' external vulnerability because of their sensitivity to conditions in the exchange market. One such factor was the importance of the part played every year by autonomous and compensatory short-term liabilities in determining the density of net capital movements, and another was the

Table 213. Uruguay: Balance on capital account, 1960–65
(Millions of dollars at current prices)

	1960	1961	1962	1963	1964 ^a	Cumulative balance 1960–64	1965 ^b
<i>Net foreign financing (A+D+E)</i>	75.5	22.9	72.2	5.0	8.6	184.2	-58.4
A. <i>Net external funds (a+b)</i>	52.8	26.3	133.9	-8.6	43.6	248.0	13.8
(a) <i>Net non-compensatory external funds</i>	24.9	49.2	54.1	8.3	25.1	161.6	-5.2
1. Net direct investment	5.8	4.8	...	...	...	10.6	...
2. Net long-term loans	5.6	11.4	15.0	14.9	-8.6	38.3	1.2
3. Net official transfer payments	1.1	4.7	4.6	4.2	4.0	18.6	4.0
Net short-term private capital (liabilities)	12.4	28.3	34.5	-10.8	29.7	94.1	-10.4
(b) <i>Net compensatory external funds</i>	27.9	-22.9	79.8	-16.9	18.5	86.4	19.0
1. Balance-of-payments loans	—	—	—	—	—	—	55.8
2. Short-term liabilities of the monetary authorities	31.6	-22.9	64.8	-16.9	18.5	75.1	-36.8
3. Net IMF situation	-3.7	—	15.0	—	—	11.3	—
B. <i>Net domestic funds as entered in the balance of payments</i>	10.4	-1.5	0.9	3.9	1.3	15.0	7.1
1. Long-term assets	-1.6	-2.8	-2.2	...	...	-6.6	...
2. Short-term assets	12.0	1.3	3.1	3.9	1.3	21.6	7.1
C. <i>Net errors and omissions</i>	12.3	0.5	-46.5	-4.5	-38.8	-77.0	-83.0
D. <i>Net domestic funds plus errors and omissions (B+C)</i>	22.7	-1.0	-45.6	-0.6	-37.5	-62.0	-75.9
E. <i>Gross movement of gold and foreign exchange (-increase)</i>	—	-2.4	-16.1	14.2	2.5	-1.8	3.7
1. Short-term assets of the monetary authorities (-increase)	—	-2.4	-16.2	6.1	2.5	-10.0	-12.8
2. Official monetary gold (-increase)	—	—	0.1	8.1	—	8.2	16.5

Sources: ECLA, on the basis of data from the IMF, *Balance of Payments Yearbook*, vol. 17, and the Banco de la República.

^a Provisional figures.

^b Estimates.

wide margin of errors and omissions in 1962, 1964 and 1965. This is indicative of the scale reached by the flight of capital as a result of the exchange over-valuation followed by the failure of several banks in 1965, and introduced another element of rigidity which, coupled with the accumulation of debts, led to the adoption of stringent import controls.

The fact that Uruguay has traditionally been regarded as an attractive market for short-term capital favoured the practice of using short-term credit lines from abroad to finance imports. So long as the country was growing and prices were relatively stable, this market and the short-term foreign financing were effective in helping to balance the economy. But with the onset of the long period of economic stagnation, the chronic external imbalance and rapid inflationary process, domestic and foreign conditions required for using that type of financing cease to exist. In the circumstances, an unduly heavy drain on these short-term credit lines quickly led to credit limitations and demands for immediate payment which, together with the flight of capital, brought about a further deterioration in the external payments situation. In view of these developments, few calls were made on the economy's exchange and monetary machinery.

In 1960-64, the cumulative current deficit on the balance of payment was 184.2 million dollars while that of the outflow of capital—inasmuch as it is reflected by errors and omissions—was 77 million, i.e., 261.2 million dollars in all. This sum was financed as follows: net income from short-term private liabilities and those of the monetary authorities (including IMF) (180.5 million); the net inflow of long-term capital in the form of direct investment and loans (48.9 million); official transfer payments (18.6 million) and domestic assets (15 million). These total 263 million dollars, and this, set against the total to be financed, left a balance of 1.3 million, which went to swell gross gold and foreign exchange reserves. The most striking aspect of this relationship was that financing on the basis of the short-term liabilities of the private sector, commercial banks and the monetary authorities amounted to 69.1 per cent, with the remainder made up of long-term capital, transfer payments and domestic assets or funds. It was this heavy dependence on short-term financing, whose accumulation meant debts callable almost immediately, that led to the crises with which the country is now faced. It should also be noted that the total net capital inflow—autonomous and compensatory—was 42.8 per cent more than the cumulative current deficit for the period 1960-64, and, on being drawn into the flight of

capital, prevented the economy from maintaining its normal import trade (again through foreign indebtedness).

The repercussions of these external phenomena were felt in 1965, together with those that had been affecting the country prior to 1960. An analysis of that particular year will therefore shed more light on the external payments situation.

In mid-1965, a mission was sent abroad to open negotiations with creditor countries for refinancing the debt resulting from an accumulation of short-term liabilities (private, commercial banks and monetary authorities). As a result of these negotiations, approximately 92 million dollars of the payments that fell due that year were refinanced and some 55 million dollars were obtained in credit.

The volume of debts accumulated led the monetary authorities to suspend receipt of import applications as of 11 January 1965. In April, the market was shaken by the failure of five deposit banks, whose external liquidity showed a debit balance. In May, the Banco de la República suspended payment abroad of debts contracted in previous years with New York banks. A few days after an intervention commission to the Banco de la República had been set up, a new 15-day ban was placed on imports. Between 15 June and 15 October very severe measures were taken to limit imports exclusively to essential goods. In mid-October, when the ratio between the exchange rates prevailing on the official and parallel markets had risen to almost three to one, the peso was devalued to 2.7 times the official rate, thus achieving an exchange reform as part of a group of short-term economic policy measures, some of which went into immediate effect while others—those requiring legislative approval—are still pending or were approved in a modified form.

These measures were negotiated or proposed, according to the institutional form required for the subject, with the aim of:

- (1) Remodelling the exchange market with a view to establishing a single transactions market;
- (2) Facilitating exports, in particular, speeding up the marketing of the wool clip, in view of the need for foreign exchange to meet financial commitments arising out of the agreements on debt refinancing;
- (3) Stabilizing the balance of payments, with complementary action in respect of import demand;
- (4) Balancing the market for cash exchange transactions;

(5) Reaping, by means of taxation, the special benefits to be obtained from the new exchange devaluation, and prohibiting the granting of new lines of credit or renewals, from a given date, to wool producers, merchants and exporters, thereby establishing a permanent instrument for speeding up wool exports and preventing stock-piling;

(6) On the import side, suspending imports of non-essential goods, and requiring, in addition to the prior deposits already in force, the deposit in local currency in the Banco de la República of 100 per cent of the c.i.f. value of all non-essential goods to be imported;

(7) Easing immediate pressures on the exchange market by prohibiting imports of capital goods unless financed by external credits for a period of not less than three years; and

(8) Promoting the concentration of private commercial banks and of their holdings.

In the light of these events, the 1965 balance of payments closed with a current surplus of 58.5 million dollars, thanks to a 22.2 per cent reduction in imports and a 10.4 per cent increase in exports.

Net external financing was therefore negative—not because reserves had increased but because there was a net outflow of capital, since, in addition to its current surplus, Uruguay made use of 55.8 million dollars in compensatory loans and 3.7 million in gross reserves to meet a flight of capital (represented as errors and omissions) of 83 million dollars, a reduction of 36.8 million in the liabilities of the monetary authorities and short-term private liabilities of 10.4 million (see again table 213).

Chapter XI

VENEZUELA

1. SOME GENERAL FEATURES

(a) *General characteristics of recent growth*

The rate of growth of the Venezuelan economy reached 7 per cent in 1965,¹ which is an increment of 3.3 per cent in the per capita product since the country's population has increased particularly rapidly (see table 214 and figure XXXV (a)).

Table 214. Venezuela: Evolution of the total gross and per capita products, 1958-65

	Gross product (millions of 1960 bolivares)	Population (thousands of persons)	Gross per capita product (bolivares)
1958 .	23,417	6,829	3,429.1
1960 .	25,620	7,331	3,494.7
1961 .	25,700	7,588	3,386.9
1962 .	27,510	7,858	3,500.9
1963 .	29,093	8,136	3,575.8
1964 .	31,130	8,423	3,695.8
1965 .	33,297	8,722	3,817.6

Source: Central Office for Planning and Co-ordination (CORDIPLAN).

This recent expansion represents the continuation of the sustained growth which has been characteristic of the Venezuelan economy since 1961 and, as in previous years, demonstrates the effect of dynamic internal stimuli, confirming a different pattern of development from that which distinguished it in an earlier period when its dynamic force was principally supplied by its foreign transactions. Indeed, exports have been slow to increase in the last five years, but their sluggish pace has been offset by the development of import substitution, a process which in 1964 and 1965 was reinforced by the expansion of public expenditure and private investment.

In addition to the slow growth in the volume of exports there has been an appreciable deterioration in the terms of trade. In these circumstances the import substitution effort has led to an increase in the level of the domestic product

with a relatively stable volume of imports, which in turn has made it possible to maintain trade balances sufficiently favourable to finance an increase in the country's international reserves and to cover the traditional outflow of capital from the petroleum industry and other private sources.

Private investment has responded favourably to the measures taken to protect domestic industry with a view to speeding up import substitution, so much so that it has recently become one of the principal factors of total demand. From less than 2,600 million bolivares in 1961—its lowest level in the last six years—private investment rose rapidly to more than 3,700 million in 1964. The 1965 figure was probably even higher, but only a preliminary estimate of total investment is available (see table 215 and figure XXXV (c)).

In the last two years, an important part of these investments has been channelled toward private construction and the enlargement of existing plants. As is logical, conditions favourable to import substitution gave more incentive to private initiative in the less complex substitution lines and those which involved extending the use of industrial capacity that already existed or would be fairly easy to expand. The process tends to become more difficult when new activities of greater technical complexity and capital intensity have to be launched.

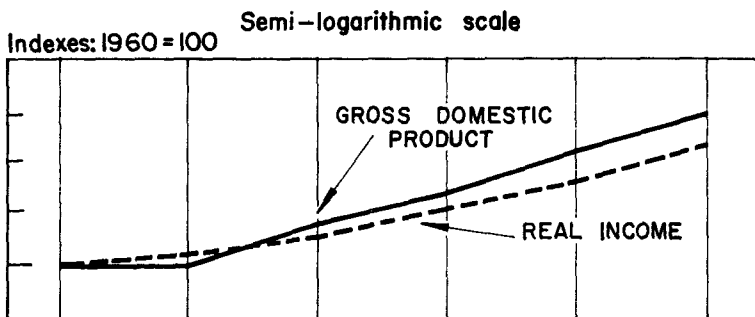
This does not mean that Venezuela is following the same pattern of import substitution as other countries of the region. On the contrary, the Government's development policy as reflected in its plans reveals a deliberate effort to stimulate industrial projects that would make use of the most suitable natural resources for their purposes, which in some cases possess an export potential because of the comparative advantages stemming from their abundance and quality and the possibility of obtaining a cheap supply of energy. On these cases, the activities involved—such as steel making and petrochemicals—are on such a scale that it is essential for the public sector to undertake the work of promotion as it has begun to do.

Other instruments of industrial policy are similarly designed to diversify private industry, as well as to stimulate the traditional import

¹ According to preliminary estimates of the Central Office for Planning and Co-ordination (CORDIPLAN).

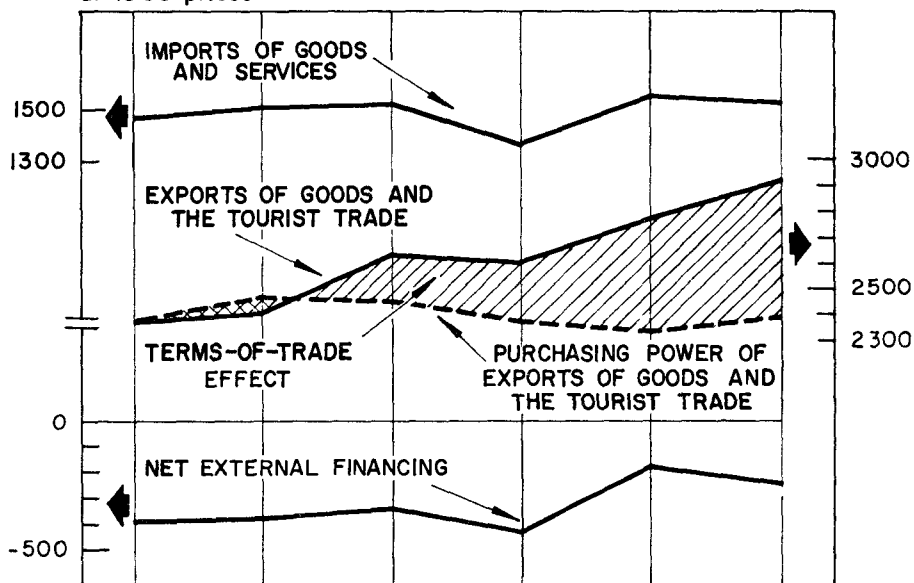
Figure XXXV. Venezuela, 1960-65

(a). EVOLUTION OF THE PER CAPITA GROSS DOMESTIC PRODUCT AND REAL INCOME



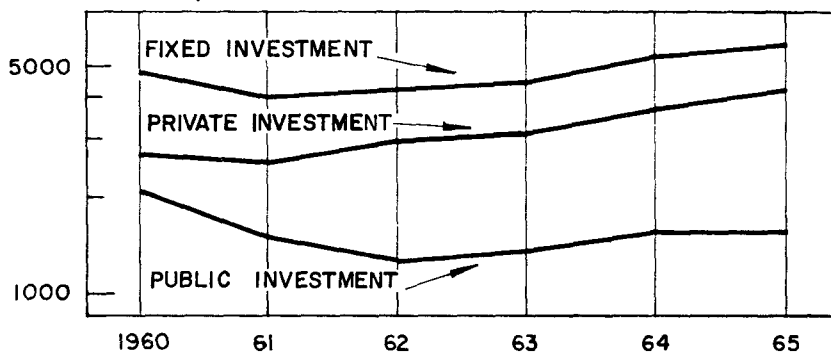
(b) EXTERNAL SECTOR TRENDS
Natural scale

Millions of dollars
at 1960 prices



(c) INVESTMENT TRENDS
Semi-logarithmic scale

Millions of bolivares
at 1960 prices



Source: ECLA, on the basis of official statistics.

Table 215. Venezuela: Evolution of investments, 1960-65
(Millions of bolivares)

	1960	1961	1962	1963	1964	1965 ^a
Fixed investment	4,797	4,080	4,260	4,438	5,294	(5,880)
Public	2,107	1,509	1,278	1,331	1,588	—
Private	2,690	2,571	2,982	3,107	3,706	—
Total investment	4,510	4,406	4,777	4,851	5,409	(5,940)

Source: CORDIPLAN.

^a Provisional figures.

substitution process.² There is plenty of credit available for this purpose, and manpower training has been intensified in order to avert a shortage of skilled workers owing to the recent and vigorous nature of Venezuela's industrialization process.

These and other advances have gradually created the requisite conditions for overcoming resistance to the country's involvement in the integration of Latin America. Thus in November 1965 the Executive submitted a bill to the Legislature approving the Montevideo Treaty, and designed to bring Venezuela into ALALC.

The expansion of public expenditure, which has been another important factor of total demand, has permitted the intensification of domestic structural and social changes. Steps have been taken recently to accelerate agrarian reform, intensify the implementation of the community development programme—to which a rural school building programme was added in 1965—to provide more school facilities and in general to expand public services and decentralize them further.

The channelling of these efforts has been facilitated by the gradual perfecting of planning agencies, to which have been turned over not only planning and co-ordination tasks at the national level but one of Latin America's biggest ventures in regional programming: the development of Guyana, where some of the principal basic industries are located. The steady expansion of economic activity has permitted a significant increase in employment, but the figures for

² In 1965 the Ministry of Development undertook a total of 316 industrial projects. Of these, 105 corresponded to enlargements (an additional investment of 201 million bolivares and employment for 3,600 persons) and 211 to new plants (with an investment of 547 million bolivares and employment foreseen for 9,500 persons). Likewise, it is announced that starting in 1966 it will launch an agro-industrial policy directed toward achieving better geographical distribution of industry (see the Second Message to Congress of the President of the Republic, 15 March 1966).

structural unemployment of unskilled labour are still fairly high.

(b) *Evolution of the public sector*

The heavy responsibilities which recent development has begun to place upon the public sector—in terms of current services and investment—make it plain that the fiscal machinery is unable to provide the necessary resources.

This was again the case in 1965, when current central government income rose by 1.8 per cent, compared with 10.3 per cent for total current expenditure. Thus, the surplus available for capital expenditure was reduced from the peak figure recorded in 1964 to a level which in any case exceeded those attained in 1962 and 1963. In 1965 current income was around 7,260 million bolivares and current expenditure nearly 4,600 million, resulting in a surplus of approximately 2,700 million bolivares.

The absolute amount of these resources does not lessen the seriousness of the tendencies noted. Therefore, government programmes include a study of tax reforms to ensure non-deficit financing of future increases in public expenditure by means of larger transfers of resources from the private sector other than the petroleum industry.³ In this way, the effects of Venezuela's income tax reform in December 1958 would become more widespread. A special commission appointed by the Executive and composed of representatives of the Ministry of Finance, CORDIPLAN and the Central Bank is engaged in preparing such studies, which are to include questions relating to the inflexible and regressive nature of the tax system.

Table 216 shows the levels and composition of actual central government income for the last

³ Another reason supporting this step is that tax pressure in the economy's domestic sector has shown a diminishing tendency (see report attached to the Presidential Message to Congress, *op. cit.*). Total current public revenue other than that derived from the petroleum sector was apparently about 10 per cent of the gross product in 1963 and considerably less than that in 1964.

Table 216. Venezuela: Real central government revenue, 1963-65
(Millions of bolivares)

	1963	1964	1965 ^a
I. Ordinary revenue	6,596	7,133	7,264
A. Direct taxes	2,504	2,982	3,249
1. Tax on revenue from	2,484	2,959	3,221
(a) Petroleum	1,758	2,156	2,188
(b) Iron	80	104	165
(c) Other activities	646	699	868
2. Taxes on inheritances and transfer payments	20	23	28
B. Indirect taxes	802	908	937
1. Customs duties	302	351	314
2. Internal taxes	438	490	538
(a) Petroleum products	54	65	68
(b) Other	384	425	470
3. Other indirect taxes	62	67	85
C. Revenue from public property	2,972	2,872	2,661
1. Land	1,719	2,505	2,534
(a) Oilfields	1,715	2,499	2,532
(b) Other	4	6	2
2. Industry and trade	1,253	367	127
D. Miscellaneous rates and revenues	318	371	417
II. Extraordinary revenue	22	84	102
1. Treasury drafts, foreign loans and bonds	22	84	102
2. Others	—	—	—
III. Grand total	6,618	7,217	7,366

Source: Ministry of Finance, Budget Department.

^a Provisional figures.

three years. The small increase in current revenue between 1964 and 1965 may well be the result of an appreciable expansion in direct taxes and a decrease in absolute terms of tax revenue. Of the direct taxes, there was little increase in the tax revenue deriving from the petroleum sector, thus, their growth was determined by the taxes levied on income from iron mining and other activities. Indirect taxes, on the other hand, increased less than in 1964 because of the reduction in customs duties.

Extraordinary revenue, of little relative importance in total central government income, continued to increase and was over 100 million bolivares in 1965. In that year, five new agreements were signed with international organizations for a total of 72 million dollars to finance programmes for the construction of aqueducts, rural and urban housing, industries and the five-year telecommunications plan.

The effects of the decrease in the current surplus in 1965 on the composition of expenditure authorized by the central government can be seen in table 217. Basically, the rate of expansion of the current use of those resources was maintained and even increased, so that the direct

result was a considerable reduction in capital expenditures.

As regards the latter, fixed investment remained at much the same level for the third year in succession, while there was an appreciable decline in the funds for amortization of the domestic and foreign public debt,⁴ and in smaller measure in the funds for other capital transfers.

Under the head of current uses, similar increases were registered in the funds for direct use by the central government—salaries and wages paid to public administration personnel and purchases of non-personal goods and services—and transfers to other entities, principally states, districts and municipalities, and autonomous and service institutes, which altogether represent a substantial proportion of the total.

The persistently heavy increase in current expenditure reflects the importance that is beginning to be ascribed in recent development policy to the expansion of the public services most

⁴ The decrease in these amortization payments is explained by changes in the composition of the debt and also, in part, by a reduction in the total, which had reached its peak on 31 December 1961.

Table 217. Venezuela: Total central government expenditure
(Millions of bolivares)

	Authorized expenditures		
	1963	1964	1965
<i>Current uses</i>	3,983.6	4,175.6	4,587.1
Wages and salaries	2,074.1	2,161.8	2,317.0
Non-personal goods and services	374.5	359.4	384.6
Transfers	1,366.9	1,488.8	1,684.5
Autonomous institutions	316.5	358.7	437.4
Financial intermediaries	43.7	50.2	46.3
Service institutes	272.8	308.5	391.1
States, districts and municipalities	864.0	927.7	1,025.3
Producers	52.9	46.6	52.6
Households	124.9	141.6	152.8
Foreign	8.6	14.2	16.4
Interest on public debt	84.9	67.2	70.5
Other current uses	83.2	97.7	130.5
<i>Capital</i>	2,692.0	3,228.1	2,673.1
Gross investment	1,094.2	1,089.2	1,093.6
Financial investment	9.0	6.2	19.6
Amortization of internal public debt	462.8	537.2	279.6
Amortization of external public debt	222.6	162.3	94.4
Transfers	847.6	1,315.9	1,162.9
Credits granted	6.0	16.0	11.5
Other uses of capital	49.8	101.3	11.5
TOTAL	6,675.6	7,403.7	7,260.2

Source: CORDIPLAN, Department of Short-term Programming and Planning.

closely linked to the living conditions of the people. Thus, for example, it is estimated that the scale of public expenditure on health services and the particular attention given to services in rural areas have made it possible to supply half the rural population with drinking water and sewerage. There are equally eloquent indicators in the education field: primary school enrolment rose by 4 per cent in 1965, reaching 1,422,000 pupils; 756,000 benefited from the school lunchrooms, of which 250 were established in 1965; total enrolment for the year amounted to 1,847,000 students in all branches of education, and 180 buildings with room for a further 23,930 students were constructed. The workers' training programme extended to over 67,000 persons.

(c) Evolution of the external sector

The predominance of domestic factors as incentives to Venezuela's recent economic growth, in contrast to previous periods in which external transactions filled this role, becomes clear if a study is made of the slight changes in the country's balance-of-payments situation. This appraisal is evidently based on annual changes, since the external sector is still very important,

both in absolute terms and in relation to the domestic product, and in this respect Venezuela continues to occupy a very special place in the Latin American economies.

Preliminary figures for 1965 indicate a relatively small increase in current exports values, which are believed to have reached about 2,600 million dollars. Petroleum exports which represent more than 90 per cent of this total remained virtually as in 1964, while iron ore exports rose from 114 million to 130 million dollars. The group of miscellaneous exports recorded a much sharper increase (some 30 per cent more than in 1964), but still carried little weight because of the small amount involved.

F.o.b. imports continued to represent about half the value of exports. In fact, this proportion was somewhat lower in 1965, when imports rose somewhat more slowly than sales abroad, with the result that the merchandise account surplus increased to nearly 1,380 million dollars.

As is known, the bulk of this large surplus is used mainly to cover remittances in connexion with direct foreign investments—675 million dollars in 1965. Neither this nor any other current account items—which include net

payments under the head of freight, insurance and transport, the tourist trade and other services—show any significant differences with respect to previous years (see table 218 and figure XXXV (b)).

The transactions described, together with the movements of capital shown in the same table, finally resulted in a small decrease in the net international assets of the monetary authorities, in contrast to what has happened in previous years.

2. EVOLUTION OF THE PRINCIPAL SECTORS OF ECONOMIC ACTIVITY

The sectors contributing at higher than average rates to the total expansion of the 1965 domestic product were manufacturing, construction, electricity, gas and water, and, to a lesser extent, transport and communications. The agricultural sector expanded only slightly faster than the whole group, and trade and other services at a somewhat slower pace. In the circumstances, the poorest performance was that of the petroleum and mining sectors combined, contrary to what happened in 1964 when their growth was practically equal to that of the total product (see table 219).

(a) Agriculture

Agricultural production rose by 7.5 per cent in 1965, a higher rate than that registered the year before. Increases in the production of cotton (8 per cent), sesame (16 per cent), sugar-

cane (10 per cent), bananas (13 per cent) and rice (21 per cent) were above average. The banana and rice crops produced surpluses which were sold on the world market. On the other hand, production of maize, although 46,000 tons more than in 1964, fell short of the country's needs.

Of Venezuela's two major agricultural export commodities—coffee and cocoa—the former rose by 10 per cent, thus achieving the highest output since 1959, while the latter increased by only 2 per cent. As regards livestock, the production of cattle and pigs rose by 7 per cent and 5 per cent, respectively; dairy production by 9.3 per cent and the output of eggs by 16 per cent. Fisheries production showed an increase of 8 per cent, a trend which will probably be strengthened in the future through new incentives to make fisheries an important course of protein food. In addition, the fish and shellfish canning industry has recently been growing at an accelerated pace.

The above increases are largely the result of the measures being adopted to change the structure of agriculture and promote its development. In 1965, the agrarian reform undertaken by the National Agrarian Institute made available 778,000 hectares of land, for distribution among 40,782 rural families. This represented an acceleration of the process in comparison with the four preceding years, during which the rate of land distribution had slowed down in

Table 218. Venezuela: Balance of payments, 1961-65
(Millions of dollars at current prices)

	1961	1962	1963	1964	1965
A. Exports of goods and the tourist trade	2,455.6	2,546.8	2,468.8	2,487.6	2,607.0
1. Goods	2,452.3	2,543.4	2,465.3	2,481.2	2,600.0
2. Tourist trade	3.3	3.4	3.5	6.4	7.0
B. Imports of goods and services	-1,492.4	-1,554.4	-1,400.3	-1,623.8	-1,650.8
1. Goods	-1,130.8	-1,178.5	-1,047.1	-1,213.5	-1,220.0
2. Net services and the tourist trade	-361.1	-375.9	-353.2	410.3	-430.8
C. Net investment income	-576.7	-630.9	-608.1	-652.4	-675.0
D. Balance on current account	386.5	361.5	460.4	211.4	281.2
E. Non-compensatory financing	-379.9	-290.4	-230.2	-92.7	-294.2
1. Net official transfer payments	0.2	1.6	3.0	3.1	...
2. Net direct investment	-24.8	-240.7	-83.7	-38.1	...
3. Net loans	-10.4	8.5	-13.4	26.0	...
4. Other net short- and long-term capital	-325.5	-234.6	-181.2	10.4	...
5. Net errors and omissions	7.6	174.8	45.1	-94.1	-30.0
F. Balance of payments before compensation	6.6	71.1	230.2	118.7	-13.0
G. Net supplementary financing	-6.6	-71.1	-230.2	-118.7	+13.0
1. Net balance-of-payments loans	-33.3	-66.7	-66.7	-33.3	—
2. Net movement of gold and foreign exchange reserves (-increase)	26.7	-4.4	-163.5	-85.4	+13.0

Source: ECLA, on the basis of data furnished by the Central Bank.

Table 219. Venezuela: Evolution of the product by sector of activity, 1958-65

	Percentage of total gross domestic product			Annual growth rates by period					1964-65
	1958	1962	1965	1958-61	1961-65	1962-63	1963-64	1964-65	
Agriculture	6.4	7.1	6.5	5.6	5.1	10.9	6.6	6.1	7.5
Petroleum and mining	22.9	23.3	21.3	3.5	4.6	8.1	0.7	7.1	2.5
Manufacturing	14.3	16.7	17.9	7.5	9.6	11.4	7.8	11.3	10.6
Construction	7.4	5.1	6.1	-12.2	14.9	20.0	18.4	15.6	17.0
Electricity, gas and water	1.1	1.5	1.7	14.2	11.0	13.1	11.3	9.8	12.0
Transport and communications	4.3	4.0	4.4	1.5	9.1	4.0	7.0	9.8	8.2
Trade	16.5	15.2	15.5	1.5	6.9	5.0	5.6	9.6	6.0
Services	27.1	27.1	26.6	5.0	4.9	2.0	5.7	5.7	6.2
TOTAL	100.0	100.0	100.0	3.3	6.7	7.0	5.8	7.0	7.0

Source: CORDIPLAN.

relation to 1959 and 1960. Of the families that received land in 1965, 17,495 were settled on land owned by the State and the remainder on privately owned land. Of the latter, 4,439 already occupied the land, so that their position as owners was regularized by means of agreements with the former landlords. Since the agrarian reform programme began, it has benefited nearly 20 per cent of the country's rural population.⁵

The agrarian policy has at the same time continued to provide incentives to the private sector by means of credits and minimum prices and protection against imports, as in the case of milk. Steps have also been taken to stimulate commercial agriculture carried out by agricultural enterprises, as shown by the distribution of credits granted by the Agricultural and Livestock Bank (Banco Agrícola y Pecuário), which in 1965 allocated half its current credits to agricultural enterprises and the other half to farmers.

In the last two years the storage of agricultural products has presented some difficulty, but there is already under way the first of three stages of a plan designed to raise storage capacity by 200,000 tons through the construction and enlargement of silos in Araure, Turén and San Cristóbal. Furthermore, in the course of 1965 the area under irrigation was increased by 10,410 hectares, which means an increase of almost 21 per cent. In the past year, a plan to build small irrigation systems was launched and, it is hoped, will introduce greater flexibility in the rural settlement policy.

⁵ See Presidential Message to Congress, *op. cit.*

(b) Petroleum and mining

Petroleum production rose by only 2.5 per cent in 1965. This small increase, linked to the fact that world fuel prices continued to drop, explains why the value of Venezuelan exports fell slightly in relation to 1964.

Although the theoretical duration of the country's petroleum reserves has diminished slightly in relation to 1964, physical investment in 1965 (measured by open wells) was higher than the previous year. At the same time, companies spent 840 million bolívares on replacement of equipment with the aim of improving production efficiency. Nevertheless, the trend toward the outflow of petroleum capital from Venezuela persisted in 1965 because the gross investment made by oil companies is lower than the depreciation reserves which they are allowed to deduct from these profits under the head of costs.

The petroleum policy of the Venezuelan Government continues to be aimed at protecting international prices along with other producers members of the Organization of Petroleum Exporting Countries (OPEC) and at granting no more exploration or development concessions to foreign companies. Instead, it is planned to undertake the future expansion of exploration activities and the development of new oil-fields through service contracts negotiated with foreign companies by the Venezuelan Petroleum Corporation, although the form which these contracts will take is still under study. The Government's sustained efforts to strengthen the Venezuelan Petroleum Corporation ever since its foundation in 1959 have not as yet resulted in its absorbing a significant share of

domestic output. In 1965, its contribution to total production was 514,436 cubic metres, which is approximately equivalent to the output of the whole country in a day and a half. Nevertheless, the State-owned corporation has made considerable headway in exploration and organization, and in 1965 had already begun seismic surveys in Lake Maracaibo.

Iron ore, which is the other important item in this sector, showed a production increase of 11.1 per cent over 1964, which represents the highest level attained since 1960—when Venezuela produced over 20 million tons—and a swift recovery after the decline which lasted until 1963.

(c) *Manufacturing industry*

Industrial activity has continued to grow at a rate proportionally higher (10.7 per cent in 1965) than the economy as a whole, thus raising its share of the gross domestic product from 14.3 per cent in 1958 to 17.9 per cent in 1965. Its growth has been largely due to the process of import substitution which has been carried out in recent years and whose advance is clearly reflected in the changes registered in the composition of imports. Even though there is still room for action in relatively simple substitutions (as, for example, many parts of articles that are being assembled in the country, imports of which are classified as inputs), the continuation of this process will undoubtedly encounter increasing difficulties because of the greater technical complexity in the fields which substitution efforts will have to cover. Hence, the importance of orienting industrial policy along the lines of *reconciling the substitution effort with the aim of developing domestic industry to the point where it can compete on foreign markets*, at least in some lines in which the country can potentially count on having comparative advantages. The national financial situation would contribute toward this objective by making it possible for these operations to receive financial support in the form of credit.

Among other measures to encourage industry in 1965, the Venezuelan Development Corporation and the Commission for the Financing of Small and Medium Scale Industry granted credits of over 240 million bolívares, in accordance with a previously established order of priority. The Industrial Bank of Venezuela extended credits for 300 million bolívares, which was double the amount granted in 1964. In accordance with policy of assisting the private sector in the more difficult projects, in October 1964 an industrial promotion department was established in the Venezuelan Development

Corporation, which has already installed plants for a value of 31 million bolívares.

Among the principal components of the manufacturing sector, the traditional industries—which include food, beverages, textiles, hides and skins—grew at a rate lower than that of the sector as a whole and at approximately the same pace as the total product. Of the intermediate industries, the petroleum products sector expanded fairly slowly, while the remaining industries progressed at a fairly rapid pace. The growth of the pulp and paper industries is estimated at 18.2 per cent, chemical products at 12.6 per cent and basic metals 30 per cent. High growth rates were also registered in the metal-transforming industries, which altogether rose by 21.1 per cent, the main items being transport materials and metal products, but the machinery industry has also made notable advances and, in 1964, 113 million bolívares were invested in 61 projects.

The motor vehicle industry grew somewhat more than 28 per cent in 1965. The assembly of all types of vehicles rose from 44,941 units in 1964 to 58,363 in 1965, or an increase of slightly more than 30 per cent. In addition, the progress in this industry is not limited to assembly, for the production of parts and spares in the past year reached a gross value of 140.6 million bolívares, compared with 84 million in 1964. Likewise, 27 new projects were started in this industry in 1965 and four established industries were expanded. Among the main new projects are the manufacture of automobile wheels (steel rims), brake drums, hubs, fly-wheels, suspension arms, water pumps and hydraulic systems.

SIDOR (Siderúrgica del Orinoco) and SIVENSA (Siderúrgica Venezolana) are the major industries producing iron and steel, although the remaining smelters for various types of metals increased their production by over 25 per cent last year. Pig iron production of the SIDOR plant decreased by 2.1 per cent in relation to 1964 as a consequence of the seasonal drop in the hydroelectric power of the Caroní River, which affected the supply of energy to the plant's furnaces. Nevertheless, this reduction in pig iron output did not affect the steel production of SIVENSA and SIDOR, which totalled 624,497 tons, or a 41.7 per cent increase over 1964. This was made possible by importing the additional pig iron needed and also because SIVENSA uses scrap iron mainly as raw material.

Domestic production of dowel pins decreased by 12.6 per cent owing to replacement operations at SIVENSA, whereas SIDOR's output of seamless tubes increased by 76.9 per cent, reaching a total of 97,000 tons in 1965.

As regards the range of steel products—thus far confined to wire, shapes, seamless tubes and dowel pins—the studies relating to a rolling mill that is to include the tinsplate production have been completed and it is planned to invite tenders for its construction, which will call for an investment of over 500 million dollars.

The petrochemical industry increased its production by 11.3 per cent in relation to 1964. The Venezuelan Petrochemical Institute's explosives plant went into operation in mid-1965. The development is envisaged of various additional projects in co-operation with foreign firms, with which negotiations are now afoot. The Institute's projects include two sulphuric acid plants, as well as the installation in the State of Zulia (the petroleum-producing area *par excellence*) of the first complex of industries for the production of ethane, methane, propane and butane in the Occident region, and the aromatics complex in the Orient.

(d) *Other sectors*

Construction shows an exceptionally high growth rate of 17 per cent, an expansion which is closely linked to the investment recovery over the last three years. In particular, housing construction in the past year has been on a considerable scale. Over 16,000 housing units were built by the private sector which, added to the dwellings built or financed by the public sector, resulted in an increase in housing that outstripped the population growth during the year.

The public sector has operated in this field through the Workers' Bank (Banco Obrero), the rural housing programme, the Community Development Foundation and the Corporación Venezolana de Guayana, in addition to the stimulus it has given the private sector through special financing plans. None the less, there is still an appreciable housing shortage in the country.

The transport and communications sector maintained the high growth rate (9.1 per cent) that had been achieved since 1961, much higher than that shown for the 1950-58 period (4.6 per cent). This bears eloquent witness to the transformation that the Venezuelan economy is

undergoing. The government highway development policy has been directed toward establishing or improving communication between those areas that are developing most rapidly. In 1965, 586 kilometres of highways were built, 1,222 were paved and 335 were improved. The most important completed projects are the Coche-Cortada de Maturín and Valencia-El Palito speedways, and the Barinas-La Pedrera and Guanta-Cumaná highways. The Machiques-Colón highway now under construction will stimulate the economy of the entire western region of the State of Zulia by linking up the cities of Maracaibo and San Cristóbal.

International as well as domestic airline incomes increased in 1965. A scheme permitting the integration of domestic airlines as regards the distribution of cargo and passengers is being studied. Likewise, the Compañía Venezolana de Navegación made a profit, and it is expected that during 1966 its temporary agreement with the Royal Netherlands Steamship Company and the Flota Mercante Gran Colombiana for developing traffic to Europe and Colombia will come into effect. Regarding telecommunications, the current five-year plan was carried on in 1965 with the object of modernizing and extending the domestic telecommunications network.

The generation of electric energy increased by 8.8 per cent, whereas consumption rose by 11 per cent. The Compañía de Administración y Fomento Eléctrico (CADAFE) increased its installed capacity by 8.4 per cent, reaching a total of 449,000 kW, while work continued on the Guri dam. It is expected that the first stage of this hydroelectric plant will be completed by 1968, at which time it will be possible to supply the capital city's requirements with energy provided by this dam. In order to link up the Caracas system with that of the Corporación de la Guayana, which is to administer the Guri dam, the frequency change-over in the capital city will be initiated in the near future as part of an agreement drawn up by Electricidad de Caracas and the Corporación de la Guayana, which provides for the interconnexion of the entire country.

Part Three

EVOLUTION OF THE MAIN ECONOMIC SECTORS

Chapter I

AGRICULTURE

1. RECENT MAJOR TRENDS

One of the main features of the economic evolution of Latin America as a whole in 1965 was the sharp rise in agricultural production. The product of the agricultural sector—defined as including forestry, hunting and the fishing industry—rose by 9.5 per cent in real terms in relation to 1964, as against a growth rate of the over-all product of 6.1 per cent.

However, for a number of reasons, this recent expansion should be viewed with reserve. First, the regional average was strongly influenced by the sharp increase in output in Brazil, which was the result of a substantial recovery in the coffee crop and of particularly favourable weather conditions that were responsible for bumper harvests of other products. These weather conditions also led to considerable increases in agricultural output elsewhere in the region. Secondly, it must be borne in mind that in some cases the bigger volume produced could not all be sold on the domestic and foreign markets, and that there was consequently a rise in inventories, so that the higher output did not, at least immediately, result in an equal rise in consumption or in export earnings. Thirdly, the improvement registered in 1965 followed an only moderate increase in 1964 and a particularly small rise in 1963, and thus does not reflect any change in the low rate of expansion that has long been characteristic of agriculture, largely as a result of the relatively slow pace at which the necessary structural and institutional changes are being introduced.

The situation varies considerably from country to country (see table 220). Apart from Brazil, with its sharp increase in output, eight other countries showed improvements compared with 1964. Costa Rica regained most of the ground lost as a result of the unfavourable conditions for agricultural production in 1964; in Guatemala, where there had also been an earlier decline in absolute terms, there was at least a moderate expansion in 1965; in Ecuador, the slow agricultural growth trend of the three preceding years turned upwards slightly; in Honduras and Nicaragua the already high growth rates in the sector increased further, and the same was true, at rather lower levels, in Panama and Peru; in Uruguay there was a modest rise in relation to 1964, when there had been a sharp

fall in output. In Argentina, Colombia, Mexico, Paraguay and Venezuela, on the other hand, agricultural growth rates were lower than in 1964; in El Salvador there was no change in output, while in Bolivia and Chile there was a reduction in absolute terms, in the latter case because of bad weather.

Although special circumstances cannot be ignored, the average annual growth rate of about 4.5 per cent represented by the over-all evolution of the gross agricultural product during the five-year period 1960–65 can be regarded as an appreciable improvement compared with the cumulative annual rate during the preceding five-year period (2.6 per cent), even though it meant only a slight increase in per capita production; this was true for most of the Latin American countries individually, as well as for the region as a whole.

Hence the rate of expansion for agricultural output during the past five years was similar to that of the over-all product, and agriculture maintained its share of the total domestic product (see table 221). This feature of recent evolution also contrasts with the trend followed in the preceding five-year period, when agriculture's contribution declined from 23.9 per cent in 1955 to 21.7 per cent in 1960, since when it has remained virtually unchanged. As explained in other sections of the present survey, the more rapid expansion of agricultural output has coincided in recent years with a slower rate of industrialization, which has had the effect of slowing down the structural changes in the Latin American economy in terms of the sectoral composition of the product.

The figures for the contribution of the agricultural to the total product in each country naturally vary widely, ranging between extremes of less than 10 per cent for Venezuela and about 50 per cent for a country like Honduras. But as table 221 shows, the contribution to the total product has been maintained at these various levels during the past five years in most Latin American countries, and in some has even risen.

The above data show that, quite apart from circumstantial factors, the efforts made to improve the rural infrastructure and credit, research and extension services, as well as the organization of agricultural policy through development plans and programmes, are beginning to bear

Table 220. Latin America: Gross domestic product of the agricultural sector (including forestry, hunting and fishing), 1960/61 to 1964/65
(Cumulative annual growth rates)

Country	1960/61	1961/62	1962/63	1963/64	1964/65
Argentina	-1.7	0.4	-1.7	9.6	4.0
Bolivia	4.9	-0.9	5.5	2.0	-1.4
Brazil	7.6	5.5	1.0	1.3	20.0
Chile	4.2	-1.9	8.0	6.4	-1.0
Colombia	4.3	3.4	0.5	5.1	1.5
Costa Rica	0.9	-1.0	4.3	-9.1	8.0
Ecuador	5.8	6.7	0.4	2.2	3.7
El Salvador	4.8	18.8	-3.5	9.9	0.2
Guatemala	1.6	4.7	12.0	-0.4	3.4
Haiti	-3.6	8.3	...	...	...
Honduras	7.8	5.2	1.4	8.5	16.0
Mexico	2.9	5.0	2.3	6.2	3.1
Nicaragua	6.3	12.4	6.1	11.5	12.3
Panama	8.5	-1.4	6.4	6.4	8.9
Paraguay	6.4	2.1	0.7	7.2	3.7
Peru	10.1	10.8	-1.2	4.6	5.7
Uruguay	17.2	-14.0	18.6	-9.3	1.2
Venezuela	1.8	11.3	6.6	6.9	5.0
TOTAL	4.7	4.2	1.7	4.1	9.5

Source: ECLA, on the basis of official statistics.

Table 221. Latin America: Contribution of the agricultural sector to the total gross domestic product, 1960-65
(Percentages)

Country	1960	1961	1962	1963	1964	1965
Argentina	16.8	15.6	16.2	16.6	16.8	16.2
Bolivia	30.6	31.5	29.5	29.3	28.4	26.9
Brazil	28.3	28.4	28.5	28.2	27.7	31.0
Chile	12.2	11.8	11.1	11.0	11.4	10.9
Colombia	34.6	34.3	33.8	32.9	32.8	32.2
Costa Rica	35.4	34.9	33.2	32.5	29.5	29.6
Ecuador	36.0	36.8	37.3	37.1	35.8	35.7
El Salvador	32.8	32.7	34.8	32.2	32.3	30.9
Guatemala	32.8	32.1	32.8	32.7	30.9	30.2
Haiti	49.6	48.8	49.1	...	...	...
Honduras	50.4	50.9	50.7	50.2	51.0	53.2
Mexico	17.4	17.2	17.2	16.6	16.0	15.7
Nicaragua	38.1	38.0	38.2	38.0	38.3	39.5
Panama	24.6	24.3	22.2	21.7	22.0	22.2
Paraguay	38.8	39.0	39.3	38.4	38.7	32.8
Peru	22.9	23.1	23.8	22.7	22.6	22.5
Uruguay	19.3	21.7	19.2	22.8	20.7	20.8
Venezuela	7.2	7.3	7.6	7.7	7.7	7.6
TOTAL	21.7	21.6	21.7	21.5	21.1	21.8

Source: ECLA, on the basis of official statistics.

fruit. But the results are still small, in many cases because of the slow pace of institutional and structural reforms. In addition to economic and social advances—especially as regards rural income distribution—there has been some technological progress in agriculture. However, if the temporary effect of abnormal weather is excluded, it can be asserted that most of the rise in agricultural output in recent years is attributable to the steady expansion of the area under cultivation, while the contribution of higher unit yields as the result of a sustained policy of technological improvement has been comparatively slight.

From a different standpoint, it must be remembered that the improvement over the last few years has not resulted in a corresponding rise in the supply of agricultural products to improve the prevailing low food consumption. Most of the main export crops have increased in volume more than agricultural production as a whole, and thus the growth rate of agricultural production for domestic consumption has been lower than the over-all agricultural growth rate. The information available is not sufficient to permit separate analysis of these trends, but they are appreciable, especially in view of the fact that less than a quarter of all agricultural production in Latin America is intended for world markets.

The changes in the composition of agricultural production that have accompanied the recent expansion are also reflected in different crop and live-stock production trends. Although the data concerned are not strictly comparable with those included in earlier tables, the estimates in table 222 are interesting for illustrative purposes.

The following section includes detailed information on the changes in the output of the main agricultural products, to supplement the above general indications. It includes a brief reference to forestry and fishing activities, which also have some effect on the figures for the agricultural sector as a whole.

2. CHANGES IN THE OUTPUT OF SELECTED COMMODITIES

(a) *Wheat*

The proportion of world wheat production represented by Latin American output has been fluctuating between 3.5 and 5 per cent. About 90 per cent of the region's total production comes from Argentina, Chile and Mexico. Output for 1965 was about 10.7 million tons, which was lower than in the two previous years, particularly 1964, when it was nearly 15 million tons (see table 223).

Latin America's wheat production is determined largely by output in Argentina, where there was a bumper harvest (over 10 million tons) in 1964, as a result of particularly good weather and increased yields due to technological improvements, the area sown having been in fact smaller than in earlier years. An even smaller area under seed in the crop year 1965/66 (5.8 million hectares, i.e., 6.6 per cent less than in the preceding year), and low rainfall in the main producer areas in August and September, led to a much lower output for the year 1965 (6.5 million tons).

In Chile the rainstorms and floods that damaged the winter sowings also led to a smaller crop in 1965 in relation to the relatively high output for 1964.

In Mexico, on the other hand, wheat production has been expanding rapidly, and in 1964 output reached 2.1 million tons, dropping slightly in 1965.

(b) *Rice*

In 1965 there was a considerable increase in rice production, which amounted to over 9 million tons (see table 224).

Output in Brazil, which represents about two-thirds of the total for the region, was 6.3 million

Table 222. Latin America: Agricultural production, 1960-65

	Indexes (1957-59=100)						Annual growth rates (percentages)		
	1960	1961	1962	1963	1964	1965 ^a	1962-63	1963-64	1964-65
<i>Agricultural production</i>	104	110	112	116	114	123	3.6	-1.7	7.9
<i>Crops</i>	106	113	114	118	116	128	3.5	-1.7	10.3
<i>Livestock</i>	99	104	107	111	108	111	3.7	-2.7	2.8
<i>Food production</i>	105	109	113	118	120	124	4.4	1.7	3.3

Source: United States Department of Agriculture, Economic Research Service, *Indices of Agricultural Produc-*

tion for the 20 Latin American Countries.

^a Provisional data.

Table 223. Latin America: Wheat production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	4,082	5,100	5,020	8,940	10,100	6,500
Bolivia	44	43	44	51	45	45
Brazil	354	204	275	100	300	245
Chile	1,118	1,123	1,071	1,274	1,319	1,246
Colombia	142	142	162	90	85	110
Ecuador	58	78	67	55	51	55
Guatemala	22	21	24	19	26	29
Mexico	1,190	1,402	1,502	1,766	2,100	2,000
Paraguay	11	10	9	10	7	11
Peru	154	153	193	156	150	150
Uruguay	413	372	452	237	646	356
TOTAL	7,588	8,648	8,819	12,698	14,829	10,747

Source: *Indices of Agricultural Production for the 20 Latin American Countries*, op. cit.

^a Provisional data.

tons, with the result that there was a further increase in the surplus stocks from the previous year's harvest and an appreciable volume of exports. Colombia continued to expand the area under rice and to increase its rice output, while in Mexico output remained about the same, and in Peru it fell off because the area

sown was smaller, and this reduction was only partly offset by higher yields.

(c) *Forage grains*

The *maize* crop—which is the most important in this group of commodities—was 28.9 million tons in 1965, or over 10 per cent more than in

Table 224. Latin America: Rice production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965
Argentina	190	149	182	178	190	286
Bolivia	40	39	40	50	48	47
Brazil	4,795	5,392	5,557	5,462	5,818	6,300
Chile	110	109	83	84	86	82
Colombia	450	474	585	550	600	655
Costa Rica	56	62	60	59	60	60
Cuba	205	200	200	130	130	110
Dominican Republic	136	138	155	195	154	170
Ecuador	175	169	185	185	153	119
El Salvador	27	27	28	31	40	40
Guatemala	14	13	16	18	21	22
Haiti	41	42	43	32	40	42
Honduras	22	22	24	23	23	23
Mexico	328	333	289	296	274	360
Nicaragua	34	39	37	29	30	30
Panama	97	110	111	113	130	130
Paraguay	33	35	36	28	36	38
Peru	358	332	391	270	315	284
Uruguay	53	54	61	77	47	90
Venezuela	72	81	103	131	166	170
TOTAL	7,236	7,820	8,186	7,891	8,361	9,068

Source: ECLA, on the basis of official statistics.

the year before. A decisive factor in this improvement was the notable increase in production in Brazil, which is the main maize grower in the region and recorded an unprecedented harvest of 12.3 million tons. A small reduction took place in Argentina, in spite of an expansion in the area sown, while the steady upward trend enjoyed in Mexico for some years past came to a halt (see table 225).

Oats production in Latin America, which is concentrated in Argentina, declined in company with that of *barley* and *rye* in the 1964/65 crop year, mainly because of the damage done by the drought and the reduction in the area sown to these crops.

(d) *Oil-seeds*

The most important types of oil-seed produced in the region—mainly in Argentina, Chile and Uruguay—are sunflower seed, groundnuts, linseed and sesame. In the 1964/65 crop year, total production of *sunflower seed*, in particular, was about 4 per cent less than the preceding harvest, which had amounted to 590,000 tons. In Argentina, 460,000 tons were produced in 1963/64, or almost as much as in the year before, although the crop area was reduced. Output in Uruguay is estimated to have been 63,400 tons, or nearly three-quarters of the previous harvest, in spite of the heavy losses suffered as a result of the

drought. In Chile it was 14 per cent larger than in the preceding crop year, totalling 45,000 tons.

Latin American *groundnut* production, 85 per cent of which is concentrated in Argentina and Brazil, declined as a whole in 1964/65. In Brazil it dropped from 604,000 to 470,000 tons, while in Argentina rain delayed the harvest and reduced yield, although the area sown to this crop was larger than ever, covering some 335,000 hectares. Even so, the output of around 333,000 tons was slightly more than in the previous crop year. Production in the region as a whole is expected to be over 30 per cent higher in 1965/66 than in 1964/65.

The total *linseed* harvest in 1964/65 was 13 per cent larger than in 1963/64. Argentina, which is the principal producer, obtained 815,000 tons, i.e., about 6 per cent more than in the previous crop year, although the area sown was reduced by almost a fifth and a drought occurred at the beginning of the season. Uruguay recorded an expansion of 17 per cent over its 1963/64 harvest, although the crop area devoted to linseed was cut by 12 per cent as a result of the Government's programme of credits for developing wheat growing. Brazil doubled its unusually small harvest of 1963/64. Early forecasts indicate that Latin America's output in 1965/66 will be 8 per cent less than in the previous year.

Table 225. Latin America: Maize production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965
Argentina	4,108	4,850	5,220	4,360	5,350	5,140
Bolivia	248	260	234	300	292	318
Brazil	8,554	8,999	9,487	10,418	9,378	12,312
Chile	146	145	159	151	205	203
Colombia	864	737	754	782	800	750
Costa Rica	76	76	81	83	64	62
Cuba	212	160	152	140	129	100
Dominican Republic	101	102	100	91	89	90
Ecuador	160	153	150	130	160	170
El Salvador	178	145	213	207	192	212
Guatemala	506	518	575	589	643	612
Haiti	83	81	86	81	79	81
Honduras	262	277	303	306	356	414
Mexico	5,386	5,450	6,426	6,424	7,100	7,000
Nicaragua	119	123	125	142	158	111
Panama	59	74	72	77	80	80
Paraguay	255	229	221	238	252	280
Peru	339	380	358	362	380	420
Uruguay	78	220	155	206	91	63
Venezuela	439	420	540	430	475	500
TOTAL	22,173	23,399	25,411	25,517	26,273	28,918

Source: ECLA, on the basis of official statistics.

Sesame seed is another major source of oil for the Central American countries and those in the northern part of South America. In 1964/65 Latin America's production was about 2.7 per cent more than in the preceding year, although output tended to drop in Nicaragua and El Salvador as a result of the increase in cotton growing during the last few years, and also in Mexico, where sesame was replaced by wheat in the irrigated areas and by maize on unirrigated land. In Colombia and Venezuela, however, considerable increments were recorded.

(e) *Sugar*

Sugar output in Latin America is estimated to have been 16.3 million tons of centrifugal sugar in 1964/65, which is a marked improvement over the figure for the previous year. In Cuba, the region's main producer, there was a reversal of the downward trend of sugar output since 1961, when it had reached its peak, and a total of about 6 million tons is estimated to have been produced. Brazil had a very good harvest of 3.8 million tons, while other Latin American countries that have tried to become self-sufficient or to export larger amounts of sugar have continued to record an annual increment, for example, Mexico, Peru and Venezuela.

Regional output is expected to increase to about 17 million tons in the 1965/66 crop year, in spite of the unfavourable state of the world market. In fact the price dropped steadily from

a maximum daily average of 11.5 dollar cents per pound in November 1963 to 2.1 dollar cents in mid-February 1965, a figure far below the cost to the efficient sugar producers. World production is expected to outstrip consumption in 1965/66 by 5 million tons. In spite of this, Mexico, Brazil and some minor producers plan to add to the cane-growing area and to build new mills in an attempt to raise production capacity.

(f) *Coffee*

Latin American coffee production reached the very high volume of over 3.3 million tons in 1965, thereby more than making up for the sharp recession of the year before, when it was only 1.8 million tons (see table 226).

These changes are of course mainly caused by fluctuations in Brazilian production. In 1963/64, output had dropped to only 600,000 tons because of the damage caused by frost and drought. In the coffee year 1965/66, on the other hand, it soared to over 2 million tons, thereby more than trebling the figure for the previous year, despite the destruction of over 500 million coffee trees between 1962 and 1964 as part of the programme for gradually stamping out anti-economic coffee plantations and diversifying agriculture. Official estimates, made before the flowering season, place total production in 1965/66 at close to 1.3 million tons, in spite of the damage done to the São Paulo crops by the cold wave that struck the south of Brazil.

Table 226. Latin America: Coffee production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965
Bolivia	2	2	3	4	3	3
Brazil	1,740	2,100	1,620	1,692	600	2,040
Colombia	480	461	468	450	492	480
Costa Rica	70	68	63	66	50	60
Cuba	42	48	39	28	36	30
Dominican Republic	30	36	34	41	40	42
Ecuador	45	51	48	42	54	54
El Salvador	87	114	99	120	120	126
Guatemala	90	102	114	107	96	120
Haiti	25	44	35	32	33	35
Honduras	17	22	25	24	27	29
Mexico	126	141	132	171	161	177
Nicaragua	29	26	30	27	34	33
Panama	4	5	4	5	5	5
Peru	32	43	46	49	52	53
Venezuela	50	45	51	53	48	50
TOTAL	2,869	3,308	2,811	2,911	1,851	3,337

Source: ECLA, on the basis of official statistics.

In June 1962, the Brazilian Coffee Institute, which is the public body responsible for regulating coffee marketing and applying support prices, launched a programme for eliminating coffee trees, with the aim of getting rid of half the 4,000 million coffee trees in Brazil in two years, and thus closing the customary gap between total production and domestic and external demand. Although the Government subsidized and financed the work of eradication and replanting with other crops, the programme began to flag in 1964, when 98 million coffee trees were uprooted.

In Colombia, which ranks second as a coffee producer and exporter, there were no great changes. The increase in output in 1964, due to the use of better methods of cultivation and larger quantities of improved varieties and fertilizers, was absorbed by the rise in domestic consumption.

(g) *Cotton*

Cotton production has hovered around 1.6 million tons in the last three years (see table 227). The fairly substantial reduction recorded in Brazil and Argentina in 1964 was offset by equally large increases in Mexico and Nicaragua, while output in Peru stayed at much the same level. The situation was reversed in 1965, a recovery taking place in the first two countries while production in the other three fell below the levels for the last three years.

(h) *Livestock products*

Beef output in the last two years failed to regain the relatively high level it had reached in

1963, when it had exceeded 6 million tons. The changes in regional and individual country production are shown in table 228.

The drought of 1962 and 1963 in Argentina led to excessive slaughtering and reduced the total number of beef cattle to 40.1 million head in 1963. In order to build up the herds again, it was declared illegal to sell beef on two days of the week, and to kill calves or cows in calf, with the result that the number of cattle slaughtered in 1964 dropped to 9.7 million. The grazing land in Brazil recovered from the effects of the drought of 1964, herds increased to 80 million head of cattle and slaughtering went up by 4 per cent. Production increments were also recorded in Colombia (5 per cent bringing the total up to nearly 16 million head of cattle), in Mexico (2 per cent) and in Uruguay (28 per cent). In Peru, however, drought in the sierras was responsible for 4-per-cent reduction in the size of the herds.

Pig production increased to 71 million animals in 1964, the foremost producer being Brazil, with 79 per cent of the regional total. In 1964, production expanded in Brazil by 2 per cent, in Chile by 2 per cent, in Uruguay by 4 per cent and in Argentina by 31 per cent, dropping in Mexico by 3 per cent, in Colombia by 3 per cent and in Peru by 9 per cent.

In 1964 there were approximately 135 million head of *sheep* in Latin America, the main sheep-farming countries being Argentina, Brazil, Peru and Uruguay. In Argentina, lamb production amounted to 110,000 tons, which represents a decrease of 26 per cent. This was offset by an

Table 227. Latin America: Cotton production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	89	124	108	133	98	136
Brazil	398	455	550	535	459	491
Colombia	67	76	82	73	65	65
Ecuador	2	2	3	3	4	4
El Salvador	40	56	72	73	76	65
Guatemala	21	32	54	65	68	76
Haiti	2	2	1	2	2	3
Honduras	1	4	5	7	11	12
Mexico	457	434	528	459	521	501
Nicaragua	32	56	74	89	120	109
Paraguay	4	8	10	11	12	14
Peru	121	143	147	136	140	131
Venezuela	6	6	6	11	14	14
TOTAL	1,240	1,398	1,640	1,597	1,590	1,621

Source: *Indices of Agricultural Production for the 20 Latin American Countries*, op. cit.

^a Provisional data.

Table 228. Latin America: Beef production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	1,883	2,145	2,379	2,605	2,080	2,100
Bolivia	55	54	54	55	56	57
Brazil	1,359	1,369	1,356	1,361	1,358	1,416
Chile	132	150	144	135	131	110
Colombia	307	339	362	391	407	420
Costa Rica	33	30	30	32	33	33
Cuba	170	163	147	143	170	165
Dominican Republic	25	25	25	25	26	24
Ecuador	37	36	36	37	38	39
El Salvador	22	22	22	22	22	22
Guatemala	34	34	35	35	33	33
Haiti	10	10	10	10	9	10
Honduras	20	21	24	26	24	25
Mexico	414	435	453	483	493	507
Nicaragua	20	24	25	34	26	27
Panama	19	23	24	25	25	24
Paraguay	106	115	108	110	115	120
Peru	75	78	78	73	70	73
Uruguay	322	264	272	321	368	336
Venezuela	116	137	138	147	158	169
TOTAL	5,159	5,474	5,722	6,070	5,642	5,710

Source: *Indices of Agricultural Production for the 20 Latin American Countries*, op. cit.

^a Provisional data.

increase of 12 per cent in Peru and of 20 per cent in Uruguay, while no change took place in Mexico and Colombia.

As regards the other items of livestock production, i.e., wool and milk, the trends of over-all and individual country production can be seen in tables 229 and 230.

(i) Forestry

It is difficult to paint an accurate picture of recent forestry trends because there is little information obtainable and what there is lacks homogeneity. Over the long term, recorded

removals have increased very slowly (about 1 per cent annually), but represent only part of the real figure.

Industrial wood production is also a mere fraction of the total volume of recorded removals, since, while amounting to a quarter in Central America, it was barely an eighth in the South American countries. These are figures that compare very unfavourably with those for Europe (including the USSR), where it accounts for nearly three-quarters, or for North America, where it is nine-tenths. Three-quarters of all Latin American industrial wood output consists

Table 229. Latin America: Wool production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	195	188	185	179	190	180
Brazil	23	25	25	26	27	28
Chile	24	23	24	24	25	26
Peru	10	10	11	11	10	10
Uruguay	82	84	86	88	86	82
TOTAL	334	330	331	328	338	326

Source: *Indices of Agricultural Production for the 20 Latin American Countries*, op. cit.

^a Provisional data.

Table 230. Latin America: Milk production, 1960-65
(Thousands of tons)

Country	1960	1961	1962	1963	1964	1965 ^a
Argentina	4,505	4,483	4,534	4,777	4,816	4,634
Bolivia	107	110	110	113	112	112
Brazil	5,045	5,308	5,452	5,542	5,641	6,331
Chile	944	922	906	1,040	1,133	998
Colombia	1,753	1,762	1,785	1,833	1,900	2,000
Costa Rica	164	164	166	159	195	204
Cuba	767	700	690	695	715	575
Dominican Republic	163	166	168	168	168	165
Ecuador	161	229	231	238	242	247
Guatemala	144	121	124	153	166	170
Honduras	126	125	127	132	141	145
Mexico	2,678	2,950	3,177	3,578	3,913	4,000
Nicaragua	386	386	390	390	390	390
Panama	43	48	54	57	60	55
Paraguay	131	133	135	130	135	135
Peru	439	451	464	551	562	573
Uruguay	731	746	752	752	726	736
Venezuela	463	472	484	544	603	648
TOTAL	18,750	19,276	19,749	20,852	21,618	22,118

Source: *Indices of Agricultural Production for the 20 Latin American Countries*, op. cit.

^a Provisional data.

of roundwood, but production of pulpwood is increasing steadily in the main producer countries (Argentina, Brazil, Chile and Mexico).

Sawnwood production in 1964 is estimated at about 12 million cubic metres; this is low in relation not only to log consumption, which is twice as much, but to the potential capacity of the sawmills, which is calculated at 40 million cubic meters. Even these figures should be accepted with reservations, because of the statistical problems caused by the large number of sawmills operating in Latin America—about 20,000—quite apart from the many small mobile sawmills in operation. Censuses taken recently in Chile, Peru and Nicaragua have improved the quality of the data, but this improvement may mask the real trends, since the latest figures are not comparable with the others.

Among the more highly processed products, plywood is the major type of panel product manufactured in Latin America, since it accounts for nearly 60 per cent of all board produced there. Over the long term, it has increased steadily by slightly more than 5 per cent every year, still, however, failing to reach the rate of 10 per cent recorded by world production. Fibreboard and particle board production, on the other hand, has climbed much more rapidly, partly because both industries, and the latter in particular, were only just starting up in Latin America ten years ago.

By and large, the fibreboard industry is the only one in a satisfactory situation, since it has adequate equipment although its installed capacity (160,000 tons) exceeds current output (about 130,000 tons).

The plywood industry in Argentina, Brazil and Venezuela is handicapped by its lack of an adequate log supply. Moreover, glue tends to be expensive in Latin America, its price usually being twice the world market figure except in Central America, Colombia and Venezuela, where it is 25 to 40 per cent higher. Moreover, nearly three-quarters of the factories, particularly in Argentina and Brazil, produce 3,000 cubic metres or less a year, and are therefore under the minimum economic size. Fiscal protection, as in Brazil, or tariff protection, as in Venezuela and Chile, allows these concerns to survive, but they have as much as 300,000 cubic metres capacity lying idle in a year, i.e., nearly 50 per cent of the total.

Particle board production has begun to expand again after weathering a crisis in the last few years, and the rapid rate of growth recorded since 1963, especially in Mexico, Argentina and Brazil, is expected to continue. However, its operation coefficients are still less than 60 per cent of total installed capacity.

Paper and board production continued to expand, rising from 1.5 million tons in 1960 to

over 2 million in 1964. Argentina, Brazil and Mexico accounted for three-quarters of this output, and the greatest advances were made in Chile, Colombia, Cuba, Mexico, Peru and Venezuela, where production virtually doubled in the last ten years. Good headway has also been made in pulp processing, which rose from 800,000 tons in 1960 to 1.5 million in 1965, even though capacity was not being used to the full (70 per cent in the pulp industry and 75 per cent in paper manufacturing).

The main forest products exported by Latin America to the world market are pulp and sawnwood. Less roundwood is being sold abroad because of the increasing tendency to process it near the area of production. Colombia and Paraguay increased their sales of forest products to a similar extent, while in 1965 Bolivia's first exports of mahogany and walnut saw logs reached a value of 100,000 dollars, and, in Chile, exports of sawn pine started in 1963 with 2,000 logs, rising to 9,000 in 1964 and to 12,000 in 1965.

(j) Fisheries production

In 1964, the total value of fisheries production in Latin America was 226 million dollars for a catch of nearly 11 million tons, or 23 per cent of the world total. This far exceeded the 1963 catch of 8.4 million tons, mainly because of the increased volume of *anchoveta* caught off Peru and Chile. Argentina, Mexico, Panama, Cuba, Venezuela, Colombia and Ecuador also brought in larger catches, although on a lesser scale (see table 231).

In Argentina, Mexico, Cuba, Panama and Venezuela production was used to meet domestic fresh fish requirements, and was also canned and

frozen for home consumption and export. In Peru and Chile, on the other hand, the bulk of the catch consists of the *anchoveta*, which is used for making fish meal. In 1964, the figure recorded in Peru was 7.7 million tons, and in Chile, over 800,000 tons, while the value of fish meal exports rose to 170 million dollars. Consumption of fisheries products has been increased in several countries by special promotion campaigns launched for that purpose.

3. AGRICULTURAL DEVELOPMENT POLICY

(a) General considerations

The recent improvement in Latin American agricultural production as a whole has not lessened the concern aroused by the slow growth of the sector over the long run, especially as the encouraging results obtained in 1965 coincided in several cases with particularly good weather conditions. Accordingly, there is still every need to deal with the institutional obstacles—mainly the land tenure system—and with various other development and promotion questions, including infrastructural investment, credit allocations and, in general, all economic policy measures that have a direct bearing on agricultural activities.

With the adoption in 1964 of new agrarian legislation in Brazil, Ecuador and Peru, nearly all the Latin American countries now have the legal instruments for carrying out a reform. In Brazil, the Land Statute was passed in November 1964, and the Brazilian Land Reform Institute was made chiefly responsible for its implementation. In Ecuador the Land Reform and Settlement Act promulgated in July of the same year provides for the expropriation of land that is not

Table 231. Latin America: Utilization of fish catch in eight countries,^a 1961 and 1964
(Thousands of tons)

Country	Total catch		Fresh fish sales		Processed for human consumption ^b	
	1961	1964	1961	1964	1961	1964
Argentina . . .	91.7	158.3	53.6	52.5	28.6	75.5
Chile . . .	429.8	1,161.3	57.5	91.6	34.7	56.6
Colombia . . .	47.5	53.6	37.4	41.9	...	...
Cuba . . .	30.5	34.5	...	25.5	...	9.0
Ecuador . . .	38.6	47.1	...	24.1	...	18.5
Mexico . . .	225.4	258.0	...	99.7	...	105.6
Peru . . .	5,213.1	9,047.4	82.0	92.5	119.0	60.4
Venezuela . . .	84.9	110.6	34.1	39.7	50.3	67.8

Source: ECLA, on the basis of official statistics.

^a There was a steady increase during the intervening years.

^b Including frozen, cured (dried, smoked and salted) and canned fish.

properly farmed, the reversion of unused land to the State, and the surrender of title-deeds; implementation of the provisions of this Act is left to the Land Reform and Settlement Institute. In Peru, the Land Reform Act was passed in May 1964, its principal instrument of application being the Land Reform and Development Institute. In Chile, the Executive sent a new bill on land reform to Congress in 1965 with the object of extending and modifying the act in force since 1962, but it has not yet been passed. Proposals for a land reform act have been made in Uruguay, to include provisions on *latifundia*, *minifundia* and unworked holdings, and changes in the system of land tenure.

There is no precise information available as to what has been actually accomplished so far in this field, although with one or two exceptions, the work of reform seems to be proceeding very slowly.

From another standpoint the progress made in agricultural development planning, either as part of the general plans or in the form of sectoral programmes, is worthy of mention. Among the many recent ventures is a Five-Year Development Plan submitted by the Economic Planning Council of Guatemala, which comprises a land settlement programme aimed at settling 100,000 families in fifteen years. A five-year plan for rural development has been prepared in Honduras, to systematize current activities, which have included, among other measures, the purchase abroad of a large number of bulls and hogs in the last two years to improve the cattle and pig species as part of a livestock development programme. In Peru, the latest two-year public investment programme assigns one of the highest priorities to agricultural development. The expanded investment plan brought out in Venezuela in mid-1964 provides for the addition of 1.3 million hectares to the irrigated area by 1980. In Ecuador, agricultural plans include a forest development programme covering the protection and maintenance of 2 million hectares of natural forest, an inventory of 1 million hectares in the north-west of Ecuador and the exploitation of 145,000 hectares of potential forest land. Among the Colombian projects, that of the Valle del Río Zulia provides for the irrigation of 30,000 hectares, the first 12,000 to be ready in 1967 for growing sugar-cane, African palm and cacao and raising dairy cattle. The national plan for enlarging the wheat-growing area in Paraguay (1966-70), financed by Government bodies, the Development Bank and the Central Bank, has set as its target the sowing of 18,300 hectares of wheat in 1966 and 21,700 hectares in 1967.

These data do not of course provide an exhaustive list of the steps that have recently been taken, but simply a few examples that serve to illustrate the way in which agricultural development objectives are crystallizing in plans and programmes and can thus be more effectively achieved.

(b) *External financial co-operation*

The action taken by Latin American countries to expand basic irrigation works, land settlement, and agricultural credit and development facilities in general has continued to receive financial assistance from abroad. This has enabled them to progress more quickly with certain plans and to make a start on others.

The recent loan operations of the International Bank for Reconstruction and Development (IBRD) include—apart from the funds granted to Chile, Mexico and Nicaragua in the past—a new loan of 25 million dollars to Mexico, one of 15 and one of 11 million to Peru, and one of 12.7 million to Uruguay. The Mexican loan was granted to the Nacional Financiera, S.A., to help finance an agricultural credit programme through private banks with a view to increasing the amount of funds available for long- and short-term credit, and promoting livestock and food production and the establishment of processing plants. The loans to Peru are intended for the respective purposes of increasing the funds available to the Agricultural Development Bank for credit purposes and carrying out the third stage of the San Lorenzo irrigation and settlement project. The arrangement with Uruguay was made with the object of helping to finance the second stage of the agricultural plan. This will require a total investment of 35 million dollars for the four-year period, to be completed by contributions from the farmers themselves (11.6 million dollars), the Banco de la República (4 million) and the Central Government (6.7 million).

In 1965, the Inter-American Development Bank, through its Fund for Special Operations, lent Costa Rica 5.2 million dollars for agricultural development purposes and Nicaragua 4.5 million dollars for livestock development, in addition to the loans granted earlier to Argentina (5.5 million dollars in 1963), Bolivia (2.6 million dollars in 1963 and 1.1 million dollars in 1964 for settlement and agricultural credit respectively), Chile (6.3 million dollars in 1962), Ecuador (2.4 million dollars in 1961 for palm growing), Honduras (5.4 million dollars in 1962), Mexico (9.8 million dollars in 1964 for irrigation works), Panama (2.9 million dollars in 1962) and Venezuela (2.7 million dollars in 1962). The Social Progress Trust Fund, which is administered by the same Bank, also undertook loan

operations in 1965 involving the following sums: Brazil, 2.7 million dollars for agricultural credits in the Nordeste; Costa Rica, 1.3 million dollars; Ecuador, 3 million dollars and Panama, 2.5 million dollars. These two followed upon a large number of earlier loans. Lastly, in 1965, the Bank also lent Nicaragua and Peru 4.1 and 5.8 million dollars respectively out of its ordinary capital, for similar purposes.

Bilateral financial co-operation has been given by the United States through the Agency for International Development (AID) to various agricultural development projects in Latin America. The main operations in 1965 involved Mexico (21.5 million dollars for supervised agricultural credit) and Peru (2 million dollars for the Universidad Agraria La Molina).

In many cases, the use to which these external resources were put reflects the Latin American countries' constant anxiety to make more credit available to the agricultural sector as a complement to other agricultural development measures, an aim also served by the allocation of increased domestic funds.

In Venezuela, for instance, the loans granted in 1964 by the Banco Agricola y Pecuario totalled 263 million bolivares, while from January to August 1965, it lent more than 180 million bolivares to farmers, agricultural enterprises and activities under special programmes for coffee, cocoa and livestock. It is also planned to open an Agricultural Development Bank with a capital of 100 million bolivares, to which the existing State credit organizations will transfer their funds, and which will devote itself to promoting and increasing productivity in agriculture and the fishing industry and raising the standard of living of rural workers.

(c) *Other recent measures*

Among other recent agricultural policy measures, mention should be made of the policy of support prices which governments have been applying as a means of helping the agricultural sector, either to tide it over the temporary difficulties caused by unusually large crops, or for the purpose of increasing the cultivation of certain crops over the long term.

Argentina is a case in point. A support price of 800 to 860 pesos per 100 kilogrammes of semi-hard wheat was fixed for the 1963 crop, and then lowered to 780 pesos in 1964 on the grounds that the former figures were too high in comparison with world market quotations. However, the prospect of a reduction in the wheat-growing area led to a new adjustment in 1965, when the price was set at 820 pesos per 100 kilogrammes. It was also decided to raise

the support prices for forage grains in order to step up production to meet the increase in both export demand and domestic requirements (see table 232).

Table 232. Argentina: Support prices for selected agricultural commodities, 1963/64 to 1965/66
(Local currency per 100 kg f.o.b. cars, port of Buenos Aires)

	1965/66	1964/65	1963/64
Wheat	820	780	850-880
White oats	510	490	490
Yellow oats	500	480	480
Brewing barley	600	550	550
Forage barley	550	510	510
Maize (flint)	750	600	600
Maize (dent)	710	560	600
Rye	550	550	550

Source: ECLA, on the basis of official statistics.

The Government of Mexico set support prices for maize and wheat as part of its programme for self-sufficiency in food products. The support price for wheat was recently cut to 800 Mexican pesos (about 64 dollars) per ton, whatever the variety, and whether for export or for the home market.

The favourable market situation for vegetable oils and oil-seeds induced the main exporter countries in the developing regions to raise the producer's price in the hope of encouraging large-scale production. For instance, the Argentine Government increased the support prices for sunflower seed and groundnuts, and other countries revised their export policy and marketing practices. These incentives produced an increase in the area used for growing sunflower seed and groundnuts.

For more than two decades, the Argentine Government has guaranteed a certain price for linseed in order to stimulate production. For the 1965/66 crop the price was fixed at 7.60 dollars per 100 kilogrammes, against 7.02 dollars in the preceding crop year.

The support prices for other oil-seeds in 1965 were 8.19 dollars for sunflower seed (as in 1964) and 11.10 dollars for ground nuts (9.94 dollars in 1964).

Furthermore, taxes on exports of linseed oil, tung oil and the by-products of oil-seeds were lifted for two years by Government decree.

In some cases, agricultural policy has resorted to restrictive practices which, while limiting the immediate volume of output, are designed to provide larger or more adequate supplies over the longer run. The clearest examples of this are

afforded by Argentina and Chile, where the slaughtering and domestic consumption of beef cattle are restricted, and Paraguay, where measures on the same lines were recently adopted. In the latter case, meat-packing operations for export were limited to 20,000 head of cattle in order to rebuild the herds after the heavy slaughtering and large volume of exports in 1964.

The programme for the gradual elimination of anti-economic coffee plantations in Brazil can also be classified among measures of this kind.

(d) *Resources conservation policy*

One last general point that should be brought up is the increased interest being taken in improving the conservation of natural resources, which is a question closely bound up with reforestation and the national protection and use of such resources.

Two catastrophic events have again underlined the need for improving forest protection. In Brazil fire destroyed about 2 million hectares of coniferous forest in the State of Paraná, caused the death of 73 persons and burnt down 4,000 houses. In Honduras, the bark-boring beetle *Dendroctonus mexicanus* attacked approximately 2 million hectares of pine forest on a scale hitherto unknown in Latin America, and was followed by the blue-stain fungus (*Ceratocystis sp.*), wood borers (*Monochamus sp.*) and underground termites, so that the Government was compelled to proclaim a state of emergency in four districts. With the increase of reforestation, which will help to give uniformity to the stands, it is becoming even more vitally necessary to protect the forests.

Many of the fires caused by man are related to shifting agriculture, since it is estimated that about 10 million hectares of forest are burnt down every year without any attempt to make use of the wood from the stands. The annual loss is equivalent to 1 per cent of the region's forested area, and will have disastrous consequences unless preventive measures are taken without delay.

The situation is aggravated by the fact that about two-thirds of the total agricultural area of Latin America is in various stages of erosion. In view of this, a number of Governments have taken up a recommendation made by the Latin American Forestry Commission and initiated or intensified co-ordination among the services responsible for land settlement and reform, on the one hand, and forest resources, on the other, in the hope of making better use of the land.

To the same end, several of the Latin American countries have improved their forestry laws, increasing the responsibilities of the forest services and placing all questions bearing on forest exploitation under the jurisdiction of a single administrative organ of the central Government. This has been done, for instance, in Honduras, Peru, and Uruguay; at the end of 1965, the Chilean Congress began to consider a new bill on forests submitted by the Executive, and in other countries, such as Bolivia, Brazil, Costa Rica and Paraguay, considerable attention is being given to the basic forestry laws.

Budget appropriations for forestry services have not increased to the same extent throughout the region, although in some cases they have been raised so much that the expansion of the services is limited by the dearth of trained personnel rather than by shortage of funds. During the last few years substantial progress has been made in advanced forestry training, at times with technical assistance from abroad, such as that supplied by the United Nations through the Special Fund. New forestry departments have been set up in Peru and Brazil, with the result that Bolivia, Ecuador and Paraguay are now the only Latin American countries without schools of advanced training in forestry. Elsewhere, as in Argentina and Mexico, the facilities available to the departments concerned have been improved.

These and other measures are obtaining good results, although not always on a scale commensurate with the vast requirements of the region. This is true, for instance, of the inventory of forest resources which is another requisite for sound forest development. It is estimated that 50 million hectares of forest have been inventoried so far, a figure which, although impressive in itself, is very small in comparison with the total area of Latin America—over 1,000 million hectares. However, the adoption of modern techniques for forest census-taking, such as the interpretation of aerial photographs and up-to-date methods of mathematical and statistical sampling, has in the last few years not only reduced costs but enormously speeded up the work.

Effective progress is also being made with afforestation. It is estimated that the annual forestation rate has risen to 100,000 hectares, and plans for the next few years indicate that this rate may well have doubled by the end of the sixties.

As regards agriculture proper, not all the countries are greatly interested in soil conservation. Although fertilizer consumption—to take an important factor—has undoubtedly increased

in certain countries, the nutrients replaced are only a fraction of the amount absorbed by the crops.

In 1964, fertilizer consumption in Latin America amounted to slightly over a million tons of nitrogen, phosphorus and potassium (in terms of plant nutrients); this was a little more than in the previous year but almost twice as much as in the three-year period 1957-59. But because of the relatively high price of these inputs, among other reasons, most of the countries confine their use of fertilizers almost entirely to the crops that bring them a high rate of return, with the result that the fertilized area

is estimated at less than 15 per cent of the land under cultivation that it would be economically worth while to treat with fertilizers.

The low level of fertilizer consumption in a country such as Brazil, for example, helps to explain why the yield of the major crops grown there has shown little or no improvement in the last few years, since much of the soil is impoverished. By contrast, productivity per hectare was increased to an exceptional extent in Mexico, largely thanks to more extensive use of fertilizers, in combination with a considerable expansion of the irrigated area and the introduction of other technological improvements.

Chapter II

MINING

1. RECENT MAJOR TRENDS

(a) Production

In 1965 Latin America's mining production (excluding petroleum) increased 5.5 per cent over its 1964 level, according to provisional estimates in terms of 1963 world prices. The rate for the period 1960-65 was 3.9 per cent, with an interval of sluggish growth (2.1 per cent) between 1960 and 1963, and another of more rapid expansion from 1963 to 1965 (6.8 per cent). The rate recorded for 1965 does not represent a uniform increment in all the different mineral products; the largest took place in iron ore output (25 per cent), followed by bauxite (8.3 per cent), while copper, which is the most important

of all the ores, maintained the same rate as the over-all average (see table 233).

These recent changes, together with others that have occurred over the longer term, have led to some modification in Latin America's relative contribution to world mining output as a whole. In 1964, the region produced 48 per cent of the bauxite, 19 per cent of the copper, 16.7 per cent of the tin, 15 per cent of the lead, 13 per cent of the zinc and 11 per cent of the iron ore mined in that year. In comparison with the figures for 1956-57, these are slightly lower for bauxite, lead and zinc and a little higher for copper, tin and iron. Furthermore, it had been estimated in 1960 that the Latin American countries possessed 28 per cent of the world's proven

Table 233. Latin America: Quantum of gross mining production,^a 1957-65
(Indexes: 1963=100)^b

Product or country	Weighting	1957	1958	1959	1960	1961	1962	1963	1964	1965 ^c
Coal	6.05	80	83	86	84	90	95	100	101	105
Iron ore	15.94	65	68	83	100	94	97	100	127	159
Manganese ore	3.43	80	71	80	82	88	103	100	104	113
Copper ore	37.43	74	71	80	94	97	98	100	104	104
Lead ore	4.24	106	100	93	98	96	96	100	96	96
Zinc ore	2.54	96	87	95	103	104	95	100	106	114
Tin ore	3.89	115	76	100	90	89	95	100	109	116
Bauxite	10.64	74	75	78	90	94	107	100	108	117
Silver	8.04	90	92	89	94	92	90	100	98	96
Gold	2.98	118	118	112	117	108	97	100	92	89
Sulphur	2.08	72	86	91	91	85	99	100	117	107
Nitrate	2.74	115	113	111	82	98	97	100	103	101
TOTAL	100.00	80	78	85	94	95	98	100	108	114
Argentina	0.94	91	102	111	110	107	104	100	106	124
Bolivia	4.77	118	81	99	87	88	89	100	103	108
Brazil	10.09	58	60	79	83	86	93	100	127	164
Chile	34.58	81	79	91	88	93	100	100	107	107
Colombia	2.97	80	87	89	94	98	101	100	101	98
Guyana	2.10	83	60	62	102	106	138	100	103	116
Jamaica	5.36	67	83	75	82	93	109	100	111	122
Mexico	14.94	98	99	96	97	91	94	100	100	103
Peru	16.84	53	52	50	92	100	90	100	100	102
Surinam	2.66	96	85	98	99	98	94	100	114	117
Venezuela	4.75	124	124	136	166	123	112	100	133	147

Source: 1957-64: *Statistical Bulletin for Latin America*, vol. III, No. 1, March 1966.

^a Excluding crude petroleum.

^b On the basis of 1963 world prices.

^c Estimates.

Table 234. Latin America: Composition of mining production in selected countries, by major products, 1960 and 1965
(Percentages, on the basis of 1963 world prices)

Country and year	Coal	Iron ore	Manganese ore	Copper ore	Lead ore	Zinc ore	Tin ore	Bauxite	Silver	Gold	Sulphur	Nitrate
<i>Argentina</i>												
1960 . .	16.22	3.38	6.76	2.70	27.70	18.92	4.05		14.19	0.68	5.40	
1965 . .	28.92	2.41	5.42	1.81	27.11	13.25	9.04		9.04		3.01	
<i>Bolivia</i>												
1960 . .				2.49	5.47	0.50	78.61		10.28	2.65		
1965 . .				3.76	3.36	1.21	84.56		5.64	1.48		
<i>Brazil</i>												
1960 . .	17.31	47.16	25.31	1.15	1.32		2.97	1.07	0.25	3.46		
1965 . .	11.30	64.55	18.64	0.83	1.04		0.96	0.58	0.17	1.92		
<i>Chile</i>												
1960 . .	2.63	7.69	0.31	80.25	0.09	0.02			0.47	0.85	0.13	7.54
1965 . .	2.77	13.51	0.09	74.70	0.04	0.02			0.70	0.41	0.13	7.63
<i>Colombia</i>												
1960 . .	57.35	3.92	0.49						0.49	37.26	0.49	
1965 . .	63.68	7.78			0.24				0.47	27.12	0.47	
<i>Guyana</i>												
1960 . .			11.22					88.46		0.32		
1965 . .			11.83					87.89		0.28		
<i>Jamaica</i>												
1960 . .								100.0				
1965 . .								100.0				
<i>Mexico</i>												
1960 . .	7.54	2.23	2.37	19.01	14.04	9.82	0.38		26.98	4.98	12.66	
1965 . .	9.95	6.19	2.28	20.62	11.83	7.98	0.49		23.08	3.41	14.16	
<i>Peru</i>												
1960 . .	0.62	11.22		53.38	9.01	6.23			17.37	2.17		
1965 . .	0.52	13.60		46.38	9.73	8.61			19.95	1.21		
<i>Surinam</i>												
1960 . .								99.45		0.55		
1965 . .								99.34		0.66		
<i>Venezuela</i>												
1960 . .	0.26	98.34								1.40		
1965 . .	0.30	98.91								0.79		
TOTAL												
1960 . .	5.57	17.26	3.04	38.11	4.36	2.78	3.84	9.59	7.84	3.09	2.07	2.45
1965 . .	5.88	22.82	3.34	34.25	3.64	2.56	4.09	10.40	6.69	1.88	1.98	2.47

Source: 1960: *Statistical Bulletin for Latin America*, vol. III, No. 1; 1965: estimates.

reserves of iron and copper, 22 per cent of the bauxite, 15 per cent of the zinc and 10 per cent of the lead.

Two-thirds of Latin America's mining output is composed of three products: copper (34 per cent), iron (23 per cent) and bauxite (10 per cent). Measured against its composition in 1960, this shows an increase in the proportion of iron ore and a decrease in that of copper, although output of the latter remained the same in absolute terms. No major changes took place in the share of the other minerals (see table 234).

If the ores are considered individually, it will be seen that production tends to be concentrated in a handful of countries. In 1965, 93 per cent of the coal came from Brazil, Colombia, Mexico and Chile, 86 per cent of the iron ore from Brazil, Venezuela and Chile, 81 per cent of the manganese from Brazil, 91 per cent of the copper ore from Chile and Peru, 84 per cent of the lead ore, 92 per cent of the zinc ore and 91 per cent of the silver from Mexico and Peru, 93 per cent of the tin from Bolivia, 99 per cent of the bauxite from Jamaica, Surinam and Guyana, 76 per cent of the gold from Colombia, Mexico and Brazil, 96 per cent of the sulphur from Mexico; and 100 per cent of the nitrate from Chile. The distribution is essentially the same as in 1960, the main changes being the increases in the iron ore produced in Brazil and the zinc mined in Peru (see table 235).

A country-by-country analysis of developments in 1965 shows that the salient event was the 29-per-cent rise in the total value of Brazil's mining production, which doubled between 1960 and 1965. The value of Peru's aggregate output had also doubled between 1959 and 1961, but it subsequently remained stationary. Of the other leading countries in this field, Chile and Mexico increased the value of their production by 4 per cent and 1.2 per cent per annum, respectively, in 1960-65 (see again table 233).

The figures for total mining production (excluding petroleum) in order of importance place Chile first, followed by Peru, Brazil and Mexico. In comparison with their ranking in 1960, Brazil's position has improved substantially, while Venezuela's shows a relative decline. It will also be seen that most of the countries specialize in one or two ores. In 1965, 85 per cent of Bolivia's output consisted of tin, while iron ore constituted 65 per cent of production in Brazil, coal 64 per cent in Colombia, copper 75 per cent in Chile, bauxite 100, 99 and 88 per cent in Jamaica, Surinam and Guyana respectively, and iron ore 99 per cent in Venezuela. Production is more diversified in Peru, where copper ore accounted for 46 per cent, silver for 20 per cent and iron ore

for 14 per cent, and in Mexico, 46 per cent of whose output was silver, 21 per cent copper and 12 per cent lead (see again table 235).

The relative importance of the mining sector is determined not so much by the part it plays in the formation of the product as by its share in export trade, which, according to provisional estimates, amounted to 13.6 per cent of the regional total in 1965. Its contributions are of paramount significance in Bolivia and Chile, where it accounts for 90 and 80 per cent of exports, respectively, and next largest in Peru (44 per cent) and Brazil (12 per cent). The proportion of Latin America's total exports represented by mining products had been almost the same in 1960 as in 1965—13.7 per cent—but Bolivia and Brazil had carried more weight and Chile less (see table 236). It should be pointed out that by 1961 the value of external sales of fuels and ores was already matching that of agricultural exports.

(b) *Factors bearing on mining activities*

One of the main difficulties with which mining has to contend in Latin America is the lack of good geological maps. In 1965, a general geological map of South America was completed on a scale of 1 : 5,000,000. Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela already have general geological maps on scales ranging from 1 : 500,000 to 1 : 5,000,000, but large-scale charts suitable for use in mining are scarce, since maps of specific areas on the scale of 1 : 50,000 have been drawn up by only a very small number of Latin American countries. For instance, in South America, geological maps on scales varying from 1 : 50,000 to 1 : 100,000 have been made for only 5 per cent of the territory. Furthermore, Chile is the only country to have completed a metallogenetic map and Venezuela to have made a tectonic study of its northern area. Latterly, however, attempts have been made to promote map-making, as, for example, the Plano Mestre Decenal, launched in February 1965 by the Government of Brazil, the first stage of which provides for a geological survey of the whole country on the scale of 1 : 1,000,000, and of areas in which ore deposits are thought to exist on scales ranging from 1 : 50,000 to 1 : 250,000. An important contribution can also be made by aerophotogrammetric surveys, which are being undertaken in a number of countries as a prior step to the construction of topographic maps on a scale of 1 : 50,000. The United Nations Special Fund is carrying out, in co-operation with the Governments concerned, several major

Table 235. Latin America: Composition of mining production in selected countries, by major products, 1960 and 1965
(Percentages, on the basis of 1963 world prices)

Country and year	Coal	Iron ore	Manganese ore	Copper ore	Lead ore	Zinc ore	Tin ore	Bauxite	Silver	Gold	Sulphur	Nitrate	Total
<i>Argentina</i>													
1960 . . .	3.15	0.21	2.40	0.08	6.88	7.37	1.14		1.96	0.24	2.83		1.08
1965 . . .	4.92	0.10	1.62	0.05	7.45	5.18	2.21		1.35		1.52		1.00
<i>Bolivia</i>													
1960 . . .	—			0.29	5.54	0.79	90.46		5.79	3.79			4.41
1965 . . .				0.49	4.14	2.12	92.78		3.78	3.52			4.48
<i>Brazil</i>													
1960 . . .	27.60	24.25	73.80	0.27	2.68		6.87	0.99	0.28	9.95			8.88
1965 . . .	27.77	40.83	80.69	0.35	4.14		3.39	0.81	0.36	14.74			14.44
<i>Chile</i>													
1960 . . .	15.37	14.49	3.37	68.48	0.67	0.26			1.96	9.00	2.12	100.00	32.52
1965 . . .	15.27	19.20	0.90	70.75	0.33	0.24			3.42	7.05	2.12	100.00	32.44
<i>Colombia</i>													
1960 . . .	30.75	0.68			0.34				0.19	36.02	0.71		2.98
1965 . . .	27.67	0.87			0.17	0.24			0.18	36.86	0.61		2.55
<i>Guyana</i>													
1960 . . .			8.41					21.05		0.24			2.28
1965 . . .			7.58					18.06		0.32			2.14
<i>Jamaica</i>													
1960 . . .								48.97					4.70
1965 . . .								55.15					5.74
<i>Mexico</i>													
1960 . . .	20.89	1.99	12.02	7.70	49.66	54.47	1.53		53.13	24.88	94.35		15.43
1965 . . .	22.75	3.64	9.21	8.09	43.70	41.88	1.62		46.31	24.36	95.75		13.43
<i>Peru</i>													
1960 . . .	1.84	10.77		23.19	34.23	37.10			36.69	11.61			16.56
1965 . . .	1.33	8.91		20.27	40.07	50.35			44.60	9.62			14.96
<i>Surinam</i>													
1960 . . .								28.99		0.47			2.80
1965 . . .								25.98		0.96			2.72
<i>Venezuela</i>													
1960 . . .	0.40	47.61								3.79			8.36
1965 . . .	0.31	26.43								2.56			6.10

Source: 1960: *Statistical Bulletin for Latin America*, vol. III, No. 1; 1965: estimates.

Table 236. Latin America: Exports of ores as a percentage of total exports, 1960 and 1965

Country	1960	1965 ^a
Argentina	0.9	0.9
Bolivia	84.6	90.7
Brazil	7.8	12.2
Chile	87.2	79.6
Colombia	0.7	2.2
Costa Rica	0.1	0.2
Dominican Republic	5.1	5.4
Ecuador	0.1	0.4
El Salvador	0.1	0.1
Guatemala	1.9	1.4
Haiti	—	—
Honduras	5.0	5.9
Mexico	16.5	10.0
Nicaragua	4.0	3.9
Panama	—	0.5
Paraguay	—	—
Peru	45.2	44.0
Uruguay	—	0.2
Venezuela	6.6	4.9

Source: ECLA, on the basis of official statistics.

^a Estimates.

projects for mining research and prospecting, at a total cost of 27.2 million dollars.¹

Another basic problem is the need to adapt mining codes to the new requirements and methods of prospecting and development. In 1965, mining codes were drafted for Bolivia, Guatemala and Nicaragua and amendments introduced in that of Peru. These legal codes tend to grant broader powers for prospecting and working deposits; they extend, for the first time, to the stages of concentration and smelting and strengthen the provisions against unworked concessions; in addition, they empower the Government to set up reserves and to form joint

companies for mining purposes. Examples of the last-named line of action are the copper agreements negotiated in Chile, and the establishment or negotiation of joint mining companies in Mexico, Venezuela, Peru and Bolivia.

Bolivia's mining code entered into force in July 1955. It does not cover hydrocarbons or mineral springs, but places all mineral substances under the jurisdiction of the State, which will be empowered to grant prospecting and mining concessions. It legislates, in particular, on taxes and royalties, and divides mining into State and private activities: the former comprise the Banco Minero—which is not authorized to work deposits—and the Corporación Minera de Bolivia (COMIBOL) which is in charge of the nationalized mines and may sub-contract concessions or form joint companies with the approval of the Executive. In Guatemala a new mining code has been in force since April 1965; it excludes hydrocarbons and stipulates special treatment for radioactive minerals, precious metals, coal, graphite and sulphur. Mines are declared to be the property of the State, which may grant concessions, work them itself or do so in partnership with others. The code also establishes regulations for surveying, prospecting, developing and taxation, and sets the expiry dates of the claims. In March 1965, a new mining code took effect in Nicaragua. This excludes hydrocarbons, and legalizes the rights of the State over all natural resources in the sub-soil. It sets up a system of concessions for working the mines, but specifies that the State may form part of the company if it has contributed towards the discovery of the deposits through studies it has carried out, if it has furnished part of the capital or if the deposit is of national importance.

2. RECENT TRENDS IN THE PRODUCTION OF SELECTED ORES

(a) Aluminium

Latin America (including Jamaica, Surinam, Guyana and French Guiana) provides nearly 50 per cent of the total world output of aluminous minerals, and its known reserves are 30 per cent of the total, but it has only just begun to produce aluminium metal.

In 1960-65, bauxite production increased at the rate of 5.6 per cent, thanks to Jamaica which accounted for nearly a quarter of aggregate world output. In 1959, the Dominican Republic also began to produce bauxite (see table 237).

Because of the particular features of the aluminium industry, there is virtually no free market for bauxite. Prices have thus been very

¹ The following studies are now being prepared or put into effect: in Argentina, on the mineralogy of the Andes; in Bolivia, on the mineralogy of the Andean cordillera and plateaux, the creation of a Mining Research Institute, possibilities of working and transporting the Mutún iron ores, and development of the Tipuani gold deposits; in Brazil, on prospecting for deposits of mineral salts; in Chile, on mineralogical research in the Provinces of Atacama and Coquimbo, and development of El Tatio for power and mining purposes; in Colombia, on the coal deposits in the Valle del Cauca; in Costa Rica, on the ore deposits in the north-east; in Ecuador, on the metallic and non-metallic mineral resources; in El Salvador, on the ore deposits in the north, plus a geothermal study; in Guatemala, on the ores of two selected areas; in Guyana, on an aerial geophysical survey. In Jamaica, technical assistance is being given to the prospecting department. Other projects relate to prospecting for metal-bearing ore deposits in Mexico; prospecting for mineral resources in Nicaragua; exploration of ores in the Azuero zone in Panama; and mineralogical prospecting in Surinam.

Table 237. Latin America: Bauxite production, 1950, 1955 and 1960-65
(Thousands of tons)

	1950	1955	1960	1961	1962	1963	1964	1965 ^a
Brazil	19	45	121	111	191	170	132	...
Dominican Republic	—	—	642	712	717	773	760	...
Guyana	1,608	2,474	2,511	2,412	3,084	2,380	2,471	2,837
Haiti	—	—	346	267	458	528	465	...
Jamaica	—	2,709	5,841	6,565	7,705	7,077	7,827	8,667
Surinam	2,066	3,122	3,454	3,452	3,296	3,507	3,992	4,080
TOTAL	3,693	8,350	12,915	13,519	15,451	14,435	15,647	16,941

Source: ECLA, on the basis of official statistics.

^a Provisional estimates.

stable, since a 99.5-per-cent aluminium ingot was quoted at 24.79 cents per pound on the New York Stock Exchange in 1958, 23.74 cents in 1964 and 24.50 cents in 1965.

Proven bauxite reserves in Latin America amount to 1,085 million tons, of which 500 million are in Jamaica, 200 million in Surinam and 190 million in Guyana and Brazil. New technological advances have now made it possible to use low grade ores with an alumina content of approximately 30 per cent and world reserves have thus become unlimited.

Reserves are therefore unlikely to be a decisive factor in the future of the industry, which will probably depend more on the availability of cheap electric power, since power represents on an average, 20 per cent of the cost price of aluminium. Thus, either the alumina could continue to be processed in the developed countries, possibly with the aid of atomic energy, or the industry could be moved to the bauxite-producing countries where there is still a vast hydroelectric potential untapped. Nearly all Latin America's bauxite is exported to the United States and Canada, and freight charges are constantly going up, which means that special means of transport have had to be used. Consequently, there is a growing preference for setting up processing plants in the producer countries.

The following are the major projects that are being carried out in the different countries. In Jamaica, the ALCAN Company is enlarging the Ewarton plant to process 310,000 tons of alumina in 1966 by means of an additional investment of nearly 2 million dollars. This will send ALCAN's total investment in Jamaica up to 140 million dollars. The Kaiser Company is pursuing a five-year plan for the construction of a canal, railroad and port facilities in Discovery Bay at a cost of 30 million dollars with a view to shipping 1.5

million tons of bauxite a year. In addition the Alcoa Company is building warehouses and improving installed capacity for producing 600,000 tons of bauxite annually.

In 1965, the Reynolds Company signed a 25-year agreement with the Government in Guyana under which tax and investment terms were specified, and it was given the sole prospecting rights to 500,000 hectares. It is hoped that production will thus be raised to 600,000 tons a year in 1966.

The Surinam Aluminium Company built a hydroelectric plant of 150,000 kW on the River Surinam to supply an aluminium plant in Paranam which was put into operation in mid-1965. This plant can process 220,000 tons of alumina and 60,000 tons of metal. Two other plants are being set up, bringing total alumina capacity, based on the consumption of 1.6 million tons of bauxite, to 800,000 tons in 1966. In this way, Surinam will complete the aluminium production cycle.

There are various projects in course of study or implementation in Brazil, one being the Sete Lagos plant with an annual capacity of 100,000 tons of aluminium and 25,000 tons of metal, and another, Poços de Calda, with an annual capacity of 25,000 tons of aluminium. Bauxite production also increased with the opening of the Catas Altas and Morro Frago mines, from which the ore is sent to the Ouro Preto plant for processing. In addition, prospecting for a new bauxite deposit began in the State of Pará.

In Venezuela, the Compañía Aluminium del Caroní S.A., a joint enterprise formed by the Corporación Venezolana de Guayana and the Reynolds Company, plans to bring an aluminium plant into operation in Santo Tomé de Guayana in 1967, at a cost of 22.5 million dollars; it is to have a capacity of 10,000 tons a year.

(b) *Antimony*

Latin America is the second largest producer of antimony in the world and accounts for 28.8 per cent of total output. It became particularly important when exports from mainland China, the world's foremost producer, responsible for 32 per cent of the total, were stopped in 1963.

Latin America's production showed an average annual increase of 7 per cent between 1960 and 1965. During that period, Bolivia and Mexico were the principal producers of antimony. The former, which accounts for 18.36 per cent of world output, is the third biggest producer in the world, being outranked solely by mainland China and South Africa. Its output expanded by 84.4 per cent from 1960 to 1965, and constitutes 67.6 per cent of the regional total, thus making Bolivia the leading producer of antimony in Latin America.

Mexico comes second, with 27.9 of the region's production. However, its output decreased by 3.85 per cent between 1960 and 1965. Peru contributes 4.5 per cent to the Latin American total, and recorded a decline (of 20.4 per cent) during the same period.

If mainland China, which has from 2 to 5 million tons, is excluded, world reserves amount to 2.1 million tons, of which Latin America has 40 per cent, or 840,000 tons, in Bolivia, Mexico and Peru.

Market fluctuations have up to now been closely associated with outbreaks of hostilities, and prices reached their peak during the period of the Korean conflict. This instability makes it difficult to establish antimony mining on a large scale consistent with real reserves, and explains

why the only permanent producers are a few countries enjoying favourable conditions suitable for developing antimony mining, and the number of mines in normal production is very small.

(c) *Copper*

In 1964, Latin America contributed about 18.5 per cent of total world production of copper ore, and 15 per cent of the metal. This was a slightly smaller proportion for both items than in the past. Between 1960 and 1965, the annual rate of increase of the region's copper ore output was 2 per cent, although in Chile, which makes the biggest contribution to the Latin American total, it dropped to 0.7 per cent in 1965 as a result of labour disputes. Notable progress has been made in Peru, where production increased nearly fourfold between 1959 and 1961, mainly because of the opening of the Toquepala mines. Between 1961 and 1964, however, output dropped 12 per cent. Mexico, which ranks third as a copper producer, is gradually climbing back to the level of output it lost in 1961 (see table 238).

Production of copper metal rose at the rate of 2.1 per cent between 1960 and 1964. The expansion took place entirely in Chile, since production in both Peru and Mexico dropped off during the five years in question. Between 1959 and 1960 output in Peru had increased fivefold.

Copper reserves in Latin America are assessed at 59 million tons of copper content and represent 28 per cent of world reserves. They may turn out to be even larger, since prospecting is taking place for new deposits, some of it in the Andean area of Chile and Argentina.

Table 238. Latin America: Copper ore production, 1950, 1955 and 1960-65
(Thousands of tons)

	1950	1955	1960	1961	1962	1963	1964	1965 ^a
Argentina	—	—	0.6	0.6	0.4	0.3	0.4	...
Bolivia ^b	4.7	3.5	2.2	2.1	2.4	3.0	4.7	4.2
Brazil	—	0.1	2.1	2.1	2.0	2.5	3.0	...
Chile ^c	362.9	433.0	536.4	551.8	590.1	588.6	629.5	605.2
Cuba	20.6	17.7	11.8	5.0	5.5	6.0	6.0	...
Ecuador	0.5	0	0.1	0.1	0.2	0.3	0.2	...
Haiti	—	—	0.9	3.5	6.1	5.9	6.0	...
Mexico	61.7	54.7	60.3	49.3	47.1	55.9	52.5	69.2
Nicaragua	—	—	4.9	6.3	7.3	7.3	9.2	...
Peru ^c	30.0	43.4	181.7	198.0	166.8	177.4	174.5	176.1
TOTAL	480.4	552.4	801.0	818.8	827.9	847.2	886.0	879.5

Source: ECLA, on the basis of official statistics.

^a Estimates.

^b Exports.

^c Recoverable metal content.

In Chile action is being taken by the Legislature on a new copper mining bill. Under the terms of this law, the State will enter into partnership, to a varying extent depending on the enterprise, with the three groups constituting what is known as the Gran Minería del Cobre, i.e., the Anaconda and Braden Copper Companies and the Cerro Corporation (Río Blanco). In October 1954, the Empresa Nacional de Minería completed the Ventanas smelter, with an annual capacity of 30,000 tons of blister, at a cost of 21 million dollars. A refinery with an annual capacity of 84,000 tons is also scheduled to enter operation in 1966; its cost will be 20 million dollars. In Potrerillos a new electrolytic plant began production.

Output from the Toquepala mine in Peru increased and funds were invested in a concentration plant, the construction of a railway and the mining operations themselves. Production also went up in Yauricocha and Oroya and a new gallery was opened in the Quiruvilca mine, which raised output by 25 per cent. Prospecting made headway, and rich copper and iron deposits were found in the Vilcanota gorge (Cuzco). A drilling programme was carried out in Michiquillay (east of Cajamarca) and prospecting at Cerro Verde, Santa Rosa and Resguardo (south-west of Arequipa) and Chapi. In 1964-65, the Maher Tunnel and Casapalca concentration plants were enlarged and a new plant was built at Bujama (south of Lima).

In Argentina, the United Nations Special Fund is co-operating with the Government in a mining prospection project in the Andean area of the Provinces of Mendoza, San Juan and Neuquén, and signs of copper ore have already been found.

Copper deposits were discovered in Brazil in the State of Bahía (Juazeiro and Senhor do Bonfim); in Haiti, several concerns joined forces

to explore and develop concessions granted by the Government, and in Bolivia work is in progress with a view to raising the output of the Chacarilla mine from 10,000 to 13,000 tons a month.

(d) Tin

Latin America's output of tin concentrates in 1964 represented 15.8 per cent of the world total; in 1965, 93 per cent of the regional total in terms of volume was mined in Bolivia, 3.4 per cent in Brazil, 2.2 per cent in Argentina and 1.6 per cent in Mexico (see table 239).

Production rose by 6.8 per cent in 1965 with respect to 1964, and during the years 1960-65 the average annual rate of growth was 5.3 per cent. Even so, the figure for 1965 is 23 per cent below the 1953 level. As regards the metal, in 1964 Latin America produced only 4 per cent of the world total, owing to the absence of smelters, even in Bolivia. This country's share of total world reserves, which are estimated at 4,400 million tons, is 500 million tons.

The world market is regulated by the International Tin Council and another factor influencing it is the United States strategic stockpile, which by mid-1965 amounted to 52,000 tons. Tin prices are following a rising trend, and since 1963 have exceeded the ceiling fixed by the International Tin Council; but production is increasing slowly and at the moment fails to meet consumer requirements.

Bolivia's production, which had sunk to its lowest point in 1958, recovered slowly but surely from 1961 onwards, without, however, regaining its pre-1953 levels. This was attributable mainly to the depletion which over the years is bound to affect ores that are easily and cheaply mined, and to their lower metal content. Additional factors include the lack of a local smelter, the shortage of electric power, the inadequacy of existing transport facilities, and the altitude,

Table 239. Latin America: Production of tin ore,^a 1950, 1955 and 1960-65
(Thousands of tons)

Country	1950	1955	1960	1961	1962	1963	1964	1965 ^b
Argentina . . .	260	86	242	523	580	506	726	650
Bolivia ^c . . .	31,712	28,368	20,542	20,995	22,149	22,602	24,586	27,300
Brazil . . .	183	148	1,581	590	743	1,171	1,016	1,016
Mexico . . .	447	615	371	539	585	1,072	1,226	477
Peru . . .	38	—	6	13	11	21	28	12
TOTAL	32,640	29,217	22,742	22,660	24,068	25,372	27,582	29,455

Source: ECLA, on the basis of official statistics.

^a Metal content.

^b Estimates.

^c Up to 1959, exports only.

climate and difficult mining conditions which adversely affect labour productivity. The small and medium-scale mining companies, notwithstanding the primitive methods they normally use, increased their share in exports from 1954 to 1965; at the same time, COMIBOL'S share dropped from 85 to 59 per cent. At the end of 1965 the Government reorganized COMIBOL, giving it an operational status equivalent to that of a private company; before that it had closed down mines that were considered uneconomic and had reduced the number of mine workers. Furthermore, an agreement was concluded between COMIBOL and the International Metal Processing Corporation of the United States for the beneficiation of tailings.

In Brazil, by virtue of the Ten-Year Master Plan (Plan Mestre Decenal) adopted by the Government in February 1965, the equivalent of 600,000 dollars was allocated to a four-year tin prospecting programme. Moreover, several companies have raised their output from the cassiterite deposits in the Amazon area. Tinplate is currently produced by the Companhia Siderurgia Nacional de Volta Redonda; it is expected that by 1966, with the expansion of the existing installed capacity, present output will be doubled, and the 300,000 tons produced annually would then make Brazil self-sufficient.

In Argentina, the Sociedad Mixta Siderúrgica Argentina completed a plant at San Nicolás, with a capacity of 140,000 tons of electrolytic tinplate, and 60,000 tons of hot-dipped tinplate.

(e) Iron

In 1964 Latin America's share of the world output of iron ore was 11.3 per cent, while in 1960 it had been 11.4 per cent. From 1960 on-

wards the region's production rose at an average annual rate of 9.9 per cent, reaching 42.1 million tons in 1965, when the rate of increase was 25.3 per cent.

As regards output by country, in 1960 Venezuela accounted for 47.4 per cent and Brazil for 24.2 per cent of the total, while in 1965 Brazil's share increased to 40.8 per cent and Venezuela's shrank to 26.5 per cent. This was due to the rise in Brazil's output from 7.6 million tons in 1963 to 17.2 million in 1965, although Venezuela's production also went up during that period from 7.5 million to 11.1 million tons (see table 240).

Latin America's reserves comprise 28,000 million tons in Brazil, 3,800 million in Venezuela and 1,000 million tons each in Chile and Peru.

The following are among the most important recent developments in the production of iron ore:

In *Argentina*, the mining company Minera Siderúrgica Patagónica (MISIPA)—with the help of a loan from the Inter-American Development Bank (IDB)—is completing a study with a view to working the Sierra Grande deposits, whose reserves are estimated at over 50 million tons, with an iron content of 58 per cent. The project envisages an annual production of 1 million tons of pellets, which will replace the current imports of the Empresa Mixta Siderúrgica Argentina. A deposit at Misiones is also under study, by virtue of an agreement between the Federal Investment Council and the Société française d'études minières;

Brazil's production has more than doubled in the last two years. Its reserves amount to about

Table 240. Latin America: Production of iron ore,^a 1950, 1955 and 1960-65
(Thousands of tons)

Country	1950	1955	1960	1961	1962	1963	1964	1965 ^b
Argentina	20	38	58	60	53	46	42	...
Brazil	1,351	2,300	6,355	6,950	7,301	7,629	11,541	17,196
Chile	1,771	940	3,804	4,426	5,160	5,481	6,361	8,089
Colombia	—	149	178	268	270	280	350	...
Cuba	4	79	5	5	5	5	5	...
Dominican Republic	—	51	82	15	...	140	...	...
Guatemala	—	3	4	5	5	6	...	...
Mexico	286	429	521	687	1,091	1,397	1,392	1,533
Peru	—	1,056	2,818	3,057	3,247	4,081	3,877	3,751
Venezuela	127	5,401	12,474	9,322	8,490	7,518	10,013	11,136
TOTAL	3,559	10,446	26,299	24,777	25,617	26,432	33,581	42,102

Source: ECLA, on the basis of official statistics.
^a Metal content.

^b Estimates.

28,000 million tons, with an iron content ranging from 40 to 67 per cent, while large additional reserves with an iron content of 35 per cent will be available in the future. The Companhia Vale do Rio Doce—the largest mining company in the country—has launched an expansion project aiming at an output of 21 million tons in 1970, based on an investment of 100 million dollars, of which 28.8 million will be loaned by IDB. It is proposed to establish two pelleting plants—one at Itagira and the other at Tubarão—at a cost of 16 million dollars, with an annual production of 2 million tons of pellets. The port of Tubarão, 10 kilometres from Vitoria, is already under construction. It will cost 25 million dollars, and will be able to export 20 million tons annually. The Companhia de Mineração Novalimense also has important expansion plans; it possesses reserves of some 800 million tons of hematites, and is planning to build, at a cost of 20 million dollars, a wharf on a small island in Sepetiba Bay, south-east of Rio de Janeiro, which will have an ultimate capacity of 10 million tons annually, and should be completed at the end of 1966;

In *Bolivia*, the United Nations Special Fund is co-operating in a study on production and transport possibilities in respect of the iron ore deposits at Mutún, which are estimated at about 40,000 million tons, with an iron content ranging from 53 to 58 per cent;

Chile is notably stepping up production, which in 1965 was over 8 million tons. The Bethlehem Chile Iron Mines Company opened a new ore concentration plant at El Tofo in 1965, mainly to fulfil the recent contracts with Japan. The Compañía de Acero del Pacífico raised the production of its Algarrobo mine and envisages a gross output of 4.5 million tons in 1966. The Chilean Development Corporation (Corporación de Fomento de la Producción—CORFO) is carrying out a programme of drilling to a depth of approximately 9,000 metres in the iron ore deposits discovered in the Atacama desert as the result of a United Nations Special Fund survey project;

Guyana is at present surveying a hematite deposit in Upper Pameroun, near the Essequibo estuary, which is estimated to contain 25 million tons with an iron content of 73 per cent;

In *Mexico*, new deposits assumed to amount to 50 million tons are being investigated in the States of Colima and Michoacán, near the west coast;

Peru has discovered deposits with an iron content of over 60 per cent at Apurimac, where the reserves are at present being computed.

Furthermore, the San Nicolás plant is being expanded in line with a 23-million-dollar project to raise the annual production of pellets to 2 million tons, with an iron content of 70 per cent;

In *Venezuela*, the Orinoco Mining Company is planning to establish a reduction plant which would treat ore from Guyana with natural gas from east Venezuela. The cost of the plant would be 40 million dollars and its initial annual output would be 1 million tons, rising in 1970 to 10 million tons of semi-reduced ore, plus another 10 million tons of high-grade ore (85 per cent iron content).

(f) *Lead*

In 1964, Latin America produced 15.4 per cent of the total world output of lead ore, which implies a slight decline with respect to 1960. This was because production failed to expand during the five years concerned; in fact, the absolute figures in 1965 were 1 per cent below the 1960 level. In 1964, the region's output of the metal represented 11 per cent of the world total, with Mexico taking second and Peru fourth place among the major world exporters.

Lead prices have been very unstable in the past, and the occasional attempts to stabilize them have proved unsuccessful. In 1959 the International Lead and Zinc Study Group was set up by the United Nations in an effort to regulate the market. This Group standardized statistics and at times proposed voluntary production quotas. Prices have followed a rising trend since 1962.

A country by country classification of Latin America's lead production shows that Mexico and Peru accounted for 83 per cent of the total volume in 1965 and 81 per cent in 1960 (see table 241).

Mexico, Latin America's leading producer, smelts the whole of its production of ore and does not export concentrates. Its output dropped from 190,700 tons in 1960 to 170,100 tons in 1965. The Proama mine at Zacatecas was recently reopened and re-equipped to achieve a daily production of about 1,800 tons of lead, zinc and silver concentrates.

Peru, the second largest producer, recorded an increase of 5.8 per cent annually in 1960–65. There is a big smelter at Cerro de Pasco whose annual production of 70,000–80,000 tons is nearly all exported. The new ore-crushing facilities and equipment involve an investment of 2.3 million dollars. In addition, the output of the McCune open-cast workings is expected to increase to an average of 2,000 tons of lead and zinc concentrates per day.

Table 241. Latin America: Production of lead ore,^a 1950, 1955 and 1960-65
(Thousands of tons)

Countries	1950	1955	1960	1961	1962	1963	1964	1965 ^b
Argentina	17.4	21.1	26.7	28.4	29.6	26.4	25.6	29.0
Bolivia ^c	31.2	19.1	21.4	20.3	18.6	20.2	17.8	16.0
Brazil	2.5	3.9	10.0	12.6	13.3	17.0	17.0	16.0
Chile	3.3	4.0	2.4	2.0	1.4	1.2	1.1	1.4
Colombia ^d	—	—	1.1	1.3	0.8	0.5	0.8	...
Cuba	0	0.1	...	...	...	...	...	...
Ecuador	0.2	0.1	0.1	0.1	0.1	0.2	0.2	...
Guatemala	3.0	4.6	8.6	8.6	1.0	0.7	0.7	...
Honduras	0.3	2.8	5.4	6.1	5.9	5.2	5.4	...
Mexico	238.1	210.8	190.7	181.3	193.3	190.0	174.8	170.1
Peru	62.1	118.8	131.6	136.4	128.2	146.3	149.2	156.0
TOTAL	358.1	385.3	398.0	397.1	392.2	407.7	392.6	394.6

Source: ECLA, on the basis of official statistics.

^a Metal content.

^b Estimates.

^c Exports.

^d Lead concentrates.

(g) Zinc

Latin America's contribution to total world output of zinc ore and metal have recently been 13.2 per cent and 3.7 per cent, respectively. Production of zinc ore declined between 1960 and 1963, and thenceforward climbed rapidly; thus, in 1965 it rose by 7.7 per cent, owing to the notable increase in Peru's output. The region possesses 11.8 per cent of the estimated world reserves; the same proportion is estimated for its potential reserves, which will depend mainly on the technical progress made in the crushing and flotation processes that will permit the beneficiation of ore with a low zinc content.

The major producers of zinc ore are Mexico and Peru; but while the former's output in 1965 was 14.3 per cent lower than in 1960, Peru's rose at an average annual rate of 8.8 per cent during the same period (see table 242). As regards the metal, the leading producers in 1964 were also these two countries (each accounting for some 42 per cent of the region's total output) together with Argentina (16 per cent).

A zinc smelter recently entered operation at Saltillo, Mexico, at a cost of 20 million dollars and with an annual capacity of 60,000 tons of refined zinc, 30,000 tons of zinc metal, 60,000 tons of sulphuric acid and 240 tons of cadmium.

Table 242. Latin America: Production of zinc ore,^a 1950, 1955 and 1960-65
(Thousands of tons)

Countries	1950	1955	1960	1961	1962	1963	1964	1965 ^b
Argentina	13.5	22.5	35.4	32.2	31.5	28.7	22.9	28.5
Bolivia ^c	19.6	21.3	4.0	5.3	3.6	4.6	9.8	12.0
Chile	0.3	2.8	1.1	0.2	0.4	0.5	1.0	1.2
Colombia	—	—	0.2	1.3	0.2	0.6	0.7	0.5
Cuba	—	1.0	0.1	...	...	...	...	...
Guatemala	0.3	9.4	10.0	7.9	0.8	1.2	1.2	1.1
Honduras ^d	0.1	1.3	4.3	6.2	6.4	7.5	5.6	6.5
Mexico	223.5	269.4	262.4	269.0	250.7	239.8	235.6	224.9
Peru	87.9	166.1	178.1	173.9	162.2	196.3	231.0	272.0
TOTAL	345.2	493.8	495.6	496.0	455.8	479.2	507.8	546.7

Source: ECLA, on the basis of official statistics.

^a Metal content.

^b Estimates.

^c Exports.

^d Figures based on United States import data.

Table 243. Latin America: Production of miscellaneous minerals, 1964

Minerals	Argentina	Bolivia	Brazil	Chile	Colombia	Cuba	Ecuador	French Guiana	Guyana	Honduras	Mexico	Nicaragua	Peru	Surinam	Venezuela
Antimony ore (tons of metal content)		9,640									4,788		682		
White arsenic (thousands of tons)			188								11,169		621		
Sulphur (thousands of tons)	22	11		44	12						1,733				
Beryllium (thousands of tons)	402		576												
Bismuth (tons)		267									472		739		
Cadmium (tons)											748		227		
Coal (thousands of tons)	332		2,900	1,257	3,000						2,266		147		37
Chromium ore (thousands of tons)			16.2												
Manganese ore (thousands of tons of metal content)	12.3		593.6	9.2		33.0			60.0		64.1		0.2		
Mercury (tons)				10							433		112		
Molybdenum ore (thousands of tons)				3,811							77				
Nickel ore (tons of metal content)			1,035			18,140									
Gold (kilogrammes)	9	1,556	4,431	2,041	11,412		550	200	66	100	6,531	6,340	2,668	257	1,043
Silver (tons)	41.7	150	9.5	91.9	4.1		3.6			100.1	1,298		1,152		
Nitrate (thousands of tons)				1,174											
Iodine (thousands of tons)				2,162											

Source: Statistical Bulletin for Latin America, vol. III, No. 1.

It is a State-owned enterprise, and the ore processed is produced by the small mining companies. In Peru, the Cerro de Pasco Company is prospecting in the Cerro de Pasco mine and has increased its output, as well as that of the McCune workings.

(h) *Other ores*

Table 243 contains the 1964 figures for the production of antimony, white arsenic, sulphur, beryllium, bismuth, coal, chromium, iodine, manganese, mercury, molybdenum, nickel, gold, silver, nitrate, selenium and tungsten.

Chapter III

MANUFACTURING

1. RECENT INDUSTRIAL PRODUCTION TRENDS

In contrast to 1964, manufacturing did not make any notable contribution to the relatively high growth rate of the Latin American economy as a whole during 1965. In 1964 industrial production rose 9.8 per cent above that for 1963, an increase which was much greater than that for the over-all product, and hence manufacturing could be regarded as one of the main stimuli to economic growth. In 1965, on the other hand, the industrial growth rate was only 6.2 per cent, practically the same as for the economy as a whole.

These facts reflect a very uneven industrial development, in which years of rapid expansion alternate with years of appreciable decline in the growth rate, or even years in which industry underwent a depression. During the sixties annual growth rates have been 7.8 per cent in 1961, 3.2 per cent in 1962, only 1.3 per cent in 1963 and the above-mentioned rates of 9.8 and 6.2 per cent in 1964 and 1965. Although this behaviour does not permit any generalizations,

since it was largely due to the special features of recent developments in Argentina and Brazil, it is significant that the decline in the industrial growth rate extended to all the countries of the region except Peru, where there was a slight expansion, and Chile, where manufacturing maintained its existing moderate growth rate (see table 244).

If the comparison is taken further back, to the second half of the fifties, the industrial growth trend gives rise to serious misgivings; not only was the average industrial growth rate higher (6.4 per cent a year as against an annual average of 5.6 per cent for 1960-65), but in addition the changes in the structure of the economy were more rapid, to judge by the rise in the contribution of manufacturing industry to the product as a whole. This contribution was 19.9 per cent in 1955, and rose to 21.7 per cent in 1960, while the slower growth rate that has prevailed since that year resulted in a level of only 22.7 per cent in 1965.

This conclusion appears to be in contradiction

Table 244. Latin America:^a Evolution of industrial production, 1955-65
(Annual growth rates)

Country	Average		1960-61	1961-62	1962-63	1963-64	1964-65
	1955-60	1960-65					
Argentina .	3.7	4.0	8.5	-6.7	-5.5	14.4	11.5
Bolivia .	-4.3	6.0	-0.6	9.8	6.4	10.7	4.0
Brazil .	10.3	4.9	11.1	8.1	-0.3	5.1	1.0
Chile .	3.2	6.6	7.0	9.5	6.6	5.0	5.0
Colombia .	6.1	5.9	5.9	6.7	4.7	6.8	5.4
Costa Rica .	7.7	8.8	2.1	20.6	13.6	11.5	9.4
Ecuador .	5.6	6.3	0.4	5.8	6.0	13.3	6.3
El Salvador .	6.6	10.8	5.4	10.1	12.4	16.9	9.5
Guatemala .	6.2	8.8	5.9	4.4	17.3	12.3	4.4
Honduras .	5.7	8.1	10.5	3.4	8.8	9.3	8.7
Mexico .	8.1	7.9	3.6	6.4	9.2	14.2	6.5
Nicaragua .	3.9	9.6	6.0	12.1	9.3	13.6	7.1
Panama .	6.7	12.3	15.5	22.8	12.1	5.6	7.7
Paraguay .	1.2	5.9	9.7	0.5	4.4	9.0	6.3
Peru .	6.1	7.4	10.0	8.6	5.6	5.6	7.1
Uruguay .	1.0	0.2	-2.4	0.1	-1.0	5.4	-0.7
Venezuela .	7.7	9.3	5.7	11.5	7.8	10.7	11.0
TOTAL	6.4	5.6	7.8	3.2	1.3	9.8	6.2

Source: ECLA, on the basis of official statistics.

^a Excluding Cuba, the Dominican Republic and Haiti, for want of information.

with the major advances achieved recently in individual branches of manufacturing in which new production lines have been developed, and with the further prospects of expansion opened up by the progress made with economic integration in Latin America. There are various reasons for this, relating in some cases to the loss of the dynamic impetus formerly associated with import substitution, and to conditions in individual domestic markets, which were affected by the continued existence of structural limitations, or by given short-term policies.

The existence of favourable or unfavourable factors such as these was reflected by conditions that varied widely from country to country, and consequently the over-all evolution cannot be regarded as really significant. Hence it is necessary by way of illustration to study certain groups of countries that provide more homogeneous features.

In relation to the average growth for the period 1960-65 the manufacturing growth rates of the five countries belonging to the Central American common market were particularly high; in no case was the annual rate below 8 per cent, and in one it was nearly 11 per cent. Admittedly, these are countries where industrialization has not yet made much progress, and where the domestic markets are particularly small; but the integration plan they are following has permitted them to undertake or continue import substitution on a broad regional scale, and has provided them with a basis for industrial development, and specific instruments, that have acted as a powerful stimulus to production and trade in manufactures.

Mexico, Panama and Venezuela are three other Latin American countries where growth rates in the same period have been as high or nearly as high as in the Central American countries. Of these three, only Panama can be regarded as comparable to the Central American countries in terms of level of industrialization and size of the domestic market. In Mexico manufacturing already represented about a fifth of the total product in 1950, and since then has expanded steadily within the framework of a rather high over-all growth rate and a broad domestic market, the result being that Mexico has one of the most solidly established and diversified manufacturing sectors in all Latin America. In Venezuela the rapid expansion of manufacturing in recent years represents an improvement on an earlier stage of slow industrial development, supported by a relatively large domestic market in terms of the average income level, and by a policy aimed at the industrial processing of particularly valuable basic resources.

In Chile, Colombia and Peru, where average industrial growth rates during 1960-65 were between 6 and 7 per cent a year, a modest contribution by industry to the over-all product (between 18 and 19 per cent in 1965) is combined with domestic markets of an intermediate size, and with a stage of progress in the traditional process of import substitution that it will be difficult to take any further if the conditions for this process remain the same as in the past. Although its industrial structure is not the same, Ecuador can also be appropriately included in this group, mainly because of its average rate of industrial expansion during the past five years (6.3 per cent, as compared with 5.9 per cent in Colombia, 6.6 per cent in Chile and 7.4 per cent in Peru).

Other countries of the region have more individual features. In Bolivia, for example, there was a recovery in the past two years in the levels of manufacturing production, which had declined over the previous five years, and in Paraguay there was a speeding up in the very slow rate of industrial expansion that had prevailed during the same five-year period. Both countries attained particularly high rates in 1964, with a subsequent decline in 1965. In Uruguay the industrial stagnation of the last ten years continued, since the signs of recovery that appeared in 1964 did not persist. This stagnation is one element in a more general complex of problems that is hampering the development of the economy as a whole.

Lastly, there are Argentina and Brazil, whose figures weigh so heavily in the regional totals for Latin American industry, and are largely responsible for the sharp variation in these totals in recent years.

In Argentina the manufacturing sector accounted for slightly over a third of the total product in 1965. This proportion illustrates the difficulties involved in a relatively rapid industrial expansion when it is not accompanied by an equally rapid over-all development. The average growth rate of industrial production in 1960-65 was among the lowest for all Latin America (4 per cent a year, slightly higher than the average of 3.7 per cent recorded for the period 1955-60), and represented sharp variations during the period: an appreciable rise in 1961, followed by two years when there was an absolute decline in production levels, and a rapid recovery in 1964 and 1965.

Brazil maintained the first place it had gained as the Latin American country with the highest industrial growth rate during the fifties (with an average annual rate of over 10 per cent), when

there was also a considerable rise in the contribution of manufacturing to the total product (from 18.9 to 23.4 per cent). Manufacturing expanded at a similar rate in 1961 and 1962, but declined in absolute terms in 1963, and although a recovery set in in 1964, it did not persist into 1965. As a result there was no increase, in the past five years, in the contribution of industry to the national economy.

The particular factors that have affected the recent evolution of industry are examined for each country in other chapters of the present study.¹ Here let it suffice to stress the difficulty of making any general statement about the situation for Latin America as a whole, since the situation varies widely from country to country in terms of the pace and nature of industrial development. Moreover, the same applies with respect to the changes in the various branches of manufacturing, and consequently the sections that follow below give detailed information for particular sectors, confined here to the steel, aluminium, motor vehicle, and paper and pulp industries.²

¹ See Part Two, chapter I.

² The evolution of some other sectors was examined in the *Economic Survey of Latin America, 1964* (E/CN.12/711 and Add. 1 and 2). More detailed information on these and other industrial branches is to be found in the documents submitted to the Latin American Symposium on Industrial Development (Santiago, Chile, 14 to 25 March 1966), especially in the document *Los principales sectores de la industria latinoamericana: problemas y perspectivas* (E/CN.12/718).

2. THE STEEL INDUSTRY

(a) *Balance of supply and demand*

Total apparent consumption of rolled steel products in Latin America, expressed in terms of the ingot equivalent, rose slightly in 1965 in relation to 1964, from 10.6 million tons to 10.8 million. In both years imports were about 3.2 million tons and exports about 600,000 tons, almost entirely within the region itself, while production rose from 8 million tons in 1964 to 8.2 million in 1965.

The evolution of apparent consumption since 1952, when it amounted to 4.8 million tons, represents an average cumulative annual increase of 6.9 per cent. However, this increase was uneven, being more rapid in 1952-57, with a cumulative rate of 12.1 per cent, and lower in 1957-64, with a rate of only 3.2 per cent (see table 245).

Despite these increases per capita consumption in Latin America, which rose from 29.3 kg in 1952 to 49.5 kg in 1964, remains low in comparison with the world level of 132 kg.

An examination of the rise in, and structure of, apparent consumption shows that integrated steel plants have had an appreciable effect on the evolution of the countries where they have been installed, which has been much more rapid than in countries which do not yet produce their own steel. In the first group consumption rose by an average of 143 per cent between 1952 and 1964, while in the second the increase was only 78 per cent.

Table 245. Latin America: Production, imports, exports and apparent consumption of rolled steel, 1952-65
(Thousands of tons of ingot equivalent)

Year	Production	Imports	Exports	Apparent consumption
1952 . .	2,171	2,722	73	4,820
1953 . .	2,270	2,542	106	4,706
1954 . .	2,793	3,695	77	6,411
1955 . .	3,320	3,514	78	6,756
1956 . .	3,870	3,560	111	7,319
1957 . .	4,326	4,394	173	8,547
1958 . .	4,722	3,618	82	8,258
1959 . .	5,172	3,325	149	8,348
1960 . .	5,595	3,345	179	8,761
1961 . .	6,146	3,146	137	9,155
1962 . .	6,211	2,942	100	9,053
1963 . .	7,703	3,103	603	10,203
1964 . .	8,038	3,200 ^a	580 ^a	10,658
1965 . .	8,204	3,200 ^a	580 ^a	10,824

Source: Historical series from the Latin American Iron and Steel Institute (ILAFA), the

Brazilian Steel Institute (IBS), and foreign trade yearbooks.

^a Estimates.

The main features of steel ingot production, by countries, between 1964 and 1965 were: the rise in Argentina's production resulting from the improved operation of the San Nicolas plant; the decline in Brazil's output because of the credit restriction measures that affected the transforming industry; the rise in the output of the semi-integrated plants in Colombia, which helped to raise total output; the decline in Chile, due to a stoppage of about two months in the integrated plant; the expansion of flat products in the Monterrey and Monclova plants, leading to a rise in output in Mexico; the increase in production in Peru due to the improved operation of the Chimbote plant; and the rise in production in Venezuela, which was considerable, as a result of better utilization of installed capacity in Orinoco (see table 246).

Table 246. Latin America: Production of steel in selected countries, 1964-65
(Thousands of tons of ingots)

Country	1964	1965
Argentina	1,264	1,347
Brazil	3,096	2,960
Chile	584	467
Colombia	230	241
Mexico	2,328	2,455
Peru	82	93
Uruguay	14	13
Venezuela	441	629
TOTAL	8,038	8,204

Source: ECLA, on the basis of official statistics.

Imports of rolled steel products played even more of a minor role after 1957, when local steel production began to replace imports on a larger scale. Imports fell by 4.5 million tons of ingot equivalent, to 3 million tons in 1962, and since then have remained at about the same level. Thus in 1964 consumption was based 77 per cent on local production and 23 per cent on imports, very different proportions from those prevailing in 1952, which were 45 and 55 per cent, respectively. It should be noted that these figures do not include indirect imports, that is, machinery and equipment, manufactured products and capital goods whose main component is steel, since the compiling and analysis of this information is difficult for want of proper statistical information. However, in 1963 such imports were estimated as being of the order of 1.5 million tons of ingot equivalent of steel for Latin America as a whole.

As regards exports, the volume has ranged

from 137,000 tons in 1961 to 600,000 tons in 1964, almost entirely from and to countries in the region. Exports have been sporadic, varying with circumstances, and only since last year has there been any definite interest, especially in Mexico and Brazil, in taking regular part in the regional export trade.

Most exports have been due to temporary contractions in the domestic markets of the Latin American countries, leading to occasional surplus output. This was the case in Argentina in 1962-63, in Venezuela, in the same year, because of reduced activity in the petroleum industry, and even in Mexico where, because of the completion of the expansion of capacity in Monclova and Monterrey, output of flat products exceeded domestic demand. A second factor leading to temporary exports is the completion of a plant whose projected capacity is initially in excess of local demand. This was the case in Chile which, for a number of years, since the Huachipato plant began operating, was a regular exporter, and the same may happen in Brazil, in flat products, when the new output of USIMINAS and COSIPA is added to that of Volta Redonda. In such cases as those of Chile and Mexico, consumption eventually catches up with demand, with a resulting suspension or reduction of exports. In general it can be asserted that at present there are no exportable surpluses of any significance in the region, and that exports are confined to the regular trade flow between neighbouring countries, or the placing on the market of occasional production surpluses.

(b) *New projects and investment needs*

The integrated steel plants are now contemplating expansion projects, on clearly defined bases and with secured financing in most cases amounting to some 600 million dollars, to be invested in complementing their existing capacity. The plants will thus expand their capacity by 3.2 million tons, with the decidedly favourable overall unit investment figure of 150-220 dollars a ton.

In addition there will be the expansions envisaged in the Volta Redonda and San Nicolas plants, which will permit their combined production to rise to a level of 2 million tons, with a joint increase in output of 1.6 million tons and investments of the order of 580 million dollars. In this case the expansion of capacity is not complementary, but represents new projects on a considerable scale.

This means that for the next four or five years a total investment of some 1,200 million dollars will be required, apart from the capital involved

in the projects planned by some of the semi-integrated industries that are already under way, and the investments needed for new projects, which are difficult to estimate with any accuracy.

The following paragraphs give the most important details about the expansions referred to.

Argentina. The SOMISA (Sociedad Mixta Siderúrgica Argentina) plant has already attained a daily output of 2,000 tons with its existing furnace, and it is proposed to improve on this figure by the use of petroleum injection, the parallel operation of turboblowers, and the eventual addition of a fourth heater, all of which is included in the immediate plan, already financed, representing an investment of 30 million dollars.

At the same time a plant will be installed for the production of oxygen, to be used in open-hearth furnaces, permitting the capacity of the steel plant to be increased to 1,100,000 tons; for this purpose there will be improvements in the furnace feed systems and the handling of materials in this section. There will also be additions to the loading dock and to the facilities for handling raw materials, and auxiliary furnaces and equipment will be installed in the rolling mill. It is assumed that San Nicolas will go ahead at once with the execution of the next expansion programme, which already calls for the construction of a new blast furnace of the same capacity as the existing furnace, a new LD converter and an additional set of machinery, as well as modifications in the billet-rolling mills to raise their capacity to 2 million tons. This programme also includes modernizing the flat-rolling, tinning and cutting sections, and additions to the power plant. The result will be not only to double the capacity of the present equipment, but also to open the way, in the near future, to raising capacity to 2.5 million tons. It is believed that San Nicolas intends in the first place to make full use of its tremendous capacity for the production of flats by its continuous rolling mill, at present the only one of its kind in Latin America; for this purpose it will be necessary to add a slab blooming mill at some stage of its expansion.

The expansion projects under consideration in the Argentine steel industry also include the conversion of the semi-integrated ACINDAR plant (not taken into account in table 246) into an integrated mill through the installation of a blast furnace with a capacity of 2,000 tons, LD converters, continuous casting lines and additions to the existing rolling mill to bring the initial capacity up to 750,000 tons, with an investment of about 140 million dollars. There is also a group of entrepreneurs who are planning to install in Ensenada a new plant of similar

capacity, although this venture has not yet materialized. In addition, a number of medium-sized and small semi-integrated plants are undertaking or planning fairly large expansions of capacity in relation to their scale of production, in particular the Dalmine-Siderca enterprise, specializing in seamless tubes, and the Santa Rosa, La Cantábrica and Gurmendi plants.

Brazil. The three main Brazilian plants, USIMINAS, COSIPA and Volta Redonda, have clearly defined expansion programmes; the capacity of the first two plants will shortly be raised from 660,000 to 1 million tons, and from 500,000 to 800,000 tons, respectively, a total of some 700,000 tons. It is a striking fact that COSIPA will be investing only 10 million dollars to obtain the additional capacity; this is because it already has a potential capacity of 800,000 tons, only a few items being needed to transform this into a working capacity. USIMINAS needs improvements in the reduction plant, the installation of a third LD converter, the expansion of the oxygen plant and the installation of a cold finishing mill, which requires a rather higher investment, about 40 million dollars, mainly for the rolling mill.

At Volta Redonda a large-scale expansion programme is being initiated in 1966, which will permit the gradual attainment, over a period of ten years, of a capacity of 3.5 million tons, thus converting this mill into the first large-scale Latin American plant; it is also the first Latin American plant to undertake a long-term expansion programme with all the details worked out in advance.

There will be a rapid increase of capacity from 1.3 million to 1.6 million tons, through improvements in the blast furnaces, use of oxygen in the steel mill, and strengthening of the blooming mill, cold finishing and electrolytic tinning. Large investments are contemplated from 1966 on, which will gradually bring plant capacity up to the above-mentioned 3.5 million tons over the ten-year period, with special emphasis on the production of tinplate and flat products, for which a special continuous blooming mill and a continuous rolling mill will be installed, and the present blooming mill will be used to feed the non-flat rolling mills. The bulk of the investment, whose estimated total is 560 million dollars, will be effected between 1966 and 1971, and the intention is for a considerable portion of the machinery to be manufactured in Brazil. Volta Redonda considers that the unit investment will amount to 232 dollars as against 450 dollars that would be needed for a new plant, because of the existing facilities available.

In addition to the above-described plans, there are also many other expansion projects in Brazil,³ of which the most important is the Companhia Belgo Mineira project. This company is the fourth largest in Brazil; it proposes to expand its two plants at Monvelade and Sabará; the former will enlarge its capacity from 380,000 to 550,000 tons, and the second will expand only the wire-drawing and rolling sections, which together will process 600,000 tons of ingot steel, with an estimated investment of 14 million dollars.

There are also a number of projects for new plants which have not yet been implemented, including the USINOR project, near Recife, for the installation of an electric reduction furnace with a daily capacity of 190 tons (60,000 tons of pig iron a year), an LD steel mill with two converters, and a group of rolling mills producing bars and light steel shapes with a capacity of 120,000 tons a year; METAMIG (Metais de Minas Gerais S.A.) at Paraopeba, with an initial capacity of 1 million tons of non-flat products; COSGUA (Companhia Siderurgia de Guanabara) at Santa Cruz, with an initial proposed capacity of 500,000 tons of non-flat products, and lastly, a series of small local plants in the States of Amazonas, Bahia, Santa Catarina and Rio Grande do Sul.

To complete the Brazilian picture mention must also be made of the VITORIA project (Via. Ferro e Aço de Vitoria), for a plant producing non-flat products with an initial capacity of 1 million tons, to be located close to the new port of Tubarão of the Cia. Vale do Rio Doce. This enterprise will be well situated for export production.

Colombia. Acerías Paz del Rio is at present installing a Steckel rolling mill 1.30 m wide, a blooming mill, a sintering plant and auxiliary installations, representing a total value of 30 million dollars, whose construction is expected to be completed early in 1968. However, this expansion will not increase the production capacity of the existing plant, because there is a limit as regards pig iron and there will then be a considerable imbalance between this section and the rolling mill as a whole; consequently Paz del Rio is now preparing a study for submission to international financial agencies, providing for the construction of a second sintering line, a blast furnace with a theoretical daily output of 1,200 tons, a corresponding coking plant,

the use of oxygenated air in the existing Thomas steel mill, or another system which could be used for its high phosphorus-content pig iron; the expansion of the existing bar mill and the addition of a continuous wire-drawing frame; cold rolling, and the auxiliary services, and an increase in mining operations for iron, coal and limestone; at present this project is estimated to involve an expenditure of between 75 million and 100 million dollars.

These improvements will permit the plant to achieve a balance of production and a fairly complete utilization of the rolling mill group, with a total production of 600,000 tons of ingot steel a year.

Acerías Paz del Rio has achieved a satisfactory use of its existing machinery, but it is obviously one of the enterprises that needs to forge ahead most rapidly with its programmes for expanding capacity and for achieving a balance of production, in order to get full use out of the investment made and, above all, to deal with the considerable imbalance of production that will result from the installation of the present Steckel mill.

Chile. The expansion programme of the Compañía de Acero del Pacífico, Huachipato, has not yet been clearly defined and is at present under review. However, published statements seem to indicate that there will be an expansion from 600,000 to 1 million tons, involving the addition of a second blast furnace, which is under construction and scheduled to enter into operation during the first half of 1966. It has been designed with the same diameter (20' 9") as the present furnace, but with a margin for increasing the size when market demand requires higher output. Also under consideration are the installation of a new LD steel mill with a capacity of 650,000 tons; continuous casting lines, an increase in the capacity of the bar and light steel shape mills; the addition of an electrolytic tinning line and an expansion of the coking plant. The cost of this expansion is estimated at 94 million dollars.

Mexico. The main Mexican plants—Altos Hornos de México, S.A. (Monclova), and Compañía Fundidora de Fierro y Acero de Monterrey—have been carrying out vast expansion programmes over the past four years. The first stage consisted mainly in expanding rolling mill capacity, and was followed by a second stage during which the blast furnace and steel mill sections were enlarged in order to achieve a balanced output. Altos Hornos de México has now attained a capacity of over 1 million tons, and Monterrey's capacity is close to 500,000 tons; in the next few years these two enterprises

³ Brazil is supplied by 24 main plants, whose size and characteristics vary widely; total production in 1965 was about 3 million tons of ingots, of which Volta Redonda provided about 45 per cent.

will increase their capacity to 1.6 million tons and 800,000 tons, respectively.

Despite these expansions the over-all deficit in the reduction section will not be completely met. To cover it, Monclova is now building a third blast furnace with a theoretical capacity of 1,350 tons, and making other improvements. At the third stage of expansion, possibly in the immediate future, Monclova will build a fourth blast furnace, and it is intended to transform the existing Steckel mill into a semi-continuous rolling mill, which will raise capacity to about 1.8 million tons.

The Monterrey enterprise is building a third blast furnace with a theoretical capacity of 2,000 tons, and is to add two open hearth furnaces to the steel mill, expand the auxiliary services in the rolling mill and make various changes in the rolling mills themselves.

Another important enterprise is Hojalata y Lámina, with a capacity of 340,000 tons of ingot steel, which it is now proposed to increase to 541,000 tons by adding a new direct reduction installation, expanding the steel mill, and installing a continuous casting line and new rolling equipment for bars and light steel profiles.

Peru. Chimbote is planning to install a Steckel mill, complement the existing non-flat rolling mills, and complete the blast furnace, with a theoretical capacity of 500 tons, that is under construction together with an LD steel mill, to bring output up to 350,000 tons of ingot steel a year. The additional investment involved is 46 million dollars for the rolling operation and about 80 million dollars more for the present construction programme. However, the new plant will still have an unbalanced output, with surplus capacity in the rolling section, and hence immediate consideration will have to be given to the installation of a second blast furnace.

Venezuela. A number of different technical solutions are being considered for the construction of a flat-rolling mill. According to the first outline given in the 1965-68 Manufacturing Industry Plan, a semi-continuous mill will be installed to meet an estimated demand of 500,000 tons, consisting of about 150,000 tons of hot-rolled steel and 350,000 tons of cold-rolled steel. Of the cold-rolled products, output of tinplate will amount to about 100,000 tons, and output of galvanized sheet to about 50,000 tons. The investment in the flat-rolling mill has been estimated at 536.1 million bolivares,⁴ and the value of its output at some 480 million bolivares, with

an increase in direct employment in the steel industry of about 800 jobs. The entry into operation of this important project will take place at the end of the period covered by the National Plan for 1965-68.

Similarly, Siderúrgica del Orinoco is contemplating a programme for the expansion of its existing plant that will permit a notable improvement in output levels and costs. The proposed changes comprise an expansion of steel-producing capacity, which includes installations for oxygen injection, at an estimated cost of 49 million bolivares, the installation of a coking plant, at a cost of 25 million bolivares, and the expansion of various general services at the plant, at a cost of 50 million bolivares.

The Venezuelan Guyana Corporation will also sponsor two important projects for the processing of iron ore, and provide a minority share of the investment involved. The plan includes the construction of a sponge iron plant with an annual capacity of 1.5 million tons, which will begin production at the level of 150,000 tons in 1968, and another enriched ore plant with an initial capacity of 1 million tons a year. In both cases the Venezuelan Guyana Corporation will enter into association with private international enterprises. The output of these plants will be mainly for export.

3. THE ALUMINIUM INDUSTRY

(a) *The present situation*

The embryonic state of the aluminium industry in Latin America contrasts sharply with the abundant supplies of raw materials and hydroelectric energy which provide favourable conditions for the development of a thriving aluminium industry.

Bauxite reserves in the region represent about half the world reserves of commercial bauxite, and nearly all the Latin American countries also have rich deposits of alunite and clay, whose exploitation is the object of a major technological research effort.

The region's known hydroelectric potential is largely untapped. The sources of this type of energy are found in Argentina, Brazil, Chile, Colombia, Ecuador, Peru and Venezuela, and some hydro resources in Brazil, Chile and Venezuela could easily be harnessed to provide cheap marginal electric power.

Latin America has large reserves of solid, liquid and gas fuels, but few of the deposits are well-placed for economically supplying alumina production, in which fuel is a decisive factor. Venezuela and Mexico are the only exceptions in this respect, Venezuela being in the enviable

⁴ Of this, 454.1 million bolivares will be invested in the rolling mill itself, and 82 million bolivares in transport auxiliary installations and unforeseen expenditure.

position of having two-thirds of the region's proven fuel reserves.

Latin America contributed nearly half the total world output of bauxite in 1962, but in spite of this its alumina production was less than 10 per cent of the world total, and that of primary aluminium only 0.7 per cent. Jamaica and Brazil alone produce alumina. Jamaica's alumina output is exported to the Canadian and United States plants that process primary aluminium. Brazilian production is carried on in plants that are fully integrated from the mine to the manufacture of the final product. The combined capacity of the two companies operating in Brazil is 34,000 tons of primary aluminium a year. Both companies have plans for expansion that are well under way.

In Mexico there is one producer of primary aluminium with a nominal capacity of 20,000 tons a year. The alumina and other inputs are imported from the United States.

Surinam is in the final phase of construction of a vertically integrated plant with a primary aluminium capacity of 60,000 tons a year. Its output will go to the European markets.

Venezuela will shortly join the ranks of the aluminium producers in Latin America. This country is one of the best possible sites for the industry, because of the enormous hydroelectric potential of the Caroní River, and its easy access to bauxite from the traditional producers of the region, such as Jamaica, Guyana, Haiti and the Dominican Republic.

The Venezuelan plant will produce some 12,500 tons of primary aluminium annually during its first phase.

(b) *Apparent consumption and projections of demand for primary aluminium*

Four countries—Argentina, Brazil, Mexico and Venezuela—use more than 85 per cent of the primary aluminium in the region, with Brazil alone accounting for over 42 per cent. Venezuela has the highest per capita consumption followed by Argentina, Brazil and Mexico. Although average per capita consumption in the region doubled between 1951–53 and 1961–63, it is still low, particularly in comparison with countries such as Canada and the United States, where it is 5.6 and 10 kilogrammes, respectively.

In view of the low consumption level and the fact that nearly all the aluminium has to be imported, mainly from Canada, the industry has every chance of expanding in the favourable conditions offered by the region.

As regards future demand for primary aluminium, projections show that by 1975

regional consumption will be around 440,000 tons a year. A review of these estimates on an individual country basis indicates that total consumption will be large enough in several of these for national plants of economic size to be set up, and that there are good prospects of eventually establishing regional plants as part of the movement towards Latin American integration.

(c) *Prospects for national development and integration*

The fact that there are now four Latin American countries with an apparent consumption of over 10,000 tons of primary aluminium a year (which may be considered as the minimum if not as an economic production scale) indicates that the aluminium industry could feasibly be developed at the national level and thereafter extended since by 1975 seven countries would be in the same position as four are now. But as heavy investment is needed to start this kind of industry, and substantial economies of scale are obtainable with the technological processes in general use, it is best to explore other possibilities that would be more economical at the regional level.

There are various ways of developing the primary aluminium industry on a regional scale. They should be considered, for purposes of illustration, as a tentative exploration of the possibilities that might be opened up by the future development of this industry.

This could be done by taking as a yardstick a regional hypothesis which assumes that the different national markets will be integrated into sub-regional markets supplied with primary aluminium by one or more alumina reduction plants. In order to give an idea of the economic benefits to be gained from developing an aluminium industry within a common market, some of the possibilities could be compared as regards the c.i.f. price per ton of primary aluminium processed in some of the possible producer centres. Alternative methods of integration should also be studied with the following possibilities in mind: first, the regional market would be supplied from the countries that currently have alumina reduction plants (Brazil and Mexico); secondly, a third plant would be added to supply the market. It would be located in Venezuela, which is shortly to join the group of countries producing primary aluminium and is in an excellent position for developing the industry; thirdly, a number of countries (Argentina, Brazil, Chile, Mexico and Venezuela) would supply the region because they have certain competitive advantages or their domestic markets are

large enough; fourthly, Peru would also develop an aluminium industry in company with these five countries.

These hypothetical plans for sub-regional plants apply solely to primary aluminium production. It may also be tentatively assumed that, as Brazil is the only ALALC country with large bauxite reserves, it will be the only one to produce alumina while the others will import it.

According to the first hypothesis, Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela would be in a position to have primary aluminium plants by 1970, since consumption in all of them would by then have exceeded the level necessary for the absolute minimum plant size. Two of these countries—Brazil and Mexico—already have primary aluminium plants, while a third—Venezuela—is about to enter into production.⁵ In these circumstances the investment needed for new primary aluminium plants⁶ would be about 530 million dollars.

This hypothesis assumes that Brazil will supply only its own primary aluminium plants with local alumina. The other six countries would have to rely on the world market for supplies. Brazil's alumina production in 1970 and 1975 would be 170,000 and 320,000 tons annually, which would entail an investment of some 20 and 33 million dollars in the new alumina plants to be set up there.

On the assumption that a common market will be established in Latin America and that the aluminium plants will be located in accordance with the four possibilities mentioned above in relation to their respective market areas, investment requirements will be around 466 million dollars for the first and second hypotheses, and 525 million dollars for the third and fourth. The difference between the two extremes would thus be around 64 million dollars.

Apart from economizing on investment and reducing costs, regional programming of the aluminium industry would give rise to a new intra-regional trade structure which would eventually encourage competition among the different plants in the region.

If the primary aluminium enterprises were located in the larger consumption centres, trade would decline as primary aluminium production became more decentralized. The flow of regional exports would vary, depending on the particular hypothesis under consideration, from 150,000

tons a year at one extreme to 52,000 tons with full decentralization.

The regional hypothesis, which postulates a small number of large-scale plants, does not imply that the aluminium industry will be permanently concentrated in a limited number of sites in future, since, over the years, technological progress has given this industry a much wider choice of location.

The main conclusion is that the region has an abundance of energy and raw materials for the successful and vigorous development of primary aluminium production, and that several of the Latin American countries can thus develop this industry on an economic basis and achieve price levels similar to those prevailing in the domestic market of the highly industrialized countries. Moreover, if the region's over-all requirements of primary aluminium in 1975 are to be supplied, and the industry is developed with an eye to regional integration, it will be possible to set up a number of plants of economic size in Latin America.

4. THE MOTOR VEHICLE INDUSTRY

(a) *General considerations*

One of the most outstanding features of recent industrial development in Latin America has been the establishment in a fairly short space of time of a motor vehicle manufacturing industry. Since the end of the Second World War, the Latin American countries have tended increasingly to "nationalize" motor vehicle production, moving from the phase of mere assembly to that of the manufacture of part or all of the finished product.

This tendency, which can be discerned in most of the countries in the world that have reached a certain stage of development, has intensified in Latin America in the second half of the fifties and first half of the present decade. At the present time, there are already two countries—Argentina and Brazil—that have a thriving motor vehicle industry and the proportion of domestically produced parts is more than 90 per cent of the weight of the complete vehicle. Mexico is also making decided headway, followed on a lesser scale by Venezuela, Chile, Colombia, Costa Rica and Peru which have begun to supply some of the parts of the finished product from local sources.

The first concern manufacturing motor vehicles was set up in Argentina in 1956, and began by using domestically produced parts representing more than 60 per cent of the total weight of the vehicle. A number of plants were subsequently established in Brazil and Argentina, with eleven

⁵ However, Brazil is not in a good competitive position on the world market because of the size of its plants, its lack of cheap fuel and shortage of caustic soda.

⁶ The figures for new plants relate to net investment, since plants in operation have been discounted.

and fourteen concerns, respectively, now operating in the two countries.

The structure of the motor vehicle industry in Brazil and Argentina is, in general, vertically integrated. In Mexico and Venezuela, on the other hand, a horizontally integrated structure is being developed, and these countries have ten and thirteen assembly plants in operation. Chile has eighteen, Colombia two and Peru four.⁷

The establishment of assembly activities and motor vehicle plants has given an impetus to the production of parts and spare parts, and, in particular, to the metal-transforming industries. It has also helped directly or indirectly to create a large number of jobs in the last few years and in-service training is being given to the workers in the plants. By and large, the adoption of new production techniques and of high standards of quality has had a positive effect on the industrial sector as a whole.

Provisional estimates of current inventories in the region as a whole place the total at nearly 6 million units at the end of 1965, of which 55 per cent consisted of passenger cars and 45 per cent of commercial vehicles (lorries, vans, buses and utility vehicles).

Earlier estimates for 1963 indicate a motor vehicle inventory of slightly over 5 million for Latin America as a whole, which was at that time 3.5 per cent of the world total—only 2.5 per

⁷ In 1965, the establishment of another three assembly plants was authorized in Peru, and plans are being studied for ten more.

cent in the case of passenger cars but 12.4 per cent for lorries and buses. As the population of Latin America is 7.3 per cent of the world total, these ratios indicate, on the one hand, a large volume of unsatisfied demand for passenger cars, probably as a result of the region's chronic shortage of foreign exchange and its low levels of income, and, on the other, a bigger supply of lorries and buses, undoubtedly due to the inadequacy of the other means of transport, such as the railways, inland navigation and sea-going craft.

The development of the total inventory has been aided recently by the rapid growth of domestic production. The manufacture and assembly of motor vehicles has soared in Latin American industry. In 1959, the number of vehicles manufactured was about 129,000,⁸ while in 1965 it was 380,110, an increase of 194.7 per cent. In addition, the number of units assembled in 1959 was around 68,000 as against 172,612 units in 1965, an increment of 153.8 per cent.

Total output of motor vehicles, manufactured or assembled, was 552,722 units in 1965, or 11.1 per cent more than in the previous year. The increase was greater for passenger cars (11.3 per cent) than for commercial vehicles (8.4 per cent), as table 247 indicates.

One or two salient features mark the general pattern of motor vehicle production in 1965.

⁸ Manufacturing is taken to mean production in which more than 60 per cent consists of national components.

Table 247. Latin America: Motor vehicle production, 1964-65
(Units)

Country	Passenger cars		Commercial vehicles		Total		Percentage of domestic components
	1964	1965	1964	1965	1964	1965	
Argentina . . .	104,549	119,786 ^a	61,934	84,769 ^a	166,483	194,465	E
Brazil	97,741	103,425	85,980	72,731	183,721	185,645	E
Chile	5,986	7,424 ^b	1,952	1,200 ^a	7,938	8,624	B
Colombia	81	186	2,746	1,102	2,827	1,288	A
Mexico	63,458	70,000 ^b	27,294	32,000 ^a	90,752	102,000 ^a	C
Peru	—	450 ^b	743	1,150 ^a	743	1,600	A
Venezuela . . .	32,321	42,000 ^b	12,620	16,500 ^a	44,941	58,500 ^a	B
TOTAL	304,136	343,271	193,269	209,451	497,405	552,722	

Sources: Argentina and Brazil: Asociación de Fábricas de Automotores (ADEFA); Mexico: Department of Industry; Venezuela: Central Co-ordination and Planning Office (CORDIPLAN); Chile: Department of Industry and Trade; Colombia: assembly firms.

^a Estimates based on ten months' production.

^b Domestic components as a percentage of the weight of the vehicles.

A = under 10 per cent.

B = 11-30 per cent.

C = 31-60 per cent.

D = 61-90 per cent.

E = over 90 per cent.

For the first time Argentina outstripped Brazil's production; Mexico raised its output by 12.4 per cent and also substantially increased the national content in the final product; Venezuela expanded production by 30.1 per cent, Chile assembled a slightly larger number of vehicles than before and Peru began assembly activities, while only in Colombia was there a sharp drop in production as a result of the acute shortage of foreign exchange in the country that year.

Two countries, Argentina and Brazil, are manufacturing virtually complete motor vehicles themselves. In Brazil the proportion of locally manufactured parts for light units is 99 per cent, and for heavier units 95 per cent. The average proportion in Argentina was 95 per cent in 1965.

Mexico, which is aiming at a proportion of 60 per cent, nearly reached 40 per cent in 1965, while, in Venezuela, the proportion of national components in the same year was 25 per cent. There is no accurate information available on this coefficient in the other countries that assemble motor vehicles.

The extensive development of motor vehicle manufacture and assembly is attributable to strong State protection. In Brazil and Argentina the basic reason for this protectionist policy was the need to save foreign exchange in order to improve the balance-of-payments position. In Venezuela, on the other hand, motor vehicle policy was mainly directed towards creating new sources of employment, building up a skilled labour force and developing the metal-transforming industry, and this was also the case in Peru. Mexico, Chile and Colombia seem to have aimed at both targets simultaneously.

Although the motor vehicle industry has generated a heavy demand for imported goods in the shape of parts and spare parts, it has had a favourable effect on the internal industrial structure of the different countries not only because of its purchases but also through its dissemination of new techniques and, by setting more exacting standards of quality, through the introduction of more advanced methods of production subject to strict controls. The results can be seen in the many local industries that provide parts and spare parts, including the iron and steel, basic metals and electric appliances industries.

In comparison with these production figures, the demand for motor vehicles is estimated to have risen to some 670,000 units in 1965,⁹ and

⁹ Of these, 550,000 units are locally manufactured and about 120,000 are imported.

is expected to continue increasing at an annual rate of 7 or 8 per cent.¹⁰ On this assumption, demand would be 940,000 or 985,000 units respectively in 1970 and 1,300,000 or 1,450,000 units in 1975.

Tentative though these figures are, they show how important the development of the Latin American motor vehicle industry has become, for without such an industry the demand projections would represent a foreign exchange outlay of around 1,900 million dollars in 1970 and 2,800 million in 1975.¹¹

These figures could be even higher, since there is an unsatisfied demand for motor vehicles in the region, especially passenger cars, and the inventory consists mainly of old vehicles of many makes and models, while road-building continues to increase rapidly.

The recent development of these activities is particularly significant if viewed from the standpoint of regional integration possibilities. The motor vehicle industry is recognized to be one of the industrial activities in which economies of scale can be most effective, both in the manufacture of parts and the marketing of the vehicles. External economies are also particularly significant in this sector.

A motor vehicle cannot be considered as a single unit, with one production scale for the whole, but as a collection of numerous parts and components with different optimum scales of production.

Although there is no past experience on which to base an estimate of the minimum production scales a figure between 200,000 to 300,000 units a year is suggested.¹² There are, moreover, a number of components which could be standardized without damaging the vehicle's prestige.

The extent to which capacity is used, both for assembly purposes and for manufacturing parts, also has a considerable influence on production costs.

Another characteristic feature of the motor

¹⁰ This depends on whether the consumption elasticity of demand taken is 1.6 or 2 (2.5 per cent annual per capita income growth and 3 per cent annual population growth). An annual replacement rate of 10 per cent for the inventory and a yearly inventory increase of 4 per cent give similar results.

¹¹ Based on an average of 2,000 dollars per vehicle.

¹² Maxcy and A. Silberstone state, in their book *The motor industry* (1959) that the British motor industry reduces costs by 8 per cent when it raises production from 100,000 to 200,000 vehicles, by 11 per cent when it goes up to 300,000 and by 13 per cent when increased to 400,000. By contrast, the Mexican programme for the motor industry considers 100,000 units to be the minimum production scale.

Table 248. Argentina: Evolution of motor vehicle imports, production and stocks, 1925-65
(Units)

Period or year	Imports (annual average)			Domestic production (annual average)			Motor vehicle stocks		Number of vehicles per thousand persons		
	Passenger cars	Buses, lorries and chassis	Total	Passenger vehicles	Freight and passenger transport vehicles	Total	At the close of the period	Average annual variation	Total	Passenger cars	Lorries and others
1925-29 .	53,673	13,891	67,564	—	—	—	411,100	57,560	26.0	21.8	4.2
1930 .	34,920	14,224	49,144	—	—	—	435,800	24,400	36.6	28.9	7.7
1931-36 .	11,466	5,789	17,245	—	—	—	370,900	-10,817	28.5	21.8	6.7
1937-41 .	24,576	10,358	34,934	—	—	—	440,600	13,940	29.9	22.2	7.7
1942-46 .	2,178	2,374	4,552	—	—	—	435,400	-1,040	29.9	20.5	9.4
1947-51 .	11,681	16,584	28,265	—	—	—	574,300	2,778	33.3	19.7	13.6
1952-56 .	4,390	5,075	9,465	854	4,989	5,843	624,132	997	31.0	17.4	13.6
1957 .	10,778	36,409	47,187	5,461	10,174	15,635	670,982	46,850	33.1	18.0	15.1
1958 .	14,989	4,506	19,495	14,310	13,524	27,834	717,313	46,331	34.8	18.9	15.9
1959 .	6,090	825	6,915	18,455	14,375	32,830	788,542	71,229	37.6	20.5	17.1
1960 .	3,251	1,856	5,107	40,222	48,938	89,160	865,536	76,994	40.6	22.2	18.4
1961 .	2,876	2,071	4,947	78,635	57,631	136,266	972,759	107,223	44.8	24.6	20.2
1962 .	2,145	3,884	6,029	90,642	39,088	129,730	1,109,929	137,170	50.1	28.2	21.9
1963 .	863	823	1,686	75,663	29,492	105,155	1,216,139	106,216	55.3	31.7	23.6
1964 .	544	742	1,286	114,617	51,866	166,483	1,378,196	162,057	62.6	36.6	26.0
1965 .	260 ^a	241 ^a	501 ^a	133,738	60,472	194,210	...	...	...	...	...

Sources: Foreign trade yearbooks, ADEFA and National Department of Industry.

^a First half of 1965.

vehicle industry is the incidence of raw material inputs which is heavier than in other sectors.¹³ This means that a supply of raw materials at suitable prices is particularly important. The price of a motor vehicle—about 2 dollars per kilogramme—is possibly lower than that of any other type of durable consumer goods manufactured.

Lastly, prices are also affected by the transport charges for vehicles or their parts.

These factors, coupled with the estimated increase in demand for motor vehicles, which is expected to reach about 1,400,000 units by 1975, indicate that a regional solution must be sought for the development of this important industry. Another reason for adopting this approach is the shortage of capital in nearly all the Latin American countries, and the fact that domestic markets are, in general, too small to absorb the industry's output.

In this particular case, however, integration would present a number of complications owing to the fact that three countries—Argentina, Brazil and Mexico—are already at an advanced stage of development and also have the largest markets. Moreover, a great many motor vehicle assembly and manufacturing plants are in operation which turn out a wide variety of makes and models and, as a result, costs and prices are much higher than in the industrialized countries.

(b) *The situation by countries*

The data available vary greatly from country to country and this makes it impossible to present a uniform description of the situation in each.

Argentina. Table 248 shows the evolution of imports, domestic production and the motor vehicle inventory in Argentina.

Local activities in this sector had, for a number of years, been confined to the assembly and repair of imported passenger cars and lorries, and the manufacture of spare parts. After the market had been tested by some local enterprises and two foreign firms had set themselves up in 1952 and 1955, mainly to produce utility vehicles, domestic production was stimulated in 1959 by the enactment of laws governing the conditions under which the sector might operate. These provided for a gradual increase in the proportion of national inputs between 1959 and 1964, a condition which has been met in part.

The original enterprises and other national concerns already engaged in motor vehicle production have been joined by some foreign firms established in accordance with the legal regulations governing capital, and these have provided the bulk of the investment in machinery and equipment.

The output of the motor vehicle industry, divided by enterprises, is given in table 249 for the years 1959–65. In 1965 four concerns turned out nearly three-quarters of the entire number of vehicles produced.

Table 250 gives a picture of national motor vehicle production trends, by type of unit.

The development prospects for the motor vehicle industry over the medium term are given in the National Development Plan. This provides for a cumulative annual growth rate of 6 per cent, which represents the addition of 972,500 units to existing stocks. According to the projection made, 71 per cent will consist of passenger vehicles (cars and vehicles for use in rural areas), 23 per cent of pick-up trucks and vans and the remaining 6 per cent of lorries and chassis for freight and passenger transport vehicles.

The probable annual demand has been determined on the basis of different criteria, depending on the trends noted in each of the two broad categories established, i.e., passenger vehicles and utility vehicles.

In the case of the first, the projections took into account the amounts spent by families on acquiring a passenger vehicle. The ratio of the value of family purchases to the total volume of private consumption during 1965–69 has been maintained at the same levels as in 1962 and 1964, which are considered to be representative years, and are also those in which the peak figures for the past few years have been registered for this type of rising consumption. The ratio in question is 5.17 per cent.

The criterion applied for utility vehicles was different, since this type of unit is generally used to meet requirements stemming from the movement of freight and passengers, in the private and public sectors. The projections made have therefore considered the transport equipment requirements on the basis of a rational use of the different types of services. It is estimated that demand for lorries will increase at an annual rate of 8.7 per cent annually, and for the other smaller vehicles at 2.5 per cent.

In view of these considerations, the projection of future demand for motor vehicles as forecast for 1969 in the National Development Plan is as follows:

¹³ Raw materials account for 67 per cent of the value of production in this sector against 57 per cent in industry as a whole (United States input-output table, 1957).

	Units
Passenger vehicles	153,000
Pick-up trucks and vans	47,800
Lorries and chassis	14,100
	214,900

According to this Plan, the production of domestic parts, assembled components and raw materials will expand until the highest degree of substitution has been reached in respect of imports, which carry undue weight in the balance of payments. If the flow of purchases is directed to Argentine manufacturers, the motor vehicle manufacturing industry's expansionist effect, which is already recognized, can be turned to account, and this, in its turn, will bring about increased specialization, rational production and technical training in the subsidiary industries and a reduction in domestic costs.

The integration process, already far advanced in the finished goods industry, should be continued, particularly through the use of strategic materials for which installed capacity is already available. This would lead to optimum use of

equipment and lower costs. Cases in point are flat steel products and forgings. More use of locally produced inputs will also raise employment.

The targets set by the Plan were based on the assumption that supplies would be channelled entirely to the domestic market, which would allow the replacement of imports of finished vehicles. The possibility of concluding complementarity agreements with neighbouring countries or those belonging to ALALC opens up new possibilities for using the present capacity of the plants more intensively and thereby, among other things, stimulating production in subsidiary industries.

Brazil. The motor vehicle industry in Brazil ranks with that of Argentina as the most dynamic in the region, but its total output of motor vehicles increased very little in 1965 (see table 251), partly because of the credit restrictions and other anti-inflationary measures adopted. The only items to make steady progress during the three-year period 1963-65 were passenger cars, heavy lorries and buses, while production fell off for medium-weight lorries, vans and jeeps.

The motor vehicle inventory increased by

Table 249. Argentina: Motor vehicle production, by enterprises, 1959-65
(Units)

Enterprise	1959	1960	1961	1962	1963	1964	1965 ^a
Chrysler Argentina S.A. y Fevre y Basset Ltda. S.A.	—	4,330	7,382	10,028	8,258	10,484	16,300
Fiat Concord, S.A.	—	4,272	11,339	14,185	18,544	23,397	27,000
Ford Motor Argentina S.A.	737	11,767	13,441	11,767	9,110	26,825	31,200
General Motors Argentina S.A.	—	11,056	13,457	12,063	9,146	19,332	26,000
Industria Automotriz Santa Fe S.A.	—	904	3,050	4,075	3,437	6,020	5,400
Industrias Kaiser Argentina S.A.	24,151	33,205	42,201	39,987	27,684	50,042	57,000
Mercedes Benz Argentina S.A.	804	2,566	3,700	2,387	1,648	2,222	2,700
Siam Di Tella Automotores S.A.	—	4,102	14,082	7,146	8,503	11,676	14,100
TOTAL ADEFA ENTERPRISES	25,692	72,202	108,652	101,638	86,330	149,938	179,700
Citroen Argentina S.A.	—	968	4,229	5,422	3,313	6,947	4,900
D.I.N.F.I.A.	3,964	3,704	3,243	3,743	4,226	3,867	3,100
I.A.F.A. under licence from Peugeot	—	1,912	5,000	8,812	8,406	2,693	5,500
Isard Argentina S.A.	1,624	3,940	5,170	5,601	2,287	2,368	800
Metalmecánica S.A.	1,090	3,425	4,441	1,914	260	158	400
TOTAL OTHER ENTERPRISES	6,678	13,949	22,083	25,492	18,492	16,033	14,700
Difference ^b	+582	+3,187	+5,453	+2,750	+77	+462	+65
GRAND TOTAL	32,952	89,338	136,188	129,880	104,899	166,483	194,465

Source: ADEFA.

^a Distribution by enterprises on the basis of the first nine months' production.

^b Including the output of enterprises that are no longer operating and the discrepancy in relation to the official figures of the Ministry of Industry and Mining.

Table 250. Argentina: Domestic production by type of vehicle, 1951-65
(Units)

Year	Passenger vehicles			Jeeps	Utility vehicles							Grand total
	Passenger cars	Vehicles for rural use	Total		Freight transport				Passenger transport			
					Vans	Pick-ups	Lorries	Total	Urban buses	Long-distance coaches	Total	
1951	—	18	18	—	22	68	—	90	—	—	—	108
1952	—	62	62	—	15	54	1,526	1,595	1,056	—	1,056	2,713
1953	633 ^a	58	691	—	13	1,998	1,326	3,337	1,390	—	1,390	5,418
1954	1,672 ^a	46	1,718	—	200	2,421	1,074	3,695	805	—	805	6,218
1955	1,447 ^a	24	1,471	—	350	4,180	1,758	6,288	1,162	—	1,162	8,921
1956	300	26	326	2,389	170	2,480	386	3,036	192	—	192	5,943
1957	465	4,996	5,461	6,282	1	3,884	7	3,892	—	—	—	15,635
1958	3,715	10,595	14,310	7,221	58	6,244	1	6,303	—	—	—	27,834
1959	7,094	11,361	18,455	1,361	263	7,833	472	8,568	446	—	446	32,830
1960	30,677	9,545	40,222	4,952	1,606	31,124	9,417	42,147	1,839	—	1,839	89,160
1961	72,309	6,326	78,635	3,297	2,796	31,663	17,661	52,120	2,214	—	2,214	136,266
1962	78,682	11,960	90,642	1,615	2,664	22,426	10,321	35,411	1,829	233	2,062	129,730
1963	68,427	7,236	75,663	1,504	1,447	18,822	5,980	26,249	1,396	343	1,739	105,155
1964	104,549	10,068	114,617	1,238	2,517	34,869		13,242			50,628	166,483
1965	119,786	13,952	133,738	1,352	1,502	40,843		16,775			59,120	194,210

Source: ADEFA, National Development Council (CONADE) and National Department of Industry.

^a The figures for 1953, 1954 and 1955 include 628, 1,545 and 1,236 cars for hire, respectively.

Table 251. Brazil: Motor vehicle production, imports and stocks, 1963-65
(Thousands of units)

Type of vehicle	1963	1964	1965
<i>Production</i>			
Heavy lorries and buses	3.5	3.5	4.1
Medium-weight lorries	20.5	21.0	20.9
Freight and passenger vans	50.2	48.5	46.7
Jeeps	13.9	12.9	10.0
Passenger cars	86.0	97.8	103.0
TOTAL	174.1	183.7	185.0
<i>Imports</i>			
Passenger cars	0.39	0.38	5.52
Vans	0.03		1.08
Lorries	0.04	0.05	0.12
Buses	0.04	0.02	0.08
Military vehicles			0.61
Vans and pick-ups			0.59
TOTAL	0.50	0.45	8.00
TOTAL STOCK			
Domestically produced vehicles	1,595.9	1,780.1	1,973.1
Percentage	854.1	1,037.8	1,122.8
	53.5	58.3	56.9

Source: Office of the Minister Extraordinary for Planning.

377,000 between 1963 and 1965. The increase came mainly from domestic sources, although a rise in imports in 1965 did play a certain part. The revival of imports and the limited size of the production increment in that year reduced the proportion of locally manufactured vehicles in the total inventory to 56.9 per cent from 58.3 per cent in 1964. However, it is thanks to national motor vehicle production that Brazil's motorization coefficient (number of vehicles per 1,000 persons) has soared from 7.6 in 1950 to 20.8 in 1963, 22.5 in 1964 and 24.3 in 1965.

Central America. Motor vehicles are already being assembled as part of the Central American common market activities. By 1965 there were two assembly plants in the area, one already in operation in Costa Rica and another in El Salvador. As this activity is still in its infancy and is not very diversified, Central American demand has to be met chiefly by imports.

Colombia. After a rapid expansion of the motor vehicle inventory up to 1955, the rate of growth slowed down and the trend had not been reversed by 1964 (see table 252).

The Government has been giving preference in its import policy to freight carriers and public transport vehicles, with the result that between June 1963 and December 1964 the stock of buses increased by 6.9 per cent and that of lorries by

Table 252. Colombia: Motor vehicle stocks, 1960-64
(Thousands of units)

Type of vehicle	1960 ^a	1963 ^b	1964 ^b
Passenger cars ^c	86.9	107.3	111.3
Buses ^d	20.4	24.6	26.3
Lorries ^e	74.7	81.6	87.0
TOTAL	181.9	213.5	224.6

Source: National Department of Statistics.

^a On 30 June.

^b On 31 December.

^c Including jeeps.

^d Including passenger vans.

^e Including lorries, dump cars, panel trucks, pick-ups and other freight vehicles.

6.6 per cent, whereas passenger cars went up by only 3.7 per cent.

The greater degree of obsolescence of utility vehicles may have been one of the reasons for giving imports of these items higher priority in 1964. A large proportion of imports also consisted of tractors and jeeps, in response to the policy of preference for capital goods needed in farming. Of the 8,363 units imported in 1964, 2,426 were tractors, 1,785 were jeeps and 2,160

were assembled and unassembled lorries and chassis.

The slow rate at which new units have been added to the inventory in recent years has raised the average age of the vehicles. In 1960, 66.8 per cent of the passenger cars were under ten years old, as were 77.9 per cent of the buses and 77.8 per cent of the lorries, whereas in 1964 the corresponding figures were 44.5 per cent, 35.3 per cent and 41.2 per cent. The only item to increase was the number of passenger cars less than five years old which went up from 11.1 per cent in 1960 to 28.4 per cent in 1964.

Colombia's motorization coefficient has also been very slow to improve in recent years. The total number of motor vehicles per thousand persons increased from 11.8 in 1960 to only 13 in 1964, and that of passenger cars from 5.6 to 6.4.

The Colombian market is large enough to absorb the output of several motor vehicle assembly plants. Some foreign firms have therefore made plans to assemble passenger cars, vans and medium-weight lorries that are suited to the needs and characteristics of the country, and their investment will represent an assembly capacity of up to 500 units in 1966.

Chile. Although assembly activities increased in 1965 after the slight decline of 1964, the total volume produced is still under 9,000 units, as table 253 shows. Between 1963 and 1965, the volume of passenger cars and similar passenger vehicles assembled remained much the same, whereas the number of freight vehicles produced—mainly vans—increased by 58 per cent. The motor vehicle industry has not gained a firm footing in Chile for reasons of efficiency and narrow markets, so negotiations have been undertaken in ALALC with a view to concluding complementarity and integration agreements with Argentina and Brazil on the production of motor vehicle parts and components.

Although Chile's total motorization coefficient rose from 11.8 vehicles per thousand persons in 1950 to 16.6 in 1960, it has remained virtually stationary in the last three years at slightly more than 22 vehicles per mil. The coefficient for passenger cars rose from 6.6 in 1950 to 7.6 in 1960, 10.2 in 1963 and about 11 in 1965.

Mexico. During the last few years, the number of motor vehicles in circulation has increased. At the same time imports have been restricted, except for vehicles that are too specialized to be assembled in Mexico. Sales of locally assembled

Table 253. Chile: Motor vehicle assembly, imports and stocks, 1962-65
(Thousands of units)

Type of vehicle	1962	1963	1964	1965
<i>Assembled^a</i>				
Passenger cars and similar vehicles		6.81	6.55	6.84
Lorries and similar vehicles		1.13	1.28	1.79
TOTAL		7.94	7.83	8.63
<i>Imports^b</i>				
Passenger cars and similar vehicles		7.03	5.29	5.56
Buses		0.05	0.05	0.05
Lorries and similar vehicles		1.81	2.11	1.68
Chassis		3.81	2.26	0.83
Special vehicles		0.17	0.04	0.04
TOTAL		12.87	9.75	8.15
<i>Stocks</i>				
Passenger cars and similar vehicles	72.6	83.5	89.1	
Buses	8.7	9.1	9.3	
Lorries and similar vehicles	86.6	87.6	90.0	
TOTAL	167.9	180.2	188.4	

Sources: Statistics and Census Department; Motor Vehicle Commission, Development Corporation (CORFO).

^a Figures for 1965 not officially confirmed.

^b Imported fully or partly assembled. The 1965 figures cover the first nine months of the year.

vehicles also increased, while units manufactured in Mexico account for an ever growing proportion of the total number of vehicles in circulation. At the end of 1965, this was estimated at 1,081,000, of which 36 per cent had been assembled and sold in the country between 1960 and 1965.

Assembly activities continued to expand in 1965 (see table 254), but the annual rate of increase was slower since for the total number of motor vehicles assembled it dropped from 23.3 per cent in 1964 to 20 per cent, and the proportional increments for passenger vehicles and freight carriers also changed. In the former case, the rate of increase shrank from 26.8 per cent in 1964 to 14.7 per cent in 1965, but, in the latter, rose from 12.4 per cent to 33.2 per cent.

There are no data available on imports in 1965, but total purchases of both passenger cars and lorries increased between 1962 and 1964. However, nearly all imports of motor vehicles into Mexico were effected at the "free points of entry", few being made in other areas of the country.

The only information available on motor vehicle stocks in 1964 and 1965 is an aggregate figure for the latter year. The total number of vehicles in circulation has increased very little in the last few years; in fact, in the two-year period 1962-63 the increment was only 10.6 per cent and in 1964-65 as little as 8.3 per cent. The upshot is that the motorization coefficient has remained almost stationary since it rose to only 25.3 vehicles per thousand persons in 1965 from 25 in 1963 and 24.2 in 1961.

New assembly plants have been set up since early 1965 for a capital investment of some 155 million dollars in plant and equipment. By the beginning of April 1965, investment in this branch of industry is estimated to have reached 10,000 million Mexican pesos under the stimulus of tax exemptions and other measures.

In 1963 Mexico's motor vehicle industry entered upon a new stage of development aimed at increasing the proportion of domestically produced parts. In August 1962 a Presidential decree was enacted whereby all motor vehicle assembly plants were required to conform to national plans for the integration of the motor vehicle industry, which consisted essentially in the preparation of programmes for the local manufacture of engines and assembled mechanical components, and a time-table for the integration of the industry aimed at achieving, within approximately two years, a minimum national content equivalent to 60 per cent of the direct cost of the vehicles.

As an incentive to integration, the requirements of obtaining a permit to import parts would no longer be enforced in the case of firms which, in addition to achieving a 60 per cent integration in the stipulated time, reached a national component proportion of not less than 70 per cent of the direct cost in respect of each unit.

The industry also benefits from the general exemptions granted under the Act for the development of new and essential industries which, in broad terms, provides for total exemption from all duties and taxes on machinery and

Table 254. Mexico: Motor vehicle assembly and imports, 1962-65
(Thousands of units)

Type of vehicle	1962	1963	1964	1965 ^a
<i>Assembled</i>				
For passenger transport	40.8	47.8	60.6	68.5
For freight transport	25.8	21.7	24.4	31.5
TOTAL	66.6	69.5	85.0	100.0
<i>Imports^b</i>				
Passenger cars	14.8	19.9	24.7	...
Buses	1.0	0.4	0.3	...
Lorries	4.9	5.8	7.2	...
TOTAL	20.7	26.1	32.2	...

Sources: ECLA, *Economic Survey of Latin America, 1964*; Mexico's foreign trade yearbook for 1964; United Nations, *Monthly Bulletin of Statistics*, February 1966.

^a Estimates based on the first eight months of the year.

^b Including imports at free points of entry.

equipment during the first five years, total exemption for raw and auxiliary materials, semi-processed products, parts, pieces and units during the first four years, 50 per cent exemption during the following three years and 20 per cent exemption in the next three. It is also granted complete exemption from the stamp tax and the Federal share of the tax on trade receipts.

Another concession consists in a more rapid rate of depreciation "on all machinery and equipment manufactured in the country, and on machinery and equipment imported during the first five years".

In accordance with existing legislation the Ministry of Industry and Trade and the Ministry of Finance and Public Credit establish the following conditions for motor vehicle enterprises:

(1) Their payments abroad, either for the purchase of or right to use patents, trade marks or brand names, or for technical assistance whether in the form of royalties, or shares in production, sales or profits; or of interest, or by such other methods as payment in kind, in securities, in credit or in cash, shall be limited to that percentage of their sales as may be jointly determined by the two Ministries.

(2) They may employ foreign technicians for not more than two years from the date on which the respective declarations are published in the *Diario Oficial*, and, in order to ensure that production will not suffer at the expiry of their period of employment, the enterprises shall require the said foreign technicians to train at least two Mexicans in the work that each of them performs. Their employment may be continued beyond this deadline only for reasons of *force majeure* duly supported by evidence.

The enterprises that agree to abide by this general declaration shall grant their Mexican workers and the dependants of the said workers fellowships for advanced technical studies either in Mexico or abroad, and organize permanent training courses in compliance with the relevant declarations.

Any expenditure incurred in fulfilling these commitments shall be defrayed by the enterprises.

(3) In accordance with the situation of each enterprise, the Ministries shall specify in the declarations the maximum total remuneration (salaries, fees, bonuses, and emoluments of any kind) payable to foreign staff, in relation to the remuneration of the remaining personnel.

(4) The enterprises shall meet the standards of quality established by the Ministry of Industry and Trade.

The decree further stipulates that "as from 1 September 1964 imports of passenger car and lorry engines, as complete units, shall be prohibited, as well as imports of assembled mechanical components for the vehicles in question".

On the date specified by the decree, only one enterprise had achieved the requisite proportion of domestically produced items. The Government consequently prolonged the period in keeping with the conditions prevailing in each concern. At the present time, ten enterprises are carrying out an integration programme. Installed or projected capacity for engine manufacture in those enterprises will be more than 300,000 units a year, which is well above the requirements of the Mexican market (see table 255).

In 1965, the nine assembly plants in operation were employing nearly 16,000 people. Of these 70 per cent were workers and 30 per cent employees, as indicated in table 256).

Other data on the economic contribution of the motor vehicle industry in 1965 are presented in table 257. They relate to investment, production value, total wages and salaries, the value of foreign and domestic purchases and the total amount of taxes paid.

Peru. The development of the transport equipment industry has entered upon a new phase. Up to 1963 there were only three assembly plants operating in the country, and the bulk of the output consisted of lorries and vans. This situation began to change when the Government decided to encourage the development and integration of the motor vehicle industry in Peru.

As a result of the benefits accruing from Supreme Decree No. 80¹⁴ on tax exemption for the motor vehicle assembly industry, authorization was given for the establishment of four new assembly plants by the end of 1965. The decree stipulates that the domestic component share of the f.a.s. value must be progressively raised so as to reach 30 per cent by the fifth year (labour, accessories, depreciation, etc.) and exempts the industry from payment of taxes, subject to a contract with the Government.

The four firms in question are General Motors del Perú, representing the United States, German and British General Motors plants, with an investment of about 5 million dollars and an assembly capacity of some 5,000 vehicles a year; Motor Perú S.A., with an investment of 2.4 million dollars, will assemble 5,000 Mercedes Benz and Volkswagen vehicles; Maquinarias, S.A., representing the Nissan Motors Co. of Japan, will

¹⁴ Promulgated on 22 November 1963.

Table 255. Mexico: Installed or projected capacity for motor vehicle manufacture, 1963-67

<i>Enterprise</i>	<i>Make</i>	<i>Location</i>	<i>Type of plant</i>	<i>Entry into operation</i>	<i>Annual capacity (units)</i>
Ford Motor Co., S.A.	Ford Galaxie, Falcon, Mustang and lorries	Cuautitlán	Smelting and machining	1964	50,000
General Motors de México, S.A.	Chevrolet, Corvair, Chevelle, Opel and lorries	Toluca	Machining	1965	50,000
Automex, S.A.	Plymouth, Dodge, Valiant, Chrysler and lorries	Toluca	Machining	1964	50,000
Volkswagen de México, S.A.	Volkswagen	Puebla	Smelting and machining	1967	50,000
Diesel Nacional, S.A.	Renault and lorries	Cd. Sahagan	Machining	1963	20,000
Vehículos Automotores Mexicanos, S.A.	Willys, Rambler	Toluca	Machining	1965	20,000
Nissan Mexicana, S.A.	Datsun	Tejalpa	Machining	1966	15,000
International Harvester, S.A.	International	Saltillo	Machining	1965	10,000
Fabricación Nacional de Automóviles, S.A.	Borgward	Tampico	Machining	1966	20,000
Representaciones Delta, S.A.	D.K.W.	León	Machining	1966	20,000

Source: Estimates of the Department of Industry.

Table 256. Mexico: Employment in the motor vehicle industry, 1965

<i>Enterprise</i>	<i>Workers</i>	<i>Employees</i>	<i>Total</i>
1. Diesel Nacional, S.A.	1,186	756	1,942
2. Fábrica Nacional de Automóviles, S.A.	—	—	—
3. Automex, S.A.	1,331	444	1,775
4. Ford Motor Co., S.A.	2,948	983	3,931
5. General Motors de México, S.A.	2,970	1,360	4,330
6. International Harvester, S.A.	300	150	450
7. Nissan Mexicana, S.A.	13	178	191
8. Vehículos Automotores Mexicanos, S.A.	891	344	1,235
9. Volkswagen de México, S.A.	1,354	467	1,821
TOTAL	10,993	4,682	15,675

Source: Asociación Mexicana de la Industria Automotriz.

assemble 1,500 Nissan and Datsun vehicles a year for an investment of 740,000 dollars; while the Ford Motor Company, with an investment of nearly 6 million dollars, will assemble up to 10,000 units a year.

Projects are also being studied for plants to assemble the following makes: Rambler, Morris and Renault by the Compañía de Automóviles Anglo Peruana; Triumph Herald by the Anglo Peruvian Auto Service; Dodge, De Soto, Fargo and Plymouth by the Chrysler Corporation; Scania Vabis by Diesel Motors; and International by International Harvester Co., which may also

assemble tractors, agricultural machinery and other types of motor vehicles. In addition, a Peruvian firm, with a capital of 1 million dollars, has set up a plant for manufacturing Diesel engines with an initial output of 200 units a year.

The Peruvian industry manufacturing metal bodies for passenger and freight transport vehicles has developed so well in recent years that there are now several plants engaged in this line of production. Peru is also manufacturing batteries, springs, tires, inner tubes and some spare parts for motor vehicles.

Average annual demand in 1963-65 was about

Table 257. Mexico: Economic contribution of the motor vehicle industry, 1965
(Millions of pesos)

<i>Enterprise</i>	<i>Investment^a</i>	<i>Production value</i>	<i>Remuneration^b</i>	<i>Value of domestic purchases</i>	<i>Value of imports</i>	<i>Taxes</i>
1. Diesel Nacional, S.A.	683.0	499.0	51.0	89.0	163.0	37.0
2. Fábrica Nacional de Automóviles, S.A.	280.0	—	—	—	—	—
3. Fábricas Automex, S.A.	567.5	1,065.2	88.2	391.1	502.6	106.9
4. Ford Motor Co., S.A.	732.7	1,604.7	118.3	500.0	362.7	98.2
5. General Motors de México, S.A. . .	645.8	692.3	97.1	132.7	296.9	46.8
6. International Harvester México, S.A. .	175.0	351.0	27.7	53.0	46.0	26.0
7. Nissan Mexicana, S.A.	149.7	44.8	3.9	—	—	2.2
8. Vehículos Automotores Mexicanos, S.A.	260.0	229.0	31.3	158.0	—	48.8
9. Volkswagen de México, S.A.	240.8	285.5	40.5	89.8	141.2	23.4
TOTAL	3,734.5	4,771.5	458.0 ^c	1,413.6 ^c	1,512.4 ^c	389.3 ^c

Source: Asociación Mexicana de la Industria Automotriz.
^a Including working capital.

^b Including wages, salaries and social security contributions.

^c Incomplete figures.

12,500 passenger cars and 7,500 lorries, i.e., some 20,000 vehicles in all, of which about 15,000 were replacements for the existing inventory of about 160,000 units.

Uruguay. Uruguay's efforts to promote the motor vehicle industry have been limited by its small market, and it therefore has to continue to rely on imports for its stocks. Owing to balance-of-payments difficulties, the policy followed in the last few years has been to give priority to imports of spare parts, especially for freight carriers.

There are no up-to-date statistical data available on motor vehicle stocks and imports. A report issued by the Investment and Economic Development Commission (CIDE) in 1965 states that in 1961 the passenger vehicle inventory consisted of 99,800 private cars, 3,900 cars for hire and 3,100 buses. The inventory of passenger cars had an average age of fourteen to fifteen years and the motorization coefficient was 40 cars per thousand persons. Together with the coefficients in Argentina and Venezuela, this is one of the three highest in Latin America and stems from the high level of national income and its sound distribution.

Motor vehicles for public transport have an average age of ten years. Freight carriers in 1963 were calculated at 59,300 units. The inventory's mean capacity is 7 tons, 58 per cent of the total consisting of vehicles ranging from 6 to 10 tons in capacity.

Venezuela. During the three-year period 1962–64 imports of assembled vehicles into Venezuela dropped sharply and by 1964 amounted to only

2,642 units (see table 258). The main reason for this was the rapid growth of the motor vehicle industry which has been installed in the last few years. Between 1962 and 1965 the number of assembled vehicles increased fivefold, the increment in commercial and freight vehicles being larger than for passenger cars and vans.

The growth rate of the motor vehicle inventory has fluctuated in recent years. In 1963, the total number increased by 8.6 per cent, in 1964 by 7.9 per cent and in 1965 by 11 to 12 per cent. The growth rate for freight carriers in 1965 (about 14 per cent) was higher than for passenger cars, which was only 10 to 11 per cent.

The increase in the number of vehicles in circulation raised the motorization coefficient for passenger cars from 36.4 in 1960 to 41.8 in 1964 and nearly 44 in 1965. The figures for the entire vehicle inventory were 50.5, 51.9 and nearly 64. Venezuela thus heads all the Latin American countries as regards the number of cars per thousand persons, but is now second to Argentina in respect of the total number of motor vehicles per mil.

5. THE PULP AND PAPER INDUSTRY

(a) *Balance of supply and demand*

Apparent paper and board consumption in Latin America rose from 1.4 million tons in 1950 to 2.5 million tons in 1960 and 3.05 million in 1964. This signified an increase of 50 per cent in per capita consumption, which went up from 9 to 13 kg between 1950 and 1964. However, if this figure is measured against the world

Table 258. Venezuela: Assembly, imports and registration of motor vehicles, 1960-65
(Thousands of units)

Type of vehicle	1960	1962	1963	1964	1965 ^a
<i>Assembled</i>					
Passenger cars and vans . . .		8.8	18.0	32.3	40.0
Commercial vehicles and lorries . . .		2.9	6.4	12.6	20.0
TOTAL		11.7	24.4	44.9	60.0
<i>Imports</i>					
Passenger cars and vans . . .		7.4	1.3	2.5	...
Commercial vehicles and lorries . . .		5.4	1.8	0.2	...
TOTAL		12.9	3.2	2.6	...
<i>Registration</i>					
Passenger cars	266.7	296.9	325.2	352.4	...
Public transport vehicles	6.8	7.2	7.9	8.9	...
Freight vehicles	96.9	120.9	128.5	136.7	...
TOTAL	370.4	425.0	461.6	498.0	...

Sources: Central Co-ordination and Planning Office (CORDIPLAN), *Elementos para una política de desarrollo de la industria automotriz*,

Department of Statistics, and Department of Land Traffic.

^a Estimates.

average for the last few years (26-27 kg), the region is clearly far from attaining world consumption levels and thus has a huge potential market.

Table 259 traces the evolution of production, imports and apparent consumption of paper and board.

The main feature of the paper and board industry in the last few years has been its increased trend towards import substitution. Total paper and board production represented

58 per cent of demand in 1950, 63 per cent in 1960 and 73 per cent in 1964.

This encouraging pattern is marred by the situation with respect to newsprint, for which the ratio of production to apparent consumption was only 30 per cent in 1964 because of a combination of adverse factors such as: (1) small domestic markets in which advantage cannot be taken of economies of scale, which are vital for newsprint manufacture; (2) the high cost of electric energy compared with costs in the major

Table 259. Latin America: Evolution of paper and board production, imports and apparent consumption, 1950, 1960 and 1964
(Thousands of tons)

	1950			1960			1964		
	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption
Newsprint	55	325	380	156	543	699	219	508	727
Printing and writing paper	780	276	1,056	329	127	456	452	77	529
Other paper and board				1,068	223	1,291	1,543	247	1,790
TOTAL	835	601	1,436	1,553	893	2,446	2,214	832	3,046

Source: ECLA/FAO/BTAO Pulp and Paper Advisory Group, on the basis of official statistics.

production centres; (3) shortage of reasonably priced softwoods; (4) free imports or very low customs duties in the majority of the Latin American countries; and (5) installed capacity that far exceeds world demand with the consequent stabilization of world market prices since 1957 despite the increase in production costs.

There is little likelihood of any great change in these adverse factors within the next few years or of a radical change in Latin American newsprint production.

The importance of paper and board imports for the region is demonstrated by the fact that about 180 million dollars have had to be earmarked every year for satisfying regional demand for these products.

The bulk of the imports consists of newsprint which amounted to 500,000 tons in 1964 (61 per cent of all paper and board). The rest is mainly composed of special types of papers, which are not worth producing locally because of the small capacity of the markets. However, the natural growth of the markets combined with the possibilities of development afforded by regional integration indicate that these imports can soon be dispensed with almost entirely.

The figures for production, imports and consumption of pulp for paper and board manufacture are given in table 260.

If these figures are compared with those for paper and board production in table 259 it will be seen that production of the end goods is being far outstripped by that of their raw material. In 1950, the region produced 290,000 tons of pulp, i.e., only 48 per cent of its requirements, but it was turning out almost three times as much by 1960 and more than four times that amount in 1964, when its output covered 70 and 78 per cent of demand, respectively. Production of

paper and board, however, increased less than threefold between 1950 and 1964.

The difference in the evolution of the finished products and the fibrous raw material is one of the most outstanding features of the industry's development over the last few years. It is, in fact, a sign of gradual integration in that the region is coming to depend less and less on supplies of pulp from outside Latin America.

If the trends of the different pulps are examined separately it will be seen that groundwood output has been slower to increase because of the difficult situation with respect to newsprint, in the manufacture of which a very high proportion (85 per cent) of groundwood is used.

Chemical and semi-chemical pulps, on the other hand, have recorded the most substantial increments of the whole sector. As the region is short of softwoods, it has achieved this expansion by resorting increasingly to non-traditional fibrous raw materials, such as the broadleaved species (eucalyptus, Salicaceae and tropical hardwoods) and vegetable residues, in particular, sugar-cane bagasse. These yield a short fibre which has to be mixed with long coniferous fibres in varying proportions to give the papers certain special characteristics.

Accordingly Latin America is still compelled to rely on imports to satisfy part of its demand. The volume of purchases remains at around 350,000 tons a year, which signifies an annual outlay of about 55 million dollars. More than 90 per cent consists of long-fibre chemical pulps.

Table 261 gives the figures for production, imports and consumption of paper and board in the individual countries. Production is concentrated in a small number of countries, with Argentina, Brazil and Mexico accounting for 73 per cent of total output in 1964.

Table 260. Latin America: Evolution of pulp production, imports and apparent consumption, 1950, 1960 and 1964
(Thousands of tons)

	1950			1960			1964		
	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption
Groundwood.	127	15	142	223	24	247	379	19	398
Chemical and semi-chemical wood-pulp	167	304	471	398	319	717	601	354	955
Chemical and semi-chemical pulp from other fibres.									
TOTAL	294	319	613	806	343	1,149	1,308	373	1,681

Source: As for table 259.

Table 261. Latin America: Evolution of paper and board production, imports and apparent consumption, 1950, 1960 and 1964
(Thousands of tons)

Country	1950						1960						1964					
	Newsprint			Total paper and board			Newsprint			Total paper and board			Newsprint			Total paper and board		
	P	I	C	P	I	C	P	I	C	P	I	C	P	I	C	P	I	C
Argentina	3	101	104	211	195	406	9	162	171	291	171	462	8	165	173	407	182	589
Brazil	38	61	99	306	69	375	66	164	230	474	190	664	118	66	184	650	75	725
Chile	11	19	30	45	22	67	52	-24	28	106	-20 ^a	86	77	-34 ^a	43	160	-31	129
Colombia	—	20	20	8	57	65	—	33	33	51	76	127	—	42	42	115	56	171
Cuba	—	32	32	36	76	112	15	25	40	79	101	180	—	31	31	80	45	125
Mexico	3	36	39	180	53	233	14	90	104	412	123	535	16	99	115	558	124	682
Peru	—	8	8	15	13	28	—	18	18	47	28	75	—	37	37	60	50	110
Uruguay	—	18	18	24	28	52	—	20	20	39	21	60	—	24	24	37	25	62
Venezuela	—	10	10	8	39	47	—	23	23	69	89	159	—	38	38	133	83	216
Others	—	20	20	2	49	51	—	31	31	4	114	118	—	40	40	14	223	237
TOTAL	55	325	380	835	601	1,436	156	542	698	1,573	893	2,466	219	508	727	2,214	832	3,046

Source: As for table 259.

Note: The dashes signify that the amount is less than 500 tons; P=production;

I=net imports; and C=apparent consumption. Total paper and board includes newsprint.

^a Net exports.

The countries that recorded the highest growth rate for production—which at least doubled between 1950 and 1960—are Chile, Colombia, Cuba, Mexico, Peru and Venezuela. Chile is outstanding in that it is the only net exporter of paper and board, while Mexico had the highest production level of the group in 1950. The increase was smaller in the other countries since in most of them the industry was still in its infancy in 1950, but the establishment of one or two fairly large new mills pushed production well up after its slow start.

Less progress was made in Argentina, Brazil and Uruguay. In the first two this is more understandable since in 1950 they were already the leading producers in the region, and still manufacture enough to supply about 95 per cent of domestic consumption of paper and board, with the exception of newsprint. Their imports are confined to some special types of paper that cannot command a big enough market to be worth producing locally.

Special attention should be given to Uruguay since it had the smallest production increment of all the Latin American countries between 1950 and 1964 although its installed capacity was enough to supply a much larger volume of demand. One reason for this was the Government's revision of the exchange rate at the end of 1959 which raised the price of imports considerably and thus had a sharp impact on the paper industry which has to buy pulp abroad, as most of the Uruguayan mills are unintegrated. This makes the paper they manufacture far more expensive and has had a highly discouraging effect on consumption.¹⁵

Despite the increase in newsprint production, the only new country to join the ranks of the traditional manufacturers is Cuba, which did so in 1959. Chile alone is able to cover demand completely and even export part of its output. Brazil expanded its production considerably following the entry into full operation of the region's largest mill, which was opened at the end of 1962. Thanks to this, it has been able to make a considerable cut in its imports of newsprint.

The producer countries other than those listed above continue to rely heavily on imported supplies.

Of the other papers, mention should be made of that used in the manufacture of corrugated paper boxes, for which demand has increased

rapidly during the last three years, especially in Ecuador and Central America, and imports have had to be brought in to cover demand. The current trend for packing the bananas exported is the cause of this sharp rise in consumption, and has induced these countries which, except for Guatemala, have virtually no paper industry, to study the possibility of developing a large-scale pulp and paper industry devoted almost exclusively to the manufacture of these types of paper.

Table 262 gives the figures for pulp production, imports and trade, by countries.

The salient features are the change in Chile's position which, from being a pulp importer, is now an exporter thanks to the exploitation of its quick-growing exotic pine plantations (*Pinus radiata*), the development of production in Brazil, which used to be the main pulp importer in the region and is now practically self-sufficient, and the inclusion of Cuba and Venezuela in the ranks of the pulp producers on the basis of sugar-cane bagasse.

As regards foreign trade, the position of countries that formerly depended on supplies from abroad to meet much of their demand underwent a radical change between 1950 and 1964. Chile is a case in point. In addition, Brazil, which has made very effective use of its natural resources, has balanced its pulp trade by exporting as much groundwood and short-fibre chemical pulp as it imports long-fibre pulp (14,000 tons in 1964), and, lastly, Mexico has become nearly 90 per cent self-sufficient.

The other producer countries have lagged behind because of the shortage of softwood, and continue to rely heavily on imports to meet demand. Argentina is an interesting case, since it has failed to make full use of its short-fibre supplies and thereby to reduce its growing imports of long-fibre pulp.

The use of pulp is gradually becoming more widespread in the region and is no longer virtually confined to the countries with large markets. In 1950, Argentina, Brazil and Mexico absorbed 84 per cent of the region's total pulp output, while in 1964 their share had dropped to 71 per cent. However, there are still nine Latin American countries that do not produce pulp and hardly use it at all. If production figures are compared with installed capacity, it will be seen that Latin America continues to depend on imports instead of using its own resources to the full. This is clear from the fact that it uses only 71 per cent of its capacity in the case of paper and board and 68 per cent for pulp.

¹⁵ See ECLA, *Posibilidades de ampliación de la industria de papel y celulosa en Uruguay* (E/CN.12/697), July 1963.

Table 262. Latin America: Evolution of pulp production, imports and apparent consumption, 1950, 1960 and 1964
(Thousands of tons)

Country	1950						1960						1964					
	Groundwood			Total pulp			Groundwood			Total pulp			Groundwood			Total pulp		
	P	I	C	P	I	C	P	I	C	P	I	C	P	I	C	P	I	C
Argentina	9	14	23	38	73	111	18	20	38	73	86	159	23	10	33	107	149	256
Brazil	82	—	82	155	125	280	92	—	92	330	81	411	200	—4	196	570	0	570
Chile	15	—	15	19	19	38	52	—	52	105	7	112	84	—	84	174	— ^a	165
Colombia	—	—	—	0	—	1	—	—	—	9	31	40	—	—	—	45	37	82
Cuba	—	—	—	—	23	23	—	—	—	22	35	57	—	—	—	30	39	69
Mexico	21	1	22	73	53	126	59	3	62	235	34	269	70	9	79	319	44	363
Peru	—	—	—	5	7	12	—	—	—	28	11	39	—	1	1	43	18	61
Uruguay	—	—	—	3	12	15	2	1	3	5	26	31	2	—	2	6	16	22
Venezuela	—	—	—	—	7	7	—	—	—	—	31	31	—	2	2	14	71	85
Others	—	—	—	—	—	—	—	1	1	—	1	1	—	1	1	1	8	9
TOTAL	127	15	142	294	319	613	223	25	248	807	343	1,150	379	19	398	1,309	373	1,682

Source: As for table 259.

Note: The dashes signify that the amount is less than 500 tons; P=production;

I=net imports; and C=apparent consumption. Total pulp includes groundwood.

^a Net exports.

It should be remembered that the data are not always uniform since some relate to expansion that is already well under way while others are for projects under consideration.

In the plans for expansion, it will also be noted that there is a tendency to integrate the mills in order to use less imported raw material for manufacturing paper and board. The most extensive expansion plans thus aim at increasing the capacity of pulp (mainly long-fibre chemical pulp) more than that of paper and board (see table 263).

In the case of Argentina, the raw materials to be used for pulping are chiefly Salicaceae, with some eucalypts and bagasse. The main process used will be the semi-chemical.

The Araucaria is the principal source of raw material in Brazil and is used for making chemical pulp; Chile will continue to rely on the insignis pine; while Mexico will use pine for the sulphate and bagasse processes, Peru and the Dominican Republic will use bagasse, and Venezuela will depend on its tropical broad-leaved species.

(b) *The outlook for demand*

Preliminary projections of demand indicate that the region will use 4.9 million tons of paper and board in 1970 and 7 million tons in 1975.

This means that per capita consumption, which was 12 kg in 1960, will have doubled by 1975.

Various criteria can be used to gauge the scale of this foreseeable expansion in demand, according to whether the year in question is 1970 or 1975. For 1970, probable capacity can be estimated on the basis of an inventory of the capacity expansion projects that are being considered by the Latin American countries. Various degrees of utilization are then postulated on the lines of past experience in each country, and estimates made of probable paper and pulp production. These can then be measured against the projections of demand to obtain the figures for exports and imports.

This approach is not feasible for 1975, since plans for expanding capacity are hardly ever made so far ahead but generally emerge as requirements dictate. It can therefore be assumed, for purely illustrative purposes, that production will increase between 1970 and 1975, on a scale that will permit the absolute net volume of imports to remain at the same level.

These criteria allow projections to be made of production, imports and apparent consumption of paper and board in 1970 and 1975, as outlined in table 264.

A comparison of the projected production figures with the earlier figures will give some

Table 263. Latin America:^a Probable increases in pulp, paper and board capacity to enter into operation between 1966 and 1970
(Annual increase in capacity over the 1966 level)
(Tons)

Country or area	Pulp				Paper and board			
	Ground-wood	Long-fibre chemical pulp	Short-fibre chemical and semi-chemical pulp	Total	News-print	Printing and writing paper	Other paper and board	Total
Argentina . . .	5,000	60,000	139,000	204,000		18,000	151,300	169,000
Brazil . . .	62,000	127,500	23,000	212,500	70,000	30,500	109,800	210,300
Central America . . .		100,000		100,000			103,500	103,500
Chile . . .		130,000		130,000				
Colombia . . .			54,000	54,000		8,500	19,000	27,500
Dominican Republic			30,000	30,000			10,000	10,000
Ecuador . . .			20,000	20,000			25,000	25,000
Mexico . . .	13,000	186,000	113,900	312,900		31,000	243,000	274,000
Peru . . .			7,500	7,500		2,000	58,500	60,500
Venezuela . . .			50,000	50,000		8,500	48,000	56,500
LATIN AMERICA	80,000	603,500	437,400	1,120,900	70,000	98,500	764,600	933,100

Source: ECLA, *El papel y la celulosa en América Latina: situación actual y tendencias futuras para su demanda, producción e intercambio* (ST/ECLA/Conf.23/L.32), February 1966.

^a There are no data available on plans for mill expansion in Cuba.

Table 264. Latin America: Projections of paper and board production, imports and apparent consumption, 1970 and 1975
(Thousands of tons)

	1970			1975		
	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption
Newsprint	423	815	1,238	916	815	1,731
Printing and writing paper	768	104	872	8,139	104	1,243
Other paper and board	2,462	359	2,821	3,716	359	4,075
TOTAL	3,653	1,278	4,931	5,771	1,278	7,049

Source: ECLA/FAO/BTAO Pulp and Paper Advisory Group.

idea of the enormous effort that the region must make to achieve these targets. However, there is no real reason why it should not be able to do so, except in the case of newsprint production, which would have to be more than doubled between 1970 and 1975.

If these targets are attained, the region's tendency to make less use of imports to meet demand will be strengthened, and by 1975 purchases abroad should not represent more than 18 per cent of consumption as against 27 per cent in 1964, with the bulk still consisting of newsprint.

Projections of production, imports and apparent consumption of pulp are given in table 265.

The foregoing figures show how the industry would become more and more integrated. By 1975 less than 5 per cent of the region's pulp requirements would be supplied from foreign markets, which is an insignificant amount in comparison with the figure of 22 per cent recorded in 1964.

If integration is to be come a reality, pulp production should increase much faster than that of paper and board. For the period 1965-75, the annual production growth rates are expected to be 9.3 per cent for paper and 11.2 per cent for pulp. Although this is a sizable increase for pulp manufacture, it is not impossible to achieve since an annual rate of 10.6 per cent was obtained in 1950-60.

It is assumed that the trends observed in the past would be maintained in 1970 and 1975, in other words, that the share of both fibrous raw material and long-fibre pulp in the total would drop steadily from 33 per cent in 1960 to 32 per cent in 1970 and 27 per cent in 1975, as would that of waste paper, which would be 29 per cent in 1975 against 35 per cent in 1960.

This reduction is offset by the substantial increase in the share of short-fibre pulps, mainly from broadleaved species and bagasse, which is expected to rise from 17 per cent in 1960 to 27 per cent in 1970 and 33 per cent in 1975.

Table 265. Latin America: Projections of pulp production, imports and apparent consumption, 1970 and 1975
(Thousands of tons)

	1970			1975		
	Production	Imports	Apparent consumption	Production	Imports	Apparent consumption
Groundwood	463	78	541	881	78	959
Long-fibre chemical pulp	1,067	115	1,182	1,424	115	1,539
Short-fibre chemical and semi-chemical pulp	980	0	980	1,924	0	1,924
TOTAL	2,541	193	2,703	4,229	193	4,422

Source: As for table 264.

The development of pulp production will make considerable inroads on the region's natural resources, though it is thought that supplies of short-fibre pulp will present no problem.

The situation is less clear with respect to softwoods, since it is not at all certain that the main producers—Brazil, Chile and Mexico—will be able to meet the heavy demand for coniferous wood pulp. Brazil obtains this wood from its Araucaria forests which have been intensively worked in the last few years. Mexico has extensive coniferous reserves in the north, but they are difficult to exploit because of their inaccessibility and distance from the main markets. Chile has an abundant supply from its plantations, which are the basis of a thriving and dynamic pulp and paper industry, but there is no certainty that these stands can supply the raw material needed to expand the industry over and above the projections for 1970 contained in the plans now under study, unless immediate steps are taken to enlarge them.

It is also important to take into account economies of scale and regional integration possibilities in the light of the projections of future pulp and paper consumption of different kinds (see table 266).

A theoretical estimate of the economies of scale that could be obtained by building mills of economic size to cover demand are illuminating. In Latin America these should have a daily capacity of about 200 tons—except in the case of newsprint for which the minimum economic capacity is larger. This size is small enough to come within the real supply potential of most of the national markets and will also

allow a satisfactory rate of return on capital without recourse to high tariff protection. It is thought that the production costs in an efficient mill of this size manufacturing wrapping or printing paper would in most cases be low enough for prices to be internationally competitive, while allowing for a reasonable margin of profit. Moreover, units of this kind would permit the companies to choose from a variety of products in deciding on their line of manufacture. This seems to be the best solution to the problem of paper consumption in Latin America, unless the other more drastic course is taken of concentrating production in a much smaller number of big mills with a daily capacity of 500 tons and over, and to open the markets to international competition.

Table 267 shows the increase needed in capacity between 1970 and 1975 according to the views put forward above. These figures can be used as a basis for a subsequent estimate of the savings to be obtained through the application of economies of scale.

On the assumption that the gap between production and demand would remain relatively the same as in 1970, the additional capacity required to meet the increase in demand forecast for 1970–1975 is worked out on the basis of two alternative hypotheses: (a) the establishment of mills with the same average capacity as at present; and (b) the construction of a smaller number of mills of economic size (200 tons/day).

The second hypothesis is based on theoretical calculations that have been greatly simplified. There are certain cases in which small mills are built because of technical or market problems,

Table 266. Latin America: Production, imports and apparent consumption of pulp, paper and board in 1964 and projections for 1975
(Thousands of tons)

	Pulp				Paper and board			
	Groundwood	Long-fibre chemical pulp	Short-fibre chemical and semi-chemical pulp	Total	Newsprint	Printing and writing paper	Other paper and board	Total
<i>1964</i>								
Production	379	445	484	1,308	219	452	1,543	2,214
Imports	19	354	—	373	508	77	247	832
Apparent consumption	398	799	484	1,681	727	529	1,790	3,046
<i>1975</i>								
Production	881	1,424	1,924	4,229	916	1,139	3,716	5,771
Imports	78	115	—	193	815	104	359	1,278
Apparent consumption	959	1,539	1,924	4,422	1,731	1,243	4,075	7,049

Source: As for table 264.

and others in which transport protection, which is high in Latin America, enables small mills to

compete successfully in some areas with units of a more economic size.

Table 267. Latin America: Projected deficit in pulp, paper and board capacity, 1970-75^a
(Tons)

	Deficit
<i>Total pulp</i>	1,719,000
Groundwood	418,000
Long-fibre chemical pulp	357,000
Short-fibre chemical pulp	944,000
<i>Total paper and board</i>	2,118,000
Newsprint	493,000
Printing paper	371,000
Other paper and board	1,254,000

Source: As for table 264.

^a On the assumption that the mills will operate at full capacity.

The main simplification has conceivably been to approach the fundamental question of mill siting from a standpoint other than that of raw material availabilities. Furthermore, in a great many cases, mills of economic size could not be established without free access to the whole regional market.

But, in spite of all these limitations, the calculations can give some idea of the scale of the reductions in investment and production costs obtainable through the installation of mills of economic size producing for the whole region provided that inter-Latin American trade is gradually freed from all restrictions. This would enormously facilitate the future development of the industry, which is essentially highly capital-intensive.

Table 268. Latin America: Mill economies of scale to cover the estimated deficit in pulp and paper capacity between 1970 and 1975

	<i>Total pulp</i>		<i>Total paper and board</i>		
	<i>Total</i>	<i>Long-fibre chemical pulp</i>	<i>Total</i>	<i>News- print</i>	<i>Printing and writing paper</i>
Estimated deficit in capacity between 1970 and 1975 (thousands of tons)	1,719	357.0	2,118	493.0	371.0
<i>Hypothesis A (mills of existing average capacity)</i>					
Average capacity of existing mills (tons/day)	56	72.5	36	100.0	32.0
Number of mills needed to cover the deficit	93	15.0	179	15	35.0
Investment in mills of average capacity (thousands of dollars/ton/day)	127	114	226	155	334
Total investment required to cover the existing deficit (millions of dollars)	661.4	124.0	1,456.3	232.5	374.1
Production costs per ton (dollars)	163	179	215	140	304
Total production costs involved in covering the 1970-75 deficit (millions of dollars)	280.2	63.9	455.4	69.0	112.8
<i>Hypothesis B (mills with a capacity of 200 tons/day)</i>					
Number of mills needed to cover the deficit	26	6	32	8	6
Mill investment (thousands of dollars/ton/day)	85	73	133	130	180
Total investment required to cover the existing deficit (millions of dollars)	442.0	87.6	851.2	208.0	216.0
Production costs per ton (dollars)	119	126	133	120	173
Total production costs involved in covering the 1970-75 deficit (millions of dollars)	204.6	45.0	281.7	59.2	64.2
Saving in 1970-75 (difference between hypotheses A and B)					
In investment (millions of dollars)	219.4	36.4	605.1	24.5	158.1
In production costs (millions of dollars)	75.6	18.9	173.7	9.8	48.6
TOTAL	295.0		778.8		

Source: As for table 264.

Note: The purpose of this table being to provide comparisons, it was thought unnecessary to make a detailed cost and investment study for each product and process. A

simpler method was therefore adopted, which consisted in taking a weighted average for production costs and investments in the region for the two main groups, namely, pulp and paper.

Table 268 shows the reductions that would be obtained in investment and production costs through the application of economies of scale in planning the development of the pulp and paper industry.

An analysis of these figures, with due regard for their illustrative nature, makes it clear that extensive benefits can be obtained from the proper use of measures of this kind. In fact, in accordance with the hypotheses put forward, 825 million dollars would be saved in investment

and nearly 250 million dollars in production costs between 1970 and 1975. It is interesting to note that a bigger saving can be made in investment by attempting to cover the paper deficit rather than the pulp deficit, although the former is only slightly larger. The saving thus obtained would be nearly three times as much because economies of scale are greater in paper than in pulp manufacture, and pulp mills have a bigger average capacity than paper-making plants.

Chapter IV

ELECTRIC ENERGY

During the year 1965, the situation in the electric energy sector was characterized in almost all the Latin American countries by a rapid rate of development in respect of both generation and consumption. In some countries, growth rates which had fallen off during slumps in economic activity (particularly industry) were partly or wholly regained, while in others the upward trend that had already begun in recent years was maintained.

Special mention must be made of the high index of electricity generation projects under construction, pre-eminently hydroelectric plants, very often as part of major projects for the multiple use of water resources. At the end of 1965, installed capacity for about 9,000 MW, of which 87 per cent represented hydro power, had reached varying stages of construction. This

bears out the statement made in the *Economic Survey of Latin America 1963* to the effect that in the course of the next three to five years the share of hydroelectric power in Latin America's total installed capacity was likely to increase considerably. At the same time, the size of the projects and the improvement looked for in the utilization of their capacity suggests that the generation of hydro power will also increase in absolute terms to a greater extent than in the past.

The progress achieved in the construction of big power stations, as well as in the establishment of regional or national systems in the most representative countries, meant that investment in the electricity sector showed a marked upswing. Many of the projects received support in the shape of international loans, as is evidenced

Table 269. Latin America: Loans granted by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)
(Millions of dollars)

Country	As of 30 June 1965			From 1 July 1964 to 30 June 1965 ^a		
	Total	For electric energy projects	Loans for electric energy projects as a percentage of the total	Total	For electric energy projects	Loans for electric energy projects as a percentage of the total
Argentina	143.5	95.0	66.2	—	—	—
Bolivia	15.0	15.0	100.0	15.0	15.0	100.0
Brazil	371.6	343.6	92.5	79.5	79.5	100.0
Chile	141.0	65.4	46.4	4.4	4.4	100.0
Colombia	389.0	205.8	52.7	—	—	—
Ecuador	63.6	10.0	15.7	—	—	—
Paraguay	10.8	0.0	0.0	2.2	0.0	0.0
Peru	164.4	39.0	23.7	26.0	0.0	0.0
Uruguay	102.2	64.0	62.6	12.7	0.0	0.0
Venezuela	174.0	99.0	56.9	44.0	14.0	31.8
Costa Rica	47.8	20.9	43.7	—	—	—
El Salvador	51.0	25.4	49.8	—	—	—
Guatemala	18.2	0.0	0.0	—	—	—
Haiti	2.6	0.0	0.0	—	—	—
Honduras	29.5	10.3	34.9	9.5	0.0	0.0
Mexico ^b	490.8	264.8	54.0	32.0	0.0	0.0
Nicaragua	38.1	22.1	58.0	—	—	—
Panama	18.6	4.0	21.5	—	—	—
TOTAL LATIN AMERICA	2,271.7	1,284.3	56.5	225.3	112.9	50.0

Sources: International Bank for Reconstruction and Development, annual reports.

^a Since the beginning of their operations.

^b In the second half of 1965 a loan of 110 million dollars was granted to Mexico for electric power development purposes.

by the fact that during 1965 approximately 230 million dollars were granted to Latin America by the International Bank for Reconstruction and Development (IBRD) and the Inter-American Development Bank (IDB), as against 100 million in 1964. It should be noted, however, that the total sum of 330 million dollars received in 1964 and 1965 was 140 million dollars (40 per cent) less than the amount represented by loans of that type from the same sources in the two preceding years (1962 and 1963). Details of the operations in question will be found in tables 269 to 273.

Data relating Latin America's progress in the generation of electric power to that of the world are presented in table 274, which shows that although the rate of increase has been faster in Latin America, the region still accounts for only a tiny proportion of the world total, and per capita consumption levels continue to be very low.

Since the proportion of electric power used in industry (including mining) is more than 55 per cent of the total in Latin America (falling between the corresponding figures for the United States and Europe, which are 50 and 65 per cent, respectively), and the increase in personal

consumption as incomes rise is now the basic determinant of the expansion of the electric power supply, the improvement of income levels will clearly be, in the future, the factor of decisive importance for the sustained growth of the electricity sector in Latin America.

Tables 275 to 278 indicate the situation as regards the generation of electric power in the Latin American countries, and the variations registered in relation to recent years. Of the leading producers, Argentina, Chile and Mexico are in the vanguard, while in Brazil, Peru and Venezuela the rates achieved in recent periods have only just been maintained or have slackened off.

The foregoing tables should be interpreted in the light of the data on projects under construction given in table 279, from which it can be seen that several countries are pursuing a vigorous policy which should yield results within the next few years. Cases in point are those of Brazil and Mexico, with 26 per cent and 20 per cent, respectively, of total installed capacity in Latin America in 1965, 38 per cent and 28 per cent of total increments in the region between 1964 and 1965, and 56 per cent and 14 per cent of the projects under construction.

Table 270. Latin America: Loans granted by the Inter-American Development Bank (IDB)
(Millions of dollars)

Country	As of 31 December 1965 ^a			Loans granted during 1965		
	Total	For electric energy projects	Loans for electric energy projects as a percentage of the total	Total	For electric energy projects	Loans for electric energy projects as a percentage of the total
Argentina	146.6	14.8	10.1	45.2	0.0	0.0
Bolivia	27.9	3.5	12.6	1.3	0.0	0.0
Brazil	259.0	63.2	24.4	90.9	19.9	21.9
Chile	96.2	0.0	0.0	27.7	0.0	0.0
Colombia	86.2	22.6	26.2	27.7	11.4	41.1
Ecuador	16.8	0.0	0.0	0.0	0.0	0.0
Paraguay	26.2	14.6	55.7	0.7	0.0	0.0
Peru	29.3	0.0	0.0	8.0	0.0	0.0
Uruguay	27.2	0.0	0.0	3.6	0.0	0.0
Venezuela	33.9	0.0	0.0	0.0	0.0	0.0
Costa Rica	23.2	2.7	11.6	10.7	0.0	0.0
Cuba	0.0	0.0	0.0	0.0	0.0	0.0
Dominican Republic	11.2	0.0	0.0	5.2	0.0	0.0
El Salvador	8.8	0.2	2.3	3.0	0.0	0.0
Guatemala	9.0	3.5	38.9	0.0	0.0	0.0
Haiti	5.9	0.0	0.0	0.0	0.0	0.0
Honduras	19.6	0.0	0.0	10.5	0.0	0.0
Mexico	149.3	0.0	0.0	55.0	0.0	0.0
Nicaragua	29.4	0.0	0.0	20.0	0.0	0.0
Panama	21.7	0.0	0.0	9.0	0.0	0.0
TOTAL LATIN AMERICA	1,027.4	125.1	12.2	318.5	31.3	9.8

Source: Inter-American Development Bank, *Statement of Approved Loans, December 31, 1965*.

^a Since the beginning of its operations.

Table 271. Latin America: Loans granted by international financing agencies for electric energy projects, 1965

Country	Date	Amount (millions of dollars)	Percentage rate of interest	Period of year	Borrowing enterprise and purpose of loan
<i>A. International Bank for Reconstruction and Development</i>					
Chile	12 February 1965	4.4	5.5	20	Empresa Nacional de Electricidad (ENDESA), as a contribution to the financing of a hydroelectric plant of 3.4 MW at Antofagasta and a thermoelectric plant of 5 MW at Punta Arenas
Brazil	26 February 1965	57.0	5.5	25	Central Elétrica de Furnas S.A., for the installation of the Estreito hydroelectric plant on the Rio Grande, with an initial capacity of 533 MW
Brazil	26 February 1965	22.5	5.5	25	Usinas Elétricas de Paranapanema (USELPA), for the construction of the Xavantes power station, with a capacity of 400 MW
Mexico	December 1965	110.0	5.5	20	Comisión Federal de Electricidad and Nacional Financiera S.A., to complete power stations with an aggregate capacity of 863 MW and start work on new plants, in addition to the supplementary projects
<i>B. Inter-American Development Bank</i>					
Brazil	8 April 1965	3.5	6.0	17	Centrais Elétricas de Santa Catarina S.A.
Brazil	9 September 1965	16.4	6.0	15	Centrais Elétricas Brasileiras S.A.
Colombia	18 November 1965	8.1	6.0	16	Central Hidroeléctrica de Caldas S.A.
Colombia	21 October 1965	3.3	3.3	28	Empresas Municipales de Cali
<i>C. United Nations Special Fund</i>					
Brazil	At the end of 1965, the United Nations Special Fund was considering a loan of 470,400 dollars, which, in conjunction with a contribution of 1,400,000 dollars on the part of the Government of Brazil, would finance advisory assistance in the formulation of a ten-year programme for electric power generation and transmission in the southern area.				
Dominican Republic	At the end of the year, with the assistance of the Special Fund, work began on a study of the rivers Yaque del Norte and Yaque del Sur with a view to determining the possibilities for multiple use of these water resources, from the standpoint of irrigation, generation of energy and flood control.				
Guyana	At the same time a loan of 875,500 dollars was under consideration for the purpose of financing the study of electricity development planning in Guyana on the basis of co-ordination of supplies from thermo and hydroelectric sources. The contribution of the Government of Guyana is estimated at 291,500 dollars.				

Sources: IBRD, annual reports; IDB, *Statement of Approved Loans, December 31, 1965*; and United Nations Special Fund.

Table 272. Latin America: Loans granted for electric energy projects, 1962-65
(Millions of dollars)

Bank	1962	1963	1964	1965
International Bank for Reconstruction and Development (IBRD)	279.0	131.9	74.0	193.9 ^a
Inter-American Development Bank (IDB)	18.1	34.1	24.7	31.3
TOTAL	297.1	166.0	98.7	225.2

Sources: IBRD, annual reports; and IDB, *Statement of Approved Loans, December 31, 1965*.

^a Including loans granted in the first half of 1965, plus a loan issued to Mexico in the second half of the year.

Table 273. Total loans and loans for electric energy projects granted by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)

	<i>As of 30 June 1965</i>			<i>From 1 July 1963 to 30 June 1965</i>		
	<i>Total</i>	<i>For electric energy projects</i>	<i>Loans for electric energy projects as a percentage of the total</i>	<i>Total</i>	<i>For electric energy projects</i>	<i>Loans for electric energy projects as a percentage of the total</i>
A. IBRD						
World (millions of dollars)	8,800	3,030	35	1,830	700	38
Latin America (millions of dollars)	2,200	1,230	56	470	260	55
Latin America (percentage of total)	25	40	—	26	37	—
B. IDA						
World (millions of dollars)	1,085	97	9	592	39	7
Latin America (millions of dollars)	100	15	15	30	15	50
Latin America (percentage of total)	9	15	—	5	35	—

Source: IBRD, annual reports.

Table 274. Generation of electric energy, 1950, 1960 and 1965

	1950	1960	1965	
			Total	Per capita
World (thousands of GWh)	1,000	2,250	3,250	1,000
United States (percentage of total)	40	37	35	6,000
Europe ^a (percentage of total)	40	41	45	3,000
Latin America (percentage of total)	3	3	3	430
<i>Rate of increase</i>				
World	—	8.4	7.8	
Latin America	—	9.5	9.6	

Source: ECLA, on the basis of data from official sources.

^a Including the Soviet Union.

Brazil

The year 1965 witnessed the entry into operation of electric power plants with an installed capacity of 567 MW, of which rather more than 87 per cent is hydro power. This strengthened the predominance of hydroelectric sources of energy, which by the end of 1965 accounted for over 72 per cent of the total. The biggest contributions to the total were made by Furnas (units 5 and 6, with a joint capacity of 304 MW) and Tres Mariás (65 MW).

At the same time, installed capacity amounting to about 5,200 MW was in process of construction, that is, nearly 300 MW more than at the same date in the preceding year. These projects should enter into operation between 1966 and 1972, bringing installed capacity up to 13,775 MW in the latter year.

The following are the most important projects under construction, in order of size:

1. Jupiá, on the river Paraná, with a final capacity of 1,210 MW, distributed among 14 units. Numbers 1, 2 and 3 are scheduled for 1969, and thenceforward 3 units are to follow yearly up to number 12; numbers 13 and 14 have not yet been programmed. This power station will supply the São Paulo area.

2. Jaguará, with a final capacity of 600 MW, will reinforce supplies for the area served by Centrais Elétricas de Minas Gerais (CEMIG). The first 4 units are scheduled to enter into operation by 1969 and the last 2 by 1971.

3. Tres Mariás, whose present capacity—260 MW—will be doubled when the new units are installed during 1967–70. This power station will serve Minas Gerais.

Table 275. Latin America: Generation of electric energy for public utility purposes, 1963-65

Country	1963			1964			1965 Total
	Hydro- electric	Thermo- electric	Total	Hydro- electric	Thermo- electric	Total	
Argentina	1,111	8,033	9,144	1,200	9,032	10,232	11,200
Bolivia	325	24	349	335	30	365	(370)
Brazil	18,651	5,033	23,684	20,250	4,600	24,850	(27,000)
Chile	2,631	533	3,164	2,926	475	3,401	3,692
Colombia	2,894	1,070	3,964	3,396	1,100	4,496	(5,000)
Ecuador	225	197	422	233	237	470	(500)
Paraguay	—	95	95	—	97	97	(102)
Peru	1,240	209	1,449	1,318	255	1,573	1,790
Uruguay	1,102	476	1,578	1,267	457	1,724	(1,850)
Venezuela	1,106	3,764	4,870	1,223	4,101	5,324	(5,890)
Costa Rica	449	37	486	(485)	(45)	(530)	(565)
Cuba	10	2,360	2,370	—	(2,600)	(2,600)	(3,000)
Dominican Republic	50	290	340	50	390	(440)	(490)
El Salvador	319	9	328	360	10	370	(393)
Guatemala	117	215	332	120	230	350	(380)
Haiti	—	70	70	—	80	80	(80)
Honduras	15	69	84	60	60	120	(140)
Mexico	5,600	5,511	11,111	6,200	6,759	12,959	(14,400)
Nicaragua	1	167	168	1	184	185	(200)
Panama	20	300	320	27	333	360	...
Guyana	—	70	70	—	85	85	...
Jamaica	130	239	369	140	286	426	(500)
Puerto Rico	189	2,745	2,934	254	3,149	3,403	3,819
Surinam	—	60	60	—	80	80	(90)
Trinidad and Tobago	—	366	366	—	535	535	(600)
TOTAL LATIN AMERICA	36,185	31,942	68,127	39,845	35,210	75,055	82,100

Source: ECLA, on the basis of data from official sources.

4. Xavantes, on the river Paranapanema, with a final capacity of 400 MW. Its first 3 units (100 MW each) will begin production in 1967-68. The power generated will help to supply the São Paulo area.

5. Estreito, on the Rio Grande, with a final capacity of 787 MW. Its first 4 units should enter operation during the two-year period 1969-70, and it will contribute to the power supply for the Centro-Sul area.

6. Peixoto, on the Rio Grande, whose existing installed capacity amounts to 175 MW. Work has begun on expansion projects which will raise it to 300 MW, the first 100 MW being scheduled for 1967.

7. Paulo Alfonso, with 375 MW already installed, 240 MW under construction and 300 MW definitively programmed. The installation of another 300 MW is under consideration, which would bring the total up to 1,815 MW. Installed capacity for 160 MW is expected to enter opera-

tion in 1967, and for 80 MW in 1968. In the future, this power station will have to supply the whole of the Nordeste area, which measures 512,000 square kilometres, and has 19.5 million inhabitants.

In view of the need for interconnexion of the main electricity networks in order to secure optimum utilization of the large hydroelectric plants already incorporated in the system or under construction—especially in the Centro-Sul area—conversion to a single frequency assumed great importance. After special studies had been carried out on this subject, Act No. 4,454 (November 1964) established the single frequency in question at 60 cycles. For the moment, the chief difficulty occurs in Guanabara and part of the State of Rio de Janeiro, where the network operates on the basis of 50 cycles, and has to exchange power with plants forming part of a 60-cycle system (mainly receiving it from them). The hub of the integrated network is the 900-MW

Table 276. Latin America: Total generation of electric energy, 1963–65
(GWh)

Country	1963			1964			1965
	Hydro-electric	Thermo-electric	Total	Hydro-electric	Thermo-electric	Total	Total
Argentina	1,176	11,167	12,343	1,140	12,442	13,582	(14,700)
Bolivia	410	120	530	414	120	534	554
Brazil	20,728	7,141	27,869	22,097	6,997	29,094	31,600
Chile	3,404	2,219	5,623	3,724	2,204	5,928	(6,250)
Colombia	3,050	1,820	4,870	3,500	2,000	(5,500)	(6,100)
Ecuador	239	256	495	248	304	552	(590)
Paraguay	—	125	125	—	(129)	(129)	(136)
Peru	2,100	1,167	3,267	2,237	1,279	3,516	3,846
Uruguay	1,102	476	1,578	1,267	457	1,724	(1,850)
Venezuela	1,106	5,665	6,771	1,222	6,378	7,600	(8,250)
Costa Rica	480	69	549	500	97	597	(640)
Cuba	10	3,047	3,057	—	(3,250)	(3,250)	(3,700)
Dominican Republic	50	410	460	(51)	(529)	(580)	(640)
El Salvador	319	15	334	365	15	(380)	(410)
Guatemala	120	244	364	130	250	(380)	(430)
Haiti	—	100	100	—	110	110	(110)
Honduras	20	98	118	50	100	150	(170)
Mexico	5,803	7,904	13,707	6,866	8,882	15,748	(17,400)
Nicaragua	50	196	246	1	269	270	(290)
Panama	20	310	330	27	363	390	...
Guyana	—	140	140	—	200	200	...
Jamaica	130	520	650	(140)	(590)	(730)	(810)
Puerto Rico	189	2,745	2,934	254	3,149	3,403	3,819
Surinam	—	120	120	—	130	130	(140)
Trinidad and Tobago	—	621	621	—	816	816	916
TOTAL LATIN AMERICA	40,506	46,695	87,201	44,233	51,060	95,293	(104,000)

Source: ECLA, on the basis of data from official sources.

Furnas power station, which was officially opened in May 1965, and once its full capacity has been installed and the projected transmission lines constructed, substantial headway can be made in solving the problems still outstanding.

In the meantime, stopgap solutions have been sought for the States in question, through the installation of thermoelectric units at Lameirão, and interconnexion with the Nilo Peçanha plant in the Paraíba Valley, mainly for the supply of the rural areas.

During 1965 a start was also made on the implementation of measures for the conversion of frequencies in separate networks, such as those of Fortaleza, Minas Gerais, and Espírito Santo. No steps have yet been taken, however, in the State of Rio Grande do Sul, which is also an isolated case, although one of particular importance.

The funds budgeted for the electricity sector in 1965 were approximately 500,000 million

cruzeiros, of which more than half corresponded to ELETROBRAS, more than a quarter, in roughly equal proportions, to the Federal and local authorities, and barely one-tenth to the National Economic Development Bank (BNDE). Not more than 75 per cent of this total was actually applied.

To the foregoing figures must be added external financing, of which the equivalent of about 50,000 million cruzeiros—less than half the amount programmed—was put to use.

Brazil's case is illustrative of the close interdependence between consumption of electric power and the evolution of economic activity, especially in the industrial sector. The sharp fall in the annual growth rate of electric power consumption, which had been about 10 per cent in the preceding five-year period, and reached only 3.5 per cent between 1962 and 1964, reflects the virtual stagnation of the gross domestic product during the same lapse of time, and the

Table 277. Latin America: Installed capacity in public electric power services, 1963-65
(MW)

Country	1963			1964			1965 Total
	Hydro- electric	Thermo- electric	Total	Hydro- electric	Thermo- electric	Total	
Argentina	341	2,843	3,184	347	3,194	3,541	(3,600)
Bolivia	71	16	87	71	19	90	(90)
Brazil	3,971	1,089	5,060	4,405	1,140	5,545	(6,000)
Chile	569	207	776	603	323	926	(950)
Colombia	681	358	1,039	750	390	1,140	(1,260)
Ecuador	62	70	132	64	84	148	(148)
Paraguay	—	(38)	(38)	—	(38)	(38)	(38)
Peru	270	130	400	352	132	(484)	(570)
Uruguay	236	209	445	236	213	449	(449)
Venezuela	380	1,147	1,527	380	1,167	1,547	(1,550)
Costa Rica	102	34	136	(102)	(34)	(136)	(144)
Cuba	—	566	566	—	566	566	(566)
Dominican Republic	8	65	73	8	93	101	113
El Salvador	86	9	95	87	20	107	(150)
Guatemala	25	48	73	25	48	73	(73)
Haiti . . . . .	—	...	...	—	...	...	...
Honduras	4	24	28	34	24	58	(58)
Mexico	1,504	1,865	3,369	1,800	2,200	4,000	(4,406)
Nicaragua	1	45	46	1	54	55	...
Panama	7	61	68	7	61	68	...
Guyana . . . . .	—	...	...	—	...	...	...
Jamaica . . . . .	...	...	...	...	...	...	...
Puerto Rico	108	548	656	108	626	734	744
Surinam	—	...	(23)	—	...	...	...
Trinidad and Tobago . . . . .	—	...	...	—	...	...	...
TOTAL LATIN AMERICA	8,700	9,400	18,100	9,800	10,500	20,100	21,300

Source: ECLA, on the basis of data from official sources.

decline in manufacturing activity. Meanwhile, industry's purchases of electric power from the official concessionaires increased by less than 2 per cent, and in a few notable cases their value decreased in absolute terms. The foregoing data should be compared with the rates of expansion registered in 1955-65 for electric power consumption (8.2 per cent) and manufacturing output (8.5 per cent). Nevertheless, demand on the part of industry (including mining and steel making) rose proportionally, climbing from a little more than 46 per cent of the total in 1955 to 50 per cent in 1963-65.

Mexico

The increase in generation in relation to the preceding year was 9.5 per cent, thus exceeding the average growth rate of 8.6 per cent registered in recent years.

Consumption of electric power expanded by 8.3 per cent, the biggest increase—11 per cent—

corresponding to the residential sector. The number of consumers also rose, by 246,000, reaching a total of 3,200,000. But if the average composition of households is taken into account, it will be seen that more than half the population still has no electricity supply to meet its power requirements.

Installed capacity amounted to 5,311 MW, i.e., 8.5 per cent more than at the end of 1964. This increment was chiefly due to the entry into operation of the following power stations: Infiernillo (first and second phases) with 336 MW; Venustiano Carranza with 37.5 MW; Chilapán (third unit) with 18 MW; and Pajaritos, with 14 MW. At the close of 1965, plants with a total installed capacity of 1,270 MW were under construction. The most important are the third and fourth units of the Infiernillo plant, with another 336 MW, and La Villita, with 280 MW, both of which should enter into operation in

Table 278. Latin America: Total installed electric power capacity, 1963-65
(MW)

Country	1963			1964			1965 Total
	Hydro- electric	Thermo- electric	Total	Hydro- electric	Thermo- electric	Total	
Argentina	374	4,179	4,584	374	4,627	4,991	(5,100)
Bolivia	92	66	159	93	72	165	(165)
Brazil	4,479	1,876	6,355	4,894	1,946	6,840	7,407
Chile	683	652	1,336	718	772	1,490	(1,520)
Colombia	740	610	(1,350)	850	650	1,500	(1,640)
Ecuador	67	99	166	70	116	186	(186)
Paraguay	—	50	50	—	(50)	(50)	(50)
Peru	(236)	(693)	(929)	316	707	1,023	(1,180)
Uruguay	236	209	445	236	213	449	(449)
Venezuela	380	1,654	2,034	380	1,698	2,078	(2,100)
Costa Rica	106	43	149	106	43	(149)	(157)
Cuba	—	976	976	—	976	976	(976)
Dominican Republic	8	126	134	8	156	164	178
El Salvador	90	14	104	91	25	116	159
Guatemala	30	59	89	30	59	89	(89)
Haiti . . . . .	—	...	...	—	...	...	...
Honduras	4	34	38	34	34	68	(68)
Mexico	1,573	2,670	4,243	1,920	2,972	4,892	(5,311)
Nicaragua	1	73	74	1	81	82	...
Panama	7	76	83	7	76	83	...
Guyana . . . . .	—	...	...	—	...	...	...
Jamaica . . . . .	...	...	...	...	...	...	...
Puerto Rico	108	548	656	108	626	734	744
Surinam . . . . .	—	...	...	—	...	...	...
Trinidad and Tobago . . . . .	—	...	...	—	...	...	...
TOTAL LATIN AMERICA	9,300	15,200	24,500	10,300	16,400	26,600	28,100

Source: ECLA, on the basis of data from official sources.

Table 279. Latin America: Electric power stations under construction at the end of 1965
(Capacity in MW)

Country	Hydroelectric	Thermoelectric	Total
Brazil	4,780	390	5,170
Mexico	1,100	170	1,270
Chile	750	—	750
Venezuela	600	—	600
Colombia	357	—	357
Cuba	—	300	300
Puerto Rico	—	230	230
Peru	210	—	210
Costa Rica	128	—	128
Paraguay	45	6	51
Bolivia	40	—	40
Guatemala	15	—	15
Dominican Republic	8	81	89
Others	130	70	200
TOTAL LATIN AMERICA	8,163	1,247	9,410

Source: ECLA, on the basis of data from official sources.

1966; and Malpaso, with 720 MW, scheduled for 1968. All this construction process forms part of an integrated plan which by 1972 will raise installed capacity to a level over 3,000 MW higher than in 1965. The construction of two 400-kV transmission lines, 336 kilometres long, to convey power from Infiernillo to the Valle de Mexico is also approaching completion.

Alongside the expansion of installed capacity, there are plans for the interconnexion of some of the main networks; this will lead to more efficient utilization of capacity and reduce investment requirements. It should be recalled that in the case of about 40 per cent of installed capacity in the public utility services, the frequency used is 50 cycles per second, whereas for the remainder it is 60 cycles. This problem is a source of concern to the authorities, who are trying to find a solution with the aid of technical studies and discussions.

As a contribution to the financing of the works programmed, credits from internal sources were supplemented by other loans from IBRD and European consortia amounting to 145 million dollars, of which the Bank accounted for approximately 75 per cent. Progress of a less spectacular nature is being achieved in certain other countries.

Chile

Construction during 1965 was virtually concentrated in two hydroelectric power stations which will become the most important in the country: namely, the Rapel storage plant, with a final capacity of 350 MW programmed for the beginning of 1968, of which 55 per cent had been constructed by the end of 1965; and El Toro, with a final capacity of 400 MW, scheduled for 1972 and at present in the early stages of construction (6 per cent by the end of the year). Both these plants will be added to the Central Interconnected System.

Generation for the public services amounted to 3,692 GWh, which exceeded the preceding year's figure by 200 GWh. Heavy rainfall enabled ENDESA to increase its production of hydro power, while the generation of thermoelectricity by the *Compañía Chilena de Electricidad* (CHILECTRA) was reduced.

Paraguay

A start was made on the preparatory work for the construction of a power station on the river Acaray, whose 45 MW will more than double existing capacity in the public utilities. At the same time, it was planned to begin assembling group No. 6 (6,000 kW), which, in combination with another group possessing the same characteristics that is to be installed later, will represent

the final stage in the expansion of the thermo-electric plant at Puerto Sajonia.

Peru

The biggest increments in installed capacity were constituted by the second unit of the Huinco hydroelectric plant (60 MW) belonging to *Empresas Eléctricas Asociadas*, and a new gas thermogenerator group (66 MW) at Toquepala, owned by the *Corporación del Cobre del Sur del Perú*. Two other units at Huinco, each with a capacity of 60 MW, are scheduled to enter into operation in 1966. Furthermore, the *Corporación del Santa* is to finish the second phase of Cañón del Pato this year, thereby doubling existing capacity, which is 54 MW. Lastly, in 1966, installed capacity for 11.5 MW—the first stage of a power station which will harness the energy potential of Lake Aricota—should enter production, followed by the second and third phases in 1969. In the course of the next three years, 40 MW will be installed in a plant on the river Pativilca, in two stages of 20 MW each. The power produced will be mainly for use in the industrial sector. It should be noted that the Mantaro project, with an initial capacity of 330 MW and a final capacity of 2,650 MW, is still in the preliminary phases of construction.

Venezuela

No very marked changes took place in installed capacity, since for some years to come it will be possible to increase generation entirely on the basis of more efficient utilization of the existing capacity.

As regards the private sector, a 16-MW generator was brought into service by the *Creole Petroleum Company* to meet the power requirements of its plants at Lagunillas and Bachaquero.

The most important plant scheduled to enter into operation in the near future (1968) is the Guri power station. At the present stage of construction, the dam will be built to a height of 100 metres; this will enable 1,750 MW to be harnessed in ten units, two of which, with a capacity of 350 MW, will enter into production in the initial stage. Subsequently, the height of the dam will be raised successively to 125 and 150 metres; at these stages, installed capacity will be 3,000 and 6,000 MW respectively to match the growth of demand, which it will be possible to satisfy almost entirely from this source, within the interconnected system. In addition, the Guri dam will increase the capacity of the Macagua plant by 60 MW, in consequence of the regulation of the flow of the river. Early in the year the work of pouring the concrete for

the dam was started. After a few delays, the construction of the 230-kV transmission line proceeded at its original pace, and good headway was made with the project for the second line (400 kV).

A vitally important aspect of this interconnection project is the question of the establishment of a single frequency, so that the important market represented by Caracas can be provided with power at 60 cycles. By the close of the year, considerable progress had been made towards the solution of this problem. The total cost involved, as regards generation and changes in equipment and appliances for consumption purposes, is approximately 150 million bolivars.

Costa Rica

Work continued on the construction of the 64,000 kW Cachi power station on the river Reventazón, the first stage of which should be completed in 1966. It was also planned to make a start on the Tapantí project in 1965—which will expand the capacity of the Rio Macho plant by 60,000 kW—so that it would be ready for service in 1970–71.

To satisfy demand in 1965 and 1966 until the Cachi plant entered into operation, 8,000 kW were installed in four portable diesel groups.

Cuba

Installed capacity did not increase to any marked extent, although the first 50-MW units at Rente and Mariel were sufficiently far advanced to be brought into full operation at the beginning of 1966. These thermoelectric plants will have a final capacity of 200 and 400 MW, respectively.

The present electric power development plan is being overhauled, so that a definitive programme extending up to 1970 can be prepared. One of the items envisaged is the interconnexion of the two existing power networks—western and eastern—in a single integrated system, a project which will be put into execution towards the end of the decade.

Dominican Republic

The Corporación Dominicana de Electricidad installed six diesel groups of 2 MW each. The situation will remain critical until the power stations planned for 1966 are brought into service, since peak demand, estimated at 99 MW, is being served by a firm capacity of only 80 MW. The new plants which will enter operation in 1966 comprise two thermoelectric, Puerto Plata and Haina 1, of 27.6 and 53.3 MW, respectively, and one hydroelectric, Las Damas, of 7.5 MW. Expansions are contemplated at Haina consisting of 53.3 MW in 1968 and the same amount in 1970.

To sum up, the most significant events for electric power development in Latin America are the inauguration of the Furnas hydroelectric plant in *Brazil* (which consolidated the first important regional supply centre in the most highly industrialized part of the country); in *Argentina*, the approval by Congress of funds to cover the local costs of the Chocón-Cerros Colorados multi-purpose water works in the Comahue area, which represent 60 per cent of the total cost of the project; in *Peru* the cancellation of the former contract, and the signature of another on more favourable terms (signifying a saving of 15 to 20 per cent), for the construction of the first stage (330 MW) of the big hydroelectric power station on the river Mantaro (which will enable a regional network to be set up in the most densely populated area, which is also the most developed as regards industry and mining); in *Mexico*, the formulation of a plan covering the period up to 1972, and providing for an increment of 3,000 MW by that date; the completion of the Brokopondo power station in *Surinam*, with a final capacity of 150 MW, as part of an aluminium complex, and also to meet other consumer requirements; and, in *Chile*, *Colombia* and *Venezuela*, the progress made on the construction of projects that will add considerably to existing capacity.

Interconnexion of electricity networks in the Southern Zone of South America

An auspicious development in this field was the entry into operation, on 5 June 1965, of the line connecting up the generating plants at Quaraí (Rio Grande do Sul, Brazil) and Artigas (Uruguay). This signified the completion of the initial stage of the interconnexion plan which had been the subject of a declaration of intent signed at Montevideo on 10 July 1964 and resolutions subsequently adopted by the Boards of Directors of the two enterprises concerned—Usinas y Teléfonos del Estado (UTE) in Uruguay and Companhia Estadual de Energia Elétrica (CEEE) in Rio Grande do Sul—in March 1965. The Quaraí-Artigas connexion was followed by others—Santana-Rivera on 31 July, Santa Vitória-Chuy on 4 August and Jaguarão-Rio Branco on 15 October—with the result that the nodal points of the electricity networks along the frontier between Brazil and Uruguay were completely linked up.

The quantitative importance of these interconnexions is slight, since the distances to be covered ranged from a minimum of 2.2 to a maximum of 22 kilometres, and the exchange of power contemplated for 1965 was in the neighbourhood of 1 million kWh in each direction. In view of the characteristics of the diesel

groups concerned and the load diagrams, it was agreed that the towns of Quaraí, Chuy and Rio Branco should obtain their basic supplies from the Rivera, Santa Vitória and Jaguarão plants respectively, and that the Santana-Rivera connexion should be reserved for maintaining an over-all equilibrium which would avert the legal and institutional problems that might arise from a net balance for the exchange of power. But the symbolic value of the interconnexions, and their implications for the future, are considerable, since this is the first time that anything has been done in the region to put an end to the self-containment of the Latin American countries' electricity systems.

From this standpoint, another important sign of the development of an integrationist outlook on electric energy is the continuation of the studies on the Montevideo-Rio Negro-Buenos Aires interconnexion, which would enable the thermo-electric network along the Argentine littoral and the preponderantly hydroelectric system in Uruguay to operate on a complementary basis. The existence of the corresponding working group, and the conclusions drawn from the preliminary studies, are already exerting a decisive influence on the two countries' electricity programmes, which in itself represents an immediate advantage, and will promote more efficient utilization of the area's energy resources.

The interconnexion of the installed thermo-electric capacity (2,000 MW) of the Greater Buenos Aires-Argentine littoral system with the 400 MW of the Montevideo-Rio Negro network would increase the amount of firm hydroelectric capacity available in the latter, and consideration might then be given to enlarging the projected dimensions of the future Palmar plant, a step which would bring the final installed capacity of the three Rio Negro plants (Bonete, Baygorria and Palmar) up to about 700 MW. The transmission lines for this interconnexion plan would be designed with a view to transmission of power from Salto Grande at a later date.

Although their importance is less than that of the Buenos Aires-Rio Negro-Montevideo interconnexion, there are two others worth mentioning, whose feasibility is being studied by electricity development programmers in Argentina. One of them is a trans-Andean link-up with Chilean plants belonging to ENDESA, at the latitude of Mendoza. Another would mean that demand in the Misiones area could be fed from the Paraguayan hydroelectric plant at Acaray (under construction), where the installation of the second unit (45 MW) would be expedited, in accordance with the suggestions of

the engineering consultants appointed by the Inter-American Development Bank, which is co-operating in the financing of this project.

These studies on the regional integration of electricity systems are, of course, complementary to the national interconnexion programmes under which the networks of the countries concerned are gradually being expanded, with the consequent economy in the use of resources and improvement in the reliability of the supply. Mention should be made in this context of the progress made with interconnexion in the Centro-Este area of Brazil, which was remarked upon in the section relating to that country, where attention is also drawn to the incidence of certain problems of regional significance, such as the difference in frequencies.

Another significant event in the sector under discussion was the meeting held at Rio de Janeiro in September by the Central Committee of the Regional Electricity Integration Commission (Comisión de Integración Eléctrica Regional—CIER). As will be recalled, this agency was established at Montevideo in July 1964, the States members being Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay, while Peru has also been invited to join it in the future. Much of the discussion between the representatives of the Latin American Governments and electricity companies was centred on the interconnexions mentioned in earlier paragraphs, and note was taken with satisfaction of the progress achieved in the fourteen months that had elapsed since the creation of the Central Committee of CIER. Closely linked with interconnexion, but also possessing significant implications for manufacturing industry, is the question of standardizing transmission and sub-transmission voltages. The furtherance of standardization on a regional basis would make future interconnexions easier and also conduce to economies of scale on the part of manufacturers of equipment, who would be able to command a larger market not only at the regional but even at the world level, if the standards adopted were in line with those established by such agencies as the Conférence internationale des grands réseaux électriques (CIGRE).

Unanimous agreement was eventually reached as to the necessity for standardizing the more moderate voltages—for example, up to 220 kV—since it is these that absorb the largest quantity of equipment manufactured in Latin America. In the case of higher voltages, enterprises would be given freedom of action, provided that voltages standardized by CIGRE were adopted in each case, and that the bases and findings of the relevant comparative studies were transmitted

to the other companies, in order to provide them with background data on which to base decisions as to the next voltage level to be adopted in their electricity system.

Hence it is perhaps not too early to begin considering the future design of a large-scale interconnected electricity system for the Southern Zone of South America, stretching from Patagonia in Argentina to the Nordeste in Brazil, and exploiting to the full the advantages deriving from the diversity of water resources, the heterogeneity of demand, and the distribution of peak-load hours as the result of time differentials.

Presumably, on grounds relating both to distances and to homogeneity of frequencies, the first step towards the establishment of such a system would be the interconnexion of the 50-cycle and 60-cycle areas, from the Nordeste to Capivari in Brazil, and in Argentina, Chile and Uruguay from the El Toro-Santiago line to the Rio Grande thermoelectric plants near the frontier of Brazil and Uruguay (Candiota and Alegrete). The Capivari-Rio, Negro-Montevideo and the Urubupungá-Santo Grande interconnexions would call for more thorough analysis

and a greater investment effort, as well as clarification of the *modus operandi* of power transfers.

At the end of 1965, the generating plants for public utility services included in this hypothetical network had an aggregate installed capacity of approximately 10,000 MW. By 1985 the system will conceivably be operating with a capacity falling between 60,000 and 90,000 MW, according to the real rate of increase attained during the period in question. In any event, its magnitude would be comparable with that of the major interconnected electricity networks currently in operation in the United States, although in Latin America the distances involved may be longer and consumption densities much lower.

Lastly, it should be noted that, in conformity with the suggestions adopted at the CIER meeting at Rio de Janeiro, the analysis of interconnexion of electricity systems should be supplemented by an over-all study of integrated energy development, with a view to optimizing the use of resources (cases in point being the supplies of natural gas in the south of Argentina and of Chile, and the region's reserves of low-grade coal).

Chapter V

PETROLEUM

1. RECENT PRODUCTION TRENDS

There was a relatively small increase (2.7 per cent) in Latin America's production of crude petroleum in 1965 compared with the increment in 1964, i.e., it rose in absolute terms from 720,800 to 740,700 cubic metres per day.

Being far below the increment in world output (6.9 per cent), this rate implies a further reduction in Latin America's relative share of world production (see table 280). In 1965 Africa's production rose sharply (30.8 per cent), and the other producing areas also registered fairly high rates. Only the combined output of the United States and Canada showed a lower rate of increase than that of the Latin American countries (1.4 per cent).

Neither Venezuela—which accounts for three-quarters of the regional total—nor the other ten producing countries in the region recorded any major changes as regards the growth of their petroleum output (see table 281).

Regional trends and Venezuela's effect on them stand out more clearly when viewed over the larger term. Between 1959–62 and 1963–65, the growth rate of Latin America's production of crude petroleum dropped from 6 to 3 per cent annually, and this reduction is even more marked

if Venezuela is excluded (from 9.5 per cent to 3.4 per cent annually).

According to incomplete data, gross production of natural gas increased by 4.8 per cent in 1965, at a rate which, although higher than for crude petroleum, represents a considerable decline with respect to the two previous years. Thus, the annual average for 1963–65 is 6.7 per cent, as against 8.6 per cent in 1959–62,¹ but conceals sharper variations among the producing countries (see table 282).

While the growth of Latin America's petroleum production tapered off during the last six years, the average output per producing well increased, except in Chile and Bolivia (see table 283—no data available for 1965). This is a sign of the industry's overwhelming concern to step up yield as a means of increasing output.²

If present trends persist, production will not suffice to meet the growing domestic demand in most of the Latin American oil-producing countries, except Colombia, Mexico and Venezuela.

¹ The difference may be due to the increase in the volume obtained from gas accumulations proper, in addition to the possible effect of the widely varying proportion of gas associated with crude.

² Other means of stepping up petroleum production, petroleum institutes for training and research have been established, mainly in Argentina, Bolivia and Mexico.

Table 280. Recent evolution of world crude oil production, by region, 1959–65
(Thousands of m³/day)^a

Region	1959	1963	1964	1965 ^b	Percentage variation between 1964 and 1965
United States and Canada	1,201.9	1,311.2	1,337.8	1,357.8	1.4
Latin America	573.4	694.2	720.8	740.7	2.7
Western Europe	40.0	52.9	57.3	62.9	9.8
Middle East	730.4	1,080.7	1,205.7	1,310.1	8.7
Africa	178.9	188.9	270.5	353.9	30.8
Asia and Pacific	83.4	94.8	98.1	112.7	14.9
Countries with centrally planned economies (Europe and Asia)	455.3	709.7	780.9	839.5	6.2
WORLD TOTAL	3,262.3	4,132.4	4,471.1	4,778.6	6.9

Sources: 1959, 1963 and 1964: Ministry of Mines and Hydrocarbons, Venezuela, *Petróleo y otros datos estadísticos, 1964*, Caracas, Novem-

ber 1965, p. 149; 1965: *The Oil and Gas Journal*, 27 December 1965.

^a 1 m³ = 6.2898 barrels.

^b Estimates.

Table 281. Latin America: Crude oil production,^a 1959-65
(Thousands of m³)

Country	1959	1962	1963	1964	1965 ^b
Argentina	7,087	15,613	15,444	15,943	15,622
Bolivia	504	464	540	530	557
Brazil	3,751	5,310	5,680	5,295	5,460
Chile	1,022	1,858	2,100	2,176	2,020
Colombia	8,516	8,254	9,594	9,953	11,730
Cuba	31	21	20	18	18
Ecuador	439	409	384	457	445
Mexico	16,814	19,326	20,005	20,589	21,312
Peru	2,820	3,358	3,416	3,672	3,750
Trinidad and Tobago	6,506	7,771	7,740	7,886	7,831
Venezuela	160,803	185,687	188,482	197,428	201,528
TOTAL	208,293	248,071	253,401	263,948	270,273
TOTAL (excluding Venezuela)	47,490	62,384	64,919	66,520	68,485

Sources: ECLA, on the basis of official statistics; Cuba and Trinidad and Tobago: Ministry of Mines and Hydrocarbons, Venezuela.

^a Including absorption liquid.

^b The figures for some countries are estimated on the basis of incomplete data.

Meanwhile, more intensive utilization of the natural gas discovered in certain areas—mainly in Bolivia, Chile, Peru and Brazil—could help to reduce the deficit in the supply of petroleum products, on the basis of domestic resources or imports from neighbouring countries possessing supplies of natural gas. In this respect, the following market possibilities for gas should be noted: that produced in the east of Bolivia has

a natural outlet in Brazil and Argentina, which are both importers of crude; gas can be transported from the Peruvian selva (Aguaitía) to the central area; and from Magallanes, after liquefaction in special plants, it can be carried to the consumer centres; while the natural gas produced in Bahia, Brazil, will be used in a steel-making project that is already in execution.

Table 282. Latin America: Gross natural gas production, 1959-65
(Millions of m³)

Country	1959	1962	1963	1964	1965 ^a
Argentina	2,152	6,173	5,947	6,586	7,900
Bolivia . . . . .	...	...	...	...	...
Brazil	427	511	503	532	683
Chile	1,815	3,560	5,155	6,281	6,215
Colombia	2,371	2,219	2,350	2,398	2,650
Cuba . . . . .	...	...	...	...	...
Ecuador	164	185	174	195	200
Mexico	9,328	10,516	11,371	13,735	14,045
Peru	1,228	1,359	1,500	1,600	1,660
Trinidad and Tobago	2,604	3,200	3,400	3,500	3,500
Venezuela	31,836	36,301	37,465	39,270	40,846
TOTAL	51,925	64,025	67,865	74,097	77,699
TOTAL (excluding Venezuela)	20,089	27,723	30,400	34,827	36,853

Sources: ECLA, on the basis of official statistics; Cuba and Trinidad and Tobago: Ministry of Mines and Hydrocarbons, Venezuela.

^a Estimates, except for Brazil, Chile and Venezuela.

Table 283. Latin America: Oil production per well, 1959-64
(Annual averages in thousands of m³)

Country	1959	1960	1961	1962	1963	1964	Percentage variation between 1959 and 1964
Argentina	5.5	7.3	7.1	7.8	6.7	6.7	21.6
Bolivia	12.2	12.2	9.3	8.5	11.4	9.3	- 23.8
Brazil	18.2	18.8	21.7	27.5	27.9	28.0	48.4
Chile	28.0	25.0	20.0	37.7	31.9	23.9	- 14.6
Colombia	11.2	11.3	11.4	10.1	12.0	12.6	12.5
Cuba	0.4	0.6	0.5	0.5	0.5	0.4	—
Ecuador	0.8	0.7	1.4	1.1	1.1	1.2	50.0
Mexico	18.3	20.0	19.2	19.7	19.4	18.6	1.1
Peru	2.6	3.8	3.8	4.2	4.2	4.1	57.6
Trinidad and Tobago	5.5	5.9	6.1	6.5	6.6	6.8	23.6
Venezuela	42.3	45.5	44.8	49.2	49.5	49.7	17.5

Source: *Petróleo y otros datos estadísticos, 1964*, op. cit.

Table 284. Latin America: Natural gas consumption
(Millions of m³)

Year	Argentina	Brazil	Colombia	Mexico ^a	Peru	Venezuela	Total ^b
1959							
Consumption by the petroleum industry itself; excludes the reinjection of gas	437	...	266	857	...	2,677	4,237
Consumption by other sectors	421	...	—	1,965	...	1,515	3,901
Total consumption	858	...	266	2,822	50	4,192	8,188
1962							
Consumption by the petroleum industry itself; excludes the reinjection of gas	714	...	255	2,803	...	3,146	6,918
Consumption by other sectors	2,238	30	121	3,909	...	2,043	8,341
Total consumption	2,952	...	376	6,712	72	5,189	15,302
1963							
Consumption by the petroleum industry itself; excludes the reinjection of gas	894	42	253	1,956	...	3,361	6,506
Consumption by other sectors	2,465	34	204	4,648	...	2,249	9,600
Total consumption	3,359	76	457	6,604	76	5,610	16,182
1964							
Consumption by the petroleum industry itself; excludes the reinjection of gas	948	42	338	2,257	...	3,615	7,158
Consumption by other sectors	2,761	35	320	5,364	...	2,557	11,037
Total consumption	3,709	77	668	7,621	80	6,172	18,327
1965^c							
Consumption by the petroleum industry itself; excludes the reinjection of gas	995	...	...	...	...	...	...
Consumption by other sectors	3,355	...	...	...	...	...	...
Total consumption	4,350	...	873	8,000	...	6,700	19,923

Source: ECLA, on the basis of official statistics.

^a Including imports which in 1959, 1962, 1963 and 1964 were 292, 305, 286 and 284 millions m³, respectively.

^b The figure for 1965 is estimated.

^c Estimates based on incomplete data.

In countries where gas is now being used on a considerable scale, losses are still very high. If the figures for production and consumption are compared (see tables 282, 284 and 285), it will be seen that the total utilization of gas produced in the form of fuel, excluding reinjected gas, is only 16 per cent in Venezuela, 33 per cent in Colombia, 55 per cent in Argentina and 60 per cent in Mexico. Venezuela is studying the possibility of exporting large quantities of natural gas in liquid form.

In order to assess the future growth prospects for consumption of natural gas as a fuel, it would be best to compare it with the figure for the aggregate consumption of petroleum products. Table 286 shows that the share of natural gas in the total consumption of hydrocarbons is well over 50 per cent in Venezuela (in recent years it has tended to remain between 56 and 57 per cent), 33 per cent in Mexico and about 20 per cent in Argentina. In Colombia the figure is still rising, as natural gas is just beginning to be used in activities other than those related to the oilfields.

If a comparison is made between the consumption of natural gas and that of the fuels it could most easily replace (fuel oil and coal), it will be noted that all countries are rapidly reaching the limits of substitution; therefore the rising trend expected in the next few years will soon be reversed in nearly every country already making extensive use of this resource.

Similarly, the rate of increase for the over-all consumption of hydrocarbons is likely to decline to varying degrees, depends on the country concerned, a trend which had already been noted in the consumption of liquid petroleum products

and had been partially offset in over-all terms by the increase in natural gas consumption.

The above analysis indicates a possible deterioration in the supply conditions for the importing countries in Latin America, which could be averted only by prompt and forceful measures to improve the sector's efficiency, either by increasing the investment earmarked for the development and rational exploitation of reserves, or by the adoption of new intra-regional trade practices with a view to increasing the purchasing power of the countries concerned. The utilization of natural gas on a more intensive scale can only do so much to improve these unfavourable prospects for the Latin American economies.

Furthermore, drillings in Latin America are still decreasing (see table 287), although the output per well is increasing. In the absence of complete data for 1965, the partial figures available show that this decline is very marked in both Colombia and Chile (19 and 50 per cent, respectively), while there was an increase of 73 wells (nearly 12 per cent) in the number drilled in Venezuela.

Table 287 also shows the total number of existing wells and the number of wells in production in each country as of 31 December 1965. In all there are 42,169 wells in Latin America, of which 29,198 are in production—i.e., 4.3 per cent of the world total—on the basis of either natural flow or pumping methods. If this proportion is considered in the light of the fact that Latin America produces 18.5 per cent of the world output of crude,³ Latin America's output

³ Excluding the countries with centrally planned economies.

Table 285. Latin America: Utilization of natu

Year	Mexico ^b				Venezuela			
	Production	Reinjection (Millions of m ³)	Consumption	Consumption as a percentage of gross production	Production	Reinjection (Millions of m ³)	Consumption	Consumption as a percentage of gross production
1959 .	7,811	...	2,530	32.4	31,836	9,741	4,192	13.2
1960 .	8,278	...	2,908	35.1	31,561	11,063	4,606	14.6
1961 .	8,686	...	4,017	46.2	33,125	13,056	4,891	14.8
1962 .	9,004	...	6,407	71.2	36,301	13,705	5,189	14.3
1963 .	9,902	...	6,418	64.8	37,465	16,268	5,610	15.0
1964 .	12,171	...	7,337	60.3	39,270	16,940	6,172	15.7
1965 ^c .	12,995	...	7,720	59.4	40,846	...	6,700	16.4

Source: ECLA, on the basis of official statistics.

^a The figures are for gross production; consumption includes that of the petroleum industry itself.

per well will be higher than the world average. However, the comparison is influenced by the low productivity per well in the United States, and, if that country were excluded, Latin America's production per well would be lower.

Table 287 also shows the large number of wells which are not in production in certain countries, and thus represent a production potential that is not being utilized. Although in most cases this is due to technical factors connected with the rational exploitation of reservoirs, it would be interesting to know how many wells are still inactive for want of an adequate system of transporting petroleum and how much crude this idle potential represents.

2. CONSUMPTION TRENDS

The region's consumption of the main petroleum products and of natural gas in 1965 is estimated at 83,815,000 tons of petroleum equivalent, or 3,359,000 tons more than in 1964, approximately half of which is accounted for by the increase in the consumption of natural gas. Thus, consumption went up by only 4.4 per cent from 1964 to 1965, as against 8.9 per cent from 1963 to 1964. Table 288 shows the consumption figures for the principal petroleum products (gasoline, kerosene, diesel and gas oil, fuel oil and liquefied gas) and for natural gas in twenty countries of the region in 1959 and 1962-65.⁴ Table 289 presents per capita consumption in the various Latin American countries.

It will be noted that, considered *en bloc*, the four major consumers (Mexico, Argentina, Brazil and Venezuela), which absorbed over

⁴ There are no data available for Cuba or Trinidad and Tobago.

10 million tons of petroleum equivalent in 1965, recorded a lower rate of consumption growth than Latin America as a whole (3.8 per cent). This is explained by the drop in Brazil's consumption (of 4.4 per cent, or 7.4 per cent per capita) and the small increment in Mexico (3.4 per cent, or nil per capita), while the expansion in Argentina and Venezuela was more than twice the regional average. In the four countries concerned, the increase in per capita consumption declined from 4.8 per cent in 1960-62 to 0.9 per cent in 1963-65, and remained at that level in 1964-65.

For the group of countries which annually consume 1 to 5 million tons of petroleum equivalent (Colombia, Peru, Chile and Uruguay) the estimated growth rate of consumption in 1964-65 (5.5 per cent) was higher than the regional average owing to the rapid expansion of Colombia's consumption (8.9 per cent). There are signs that the rate of increase is tending to slow down in Peru and Chile and to rise in Uruguay and Colombia; but the growth rate of per capita consumption in the group of countries concerned dropped by 50 per cent between 1959-62 and 1963-65.

Conversely, recent trends reveal an increase in the rates for the group of countries consuming 400,000 to 900,000 tons of petroleum equivalent (Jamaica, Ecuador, Guatemala, Panama and the Dominican Republic), where per capita consumption growth rose from 1.7 per cent in 1959-62 to 1.9 per cent in 1963-65, while in 1964-65 it was 3.3 per cent.

As regards the countries which consume less than 400,000 tons annually (Bolivia, El Salvador, Nicaragua, Costa Rica and Haiti), the data at

^a in selected countries, 1959-65

Argentina				Colombia			
Production	Reinjection (Millions of m ³)	Consumption	Consumption as a percentage of gross production	Production	Reinjection (Millions of m ³)	Consumption	Consumption as a percentage of gross production
2,152	320	858	40.0	2,371	228	266	11.2
3,550	676	1,383	39.0	2,338	166	290	12.4
4,908	420	2,334	47.6	2,231	139	312	14.0
6,173	234	2,952	47.8	2,219	123	376	16.9
5,947	414	3,359	56.5	2,350	155	457	19.4
6,586	396	3,709	56.3	2,398	305	668	27.9
7,900	...	4,350	55.1	2,680	...	873	32.9

^b The figures for exports were subtracted from the production figures, and those for imports from the consumption figures; in other words, only the proportion of domestic production utilized in Mexico is considered.

^c Estimates based on incomplete data.

Table 286. Latin America: Consumption of petroleum products^a and natural gas^b in selected countries, 1959-65
(Thousands of tons in terms of 10,700 kcal/kg petroleum equivalent)

Year	Mexico			Venezuela ^c			Argentina			Colombia		
	Petroleum products and gas	Natural gas	(2) as a percentage of (1)	Petroleum products and gas	Natural gas	(2) as a percentage of (1)	Petroleum products and gas	Natural gas	(2) as a percentage of (1)	Petroleum products and gas	Natural gas	(2) as a percentage of (1)
1959	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
	14,638	2,455	16.8	7,790	3,647	46.8	12,943	746	5.8	2,888	231	8.0
1960	15,606	3,808	24.4	7,933	4,007	50.5	13,801	1,203	8.7	3,082	252	8.2
1961	16,904	3,760	22.2	8,152	4,255	51.8	15,303	2,031	13.3	3,323	271	8.2
1962	18,568	5,839	31.5	8,520	4,514	53.0	16,173	2,568	15.9	3,648	327	9.0
1963	18,579	5,745	30.9	8,856	4,881	55.1	16,107	2,927	18.2	3,771	398	10.6
1964	20,488	6,630	32.4	9,802	5,370	54.8	17,989	3,227	17.9	4,096	581	14.2
1965 ^d	21,190	6,960	32.8	10,647	5,829	54.7	19,575	3,784	19.3	4,460	760	17.0

Source: ECLA, on the basis of official statistics.

^a Gasoline, kerosene, diesel and gas oil, and liquefied gas; including deliveries to ships and consumption by the petroleum industry itself.

^b Excluding reinjected gas.

^c Excluding deliveries to ships.

^d Estimates based on incomplete data.

hand indicate a slight tapering off in the rate of increase, which was high in 1960-62. Even so, the rise in the combined per capita consumption of this group of countries in 1964 and 1965 was nearly four times the estimated figure for the whole region.

The growth rate of per capita consumption of petroleum products and natural gas dropped from 4.5 per cent in 1959-62 to 2.1 per cent in 1964-65. Moreover, half this increase corresponded to the consumption of natural gas, so that, in so far as petroleum products are concerned, it was only about 0.6 per cent from 1964 to 1965.

The changes produced by a number of different factors in the composition of the region's consumption of petroleum products have recently been accentuated. The substitution of natural gas for fuel oil has had the effect of stabilizing the volume of heavy fuels consumed in Latin America, and the process is likely to continue until the substitution possibilities are exhausted. Furthermore, the consumption of liquefied gas, mainly for household use, is increasing at a much faster pace than that of petroleum products as a whole (see table 290). The effect of the more extensive utilization of gas on kerosene consumption seems to be offset by wider use of the latter in rural areas and as aviation fuel.

3. PETROLEUM REFINING

As is clear from the *Economic Survey of Latin America, 1964*, the world refining industry has expanded vigorously in recent years, a process which continued up to 1964-65 and extended to Latin America as well, although the rate of increase there was slower.

In the last few years, the aim of all the Latin American countries to become self-sufficient in petroleum products led to the construction of refineries on an unprecedented scale, some of which have a very limited output and possibly operate at very high costs. Although it is usually cheaper to import crude than petroleum products, the advantage of doing so depends on the volume and structure of consumption. The large up-to-date refineries have a considerable capacity (300,000-400,000 barrels per day), and their comparative unit costs are therefore very low. In order to turn such economies of scale to account, Latin America would in many cases have to export to third countries, because of the limited nature of domestic consumption and its unsatisfactory structure. A study of the various Latin American markets might lead to their rationalization and to complementarity in refining. That would make it possible to take

Table 287. Latin America: Total number of wells drilled,^a 1962-65

Country	1962	1963	1964	1965 ^b	Total number of existing wells	Wells in operation at 31/12/65	Wells in operation as a percentage of the total
Argentina	1,286	797	499		6,060	4,870	80.3
Bolivia	48	38	31		130 ^c	130 ^c	100 ^c
Brazil	177	198	233		860	565	65.7
Chile	111	95	99	47	425	204	48.0
Colombia	94	90	79	64	2,924	2,148	73.5
Cuba	20	20	15		...	...
Ecuador	22	31	50		2,329	1,025	44.0
Mexico	639	554	631		3,981	2,704	67.9
Peru	143	148	137		2,492	1,968	78.9
Trinidad and Tobago	280	236	190		3,246 ^d	3,246 ^d	100 ^d
Venezuela	536	498	621	694	19,722	12,338	62.6
Other countries	8	3	—		—	—	
TOTAL	3,364	2,708	2,585		42,169	29,198	69.2

Sources: 1962-64: *Petróleo y otros datos estadísticos*, 1964, op. cit.; 1965: ECLA, on the basis of official statistics.

^a These include only wells in which oil or gas has been found.

^b Estimates.

^c Possibly relates only to the number of producing wells in operation.

^d Total number of wells drilled.

Table 288. Latin America: Consumption of main petroleum products^a and natural gas, 1959-65 (Thousands of tons in terms of 10,700 kcal/kg petroleum equivalent)

Country	1959	1962	1963	1964	1965 ^b
Argentina ^c	12,943	16,173	16,107	17,989	19,575
Bolivia	261	361	321	336	369
Brazil ^c	10,756	14,319	15,245	16,119	15,417
Chile	2,147	2,694	2,870	3,036	3,162
Colombia ^c	2,888	3,648	3,771	4,096	4,460
Costa Rica	127	181	199	211	229
Dominican Republic	334	377	399	423 ^b	490
Ecuador	484	504	553	560	590
El Salvador	187	212	247 ^b	305 ^b	322
Guatemala	421	472	495 ^b	539 ^b	573
Haiti	81	95	100 ^b	105 ^b	115
Honduras	193	222	229	238 ^b	248
Jamaica	700 ^b	785	798	803	825
Mexico ^c	14,637	18,568	18,579	20,488	21,190
Nicaragua	162	194	241 ^b	267 ^b	286
Panama	329	465 ^b	485 ^b	508 ^b	534
Paraguay	89	121	133	139	145
Peru ^c	2,199	2,924	3,056	3,192	3,297
Uruguay	1,336	1,314	1,225	1,300 ^b	1,340
Venezuela ^{cd}	7,790	8,520	8,856	9,802	10,648
TOTAL ^e	58,064	72,149	73,909	80,456	83,815

Source: ECLA, on the basis of official statistics.

^a Gasoline, kerosene, diesel and gas oil, fuel oil and liquefied gas; including consumption by the petroleum industry itself and deliveries to ships.

^b Estimates based on incomplete data.

^c Including natural gas consumption.

^d Excluding deliveries to ships.

^e Excluding Cuba and Trinidad and Tobago.

Table 289. Latin America: Per capita consumption of main petroleum products and natural gas, 1959-65
(Kilogrammes in terms of petroleum equivalent)

Country	1959	1962	1963	1964	1965
Argentina	728	744	728	799	854
Bolivia	72	93	82	83	89
Brazil	158	192	199	204	190
Chile	288	337	352	363	369
Colombia	192	223	224	237	251
Costa Rica	110	139	147	149	156
Dominican Republic	115	116	119	122	137
Ecuador	116	110	117	115	117
El Salvador	77	80	90	108	111
Guatemala	115	119	121	128	132
Haiti	20	22	23	23	25
Honduras	102	106	106	106	107
Jamaica	455	487	487	483	489
Mexico	420	482	466	497	496
Nicaragua	113	123	147	158	163
Panama	315	417	424	432	442
Paraguay	52	65	70	71	72
Peru	226	275	279	283	283
Uruguay	543	514	474	497	506
Venezuela	1,100	1,084	1,088	1,164	1,221
TOTAL	297	340	338	358	362

Source: Statistical Bulletin for Latin America, vol. II, No. 2, August 1965, table III-9.

Table 290. Latin America: Consumption of petroleum products and natural gas, by principal types of product, 1959-65
(Thousands of tons in terms of 10,700 kcal/kg petroleum equivalent)

Type of product	1959	1962	1963	1964	1965 ^a
Liquefied gas ^b	1,408	2,328	2,711	3,259	3,534
Gasoline ^b	14,174	17,289	17,988	19,465	20,167
Kerosene	5,224	5,865	5,558	5,359	5,743
Diesel and gas oil ^c	8,708	11,101	12,004	13,378	14,086
Fuel oil ^c	21,427	22,229	21,563	23,052	22,790
<i>Petroleum products</i>	<i>50,941</i>	<i>58,812</i>	<i>59,824</i>	<i>64,513</i>	<i>66,320</i>
Natural gas	7,123	13,337	14,085	15,943	17,495
TOTAL^d	58,064	72,149	73,909	80,456	83,815

Source: ECLA, on the basis of official statistics.

^a Estimates based on incomplete data.

^b Partly deriving from natural gas.

^c Excluding deliveries to ships in Venezuela.

^d Excluding Cuba and Trinidad and Tobago.

advantage of economies of scale—a vital factor in the refining industry—and to remedy the shortcomings inherent in the various structures of consumption and in the small domestic markets.

Latin America's refining capacity increased by 6.8 per cent in 1965, that is, rather more slowly than before. After some years, certain countries of the region are reaching the limits of import substitution in petroleum products. If

domestic consumption is compared with local production of petroleum products it will be noted that such countries as Argentina, Brazil, Chile and the Central American States cover nearly all their own needs, in contrast to a few years ago. In certain lines, however, the region still depends heavily on imports, e.g., aviation fuel and liquefied gas in Brazil, liquefied gas in Argentina and fuel oil in Chile.

The consequences of this situation are two-fold: in the first place, the growth of the refining industry in the Latin American countries will have to adapt itself in future to the rate of increase in domestic consumption, unless the countries concerned can gain access to export markets. Secondly, self-sufficiency in petroleum products will affect the structure of intra-regional petroleum trade. If the growth rate of domestic consumption is maintained, the reduction in imports of petroleum products will have to be covered by domestic products of the same type, and this in turn means an increase in the volume of crude, which in several cases has to be imported. That would lower the value of registered trade, since the unit price of crude is considerably lower than that of petroleum products.

The volume of crude treated in Latin America has much the same trend as refining capacity, because of its generally high level of utilization. Thus, in 1965, 167,031,000 cubic metres were refined, which represents an increase of 5.8 per cent over 1964 (see tables 291 and 292).

The position of the producing and importing countries with respect to the refining of domestic crude is particularly significant (see table 293). In Argentina, there was a considerable increase in the volume of crude refined, but owing to the contraction of domestic petroleum output the latter represented only 80 per cent of the total volume refined compared with 94 per cent and 92 per cent in 1963 and 1964, respectively. The same thing happened in Chile, where in 1965 domestic output represented barely 75 per cent of the total volume of crude refined, as against 82 per cent and 81 per cent in 1963 and 1964. Inasmuch as consumption has pursued its upward trend, this implies an increase in imports of petroleum products.

In Brazil, refining declined by approximately 1 million cubic metres (5 per cent) in 1965. Although the consumption of petroleum products underwent a similar reduction, imports of such products shrank in value from 51 to 45 million dollars. The exporting and self-supplying countries record wider variations (see table 294). Colombia, in spite of an increase in volume, is refining a lower proportion of its output, thereby freeing more for export in the form of crude. Mexico and Peru refine nearly the whole of their output for home consumption, leaving only very small quantities of crude for export. Bolivia refines nearly all the oil it produces, but this is only a temporary state of affairs, as in 1966 it will probably begin to export crude from its new oilfields. In Trinidad and Tobago refining has increased, despite the slight decline in the production of crude, a fact which implies a rise

in its petroleum imports. Venezuela increased both its refining and production, the former faster than the latter; thus in 1965 it refined some 34 per cent of its production, as against 32 per cent in 1963 and 1964.

Recent developments show that considerable progress has been made in the principal projects under construction or in course of preparation. In Argentina, Yacimientos Petroleros Fiscales (YPF) is planning expansions involving an increase of 15,000 b/day in the capacity of its refineries at La Plata and San Lorenzo, and of 20,000 b/day in the Luján de Cuyo refinery. In the La Plata refinery the capacity of the catalytic cracking unit will be raised by 28,000 b/day and a catalytic reforming unit with an output of 10,000 b/day will be added. This programme will cost about 23 million dollars. The private enterprises are also planning to increase the capacity of their refineries at Buenos Aires by some 20,000 b/day and of that at Campana by about 5,000 b/day. In Brazil, *Petróleo Brasileiro* (PETROBRAS) is considering an expansion of the Duque de Caixas refineries, which would increase its basic capacity by 10,000 b/day and the addition of facilities for refining lubricating oils. In the refinery at Mataripe, it is planned to raise the basic treating capacity by about 18,000 b/day. Work is also going ahead on the construction of the Porto Alegre and Belo Horizonte refineries, each with a capacity of 45,000 b/day, and they should be ready to start operations by the end of 1966. In Colombia, the *Empresa Colombiana de Petróleo* (ECOPETROL) has embarked on a programme of expansion and modernization involving some 20 million dollars in its refinery at Barrancabermeja, which includes an increase of 26,000 b/day in its capacity. There are also plans afoot for the construction of a new refinery on the Pacific coast. Mexico is the country that has been most active in the expansion and modernization of refineries. After discarding, at least temporarily, the idea of building new refineries at Mazatlán and Rosarito, *Petróleos Mexicanos* (PEMEX) has begun to enlarge its refineries at Ciudad Madero, Minatitlán and Salamanca. At Ciudad Madero the capacity for treating crude oil will be increased by 50,000 b/day, while units for other processes are to be added; one for the recovery of sulphur and another for de-asphalting with a capacity of 10,000 b/day. At Minatitlán it is planned to add an atmospheric distillation unit with a capacity of 45,000 b/day. This refinery is expected to have a basic capacity of 147,000 b/day by 1968. The Salamanca refinery is to have a unit for refining lubricating oils capable of producing 2,500 b/day, and a catalytic reforming

Table 291. Latin Amer

Country	Crude oil production			Crude oil refining ^a			Consumption of principal hydrocarb		
	Position	Thousands of m ³	Percentage of total	Position	Thousands of m ³	Percentage of total	Position	Thousands of tons of petroleum equivalent	Percentage of total
Venezuela	1	197,428	74.8	1	63,541	40.3	4	9,802	12.2
Mexico	2	20,589	7.8	3	20,155	12.8	1	20,488	25.5
Argentina	3	15,943	6.0	5	17,333	11.0	2	17,989	22.3
Colombia	4	9,953	3.8	6	4,883	3.1	5	4,096	5.1
Trinidad and Tobago	5	7,886	3.0	2	20,280	12.8	—	...	...
Brazil	6	5,265	2.0	4	18,010	11.4	3	16,119	20.0
Peru	7	3,672	1.4	8	3,560	2.2	6	3,192	4.0
Chile	8	2,176	0.8	9	2,685	1.7	7	3,036	3.8
Bolivia	9	530	0.2	12	468	0.3	10	336	0.4
Ecuador	10	457	0.2	11	774	0.5	9	560	0.7
Cuba	11	18	0.0	7	4,388	2.8	—	...	...
Uruguay	12	—	—	10	1,774	1.1	8	1,300	1.6
Other countries		—	—		—	—		3,538	4.4
TOTAL		263,818	100.0		157,851	100.0		80,456	100.0

Source: Production, refining and consumption: ECLA, on the basis of official statistics; reserves, geophysical activities and number of wells drilled: Ministry of Mines and Hydrocarbons, Venezuela, *Petróleo y otros datos estadísticos, 1964*.

Table 292. Latin America: Volume of crude petroleum refined, 1959-65
(Thousands of m³)

Country	1959	1962	1963	1964	1965 ^a	Cumulative annual increase (percentage)	
						1959-65	1964-65
Argentina	12,651	16,771	16,306	17,333	19,510	7.5	12.6
Bolivia	351	425	426	468	508	6.4	8.5
Brazil	8,645	16,518	17,802	18,010	17,274	12.2	-4.3
Chile	1,404	2,564	2,561	2,763	2,746	11.8	-0.1
Colombia	3,849	4,372	4,458	4,883	5,325	5.6	9.0
Cuba	4,144	3,498	4,223	4,388	4,400	0.8	0.3
Ecuador	450	625	696	774	810	10.3	4.6
Mexico	16,655	18,802	18,986	20,155	21,440	4.3	6.4
Peru	2,461	2,862	2,879	3,560	3,700	1.1	0.6
Trinidad and Tobago	10,989	17,391	18,110	20,280	21,300	11.6	5.0
Uruguay	1,328	1,716	1,654	1,774	1,810	5.3	2.0
Venezuela	47,820	59,507	60,464	63,541	68,208	6.1	7.3
TOTAL	110,747	145,051	148,565	157,929	167,031	7.1	5.8

Source: ECLA, on the basis of official statistics.

^a Estimates.

unit producing 5,000 b/day. In Peru, the Empresa Petrolera Fiscal (EPF) has handed out a contract for the construction of a refinery with a capacity of 20,000 b/day at Lima, involving an investment of 13.5 million dollars, with an eye to expanding it by means of additional investment to 30,000 b/day. Uruguay is considering a minor expansion of 6,000 b/day in

the refinery at La Teja, and in Venezuela the Corporación Venezolana de Petróleo (CVP) has launched its expansion programme for the refinery at Morón, designed to increase its capacity to 16,200 b/day. There are other projects, too—although on a lesser scale—which indicate the geographical distribution of refinery construction. These are being carried out mainly

oleum activities, 1964

Position	Crude oil reserves		Geophysical activities			Total number of wells drilled		
	Thousands of m ³	Percentage of total	Position	Crew/months	Percentage of total	Position	Number	Percentage of total
1	2,771,211	67.2	9	1	0.1	2	621	24.0
2	445,200	10.8	2	252	22.2	1	631	24.4
3	318,000	7.7	1	323	28.5	3	499	19.3
4	190,800	4.6	3	137	12.1	8	79	3.1
6	87,450	2.1	8	2	0.2	5	190	7.4
5	143,100	3.5	2	252	22.2	4	233	9.0
7	67,575	1.6	7	6	0.5	6	137	5.3
9	35,775	0.9	4	77	6.8	7	99	3.8
8	63,600	1.5	5	47	4.1	10	31	1.2
10	3,975	0.9	—	—	—	9	50	1.9
—	...	—	6	35	3.1	11	15	0.6
—	—	—	8	2	0.2	—	—	—
	4,126,686	100.0		1,134	100.0		2,585	100.0

^a The total figures do not include the Central American or Caribbean countries, for lack of data.

Table 293. Latin America: Production of domestic crude petroleum in relation to the total volume refined in producing and importing countries, 1963-65

Country	1963			1964			1965 ^a		
	Production	Refining	Percentage	Production	Refining	Percentage	Production	Refining	Percentage
	Thousands of m ³			Thousands of m ³			Thousands of m ³		
Argentina	15,444	16,306	94.7	15,943	17,333	91.9	15,622	19,510	80.1
Brazil	5,678	17,802	31.9	5,265	18,290	28.8	5,460	17,274	31.6
Chile	2,099	2,562	81.9	2,176	2,685	81.0	2,020	2,678	75.4

Source: ECLA, on the basis of official statistics.

^a Estimates.

Table 294. Latin America: Crude petroleum refined in relation to total volume produced in exporting and self-supplying countries, 1963-65

Country	1963			1964			1965 ^a		
	Refining	Production	Percentage	Refining	Production	Percentage	Refining	Production	Percentage
	Thousands of m ³			Thousands of m ³			Thousands of m ³		
Bolivia	426	540	78.9	468	530	88.3	508	557	91.2
Colombia	4,458	9,594	46.5	4,883	9,953	49.1	5,325	11,665	45.6
Mexico	18,968	20,005	90.9	20,155	20,589	97.9	21,440	21,312	97.9
Peru	2,879	3,416	84.3	3,560	3,672	96.9	3,700	3,820	96.9
Trinidad and Tobago	18,110	7,740	234.0	20,280	7,886	257.2	21,300	7,831	271.9
Venezuela	60,464	188,482	32.1	63,541	197,428	32.2	68,208	201,528	33.8

Source: ECLA, on the basis of official statistics.

^a Estimates.

in Antigua, where the new refinery with a capacity of 11,000 b/day is to start operating early in 1966, and in Costa Rica, whose 8,000-b/day refinery at Puerto Limón is also scheduled to enter into operation in 1966. Honduras is planning to construct a refinery with a capacity of 6,000 b/day at Puerto Cortez. In Ecuador, the capacity of the refinery at La Libertad is to be increased by 10,000 b/day, while in Paraguay work is proceeding on the much delayed construction of a refinery at Asunción, designed to produce 10,000 b/day.

4. TRADE IN PETROLEUM AND PETROLEUM PRODUCTS

In 1965, Latin America's trade in crude petroleum and petroleum products pursued the same trends as in the last few years, i.e., imports of petroleum products declined while those of crude oil rose. Argentina, Brazil and Uruguay also continued to substitute imports of crude from the Soviet Union, Africa and the Middle East for the crude oil previously acquired from Venezuela (see tables 295 and 296).

The few data available for 1965 indicate that imports went up considerably in Argentina and Chile, petroleum and petroleum products representing the highest proportion of total imports in the two countries (see table 297). Although their share also increased in Brazil, actual imports of petroleum and petroleum products declined, but on a lesser scale than total imports.

As regards exports, it will be seen that in Venezuela they are increasing at the same rate as in 1964, and that in 1965 they represented about 93 per cent of total exports. In Colombia they doubled in value, the share of these products in total exports rising from 15 to 18 per cent.

The United States have maintained the import quotas for petroleum and petroleum products established a few years ago, and this constitutes a barrier for Venezuela whose chief market is the United States. High-level discussions are going on at present between the two countries with a view to giving due consideration to Venezuela's interests in the general policy of restrictions.

Table 295. Latin America: Imports of crude and the principal petroleum products by selected countries, 1963-65
(Thousands of tons)

Country	1963		1964		1965	
	Crude	Petroleum products	Crude	Petroleum products	Crude	Petroleum products
Argentina .	869.0	525.0	1,478.0	1,132.0	3,785.4	882.0
Brazil .	10,374.0	1,058.0	10,803.0	772.0	11,066.4	563.0
Chile .	380.5	722.0	428.5	866.0	703.8	950.0 ^a

Source: ECLA, on the basis of official statistics. ^a Estimates.

Table 296. Latin America: Exports of crude and the principal petroleum products by selected countries, 1963-65

Country	1963		1964		1965	
	Crude	Petroleum products	Crude	Petroleum products	Crude	Petroleum products
Colombia .	4,364.0	372.0	4,316.9	628.0	5,627.2	722.0
Mexico .	1,005.0	1,745.0	1,116.0	1,462.0	...	...
Venezuela .	115,719.6	43,318.6	118,497.3	43,015.0	117,549.0	45,725.0

Source: ECLA, on the basis of official statistics.

Table 297. Latin America: Share of crude petroleum and petroleum products in the total value of imports or exports by selected countries, 1963-65

Country	1963			1964			1965 ^a		
	Crude petroleum and petroleum products (Millions of dollars)	Total	Crude petroleum and petroleum products as a percentage of the total	Crude petroleum and petroleum products (Millions of dollars)	Total	Crude petroleum and petroleum products as a percentage of the total	Crude petroleum and petroleum products (Millions of dollars)	Total	Crude petroleum and petroleum products as a percentage of the total
				<i>Imports</i>					
Argentina	44.9	981.0	4.6	69.7	1,077.2	6.5	96.8	1,190.0	8.1
Brazil	243.1	1,486.8	16.4	224.1	1,262.6	17.7	196.2	1,130.0	17.3
Chile	19.0	636.9	3.0	17.6	607.2	2.9	26.2	595.0	4.4
Trinidad and Tobago	176.6	210.8	83.8	215.7	220.4	97.9			
				<i>Exports</i>					
Colombia	81.8	446.6	18.3	82.3	548.1	15.0	111.8	620.9	18.0
Mexico	38.3	984.2	3.9	38.3	1,055.0	3.6		1,111.7	
Venezuela	2,384.1	2,549.3	93.5	2,349.1	2,532.3	92.8	2,365.8	2,538.4	93.2
Trinidad and Tobago	158.3	197.8	80.0	142.0	186.4	76.2			

Source: Foreign trade yearbooks.

^a Estimates.

5. PROSPECTING

The latest information available on prospecting activities relates to 1964, when the search for oil deposits in Latin America declined somewhat—by 1.7 per cent with respect to 1963—geophysical operations representing 1,134 crew/months compared with 1,153 crew/months the year before. Taken separately, reductions are noted in Brazil, Chile, Peru, Trinidad and Tobago, and Venezuela, while Mexico recorded a slight increase, and Colombia a substantial rise of about 30 per cent (see table 298).

Table 298. Latin America: Geophysical activities, by country, 1962-64 (Crew/months)

	1962	1963	1964
Argentina	411	323	323
Bolivia	24	41	47
Brazil	191	291	252
Chile	81	94	77
Colombia	77	107	137
Cuba . . . . .	...	...	35
Mexico	250	246	252
Peru	20	17	6
Trinidad and Tobago	5	10	2
Venezuela	3	12	1
Other countries	45	12	2
TOTAL	1,107	1,153	1,134

Source: Venezuela, *Petróleo y otros datos estadísticos, 1964*, op. cit.

Geophysical activities in Latin America represented 12 per cent of total world activities in this field,⁵ and were surpassed only by the combined operations of the United States and Canada, which accounted for approximately 55 per cent. However, Europe—which has a very low level of production—absorbed 11.5 per cent of geophysical activity in 1964 (1,062 crew/months), while Africa represented 8.3 per cent (766 crew/months) and the Middle East only 2.8 per cent (256 crew/months).

If the type of geophysical activity carried out in Latin America is analysed (see table 299), it will be seen that each region's share in 1964 remained virtually the same as in 1963. In any case, it would be necessary to compare longer series and consider individual countries in order to obtain a worth-while evaluation in this respect. Nevertheless, the use of seismic methods are seen to have dropped from 80 to 75 per cent

⁵ Excluding the countries with centrally planned economies.

between 1962 and 1964, while the use of magnetic methods increased from 0.7 to 3.2 per cent; this may be a sign that less well-known areas are being studied that need to be surveyed in other ways (gravity or magnetic) before seismic surveying is carried out.

Table 299. Latin America: Geophysical activities, by type, 1962-64
(Percentage)

	1962	1963	1964
Gravity	18.6	20.6	19.7
Magnetic	0.7	2.9	3.2
Seismic	70.2	74.5	74.9
Other types	1.5	2.0	2.2
TOTAL	100.0	100.0	100.0

Source: ECLA, on the basis of data contained in *Petróleo y otros datos estadísticos, 1964*, op. cit.

As regards oil reserves—a subject dealt with in earlier ECLA studies—Latin America has no uniform system for determining the volume of reserves which could be used for purposes of comparability or even a system for compiling the existing data whether comparable or not. Consequently, the figures for proven reserves published by different sources are of doubtful validity. The provisional figures at hand do, however, show that the discovery of new reserves in the region has failed to keep pace with production and that the volume of Latin America's proven reserves has therefore declined. These same figures appear to indicate that the only exception to the rule is Colombia, whose reserves have apparently increased appreciably in volume as a result of that country's efforts over the past two or three years.

The theoretical duration of the region's reserves—as defined in terms of an index representing the number of years a country can

maintain its existing volume of production on the basis of the reserves proven to date—experienced a further decline in Latin America—from 15.6 years in 1964 to 14.8 years at the end of 1965—on account of a relative reduction in prospecting activities.

6. NEW INSTITUTIONS

In view of their vital importance for the future, mention should be made of the progress achieved in establishing institutions concerned with petroleum in some of the Latin American countries. In Argentina, the National Petroleum Institute has been set up, chiefly to train professionals in all branches of the petroleum industry and to encourage scientific and technical research. The Institute, which has been assisted by the United Nations Special Fund, is administered by representatives of the Secretariat of Energy and Fuels, Yacimientos Petrolíferos Fiscales, the National University and private industry. In Mexico, it was decided to found a similar body, to be known as the Mexican Petroleum Institute, under the aegis of *Petróleos Mexicanos* (PEMEX), but its budget is too small to allow it to carry out its full mandate. Bolivia submitted a more modest project to the Special Fund, which was approved in the current year. There is every reason to believe that these institutions will do extremely useful work, and that they will enter into contact with similar bodies in other parts of the world.

It should also be noted that, at their meeting at Rio de Janeiro in September/October 1965, the Latin American State petroleum enterprises set up the Latin American State Petroleum Enterprises Mutual Aid Association (*Asociación de Asistencia Recíproca Petrolera Estatal Latinoamericana—ARPEL*).⁶

⁶ For an account of the objectives defined in earlier meetings of the State petroleum enterprises which led to the establishment of ARPEL, see the *Economic Survey of Latin America, 1964* (E/CN.12/711), pp. 276-277.

Chapter VI

TRANSPORT

1. INTRODUCTION

The scarcity of data on transport, which is a characteristic feature of this sector, has made it impossible to analyse the subject in sufficient detail to permit an evaluation of the basic causes of the problems hampering the co-ordinated development of the various means of transport, and a geographically balanced economic development at a minimum economic and social cost. Nevertheless, the analysis suggests at least some general conclusions.

This sector's essentially backward institutional organization began to improve noticeably in 1965 as a result of the growing desire on the part of the Latin American countries to raise the administrative status of their transport departments and institutions. This is illustrated by the plans afoot in Chile and Uruguay to set up new Ministries of Transport; the inclusion of certain transport problems in the agenda of the last Meeting of Ministers for Foreign Affairs convened by ALALC; and the establishment of the Transport and Communications Council as an organ of ALALC. Moreover, the United Nations Conference on Trade and Development (UNCTAD) is devoting special attention to studies on maritime transport.

Other progress made in the integration of transport and the improvement of international connexions, both bilateral and multilateral, include the ALALC meetings designed to smooth out the difficulties in the way of concluding a general agreement on maritime transport, and the first ALALC meeting to discuss the problems affecting the integration of overland and air transport; the convening by the Organization of American States (OAS) of another meeting on port facilities, and that Organization's continuing interest in solving the problems of the Pan American Highway System, especially in respect of the Darien gap and the Carretera Marginal Bolivariana de la Selva; another meeting of the Latin American Association of Shipowners (Asociación Latinoamericana de Armadores—ALAMAR) to discuss the proposed agreement on maritime transport and the establishment of an Inland Waterways Committee (Comité de Transport Fluvial) in ALAMAR and an inter-American committee that would include United States shipowners; the setting-up of the Latin American Railways Association (Asociación

Latinoamericana de Ferrocarriles—ALAF), whose first regular session took place at Rio de Janeiro; and the sustained tempo of activities of the Central American transport integration agencies. In addition specific measures were taken in 1965 respecting regional transport, and progress was made in improving the basic infrastructure.

Maritime transport has retained its virtual predominance in intra-regional goods traffic. At the same time, the relative importance of overland transport is still increasing, as borne out by the fact that it accounts for the whole of the banana traffic between Brazil and Uruguay, by the favourable prospects for motor-vehicle transport in Argentina, Brazil, Chile and Uruguay, and by the likelihood of an increase in railway traffic as a result of the improvement envisaged in the connexions. The important part played by road transport in the integration of Central America is too well known to need elaboration here.

These developments indicate that increasing attention should be focused on improving maritime transport services and reducing freight and transport charges, especially as regards port facilities. Although maritime transport will keep the lion's share of future traffic, the relative proportion of overland transport, especially by road, will tend to increase.

Another important point is that in view of the large investment needed in this sector and the indivisible nature and long period of maturity of infrastructural works, medium-term and long-term transport programming takes the form of integrated programmes for all transport media, co-ordinated with over-all economic development programmes. In addition to those already drawn up, programmes for Paraguay, Peru and Uruguay were begun in 1965. Naturally, there is room for considerable improvement in these projects, since it is no easy task to solve the extremely complex problems involved and establish guidelines to ensure the optimum distribution of investment and related activities among the different means of transport. Another common difficulty is that the measures adopted and the amount actually invested are not in line with the programmes as originally prepared.

In general, the trends for the different transport media in earlier years underwent no major changes in 1965, save in a few countries.

The outlook for railway transport, especially goods traffic, remains discouraging in most countries of the region. Although in many cases it should be the most suitable means of transport because of the type of goods and the distances usually involved in Latin America, the development of railway traffic has failed to keep pace with the growth of other economic activities, despite the expansion in some countries. This circumstance is aggravated by the imbalance in the foreign loans granted for the rehabilitation and modernization of the railway systems. The result is a vicious circle for Latin America's railways, which it has not yet been possible to break and which affects over-all economic growth, public finance and inflationary pressures. In addition, the volume of goods transported by nearly all the railway system reflects a low average traffic density, which is one of the main reasons for the economic instability of the railway enterprises.

The extension and improvement of road networks, including not only arterial highways, but also secondary or branch highways to open up the interior, continued to be the main transport activity of the Latin American countries in 1965, although in some cases the rate of expansion declined. Generally speaking, work continued on the projects already in progress, and new long-term plans and projects were initiated, financed partly by external credit.

Although no statistics are available for motor-vehicle traffic, this is still the most dynamic sector of overland transport, to judge by the increase in the motor-vehicle inventory and in the motorization coefficients of most of the Latin American countries. The domestic motor-vehicle industry has helped to obviate the former difficulty of importing vehicles because of the shortage of foreign exchange, and the largest inventory increases were in those countries which already have a large-scale industry, although it should also be noted that in some countries it has proved hard to expand the motor-vehicle assembly industry, possibly because of the small domestic market.

In 1965 the Latin American Governments and shipowners continued to seek a larger share of foreign and regional maritime traffic for their national flag lines, but little headway was made compared with previous years. The expansion and modernization of the merchant fleets continued, and some countries added considerable new mercantile tonnage. The signing of regional agreements is going ahead very slowly, and the multilateral approach is impeded by the bilateral policy supported by certain countries, and the existence side by side of State and privately

owned shipping enterprises. The measures in the draft agreements to protect national merchant fleets have evoked a strong reaction on the part of the major maritime powers. Nevertheless, some progress was made in 1965 on studies aimed at simplifying consular formalities and reducing charges other than those relating to maritime transport proper. The indispensable basic studies on the position of maritime transport in the region include those begun by the secretariat of UNCTAD. A system of consultation between shipowners, shippers or users of maritime transport and shipping conferences has been recommended; in this respect, a Shippers Committee (Comité de Usuarios) was set up in Chile in 1965, and it was agreed to form similar committees in Argentina, Brazil and Uruguay, while the first steps to that end have already been taken in Colombia, Ecuador, Mexico, Peru and Venezuela.

With few exceptions, port and harbour facilities constitute a very serious problem in nearly all the Latin American countries and virtually nothing has been done to solve it. Such international loan agencies as the Inter-American Development Bank (IDB) have begun to concern themselves with the matter, and have expressed their readiness to grant loans for studies and investment within the framework of regional plans.

The following sections contain a more detailed description of recent developments in the field of railway, road, maritime and air transport, and a brief review of the position with regard to external financing and technical assistance for the development of the transport sector.¹

2. RAILWAYS

(a) *Regional questions*

In 1965 the South American railways continued to promote the co-ordination of their services at the regional level and the integration of international rail connexions.

ALAF—which was founded by the railway enterprises of Argentina, Bolivia, Chile, Ecuador, Paraguay and Uruguay, and the Federal Railway Network (Rêde Ferroviária Federal) of Brazil, at the meeting held at Chapadmalal, Argentina, in March 1964—was very active in 1965. After two meetings of the Commercial Committee, which took place at Montevideo (June 1964) and Asunción (September 1964), a joint meeting of

¹ Section 5 on air transport was completed with the co-operation of the International Civil Aviation Organization (ICAO). For supplementary data on production, imports and inventories of motor vehicles, see chapter III, Section 4.

the Commercial Committee, the Technical Committee and the Committee on Miscellaneous Questions was held at Santiago, Chile, in April 1965, at which the following matters were discussed: ALAF's economic self-sufficiency; the "Amerailpass", a rail ticket whose holder would be able to travel free of restrictions on any railway belonging to the Association, during the period specified on the pass itself; the strengthening of commercial relations between railway enterprises; the streamlining of identification formalities and simplification of customs procedures; and the standardization of technical norms in relation to complementarity and the establishment of new production units in the railway equipment industry. An *ad hoc* committee met at Buenos Aires in June to prepare the ground for the first regular session of the Association, which was to take place late in September at Rio de Janeiro and São Paulo. This meeting was of fundamental importance because it served to lay the bases for the final organization of ALAF and the forms of action to be adopted. The following organs were set up: a secretariat, an Operational Group to carry out technical studies; and the Regional Groups to study and propose arrangements for improving the international services.

ALAF is receiving strong support and co-operation from the manufacturers of railway equipment in the South American countries, whose aim is to attain the highest possible level of self-sufficiency in the region.

ALAF can play a pre-eminent role, not only in increasing international rail traffic and improving its services, but also in helping to solve many administrative, commercial and technical problems at present hampering the efficient operation of Latin American railways. In this respect, ALAF can be regarded as the embryo in Latin America of an organization along the same lines as the International Union of Railways (IUR), which has played an important part in the smooth development of international rail traffic in Europe, and whose study groups and auxiliary organizations include all aspects of railway activities in their work, and have contributed to the standardization and improvement of equipment and operational methods in affiliated railway enterprises.

In 1965, three agreements were concluded between border railways of various countries, with a view to improving their commercial and technical relations. At the ALAF meeting agreements were concluded between Argentina and Brazil, Uruguay and Brazil, and the Trans-Andean railways of Argentina and Chile. Some of these agreements replace others signed many

years ago; there are fewer obstacles to overcome in signing them than in other transport sectors, since the railway lines and their operation are essentially national in character; hence, there can be no competition between the systems within the various countries, as in the case of road or water-borne transport.

The first meeting of the ALALC Advisory Committee on Transport, which also took place in 1965, dealt with the problems affecting overland transport, including the railways. This provisional meeting established certain bases and outlines of studies that are needed to encourage the regional integration of railway systems. The following were some of the recommendations adopted: the use of double-gauge equipment (interchangeable bogies); the employment of containers, pallets and automatic loading and unloading systems; the elimination of transshipment, especially for passengers; the adoption of a system whereby information regarding passengers, freight, train schedules, and transport conditions and procedures would be available at all important stations and terminals; and the inspection of trains and rail-cars in the course of the journey by customs, international police and public health authorities.

There are few statistical data available on international railway goods and passenger traffic. Broadly speaking, it can be affirmed that the figures have changed little in the last few years, except in Chile, where the volume of goods carried by the Trans-Andean railway (Ferrocarril Trasandino) has risen steadily, although there is a severe imbalance between the volumes of freight carried each way. In addition, most of the existing railway interconnexions are, for various reasons, under-utilized, and are quite capable of carrying larger volumes of traffic.

As regards new international connexions, the Yacuiba-Santa Cruz de la Sierra line was opened to traffic in 1965; it is 539 kilometres in length with a branch line of 40 kilometres, of which 201 kilometres of track have been in use for some years. This railway was built by virtue of the treaty between the Governments of Bolivia and Argentina, signed on 10 February 1941. It provides a rail outlet for an extensive area of east Bolivia to Buenos Aires or to the port of Resistencia on the Paraná River. The Joint Argentine-Bolivian Committee is at present considering its extension north of Santa Cruz to the banks of the Ichilo River, and Argentina has appropriated the sum of 30 million pesos for the project.

In Brazil, the extension of the Dourados branch line in the Sorocabana railway system

which goes as far as Punta Porá on the Paraguayan border, at the town of Pedro Juan Caballero, will enable Brazil to increase its trade in goods transported by rail.

(b) *Railway traffic*

Table 300 presents data on the evolution of railway passenger traffic, both suburban and general, for some countries of the region.

Suburban traffic is concentrated mainly in the large cities of Argentina and Brazil and, on a lesser scale, in important towns in other countries, although there are no separate data for the latter. In Argentina, the volume of suburban passenger traffic declined somewhat in 1965 with respect to 1964, remaining at a figure some 17 per cent below the volume recorded in 1960-61. Brazil also registered a decline in 1965, in spite of the expansion of passenger services in several of its cities. The electrification of the suburban system has been practically completed, as also the widening of the gauge on a twelve-kilometre section of the Leopoldina railway, which serves the densely populated Rio de Janeiro suburbs. Furthermore, the first electrical units consisting of three coaches each are now in use, of the hundred that are being manufactured locally.

There was virtually no change in the volume of general passenger traffic in nearly all the Latin American countries. In spite of the improvement in rolling-stock and in the operation of the railway systems, this traffic fluctuated very irregularly in most countries, as a result of growing competition from road and air transport.

In Argentina, general passenger traffic, which had declined by 35.2 per cent in 1963 in relation to 1960, underwent an increase of 9.2 per cent in 1965 with respect to 1963. Argentina is focusing special attention on this type of traffic and has spared no efforts to improve the service.

In Bolivia, the number of passengers carried by the whole railway system has gradually declined, albeit unevenly, and in 1965 it was approximately 24.1 per cent below the 1961 figure, the only railway to show an increase being the Santa Cruz-Corumbá line, although it carried only 156,000 passengers in 1965. By contrast, the number of passenger-kilometres rose in line with the increase in the average distance travelled from some 93 kilometres in 1963 and 1964 to 129 kilometres in 1965.

In Brazil, estimated data indicate a contraction of 5 per cent in the volume of general passenger traffic in 1965, although it is still 5.2 per cent larger than five years ago. Nevertheless,

Table 300. Latin America: Railway passenger traffic in selected countries, 1960-65
(Millions of passengers and passenger/kilometres)

Country	Type of traffic	1960		1963		1964		1965 ^a	
		Passengers	Passenger/kilometres	Passengers	Passenger/kilometres	Passengers	Passenger/kilometres	Passengers	Passenger/kilometres
Argentina	General	67.3	6,771	43.6	4,797	46.9	5,409	47.6	5,202
	Suburban	536.7	8,912	406.2	7,818	433.0	8,987	429.8	8,499
Bolivia	General	2.16 ^b	205 ^b	1.79	149	1.82	169	1.64 ^c	211 ^c
Brazil	General	88.5	7,180	92.6	8,131	97.7	8,232	93.3	7,837
	Suburban	332.0	8,215	366.4	9,226	343.1	8,732	339.8	8,648
Chile	General	22.9	1,900	22.5	1,992	22.7	2,050	26.5	2,350
Colombia	General	9.0	546	8.6	627	7.4	546	6.6	510
Colombia	General	32.6	4,141	35.6	3,886	37.4	4,096	...	...
Mexico	General	5.1	282	33.8	257	3.5 ^a	263 ^a	...	...
Peru	General	9.8	528	10.5	630	9.8	603	9.3	560
Uruguay	General								

Source: Railway statistics.

^a Estimates.

^b 1961.

^c The 1964 figures were taken for the Machacamarca-Uncía and Guaquí-La Paz railways, which together accounted for 6.1 per cent of the total number of passengers and 2.2 per cent of the passenger/kilometres.

Brazil's railway systems are making increasing efforts to improve their passenger services and several railways are purchasing new equipment.

In Colombia, the density of passenger traffic has continued to decrease; in 1965 it was 11 per cent lower than in 1964 and 26.7 per cent below the 1960 level, despite the new Ferrocarril del Atlántico and the integration of the railway network.

A change is recorded in Chile, where the volume of passenger traffic, from being practically at a standstill since 1960, showed a substantial increase of 16.7 per cent in the number of passengers carried in 1965. The largest increment took place on the southern network where the State Railways have established new services consistent with demand, especially in suburban traffic; hence, the average distance travelled has been shortened.

In Uruguay, the decline recorded in 1964 continued in 1965, as regards both the number of passengers carried and the number of passenger-kilometres, which had reached a peak in 1963.

By contrast, 1965 marked an increase in railway freight traffic in most countries of the region, but, with a few exceptions, not on a scale to attain a traffic density that would yield a satisfactory financial return² (see table 301).

After the setback in Argentina in 1962, the volume of goods traffic continued to expand in 1965, although it was still 14 per cent below the 1960 figure. The number of ton/kilometres

² The low density indexes are all the more striking if it is considered that while the South American network represents about 8 per cent of the world total, its share in the total volume of freight traffic (in terms of ton/kilometres) is less than 1 per cent.

followed the same trend, but mitigated by the slight increase in the average length of haul.

In Bolivia, freight traffic went up by 12 per cent in 1965, without, however, reaching the tonnage recorded in 1961. Owing to the considerable increase in the average length of haul, the number of ton/kilometres rose sharply in 1965 (31 per cent with respect to 1964 and 47 per cent with respect to 1961). Freight traffic over the eastern network (Yacuiba-Santa Cruz) is still light, accounting for less than 10 per cent of total traffic in terms of both tons and ton/kilometres. The movement of cargo to the Pacific ports in 1964 was affected by an increment of 9 per cent in exports of ores and a decline of about 14 per cent in the remaining foreign trade items. That same year, the tonnage of ore exported represented 12.5 per cent of Bolivia's total freight traffic, and that of other export commodities, 22.6 per cent. Bolivia's internal rail traffic amounts to nearly two-thirds of the total volume.

The volume of freight traffic on all Brazilian railways was considerably heavier in 1965, following the previous year's decline, with mineral products pursuing the steadiest trend. In fact, in the last three years the volume of ore transported by the *Emprêsa Ferroviária Central do Brasil*—which carries virtually the whole production of ore on the federal railway system—increased from 3.1 million tons in 1963 to nearly 4.5 million in 1965.

In Colombia, notwithstanding the operations of the new railway system on the Atlantic seaboard and the recent investment designed to integrate the network, the volume of freight traffic continued to shrink, being 43 per cent smaller in 1965 than in 1960, and 9 per cent less than in 1964. On the other hand, the number of

Table 301. Latin America: Railway freight traffic in selected countries, 1960–65
(Millions of tons and ton/kilometres)

Country	1960		1963		1964		1965 ^a	
	Tons	Ton/kilometres	Tons	Ton/kilometres	Tons	Ton/kilometres	Tons	Ton/kilometres
Argentina .	26.2	15,188	18.9	10,632	20.2	12,457	22.5	13,243
Bolivia .	1.22 ^b	203 ^b	1.04	246	1.04	228	1.17 ^c	298
Brazil .	46.1	12,820	49.9	16,405	46.0	15,287	50.5	16,781
Chile .	14.1	2,025	17.1	2,328	18.0	2,448	20.0	2,624
Colombia .	5.4	768	3.7	891	3.3	952	3.1	794
Mexico .	32.0	14,001	35.7	14,940	37.4	16,322	...	...
Peru .	4.2	529	4.0	561	4.1 ^a	593 ^a	...	...
Uruguay .	1.59	400	1.17	286	1.55	416	1.65	434

Source: Railway statistics.

^a Estimates.

^b 1961.

^c The 1964 figures were taken for the Machacamarca-Uncia and Guaqui-La Paz railways, which together accounted for 14.4 per cent of the total volume of traffic and 5.7 per cent of the ton/kilometres.

ton/kilometres transported in 1965 was larger than in 1960 because of the substantial increase in the average length of haul, which climbed from 142 to 256 kilometres.

(c) *Financial situation of the railways*

Operational deficits are the general rule in the Latin American railway systems, and, in some cases, the operational coefficients are among the highest in the world. The unfavourable financial results persisted, on the whole, in 1965. Table 302 sets out the income, expenditure and operational coefficient (ratio of expenditure to revenue) of the Latin American countries possessing major railway systems.

Argentina's operation coefficient (2.30 for the whole railway network) has steadily increased, and in 1965 it was 8 per cent higher than in 1964, and 46 per cent higher than in 1960. The bulk of expenditure is represented by staff, which has increased appreciably in the last few years—from 66 per cent in 1963 to 71 per cent in 1965, the number of agents climbing at the same time from 157,705 to 171,117. In addition to the low traffic density, the fact that the rates have failed to keep pace with the inflationary rise in costs has been one of the principal causes of the deficit in Argentina's railways. In fact, there was no increase in the rates from April 1963 to April 1965, at which time they went up by an average of about 35 per cent, compared with the rise of 52 per cent in the general price index. A further increase of 30 per cent for passenger fares, 32.3 per cent for freight and 34 per cent for the transport of livestock was envisaged for February 1966.

In Bolivia, the Empresa Nacional de Ferrocarriles has managed to reduce its operational coefficient to 1.20—one of the lowest figures recorded in the region—and although its operations reflect a deficit, the result can be regarded as satisfactory. It was obtained by merging the administration of six railway concerns under the Empresa Nacional de Ferrocarriles. Thus, surplus manpower was eliminated and costs were reduced, while better use was made of the traction and trailer equipment, with the consequent saving in fuel, lubricants and other items. The number of persons employed was reduced from 5,564 in 1963 to 4,979 in 1965.

The other two railways of the western network present much higher operational coefficients, 2.54 being the 1964 figure for the Machacamarcá-Uncía railway and 2.49 for the Guaqui-La Paz line.

In Brazil, an event which took place in 1965 can be considered as quite exceptional within the framework of the Latin American railway

Table 302. Latin America: Financial situation of the railway systems in selected countries, 1960-65
(Millions of national currency units at current prices)

Country	1960			1963			1964			1965 ^a		
	Receipts	Expenditure	Operational coefficient	Receipts	Expenditure	Operational coefficient	Receipts	Expenditure	Operational coefficient	Receipts	Expenditure	Operational coefficient
Argentina ^b	17,051	26,749	1.57	19,517	39,400	2.02	23,811	50,691	2.13	33,184	76,300	2.30
Bolivia ^c	57 ^e	77 ^e	1.36 ^e	73	108	1.48	72	110	1.53	96	115	1.20
Brazil ^d	14,120	33,651	2.39	51,590	188,977	3.66	91,624	321,589	3.51	218,350	524,444	2.40
Chile	79	121	1.53	91	193	2.12	151	291	1.93	...	...	...
Colombia	102	115	1.13	236	285	1.21	246	290	1.18	218	309	1.42
Mexico	1,843	2,069	1.12	1,921	2,470	1.29	2,118	2,771	1.31	...	...	...
Peru	347	385	1.11	372	489	1.31	448 ^e	572 ^a	1.28 ^a	...	...	...
Uruguay	83	156	1.88	110	356	3.24	148	525	3.55	175	704	4.02

Source: Railway statistics.

^a Estimates.

^b The figures relate to the financial period from November of the preceding year to December of the year indicated in the table, except in 1965 when they relate to the calendar year.

^c Empresa Nacional de Ferrocarriles.
^d Federal Railway Network.
^e 1962.

systems. The operational coefficient of the Federal Railway Network (Rêde Ferroviária Federal)—a State-owned enterprise whose share in Brazil's total railway traffic is about 55 per cent for goods, 65 per cent for general passenger traffic and 86 per cent for suburban passenger traffic—after following a steadily rising trend and reaching a peak of 3.66 in 1963, dropped by 4.1 per cent in 1964 and 31.6 per cent in 1965.

The lack of information precludes a detailed study of developments in 1964 and 1965. Merely for illustrative purposes, the more outstanding features are analysed provisionally on the basis of the few data available in ECLA.

The total number of traffic units (ton/kilometres plus passenger/kilometres) remained virtually the same in 1963, 1964 and 1965, but freight traffic has increased (by 5.2 per cent in 1964 and 7.4 per cent in 1965) and passenger traffic—especially suburban passenger traffic—has contracted (by 5.5 per cent in 1964 and 11.4 per cent in 1965).

Total revenue in terms of constant prices³ declined by 3.5 per cent in 1964 and increased by 58.8 per cent in 1965. The average revenue per unit deriving from the total volume of traffic dropped by 3.5 per cent in 1964 and rose by 62.7 per cent in 1965. The average revenue from freight traffic dropped by 8.5 per cent in 1964, while that obtained from passenger traffic went up by 4.5 per cent.

Total expenditure at constant prices declined by 7.4 per cent in 1964 and rose by 8.6 per cent in 1965. Total expenditure on personnel fell by 10.7 per cent in 1964 and went up 5.7 per cent in 1965. The number of persons employed was reduced by about 5,000 in 1965 and a further cut of approximately 8,000 is contemplated in 1966. The average wage fell by 10.3 per cent in 1964 and rose by 9.5 per cent in the following year. The share of labour costs in total expenditure shrank from 74.4 per cent in 1963 to 71.8 per cent in 1964 and 69.9 per cent in 1965.

According to the above figures, the reduction in the operational coefficient in 1964 with respect to 1963 was mainly attributable to a contraction of expenditure at constant prices, particularly in respect of personnel, which offset the drop in revenue. Moreover, the increase in the volume of freight traffic largely compensated for the decline in average revenue and an increase was

recorded in total and average revenue from passenger traffic.

The increase in the rates has been the main cause of the considerable reduction in the operational coefficient, and also in the financial operational deficit—27.6 per cent at constant prices—in 1965. Another factor must have been the increase in freight traffic as against the considerable decline in suburban passenger traffic, since, in general, transport of goods brings the highest return, while suburban passenger traffic incurs the most substantial losses. The sharp upswing in total revenue, in addition to the decrease in the operational coefficient, permitted a rise at constant prices in salaries and wages, although they still fell short of the 1963 level. According to the Brazilian authorities, other factors influencing the reduction in the deficit were the improvement in services, the elimination of anti-economic branch lines, the incorporation of new traction equipment and rolling-stock (152,000 million cruzeiros being invested in the Federal Railway Network in 1965 and approximately 172,000 million earmarked for that purpose in 1966), and the higher standard of discipline among the staff. Moreover, the enterprise's future policy will be to adopt rates that cover operational costs, and in 1966 revenue is expected to amount to 66 per cent of total operational costs.

Colombia's operational deficit, after a slight drop in 1964, climbed steeply in 1965 (20.3 per cent). There seems no doubt that the decline in traffic—16.6 per cent for goods and 6.6 per cent for passengers—has been the main cause of the deterioration in the financial operation of Colombia's railways. In terms of constant prices, total revenue fell by 18 per cent, while average revenue was slightly lower in 1965 than in 1964. Total expenditure at constant prices remained at practically the same level as in 1964, while the number of persons employed dropped from 13,617 to 12,826, which represents a reduction of 5.8 per cent.

In Chile, the operational results of the national railways for 1965 are not yet available. Newspaper reports indicate that the operational deficit of the southern and northern networks of the State Railways (Ferrocarriles del Estado) apparently increased by approximately 5.7 per cent in terms of constant prices. Therefore, the operational coefficient, which had been reduced by 9 per cent in 1964, probably rose again in 1965 by about 6 or 7 per cent. The rates remained at virtually the same level and only at the end of 1965 was there a rise of 50 per cent in fares and 35 to 80 per cent in the freight rates for different types of goods.

³ This is obtained by deflating the actual figures by the monthly average of the general price index in Brazil (excluding coffee) published by the International Monetary Fund (IMF). The index for the last five months of 1965 was estimated on the basis of the trend observed in the first seven months of the year.

In 1965 the Uruguayan railways recorded one of the highest operational coefficients in the history of the Latin American railways, with an expenditure equal to four times the revenue collected.⁴ Personnel costs have done most to raise the operational coefficient and financial deficit, the share of this item in total expenditure rising from 71.3 per cent in 1964 to 83.7 per cent in the first six months of 1965. By contrast, the number of persons employed declined slightly, from 10,276 in 1964 to 10,247 in 1965. The increase in rates during 1965—45 per cent in March for passengers, 32 per cent in August for the transport of livestock, and 44 per cent in December for heavy freight—was not enough to offset the inflationary rise in expenditure.

(d) *Other features of railway transport*

In Argentina, the National Development Council prepared a national plan for 1965–69 which, in the section on transport and communications, contains guidelines for a recovery by the railways. The Plan envisages a total investment of 112,400 million pesos, of which 19.2 per cent will be in foreign currency and 14.1 per cent will cover purchases undertaken beforehand. It contemplates the reconditioning of 4,350 kilometres of track and the reconditioning of a further 2,000 kilometres on which maintenance has been deferred, as well as the modernization of marshalling and shunting yards. At the same time, new diesel locomotives, coaches and wagons are to be purchased. The Plan provides for the gradual but complete dieselization of the Sarmiento, San Martín and Urquiza railways and stipulates that the Mitre railway should use steam traction in its shunting services only. There is no mention of the possibility of eliminating anti-economic lines, branch lines or services.

The Argentine railways are planning in 1966 to recondition some 486 kilometres of lines throughout the system, at an estimated cost of 4,374 million pesos, for which purpose 46,080 tons of rails, 817,000 sleepers and 1,257 tons of ballast stone would be used. Other efforts to improve the service include the purchase from Japan some time ago of 934 coaches for broad-gauge lines and 160 for narrow-gauge lines, which are gradually being delivered; 281 of these units entered into service in 1965. The same year, 56 diesel locomotives were brought into service, and it is planned to purchase 223 diesel units in 1966–67. In addition, some steam locomotives will be restored to service in order to reinforce the traction facilities, and to be

used later for shunting purposes. The inventory was further increased by 10 complete trains, including the new rail-cars purchased for the service between Mendoza and Las Cuevas, and a new train-ferry.

Towards the end of the year, bids were invited for 5 single-phase electric locomotives, a snow-plough and a tower wagon, which are to be used in the initial work on electrifying the first section of the Trans-Andean railway from Mendoza (Argentina) to Los Andes (Chile).

In Bolivia, the Empresa Nacional de Ferrocarriles was set up at the end of 1964, by merging the following railways: La Paz–Antofagasta (Bolivian section); Arica–La Paz; Villazón–Atocha; Potosí–Sucre–Tarabuco; Cochabamba–Misque; and La Paz–Chuspipata, representing a total of 2,064 kilometres of track. The western network includes the Machacamarca–Uncia railway (106 kilometres), which is administered by the Bolivian Mining Corporation (COMIBOL), and the Guaqui–La Paz line (97 kilometres) belonging to the Peruvian Corporation; while the eastern network, which is not connected with the western system, consists of the Santa Cruz–Corumbá and Yacuiba–Santa Cruz railways.

In the western network, services on the La Paz–Chuspipata railway (67 kilometres) and public traffic on the El Alto–Viacha line (23.7 kilometres) were discontinued in 1965. On the other hand, the 19-kilometre section of the Cochabamba–Santa Cruz railway between Tin-Tin and Misque that is currently under construction was opened to public traffic, and 6 additional kilometres of track were laid.

In 1964 the Government of Brazil donated 15 wood-burning locomotives to Bolivia, mainly for the Santa Cruz–Corumbá railway. The Bolivian railways purchased no traction or trailer equipment in 1965, nor are they negotiating any such purchases, in spite of the fact that the Two-Year Plan for 1965–66 provides for the purchase of diesel locomotives, rail-cars, freight wagons of different types, etc., with a view to reconditioning and modernizing the railway system.

In Brazil, the year 1965 marked the entry into force of the new National Transport Plan, which will be the basis for long-term transport policy and covers economic, social, political and military questions, as well as new infrastructure facilities for railway transport, with due regard for the transfer of the capital to Brasilia. Together with the adoption of this Plan, the Government submitted a programme of action aimed at the economic and operational recovery

⁴ Expenditure in 1965 was estimated by doubling the figure for the first six months of the year. Revenue is based on data for the whole year.

of Brazil's transport system, through such measures as the construction of new railways where such a step is clearly justified; better location of track at points where traffic bottlenecks occur; the intensification of commercial traffic by rationalizing costs; incentives to increase the volume of freight; improvements in the existing services; and the revision of rates.

In 1965, the Federal Railway Network pursued its policy of reducing the length of its transport lines, in accordance with a programme adopted in 1961 for the elimination of anti-economic branch lines; 395 kilometres of track, or 1.49 per cent of the total existing at the end of 1964, were taken up. Moreover, work began on the elimination of a further 356 kilometres of track, and it is expected that the remaining 2,925 kilometres, which make up the total of 6,568 kilometres originally envisaged, will be taken up in 1966. On the other hand, several new sections of railway lines were brought into service, e.g., 294 kilometres of the southern trunk line, which, on completion, will link Brasília to Rio Grande over a total length of 2,967 kilometres. In 1966 it is hoped to complete a further 750 kilometres of line, including another section of 248 kilometres on the southern trunk line, and the Japeri-Santa Cruz branch line for the transport of iron ore to a steel mill which is being erected in the State of Guanabara and to the future port of Sepetiba for export. In 1965, the widening of the gauge on a section of the Rêde Mineira de Viação permitted the distance between Belo Horizonte and the port of Angra dos Reis to be shortened by 176 kilometres. In addition, some 90,000 tons of rails and accessories are being purchased for replacement purposes on several sections of the Brazilian railways.

A total number of locomotives belonging to the Federal Railway Network was reduced by 186 in 1965, as a result of the programme for replacing steam locomotives by higher-powered diesel-electric and diesel-hydraulic units to obtain more traction capacity. The reduction in traction stock applies not only to steam locomotives (129), but also to diesel locomotives (49) and electric units (6). The same downward trend is noticeable in the number of freight wagons and passenger coaches: the former decreased by 895, and the latter by 109.

If the increase in the total volume of traffic is considered in conjunction with the reduction in the number of locomotives, it will be seen that productivity rose from a total of 12.72 million traffic units per locomotive in 1964 to 13.90 million units in 1965, and from 260,000 to 287,000 ton/kilometres per wagon in commercial or revenue-earning transport.

The Government of the State of São Paulo signed a contract in 1965 for the manufacture in Brazil of 40 electric locomotives for the two State railways. The first 100 electric rail motor vehicles and 200 coaches also purchased from the domestic industry will shortly enter into service on the Rio de Janeiro suburban railways.

The Vitória-Minas railway belonging to the Companhia Vale do Rio Doce has begun to make use of the loan of 4.9 million dollars granted by IDB in 1964 for the expansion of the existing railway system and the purchase of new rolling-stock and locomotives. It has bought 4 heavy diesel-hydraulic locomotives as an experiment in this type of traction, whose relative merits compared with diesel-electric locomotives are still under discussion.

As regards action on a broader scale with a view to improving the management and operation of the railways belonging to the Federal Railway Network, mention should be made of the establishment of regional systems as a result of the complete or partial merger of two or more railways. Outstanding among these systems is the recently established Viação Férrea Centro-Oeste, which consists of three railways with a total length of 4,000 kilometres, while the setting-up of other regional systems is under study.

In Chile, a four-year investment plan was adopted in 1965, which envisages the complete overhauling of the services so as to help the State Railways to become financially self-sufficient. The following are the main points of the plan: the complete electrification of the southern network as far as Chillán; the replacement of 1,000 kilometres of line by welded rails; the purchase of 6,590 freight wagons and 450 passenger coaches to cover the existing deficit; the complete overhauling of the signalling and communications systems; and the replacement of traction equipment.

In addition, an up-to-date centralized traffic control (C.T.C.) system is being installed between Talca and Puerto Montt to provide greater safety for trains on the southern network, negotiations are under way with Argentina for the purchase of 500 wagons for immediate delivery and a like number for annual delivery in the future.

Towards the end of 1964 and in the course of 1965, Chilean industry manufactured a new type of double-gauge wagon with a capacity of 30 tons. These wagons are built on uniform lines and, by means of a complete change of bogies, can run on both narrow and wide gauge track. The railways have used them on the southern network (wide gauge) and northern network (narrow gauge), with facilities for switching

bogies at Calera. They have also been used to bring potatoes directly from Mendoza to Santiago, the bogies being switched at Los Andes. This double-gauge system may prove a good solution to the problem of the different gauges on various international and domestic connexions in the South American countries.

In order to prevent accidents owing to the advanced age of the rolling-stock in use, Chile's State Railways have reduced the maximum speed and load for goods trains.

In Colombia, after the substantial investment made in building and equipping the Ferrocarril del Atlántico, the railways seem to be going through a phase of less capital investment. No locomotives were bought in 1965, following the purchase of 23 diesel units in 1964 and 16 in 1963. The rolling-stock was increased by 761 wagons of different types to take care of the larger volume of freight traffic.

In Uruguay, a transport plan prepared by the Investment and Economic Development Committee (CIDE) was adopted recently. Its aim is to meet internal transport needs, to obtain a larger share of international transport services, and to raise the standard of efficiency throughout the system, at the lowest possible cost to the economy as a whole. The Railway Investment Programme for 1965-70 provides for the replacement of 300 kilometres of line and the reconditioning of 400 kilometres; the re-equipping of the Rivera and Rio Branco stations; the purchase of 25 rail-cars, 62 coaches, 28 vans and nearly 1,000 freight wagons. Total investment in the sixties would amount to 1,030.5 million pesos, only 15 million pesos having been invested in 1965 and 161 million being envisaged for 1966.

For its passenger services, Uruguay's railways (Empresa Ferroviaria Uruguaya) possess 31 rail-cars, most of which have been in use for over twenty years, and 16 recently manufactured metal coaches, the rest of the stock being made of wood and largely obsolete. The freight wagons are still in good shape in spite of their age, and 500 additional units purchased recently have already been put into service. The total wagon inventory in 1965 consisted of 1,815 open and covered wagons, 648 cattle wagons and 67 tank wagons. As regards traction, the whole stock of Uruguay's railways (110 locomotives) is dieselized, with the exception of 15 steam locomotives for reinforcing the traction facilities and for shunting services.

In Mexico, no great changes have taken place in the situation, length of network or operation of the railways in the last few years. In 1965 work went ahead on the general programmes

which are now being implemented. The national railways' investment plan for 1965 provided for a total of 650 million pesos; this included 185 million pesos for track and other infrastructural facilities; 35 million for haulage equipment; 35 million for electrical telecommunications and telegraph services; 6 million for housing and other social projects for workers; and 90 million for completion of facilities for coaches and freight wagons at Aguas Calientes. This programme includes investment funds budgeted by the Federal Government, and a certain amount of foreign credit negotiated earlier and earmarked for the purchase of equipment, rails and machinery not manufactured locally. In July 1964, Eximbank granted Mexico a loan of 13 million dollars as a contribution towards the reconditioning of the railways and for the purchase of locomotives, machinery and other equipment. The equipment purchased included 40 diesel locomotives and 100 second-class passenger coaches.

3. HIGHWAYS

Activities in the Latin American countries continued to forge ahead at a satisfactory pace in 1965, as regards both the improvement in the quality of the paved network and the construction of new roads. In general, highway agencies have intensified their efforts to improve the arterial highways and to initiate or continue the implementation of long-term plans on secondary roads and on roads to open up the interior.

(a) *International highways*

Good progress was made during 1965 on the construction, and projects for the construction, of international highways, which are of paramount importance for the integration of Latin America. As regards the Pan American Highway System, work has continued on the paving of several sections and only a small proportion remains to be paved to make it open to traffic all the year round. In Chile, for example, virtually the whole of the longitudinal arterial highway from Arica to Santiago and from Santiago to Puerto Montt is now paved: this is also true of the highway between Mexico City and Panama City, on completion of the missing links in Guatemala, Costa Rica and Panama. Colombia has started to build some parts of the Darien stretch; Peru obtained a loan from IDB to build, in the vicinity of the Chilean border, the only section (109 kilometres) that still remains to be paved in that country. In Argentina, the paving of the stretch to Asunción, Paraguay, has continued and a joint Argentina/Paraguay committee has been set up to survey 273 kilometres of the trans-Chaco highway. Bids were invited by the Government

of Guatemala for 76 kilometres of the Pan American Highway between San Cristobal, Totonicapán and Puente Arroyo. At the same time, work has progressed slowly but surely on the difficult stretch known as the Darien gap, and 75 per cent of the engineering studies for the 580-kilometre highway from Santa Fé (Panama) to Las Animas (Colombia) has been completed. The length of the Pan American Highway System has been gradually increasing and by the beginning of 1966, as a result of the addition of alternative routes, amounted to 47,698 kilometres of which 32,959 kilometres (69 per cent) were paved, 11,396 kilometres (24 per cent) were all-weather roads, 2,070 kilometres were dry-weather roads and 1,273 kilometres were gaps in the Highway.

Another of the major international highway projects—the Carretera Marginal Bolivariana de la Selva—made great strides in 1965. The aim of this project, which has been vigorously encouraged by the Government of Peru and supported by the Governments of Bolivia, Colombia and Ecuador, is to link up the unexplored areas east of the Andes through which flow the three principal rivers of Latin America: the Orinoco, the Amazon and the Paraná. This highway, some 5,600 kilometres long, would stretch from Santa Cruz, Bolivia, to Arauca, on the border between Colombia and Venezuela, passing through Peru and Ecuador. IDB gave 200,000 dollars and each of the four countries concerned contributed a like sum to finance a preliminary engineering and economic feasibility study, which was presented at the Regional Conference of the International Road Federation (IRF) held at Lima in May 1965. The highway would comprise 950 kilometres in Bolivia, 2,460 kilometres in Peru, 860 kilometres in Ecuador and 1,320 kilometres in Colombia. According to the conclusions of the study, 3,800 kilometres of new road would have to be built, at a cost of approximately 350 million dollars, in order to complete the highway. The study further establishes that, although the construction of the highway is desirable from an economic standpoint, in view of the countries' needs in terms of internal roads, and the resources at their disposal, it would not be possible for Colombia to complete its section before 1975, for Ecuador and Peru before about 1980, or Bolivia before 1985. The Carretera Marginal Bolivariana de la Selva project is also promoted by the Permanent Executive Committee of the Pan American Highway Congress, whose relevant sub-committee—composed of Bolivia, Colombia, Ecuador, Peru and Venezuela, while Brazil and Paraguay have applied for membership—is exploring the possibility of embarking

on a more detailed engineering study for some of its sections. Guyana and French Guiana have asked to be included in the project.

As regards the Pan American Transversal Highway (Carretera Transversal Panamericana) in South America—which is to link the cities of Rio de Janeiro, Paranaguá, Asunción, La Paz and Lima, and is 5,460 kilometres long, with 1,700 kilometres in Brazil, 1,000 kilometres in Paraguay, 1,460 kilometres in Bolivia and 1,480 kilometres in Peru—the international bridge over the Paraná River which links Foz do Iguazu to Puerto Stroessner was opened to traffic in March 1965, and is the continuation of the paved highway from Puerto Stroessner to Asunción, in Paraguay. Furthermore, IDB granted a loan of 20 million dollars to cover half the cost of completing the highway from Foz do Iguazu to the port of Paranaguá, in Brazil.

Although the development of international road links takes the form of individual projects, rapid progress is being made on a road network which is to connect Chile, Argentina, Uruguay and Brazil. The paved highways from Valparaíso to Mendoza, the road between Argentina and Uruguay which is intended to surmount the obstacles represented by rivers, and the modern highway between Uruguay and Brazil, will form part of this network.

Little headway was made in 1965 on the Central American highway network, which is of fundamental importance for the economic integration of the area, and there were delays in the implementation of programmes. Road-building activities have consisted mainly in the preparation of general and specific studies, from which results are expected in the next few years, rather than in the physical execution of projects. Nevertheless, the efforts to achieve concerted action in relation to highways have continued and the regional network is expected to be practically completed in 1969–70. The Inter-American Highway will be wholly paved by 1970; some sections will have to be rebuilt and the existing highways between the Pacific and Atlantic seaboard will be improved, while new ones will be constructed in Honduras, Nicaragua, and Costa Rica.

External loans have been extended primarily to domestic road networks and only a very small proportion has been channelled through the Central American Bank for Economic Integration (BCIE), which is the agency responsible for investing in projects of regional scope. In 1965, AID granted BCIE the first regional loan, amounting to 4.5 million dollars to be distributed among infrastructural works designed to encourage the economic integration of Central

America. According to the programmes of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), this was an important step which will open up a new line of investment policy on the part of external financing agencies. In 1965, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) authorized loans of 6 million and 3.5 million dollars respectively, for construction of the highway from Tegucigalpa to San Pedro de Sula, which forms part of the transcontinental network and is included in the Central American highway programme.

In 1965, progress was also made in the improvement of international highways linking adjacent countries and in the conclusion of bilateral agreements. The study carried out by an IDB mission, which, among other activities, analysed the improvements made in the international road connexions on the border between Colombia and Venezuela, provides for a programme of 13 road projects—4 in Colombia, 1 in Venezuela and 8 joint projects—at an approximate cost of 25 million dollars.

One of the most important bilateral agreements is that concluded between Argentina and Chile on the basis of action adopted by the Joint Argentina/Chile Highway Committee. The principal project is the construction of a paved first-class highway from Valparaíso to Mendoza across the Andes, to be completed in 1968–69, which IDB has, in principle, undertaken to finance, and which will represent serious competition for the trans-Andean railway. In addition, it was decided to effect a series of maintenance operations and improvements on a further 9 road links, and to speed up the completion of the international roads from Coquimbo to San Juan, via Agua Negra, and from Osorno to Bariloche, via Puyehue.

As regards international road transport, the main movement—not counting strictly border traffic—is still among the countries on the south Atlantic seaboard. In this respect, attention should be drawn to the fact that the transport of bananas by lorry from the producing area of São Paulo to Montevideo⁵ has, since early 1965, completely replaced shipment of the bananas by sea. This is an interesting case of competition between transport by land and by sea. Despite the fact that the distance to Montevideo by lorry is 1,800 kilometres (600 kilometres of which are unpaved) this means of transport is preferred to

⁵ A proportion of banana exports—the exact figures are not available—is carried by lorry to Jaguarão, and hence by rail across Uruguayan territory.

Table 303. Argentina: Road-building and repairs (national network), 1961–65

Financial year	New works						Reconstruction (length (km))	Progressive improvement (length (km))
	Foundation and paving		Foundation and improvement of surface		Bridges			
	Length (km)	Percentage ^a	Length (km)	Percentage ^a	Length (km)	Percentage ^a		
November 1961–October 1962.	289	2.5	248	3.1	44	0.2	1,323	659
November 1962–October 1963.	434	3.7	442	0.5	49	0.2	1,057	184
November 1963–October 1964.	657	5.2	96	1.2	126	0.6	1,139	310
November 1963–December 1964 ^b	762	6.0	96	1.2	126	0.6	1,223	310
1965	174	1.4	67	0.9	79	0.4	760	225
1965–69 Plan								
Main road network	3,390	—	1,140	—	182	—	...	1,672
Annual average								785

^a Percentage increase in relation to roads with the same type of surface existing at the beginning of each financial year.

^b The figures have been revised because of the change in the financial year.

Sources: National Highways Department, Statistical Division, January 1966; 1965–69 Plan: National Development Council.

transport by sea from the port of Santos to Montevideo, the centre of production being 150–180 kilometres from Santos.

Towards the end of 1965, Argentina, Brazil and Uruguay explored the possibility of concluding a tripartite agreement on international land transport, with due regard for the fact that Uruguay would be the transit country for traffic between Brazil and Buenos Aires. This agreement would also provide for investment needs in respect of combined transport by lorry and the Uruguayan railways.

The first meeting of the ALALC Advisory Committee on Transport took place in August 1965 and dealt with the need for integrated action in relation to highways and motor-vehicle transport. Although no agreement was reached on the matter, the bases were laid for future studies.

The Central American Land Transport Association was established in 1965. It consists of the enterprises that are responsible in the Central American countries for overland passenger and freight traffic at uniform rates.

(b) National road systems

Argentina. The National Highways Department has gone ahead with the execution of the projects envisaged in its plan for 1959–69, despite certain setbacks, and has formulated an extension of the plan up to 1974. The moderate pace at which road works developed in 1962–64 was reversed in 1965, when the physical execution of projects fell off appreciably (see table 303 on page 376).

Various factors have contributed to the difficulties facing the Argentine highways agencies in completing the necessary road works—i.e., building, improvements, reconstruction and maintenance—on the internal networks. The highway agencies and road contractors maintain that Act 16,657, which taxes fuel, has not provided enough funds for road works at the national and provincial level, and that the funds should be increased considerably.

Argentina's slowness in drawing on the external credit at its disposal continued in 1965, by which time only 3.5 million dollars had been used of the 43.3 million dollars authorized; no external loans were received for these purposes in 1964 and 1965.

The precarious financial position of the National Highways Department is also apparent if a study is made of the financing of the 1965–69 plan for the main road network, as set forth in the report on the road plan prepared by the National Development Council (see table 304). It should be noted that the deficit in respect of roads belonging to the national network would be 60,000 million pesos, which would be partly offset by a surplus for the roads under provincial jurisdiction. Moreover, it should be borne in mind that, although the financial deficit would amount to about 42 per cent of the resources available for the main network, the plan provides for the speeding up of road works with respect to their rate in past years.

Bolivia. Although Bolivia's transport services clearly progressed in 1962–65—inasmuch as investment in the transport sector rose from 6

Table 304. Argentina: Financing of plan for the main road network,^a 1965–69
(Thousands of millions of pesos at 1964 prices)

	Total	1965	1966	1967	1968	1969
1. Total resources available	119.5	24.8	24.0	23.1	23.2	24.4
2. Commitments in respect of road works not included in the main network, and roads to promote agricultural development	9.9	1.7	1.8	2.0	2.1	2.2
3. Balance available for main network ^b	109.6	23.1	22.2	21.1	21.1	22.2
4. Expenditure on administration and overheads	12.4	2.2	2.4	2.5	2.6	2.8
5. Maintenance	24.3	4.7	4.8	4.9	4.9	5.0
6. External and internal credit servicing	12.7	1.3	2.4	3.1	3.1	2.9
7. Balance available for investment in the main network	60.2	14.9	12.6	10.6	10.5	11.5
8. Programmed investment ^b	105.9	13.1	15.9	21.7	28.0	27.1
9. Financial deficit ^b	-45.7	1.8	-3.3	-11.1	-17.5	-15.6

Source: National Development Council, *Informe sobre el plan de caminos*, Buenos Aires, 1965.

^a The main road network represents the new structure of the national and provincial arterial highways.

^b Including resources and investment on a national basis and contributed in part by the Federal Government. The deficits in the national network are larger than in the main road network.

per cent to 9 per cent of the gross product—there is still an urgent need to build new roads and improve those already in existence.

The total length of Bolivia's road network in 1964 was 19,634 kilometres, of which barely 2.8 per cent is paved and all-weather roads constitute only 25 per cent. To solve the problem of over-land communications, the Government has prepared a three-year road works plan which provides for the construction, maintenance and improvement of 14,850 kilometres of highway. To that end, financial assistance has been forthcoming from AID, which in September 1964 granted Bolivia a loan of 33.2 million dollars for road works to give several isolated areas access to the markets. In January 1966, AID granted Bolivia an additional loan of 5 million dollars.

Work was completed on some feasibility studies for the construction of highways with a total length of 1,400 kilometres, including the roads from La Paz to Puerto Salinas (520 kilometres) and from La Paz to Cochabamba (140 kilometres), which would form part of the Pan American Transversal Highway.

According to unofficial estimates, the reconditioning of Bolivia's road network and the infrastructure works needed to promote the country's economic development would entail an investment of approximately 250 million dollars.

Brazil. By 31 December 1964, Brazil possessed a highway network of 548,510 kilometres, made up as follows: Federal network—39,749 kilometres, of which 13,068 kilometres were paved; State networks—83,502 kilometres, of which 5,662 kilometres were paved; municipal networks—425,259 kilometres, almost all of which were unpaved.

In 1965 a recovery was noted in the physical

execution of road works on the Federal network, which had declined the year before, but the 1962-63 level was not regained (see table 305).

Table 305. Brazil: Federal highways completed, 1962-65

Year	Paving (km)	Paving as a percentage of existing network	Foundation (km)	Foundation as a percentage of existing network
1962 .	1,216	12.6	1,262	3.8
1963 .	798	7.4	1,293	3.7
1964 .	550	4.8	676	1.9
1965 .	570 ^a	4.9	901 ^a	2.5

Source: Office of the Minister Extraordinary for Planning.
^a January-September.

The Federal Government has prepared a new three-year highway programme for 1964-66 and has completely revised the system of designation in respect of the highways composing the Federal network. The investment provided for in 1965 and 1966 (see table 306) is considerably higher than the 1964 figure, and this is in line with the physical execution of road works completed. Furthermore, Brazil would start to make use of the substantial external credits obtained in 1964 and 1965, which, as will be seen later, amount to 120 million dollars.

Brazil's highway resources have been obtained largely from the flat tax on fuels and lubricants, supplemented by Federal and State budget appropriations and external loans. The Federal Government has established a new policy whereby road works must be financed by the users of highways instead of by budgetary contributions. In line with this policy, the internal resources for road works on the national

Table 306. Brazil: Investment in highways under the Government Economic Action Programme, 1964-66^a

(Thousands of millions of cruzeiros at June 1964 prices)

	1964	1965	1966
<i>Total investment</i>	293.4	343.4	363.7
National currency	293.4	316.0	334.7
Foreign currency	—	27.4	29.0
<i>Source of funds</i>			
Federal budget	105.9	—	—
Special funds	40.8	121.0	132.5
State and municipal resources	146.7	180.2	186.6
External credit	—	42.2	44.6

Source: Government Economic Action Programme, November 1964.

^a Federal, State and municipal highways.

network in 1965 were forthcoming solely from the tax on fuels and lubricants.

In the course of 1965, IDB granted Brazil a loan of 20 million dollars to cover the cost of road works on the highway joining the port of Paranaguá, on the Atlantic seaboard, with Foz do Iguacu, on the Paraná River. AID is also helping to finance this project, with a loan of 10 million dollars. The total cost of the project, which is estimated at approximately 40 million dollars, covers the widening and paving of two sections of the highway: a stretch of 86 kilometres from Paranaguá to Curitiba, and another of 571 kilometres from Ponta Grossa to Foz do Iguacu. This highway project is intended to remedy the shortcomings of freight traffic to Paranaguá, through which there is a sizable flow of trade. The project will be completed by the enlargement and improvement of this port.

Large purchases of road-building equipment are programmed in the States of Minas Gerais, Pará and Goiás. For this purpose, Brazil received 7 million dollars from AID, as part of a total loan of 43.4 million dollars for a programme of reforms in the agricultural sector. In 1964, AID had extended loans for a total of 28 million dollars for the road network in the Nordeste region, and had also provided technical assistance in the preparation and execution of projects. The tendency to give priority to road-building activities in the Nordeste was counterbalanced in 1965 by investments in other areas, particularly the south. A loan was also received from AID for road-building activities in the State of Rio Grande do Sul, and another of

10 million dollars for infrastructural works in the State of Minas Gerais.

Likewise, in 1965, IBRD advised the Brazilian Government on its transport programme, with a view to incorporating this sector in the General Development Plan for 1967-76.

Central America. The over-all transport policy of this area changed drastically in 1965. In general, work proceeded on the execution of the various projects undertaken, although there were serious delays in the programmes. The course of action followed thus far with respect to investment in highways has been to place most emphasis on linking up production centres with cities and ports, so as to give the best possible service to the various economic sectors involved.

Chile. Table 307 shows the road works completed and the expenditure of the Highways Department up to 1964. The length of paved highway has gradually increased, but at a slower pace in 1964. Work on the construction of stabilized roads and improvement and maintenance activities have decreased in terms of kilometres with respect to previous years. The sums earmarked for road-building and maintenance have increased in terms of constant prices, being 17.8 per cent higher in 1964 than in 1963.

In 1965, the Government gave special priority to speeding up the execution of a plan involving the improvement of 107 transversal roads, with a total length of 3,788 kilometres, work on which had been delayed.

In order to help finance Chile's road works, IBRD authorized a loan of 19 million dollars

Table 307. Chile: Road works completed and expenditure of the Highways Department,^a 1960-64

	1960	1963	1964
<i>Road works (kilometres)</i>			
Concrete paving	123	203	279
Bituminous paving	173	393	340
Total paving	296	596	619
Percentage ^b	9.4	12.3	11.3
Building of stabilized roads in accordance with new layout	115	469	372
Improvement	6,706	2,478	2,292
Maintenance	47,523	42,123	36,308
<i>Expenditure (millions of escudos at 1964 prices)</i>			
Investment and maintenance	114.5 ^c	143.3	168.8
Administration	21.0	12.9	10.3
TOTAL	135.5	156.2	179.1

Source: Ministry of Public Works, Highways Department.

^a Excluding investment in the construction of airports.

^b Total paving as a percentage of total length

of the existing paved network in the year concerned.

^c Includes 4 million escudos for the reconstruction of roads damaged by the May 1960 earthquakes.

in 1961 for several building and improvement projects, and additional loans for 39.8 million dollars were granted by AID in 1961-62. No further loans were extended by external financing agencies in 1964 and 1965 and those previously authorized are now being utilized.

A law was enacted in 1965 by virtue of which the funds deriving from the Copper Act, which were formerly earmarked for the longitudinal highway, may be used each year for the construction of transversal roads throughout the country, since work on the arterial highway has been practically completed.

As part of the transversal road plan, it was decided in 1965 that 107 kilometres of road would be built in the province of Valdivia in order to connect important agricultural production centres with consumer markets. Similar projects are to be carried out in the provinces of Coquimbo, Colchagua and Cautín.

Also in 1965 an important agreement was concluded between the Government of Chile and the relevant authorities of the State of California regarding the preparation of a development programme for the Aysén area and the construction of the infrastructure works needed to promote a sounder economy in that part of the country. The building of an international trans-Andean highway that would connect the port of Valparaíso and the town of Mendoza (Argentina) is at present under study.

Ecuador. The highway network of some 15,000 kilometres constitutes the principal means of transport in Ecuador. Nevertheless, it is still in the early stages of development, as borne out by the fact that only half the roads are open to traffic all the year round. In order to improve the highway network, an IBRD technical mission helped to draw up a five-year programme for 1965-70, which would be implemented with the financial and technical assistance of IBRD, IDA, AID and IDB. The new plan, which was launched in 1965, involves a total investment in highways of 1,131 million sucres, 709 million of which will be obtained through loans from the four agencies mentioned above, and the remaining 422 million from the National Highway Fund. The sum of 511.5 million dollars will be expended on building 640 kilometres of paved roads in the main network, the most important sections of which are Santo Domingo-Quirundé-Esmeraldas, Quevedo-Babahoyo and Naranjal-Machado.

There is also a plan covering supplementary roads with a total length of 997 kilometres, in which 428 million sucres are to be invested.

These secondary or branch highways are expected to meet needs at the provincial level by establishing connexions in extensive and fertile areas, particularly the Sierra.

Although there is no information available about the road works carried out in 1965, special attention is known to have been paid to the maintenance of existing highways, and work has proceeded on the road-building projects already under way.

Mexico. The country's steady growth in the last ten years has been a decisive factor in the speeding up of highway network improvements, a sphere of action in which Mexico takes the lead in Latin America besides being the country to receive the largest amount of external aid for the extension and paving of its highway network.

Mexico possesses at present some 56,400 kilometres of all-weather highways, of which 33,400 kilometres are paved roads, 17,000 kilometres are improved-surface roads and 6,000 kilometres are earth roads. Of these roads, about 23,000 kilometres are arterial highways and the rest are secondary roads linking the interior of Mexico with the main system.

Table 308 shows the road works and investment programme for 1965, in which attention was focused on the maintenance, reconstruction and modernization of the Federal, State and toll highways. Progress was made, in particular, on the road works already under way, and an order of priority was established on the basis of indexes of rates of return and benefit to the

Table 308. Mexico: Road works and investment programme for 1965

Item	Kilometres	Millions of pesos
Maintenance and reconstruction of Federal network and bridges ^a	22,580	441.7
Construction and completion of arterial highways ^b	5,200	524.2
Co-operation with States and continuation of work on 190 roads ^c	5,100	499.6

Source: *Revista de Comercio Exterior*, Mexico, January 1965.

^a Including plan of road signs, the continuation of work on the reconstruction of 1,000 kilometres and the initiation of a further extension of 213 kilometres.

^b Comprising 46 road projects, some of which supplement the co-operational programmes (Pacific coast highway).

^c Including the maintenance of 29,500 kilometres of State network and the execution of other works on more than 500 local roads.

community. Attention has also been centred in recent years on the construction of secondary or branch roads, and a programme has been prepared for the purpose comprising 224 projects divided into three stages. To that end, Mexico received in 1965 the largest loan that IDB has ever granted for highways, i.e., 54 million dollars, to finance 60 per cent of the first two stages. The technical and economic aspects of the projects covering these two stages have already been examined, and it is expected that the feasibility studies will be carried out within the next three years. The total cost of the three stages of the programme is estimated at 150 million dollars.

In addition, IBRD granted Mexico a loan of 32 million dollars early in 1965 to help defray the cost of expanding its system of toll highways. This project comprises the building of four new highways—Apasco—Irapuato, Guadalajara—Zapotlanejo, Orizaba—Córdoba and Peñón—Texcoco—with a total length of 141 kilometres; the widening and improvement of the toll section and two free sections on the México—Querétaro highway, totalling 208 kilometres; the construction of three toll bridges: La Peidad (Michoacán), and Nautla and Tecolutla (Veracruz); and the purchase of accounting and other equipment for the operation of tollhouses. The total cost of the project is estimated at 78.1 million pesos and will take four years to complete.

Peru. Expenditure on road-building has increased substantially (from 7 million dollars in 1960 to 26 million dollars in 1965). The Peruvian Government has taken special steps to intensify the work of linking up the mountain and jungle areas (Sierra and Selva), which have a great economic potential, with the coastal region, where the major population centres are situated.

Of the 41,500 kilometres of highway in Peru, 10 per cent are paved, 17 per cent are stabilized roads and the remaining 73 per cent are non-stabilized roads in a poor state of repair, of which about 40 per cent can be considered as all-weather roads.

Nearly all the paved and stabilized roads are in the coastal region, and the rest are spread over the Sierra and Selva. In 1965–68, the Government of Peru is proposing to carry out a reconstruction programme for 2,800 kilometres; 60 per cent of the estimated cost of 130 million dollars would be defrayed with local funds and the rest with external aid. The programme consists of 13 projects; the cost of the technical and economic feasibility studies is estimated at 2.25 million dollars, and they are

being carried out with the assistance of IDB, IBRD and AID.⁶

In September 1965, IBRD approved a loan of 33 million dollars to finance part of the reconstruction of the road from Oroya, an important metal-working centre, to Aguaytia. It is 486 kilometres long and forms part of the Central Trans-Andean Highway (Carretera Central Transandina), which links the Lima-Callao area with the newly developing areas in the Amazon region, making it open to traffic all the year round. These projects are expected to be completed by 1970.

In December 1964, IDB announced that a loan of 4 million dollars had been approved for Peru, to finance a project covering a section of 126 kilometres which would connect Montalvo with Puerto Fiscal, near the Chilean border. This is the only section of the Pan American Highway in Peru that still remains to be paved.

Uruguay. Although there is no complete inventory of Uruguay's highway network, its total length is currently estimated at 48,935 kilometres, of which 18.3 per cent belong to the national network and the rest are Departmental roads. Of the 8,935 kilometres of the national road network, 2,015 are paved; of these, 355 kilometres are paved-surface roads and 1,660 are stabilized roads with bituminous paving. The remainder of the national network—77.4 per cent—consists mainly of unpaved roads (gravel and crushed stone)—6,585 kilometres—while approximately 305 kilometres are non-stabilized roads. The Departmental highways and roads, which constitute branch roads of the national network, total 40,000 kilometres, of which only 2,000 kilometres are unpaved (gravel and crushed stone), minimum improvements have been carried out on 15,000 kilometres, and the remainder are natural roads.

As in other Latin American countries, Uruguay's highway network is a radial system with its centre in the capital, which affords reasonable road connections between the towns in the interior and Montevideo, but not between one another. At the same time, there is a decided lack of all-weather secondary or branch roads.

The physical execution of road works on the national network has been greatly intensified in the last few years, as well as investment in terms of constant prices (see table 309).

In 1965, a highway programme was drawn up for 1965–74, special attention being focused on the construction of transversal highways and

⁶ The feasibility studies concerned are being carried out by foreign firms of consultants under the supervision of the Ministry of Public Works.

Table 309. Uruguay: Road works carried out and investment and expenditure effected in respect of the national network, 1960-64

	1960	1962	1963	1964
<i>A. Road works carried out (kilometres)</i>				
Building of gravel and crushed stone roads	56.3	226.6	198.2	238.0
Improvement	109.0	178.2	131.5	145.0
Bridge-building	0.6	2.1	1.7	1.4
<i>B. Investment and expenditure effected (millions of pesos at 1963 prices)</i>				
Investment	51.9	105.8	86.1	117.2
Expenditure on maintenance	63.8	70.0	55.4	65.1
TOTAL	115.7	175.8	141.5	182.3

Source: Investment and Economic Development Commission (CIDE).

improvements on the arterial highways branching out from Montevideo. In the first three years of the Ten-Year Plan (there are no data available on its implementation in 1965) action would be taken to step up the rate of investment in the national network, in terms of constant prices, the increase envisaged in relation to 1964 being 77 per cent in 1965, 100 per cent in 1966 and 104 per cent in 1967 (see table 310). The amounts set aside for maintenance are lower than in previous years, when they included a large proportion of items for reconstruction works which were really investments.

The amount invested in road works on the national network during the three-year period will permit the building of 500 kilometres of unpaved roads (gravel and crushed stone), the

construction of bridges totalling 5,785 metres and the reconstruction of 910 kilometres of highway, by giving them a bituminous or asphalt surface.

The programme also provides for improvements on secondary highways, under the responsibility of Departmental highway authorities; the work would be co-ordinated with the national programme by an *ad hoc* commission composed of representatives of the agricultural sector, road transport authorities and the appropriate development plan authority. The 1965-67 programme includes the reconstruction and improvement of the north to south arterial highway, which is 485 kilometres long and runs through the country from Montevideo to Rivera, and the construction of the transversal

Table 310. Uruguay: Ten-year Development Plan: investment and expenditure in respect of road works, 1965-67
(Millions of pesos at 1963 prices)

	1965	1966	1967
<i>I. National road network</i>			
<i>Investment</i>	206.9	234.0	238.9
Road works	147.7	188.1	206.9
Equipment	25.3	8.2	—
Improvement	27.7	27.7	22.0
International agreements	6.2	10.0	10.0
<i>Maintenance</i>	40.0	40.0	40.0
<i>Total national road network</i>	246.9	274.0	278.9
<i>II. Departmental investment</i>			
Construction	—	70.1	117.2
Improvement	—	50.0	90.0
Equipment	—	4.0	6.0
		16.1	21.2

Source: Investment and Economic Development Commission (CIDE).

road joining Tacuarembó in the interior with the port of Paysandú, on the Uruguay river. In addition, a firm of consultants is studying the feasibility of extending this transversal road eastwards for a further 195 kilometres to link up Tacuarembó with the city of Melo, near the Brazilian border.

Other road works envisaged include the construction of 304 kilometres of highway between Montevideo and Aceguá, and of a 72-kilometre section connecting Castillos with Chuy, through the Department of Rocha; this would provide communication in the south-east with the Brazilian border and the Santa Victoria-Pelotas highway, which bears a great deal of international traffic. There is a project to build another transversal highway of 160 kilometres which would start from Ercilda Paullier, pass through the Departments of Canelones and San José, and facilitate communication with a large sector of the agricultural and farming area in southern Uruguay. Bids have been invited for the construction of the approaches to a 590-metre bridge between the town of Mercedes and the right bank of the Negro river, which is of great importance for the coastal region.

Since the highway network is considered to be fairly well developed, the funds earmarked for highways in the 1965-69 investment programme for the transport sector are less than in previous years. During the period concerned, some 8,500 kilometres of highway will be built or improved, i.e., about 40 per cent of the length of network existing in 1963. The implementation

of these programmes will open up newly developing areas, mainly in the north of Guatemala and on the Atlantic seaboard of Honduras, Nicaragua and Costa Rica.

In 1965 international and foreign financing agencies lent the Central American countries a total of 45.9 million dollars for the building and improvement of highways.

The same year, a mission of AID experts visited El Salvador to conclude the negotiations for a loan of 1.7 million dollars to cover a study of the financing of the agricultural development programme for the Valle de Zapotitlán, which includes the building of roads.

IDB granted Honduras a loan of 10.1 million dollars to build a stretch of 202 kilometres in the Rio del Hombre-Potrerrillos section, including the construction of a bridge over the Ulúa River. The loan covers 40 per cent of the total cost of the construction project, which embraces the Northern Highway joining Tegucigalpa to San Pedro Sula (325 kilometres), and will form part of a broader project for a transcontinental network to connect Puerto Cortés with the Inter-American Highway as far as the Golfo de Fonseca. IBRD and IDA will grant a joint loan of 9.5 million dollars for this project and the rest will be financed by the Government. In 1964, AID had provided a loan of 500,000 dollars for the construction of an approach road of 96.6 kilometres in north-east Honduras, which will link up Corocito with San Esteban.

In 1965, IDB granted a loan of 12 million dollars from the Special Operations Fund to

Table 311. South America and Mexico: Water-borne foreign trade, 1964
(Millions of tons)

Country	Exports			Imports			Water-borne foreign trade as a percentage of total
	Total	Water-borne	Percentage	Total	Water-borne	Percentage	
Argentina	13.4	13.3	99	8.5	8.4	99	99
Brazil	14.6	14.3	98	18.2	18.1	99	99
Chile	11.3	11.3	99	3.2	3.1	97	99
Colombia	6.0	6.0	99	1.5	1.4	93	99
Ecuador	1.3	1.3	99	0.4	0.4	98	99
Mexico	13.6	8.4	62	4.4	1.6	36	56
Paraguay	0.4	0.4	97	0.3	0.3	90	94
Peru	9.7	9.7	100	2.2	2.2	99	99
Uruguay	0.6	0.6	98	2.0	1.9	94	96
Venezuela	184.3	184.3	100	2.9	2.9	100	100
TOTAL	255.2	249.6	98	43.6	40.3	93	97

Sources: Argentina, Brazil, Chile, Ecuador, Mexico and Peru: 1964 foreign trade yearbooks; Colombia: *Boletín Estadístico Mensual*, April

1965; Paraguay: Central Bank, *Boletín Estadístico Mensual*, August 1965; Venezuela: Central Bank, *Informe Económico*, 1964.

help finance the construction of 609 kilometres of secondary roads in various parts of Nicaragua. The total cost of the programme is 17.2 million dollars; it includes the building of three approach roads with a total length of 154 kilometres, which will provide road connexions between the cotton-growing areas in north-east Nicaragua and on the central Pacific seaboard, south of Managua, and 16 local roads with a total length of 455 kilometres which will link up 38 towns and villages over an area of 8,500 square kilometres in the dairy-farming region of Matagalpa. In addition, Eximbank granted Nicaragua a loan of 2.8 million dollars to help finance the purchase of road building and maintenance equipment.

Eximbank granted Costa Rica a loan of 7 million dollars in 1965 to cover half the cost of completing the Inter-American Highway, while the other half is to be borne by the Government.

4. WATER-BORNE TRANSPORT

(a) *Water-borne foreign trade traffic*

Lack of complete data makes it necessary to restrict comment to certain Latin American countries—Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela, and to take the year 1964 as the immediate point of reference. These countries have continued to conduct their foreign trade mainly by water-borne transport (see table 311 on page 383). The proportion of the total that was carried by ships in 1964 was practically the same as in 1963; in South America the percentage remained the same, between 94 and 100 per cent, and in Mexico it rose from 48 to 56 per cent.

The total water-borne traffic of these countries, which had already risen to 253 million tons in 1963, as against 249 million in 1962, continued to rise to 290 million tons in 1964. Of this total 13.7 million tons represented reciprocal trade, which was 17 per cent higher than in 1963; 250 million represented exports, which were 15 per cent higher, and 26.6 million represented imports, which had also risen by 15 per cent (see table 312).

As regards the composition of the foreign trade schedule, liquid fuels, which for several years had accounted for about 68 per cent of the total, fell to 64 per cent, while dry cargo rose from 32 to 36 per cent. As in previous years, the bulk of the exports of petroleum and petroleum products were from Venezuela. The imports of liquid fuels continued to go mainly to Brazil (11.9 million tons of a total of 18.2 million). As usual, over half of the exports and imports of

Table 312. South America and Mexico: Water-borne foreign trade by type of cargo, 1962-64
(Millions of tons)

Type of traffic	Liquid fuels			Dry cargo			Total			Percentage of total		
	1962	1963	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964
Reciprocal trade	9.3	7.9	8.5	4.2	3.8	5.2	13.5	11.7	13.7	5.4	4.6	4.7
Exports	153.2	158.1	166.5	59.4	59.9	83.1	212.6	218.0	249.6	85.4	86.2	86.1
Imports	7.1	7.1	9.8	15.8	16.1	16.8	22.9	23.2	26.6	9.2	9.2	9.2
Total water-borne traffic	169.6	173.1	184.8	79.4	79.8	105.1	249.0	252.9	289.9	100.0	100.0	100.0
Percentage of total	68	68	64	32	32	36	100	100	100	100	100	100

Sources: As for table 311.

dry cargo were to or from Argentina, Brazil and Chile. Of the total exports of dry cargo of 83 million tons, nearly 40 million were of iron ore (as against 32 million in 1963), the main exporters being Venezuela (15 million tons), Brazil (10.5 million), Chile (8 million), and Peru (5 million). The other major items of dry cargo, in descending order of magnitude, were cereals from Argentina (9 million tons), fish meal from Peru (1.4 million) and coffee from Brazil (1 million).

(b) *Intra-regional traffic*

Reciprocal trade among the ten countries listed above, despite a large rise in tonnage in 1964 compared with 1963 (as can be shown in table 313), has not yet returned to the 1962 level, when it represented 5.4 per cent of the region's total foreign trade, and still constitutes less than 5 per cent of the total tonnage. Of the 13.7 million tons registered for 1964, 62 per cent consisted of petroleum and petroleum products, and the remainder was equally divided between general cargo and bulk cargo. The latter had risen considerably since 1963, when it amounted to only 1.5 million tons. Items carried in cold storage, on the other hand, remained in the region of 100,000 tons a year.

With respect to traffic flows, the southern tip of the continent, as before, accounted for the bulk of the dry cargo, and Venezuela remained the main supplier of liquid fuels in Latin America (see table 314).

The general structure of regional traffic was the same as in previous years, although there was some increase in the proportion of the total represented by trade between Argentina, Brazil and Chile. For the first time it is possible to give

figures for the participation of the flag lines of the ALALC countries in intra-Area traffic (see table 315). Although in some cases the percentages are estimates, and in others the official figures are not complete, table 315 is regarded as reflecting the existing situation. As the table shows, the proportion of trade carried in flag lines of the ALALC countries amounts to almost two-thirds of intra-Area trade, a much higher proportion than has been estimated up to now.

As regards the proportion of each country's intra-Area trade carried in flag lines of ALALC nations, Paraguay heads the list with 100 per cent, the percentages for the other countries being Uruguay 89, Brazil 75, Argentina 65, Peru 53, Colombia 48, Chile 46, Ecuador 44 and Mexico 23. The percentages of the intra-Area trade of each country carried under its own flag are: Argentina and Paraguay 42 per cent each, Uruguay 39, Chile 35, Brazil 30, Colombia 20, Ecuador 6 and Peru 5.

These figures are significant, and indicate considerable headway on the part of the Latin American merchant fleets vis-à-vis competition from outside the Area. This is due partly to the countries' greater awareness of the importance for their economies of carrying cargo in their own bottoms, and partly to the creation of new flag lines of the countries of the Area, which are now partaking in the region's trade.

It should be noted that the statistics given relate only to the nine countries belonging to ALALC, and do not cover Venezuela, because of the lack of data about its traffic. In any case, Venezuela's trade with the other Latin American countries is insignificant, apart from its exports of liquid fuels.

Table 313. South America and Mexico: Intra-regional traffic, 1961-64
(Millions of tons)

Type of cargo	1961	1962	1963	1964
Liquid fuels	9.2	9.3	7.9	8.5
General cargo	1.9	2.3	2.2	2.6
Bulk cargo	0.9	1.7	1.5	2.6
Refrigerated cargo	0.1	0.2	0.1	0.1
TOTAL, intra-regional traffic	12.1	13.5	11.7	13.7
TOTAL, foreign trade	234.7	249.0	252.9	290.0
Intra-regional traffic as a percentage of total foreign trade	5.2	5.4	4.6	4.7

Source: As for table 311.

Table 314. ALALC and Venezuela: Intra-regional maritime trade, by type of cargo, 1964
(Thousands of tons)

Exporting countries	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela	Total
Argentina											
Liquid fuels . . .		15	—	—	—		62	47	16	—	140
Bulk cargo . . .		914	—	28	—		50	300	170	17	1,479
General cargo . . .		83	77	15	7		51	25	118	43	419
Refrigerated cargo . . .		52	3	—	—		—	8	—	—	63
TOTAL		1,064	80	43	7		163	380	304	60	2,101
Brazil											
Liquid fuels . . .	44		—	—	—	—	—	—	1	—	45
Bulk cargo . . .	641		—	—	—	—	—	—	—	—	641
General cargo . . .	692		19	8	—	8	—	2	28	25	782
TOTAL	1,377		19	8	—	8	—	2	29	25	1,468
Chile											
Liquid fuels . . .	43	11		—	—	—	—	—	—	—	54
Bulk cargo . . .	267	10		—	—	—	—	1	—	—	278
General cargo . . .	69	81		6	2	24	—	29	10	2	223
Refrigerated cargo . . .	—	2		—	—	—	—	5	—	—	7
TOTAL	379	104		6	2	24	—	35	10	2	562
Colombia											
General cargo											
TOTAL	32				8	6		138	1	9	194
Ecuador											
Liquid fuels . . .	17	—	—	—	—	—	—	—	—	—	17
General cargo . . .	—	—	7	14	—	—	—	13	—	—	34
Refrigerated cargo . . .	—	—	23	—	—	—	—	—	—	—	23
TOTAL	17	—	30	14	—	—	—	13	—	—	74
Mexico											
General cargo											
TOTAL	13	35	26	12						88	174
Paraguay											
General cargo											
TOTAL	234								24		258
Peru											
Liquid fuels . . .	62	97	51	—	—	—	—	—	—	—	210
Bulk cargo . . .	165	—	—	—	—	—	—	—	—	—	165
General cargo . . .	47	29	131	16	6	35	—	—	6	21	291
TOTAL	274	126	182	16	6	35	—	—	6	21	666
Uruguay											
General cargo											
TOTAL	54	3						2			59
Venezuela											
Liquid fuels . . .	1,240	4,807	529	17	375	75	11	263	714	—	8,031
General cargo . . .	91	—	16	22	—	5	—	13	—	—	147
TOTAL	1,331	4,807	545	39	375	80	11	276	714	—	8,178
TOTAL	3,711	6,139	882	138	398	153	174	846	1,088	205	13,734
Liquid fuels . . .	1,406	4,930	580	17	375	75	73	310	731	—	8,497
Bulk cargo . . .	1,073	924	—	28	—	—	50	301	170	17	2,563
General cargo . . .	1,232	231	276	93	23	78	51	222	187	188	2,581
Refrigerated cargo . . .	—	54	26	—	—	—	—	13	—	—	93

Source: Argentina, Brazil, Chile, Colombia, Ecuador and Peru: 1964 foreign trade yearbooks; Mexico: *Revista Estadística Mexicana*, February 1965; Paraguay: Central Bank, *Boletín Estadístico Mensual*, December 1965;

Uruguay: Banco de la República Oriental del Uruguay, Department of Economic Research; Venezuela: Department of Statistics and Censuses *Boletín de Comercio Exterior*, December 1964.

Table 315. ALALC: Water-borne intra-area trade, by flag lines, 1964^a

Country	National flag lines		Flag lines of other ALALC countries		Flag lines of third countries		Total (thousands of tons)
	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	
<i>Argentina^b</i>							
Exports to ALALC .	852	43	793	40	333	17	1,978
Imports from ALALC .	947	40	223	9	1,197	51	2,367
TOTAL, intra-area trade	1,799	42	1,016	23	1,530	35	4,345
<i>Brazil</i>							
Exports to ALALC .	180	17	368	35	499	48	1,047
Imports from ALALC .	525	41	674	52	93	7	1,292
TOTAL, intra-area trade	705	30	1,042	45	592	25	2,339
<i>Chile</i>							
Exports to ALALC .	188	34	59	10	312	56	559
Imports from ALALC .	121	38	38	12	157	50	316
TOTAL, intra-area trade	309	35	97	11	469	54	875
<i>Colombia</i>							
Exports to ALALC .	31	17	40	23	106	60	177
Imports from ALALC .	23	21	15	13	74	66	112
TOTAL, intra-area trade	54	20	55	20	180	60	289
<i>Ecuador^a</i>							
Exports to ALALC .	1	1	19	43	25	56	45
Imports from ALALC .	5	10	17	33	30	57	52
TOTAL, intra-area trade	6	6	36	38	55	56	97
<i>Mexico^a</i>							
Exports to ALALC .	—	—	33	29	80	71	113
Imports from ALALC .	—	—	36	20	148	80	184
TOTAL, intra-area trade	—	—	69	23	228	77	297
<i>Paraguay^c</i>							
Exports to ALALC .	111	43	146	57	—	—	257
Imports from ALALC .	54	39	85	61	—	—	139
TOTAL, intra-area trade	165	42	231	58	—	—	396
<i>Peru^c</i>							
Exports to ALALC .	42	8	340	65	141	27	523
Imports from ALALC .	—	—	133	30	321	70	454
TOTAL, intra-area trade	42	5	473	47	462	47	977
<i>Uruguay</i>							
Exports to ALALC .	8	12	45	66	15	22	68
Imports from ALALC .	141	45	147	46	28	9	316
TOTAL, intra-area trade	149	39	192	50	43	11	384
TOTAL							
Exports to ALALC .	1,413	30	1,843	39	1,511	31	4,767
Imports from ALALC .	1,816	35	1,368	26	2,048	39	5,232

Sources: Prepared on the basis of circulars of the Latin American Association of Shipowners (ALAMAR) and its associates on Area traffic statistics, and on the following information. Argentina: Department of Statistics and Censuses, *Intercambio comercial argentino con los países de la ALALC, 1964*, and Institute of Merchant Fleet Studies (unpublished statistics); Brazil: Brazilian Merchant Fleet Commission (unpublished statistics); Chile: Department of Transport (unpublished statistics); Colombia: ALAMAR circulars; Ecuador: Port Authority of Guayaquil (unpublished statistics); Mexico: *Revista de Estadística*, January

1965; Paraguay: Central Bank, *Boletín Estadístico Mensual*, February 1965; Peru: *Boletín del Banco Central de Reserva*, February 1965; Uruguay: Transatlantic Navigation Centre, *Estadísticas 1964*, Montevideo.

^a The slight differences between these figures and those in earlier tables are due to the fact that the periods concerned are not exactly equal.

^b These figures do not include 610,000 tons of sand and stone imported from Uruguay.

^c The share of the various flag lines has been estimated on the basis of incomplete data.

(c) *Merchant fleets*

The total gross tonnage of the merchant fleets of South America and Mexico fell to 142,000 tons in 1964, a reduction of 2.8 per cent, which represents a drop of 3.4 per cent for cargo vessels and 2.1 per cent for tankers. In 1965 (incomplete year) there was a small rise of 3.3 per cent over 1964 in the number of merchant vessels (see table 316). Additions to the merchant fleets totalled 265,000 gross tons, mainly recently built ships, while reductions totalled 104,000 gross tons, of which 21,000 tons were lost by shipwreck, and the rest went to the breakers' yards. The largest increases were in Brazil, Mexico, Colombia and Chile, and Ecuador's merchant fleet also increased its tonnage; Paraguay and Uruguay maintained their numbers, and Argentina, Venezuela and Peru reduced them, all three for the second consecutive year. In terms of the type of vessel, the increases were 2 per cent for freighters and 5 per cent for tankers. Although in general the rise in tonnage was slow, the capacity of the merchant fleets was strengthened through the replacement of a large number of ships that were laid up by more modern, faster and more economic vessels.

During 1965 the Latin American merchant fleets once again passed the 5 million gross tonnage level, from which they had declined in 1964 (see table 317). In fact the present total is 5,032,000 gross tons, of which 54 per cent represents dry cargo vessels (freighters and bulk cargo vessels), mixed passenger and cargo ships, and

a few passenger ships, and 46 per cent represents tankers (carrying petroleum, gasoline or, in a few cases, liquefied gas). These percentages are much the same as in 1964.

(d) *Port and harbour facilities*

Except in Brazil, the poor port and harbour facilities in Latin America have persisted or even worsened, with a consequent rise in the shipping and freight rates on many routes. In most countries there was a recrudescence of slow-downs and strikes among port and harbour personnel and dockers, and in addition there has been a general increase in the pay of this personnel, and in port and harbour costs and charges for ships and cargoes.

In Argentina labour troubles continued, with a series of strikes for higher wages, overtime demands, etc. This led to harbour congestion that adversely affected the transporting of cereals to foreign markets. Moreover, the wage increases led to rises in harbour dues, wharfage, lighthouse fees and buoyage charges. The end result was that one shipping conference asked the Argentine authorities to reduce the increase in their port fees, since otherwise shipping charges would have to be raised.

In Brazil pilotage rose 25 per cent in Rio de Janeiro, and port dues rose 50 per cent in most ports. At the request of the shipping companies, the Government decreed that the new port tariffs would not enter into force until thirty days after publication, thus solving a long-standing problem.

Table 316. South America and Mexico: Variations in tonnage of main merchant fleets, by type of vessel,^a 1964-65
(Thousands of gross tons)

Country	Total			Dry cargo vessels ^{b,c}			Tankers		
	Increases	Reductions	Total variation	Increases	Reductions	Total variation	Increases	Reductions	Total variation
Argentina .	101.0	231.8	-130.8	59.1	136.3	-77.2	41.9	95.5	-53.6
Brazil .	116.8	90.7	26.1	74.8	87.3	-12.5	42.0	3.4	38.6
Chile .	63.3	63.8	-0.5	33.9	37.7	-3.8	29.4	26.1	3.3
Colombia .	59.4	24.2	35.2	43.3	24.2	19.1	16.1	—	16.1
Ecuador .	15.6	7.7	7.9	13.9	6.0	7.9	1.7	1.7	—
Mexico .	104.8	14.1	90.7	52.3	14.1	38.2	52.5	—	52.5
Paraguay .	—	—	—	—	—	—	—	—	—
Peru .	7.3	14.8	-7.5	6.5	14.8	-8.3	0.8	—	0.8
Uruguay .	32.4	17.7	14.7	32.4	17.7	14.7	—	—	—
Venezuela .	28.8	45.8	-17.0	13.7	30.8	17.1	15.1	15.0	0.1
TOTAL	529.4	510.6	18.8	329.9	368.9	-39.0	199.5	141.7	57.8

Source: Institute for Merchant Fleet Studies, *La marina mercante iberoamericana*, September 1965.

^a Includes only vessels with a registered gross tonnage of 500 or over.

^b Includes passenger ships.

^c The figures for 1965 are incomplete.

Table 317. South America and Mexico: Evolution of main merchant fleets^a
(Thousands of gross tons)

Country	1963			1964			1965		
	Total	Freighters ^b	Tankers	Total	Freighters ^b	Tankers	Total	Freighters ^b	Tankers
Argentina .	1,594	813	781	1,473	757	716	1,464	736	728
Brazil .	1,658	1,050	608	1,621	1,014	607	1,684	1,037	647
Chile .	354	255	99	330	228	102	353	251	102
Colombia .	166	144	22	167	145	22	201	163	38
Ecuador .	35	31	4	33	31	2	43	39	4
Mexico .	354	69	285	391	90	301	444	107	337
Paraguay .	20	17	3	20	17	3	20	17	3
Peru .	229	166	63	227	164	63	222	158	64
Uruguay .	138	73	65	153	88	65	153	88	65
Venezuela .	465	114	351	456	105	351	448	97	315
TOTAL	5,013	2,732	2,281	4,871	2,639	2,232	5,032	2,693	2,339

Source: For 1963, *El transporte en América Latina* (United Nations publication, sales No.: 65.II.G.7), table 122.

^a Include only vessels with a registered tonnage of 500 or over. For 1963 and 1964 the figures are up to 31 December.

^b Include passenger ships.

In Chile strikes and slow-downs hampered work at various ports during a large part of the year, with consequent ill effects on maritime transport. Nevertheless, the Government took measures to eliminate payments of unauthorized waiting time to dock workers, to reduce surplus staff, and to improve controls in order to avoid losses of and damage to goods during loading and unloading.

In Venezuela there was also congestion in the ports of Cabello and Maracaibo, in the first case because of the increased traffic due to the expansion of the adjacent industrial zone, and in the second through silting up in the harbour alongside the wharfs.

(e) Increased freight rates

The increased cost of port operations is reflected in the changes that the Shipping Conferences had to make in the freight tariffs. Freight rates rose for traffic from Rio de la Plata to the United Kingdom and Ireland; between the United States and Argentina, Brazil, Paraguay and Uruguay; and from Europe to Chile, Colombia, Ecuador and Peru.

It is worthy of note that the Shipping Conferences with headquarters in the United States decided to impose a surcharge on freight rates to Latin America, on the grounds that operational costs were higher because of the congestion at the docks resulting from the prolonged strike in the United States early in 1965. However, the Federal Maritime Commission, invoking its legal powers to ensure uniform tariffs, refused to allow this increase, since the conges-

tion referred to was not confined to cargoes destined for Latin America.

(f) Port improvements

During 1965 work continued on the dredging of the access channels to the port of Buenos Aires, where continuous silting up often obliges trans-shipment of cargo to smaller vessels, with a consequent increase in costs. Work was also carried out in 1965 on the expansion of the port of Necochea.

Brazil has revised the system of paying dock workers, which gave rise to such incorrect interpretation of the rules as unjustified payments for handling insalubrious cargo, and for extra men, rain, and overtime shifts made necessary only because of slow-down tactics during regular working hours. New working conditions and scales of pay have been established to remedy the ills of this type permitted by the former regulations. In addition the Federal Government has allocated 33,000 million cruzeiros for renewal of equipment, improvements and expansion in fifty-two ports. Furthermore, Eximbank has provided a loan of 1.8 million dollars to finance imports of equipment for handling iron ore and coal in the port of Rio de Janeiro.

In Chile the first stage of the improvements to the port of Arica was completed, in the form of 300 metres of mole for the docking of deep-draught vessels, and other installations, all of which became operational in June 1965. When the construction programme has been completed, the port will be able to handle 1 million tons of shipping a year. The cost of the improvements

is estimated at 40 million escudos. In addition expansion work has been carried out at the port of Las Lozas for the loading of iron ore, and a preliminary project for the port of San Vicente has been completed, for which purpose a loan of 7 million dollars has been available, since 1964, from AID.

In Colombia 16 million pesos were invested in the programme to expand and modernize the port of Buenaventura, whose total cost will be about 200 million pesos. IDB will provide a loan of 10 million dollars for this work, and another of 5 million dollars for work to be carried out at the ports of Santa Marta, Barranquilla and Cartagena, which will involve a total cost of 10.3 million dollars.

In El Salvador the programme of expansion and improvement at the port of Acajutla was financed by an IDB loan of 3.2 million dollars in 1965. Guatemala signed a loan contract for 4.6 million dollars with Eximbank in 1964 for improvements to the port of Matías de Gálvez. Mexico allocated about 6.2 million dollars to port improvements in 1965.

In Paraguay a law was passed in 1965 establishing an autonomous port authority, the Administración Nacional de Navegación y Puertos, which is now responsible for port operations and inland waterway navigation. This body received a loan of 2.8 million dollars from IBRD for the expansion and improvement of the port of Asunción; the total project will require an investment of 4 million dollars and will take four years to complete. Furthermore, the Banco Exterior de España will finance the expansion of harbour installations in the port of Villeta, where Spain has been granted a free port.

In Peru authority was granted in 1965 for the construction works at the port of Pisco at Punta Pejerrey, and a modern sugar port has entered into operation in the Salaverry area, which cost 343 million soles.

(g) *Shipping policy*

The Latin American countries have continued their efforts to secure agreements that will permit them to take concerted action in shipping questions, as a means of progressing towards regional economic integration, promoting their exports, and reducing the deficits in their balances of payments by strengthening their own merchant fleets and obtaining for those fleets a larger share of intra-Area traffic.

Pursuant to a resolution of the Fourth Conference of the Contracting Parties to the Montevideo Treaty, held at Bogotá in 1964, ALALC convened a Government Meeting on Waterborne Transport (Montevideo, May 1965). This

meeting adopted a declaration of ALALC policy concerning maritime, river and lake transport, of which the main aims include (a) encouragement of the maintenance and expansion of the national merchant fleets of ALALC countries; (b) the reservation to the national flag lines of a substantial quota of intra-Area trade cargoes, to be achieved gradually on a multilateral basis; (c) an effort to ensure that the countries of the Area have modern merchant fleets with the capacity needed to carry intra-Area trade and a substantial part of the Area's foreign trade; (d) the standardization, simplification and codification of the legal provisions and regulations on sea, river and lake shipping; (e) increased efforts to improve port conditions as regards the material, administrative and labour aspects; (f) promotion of the establishment of regional shipping conferences; (g) the establishment of units to study maritime transport and freight problems, at the government level, with the participation of the sectors concerned; and (h) steps to harmonize the operating conditions of the Area merchant fleets.

There was no agreement, on the other hand, on the conditions for applying the reserve quota of cargo, and hence it was not possible to draft any agreement on shipping, even though some progress was made in preparing an agreement. Consequently the Government Meeting recommended that the task of working towards an agreement should be undertaken by the ALALC organs, and that in addition a Transport and Communications Council should be established, in accordance with one of the resolutions adopted by the Fourth Conference.

The Latin American Association of Shipowners (ALAMAR) has continued to study the draft agreement, and has held two special sessions (Punta del Este, January 1965, and Montevideo, April 1965), and a regular assembly (Asunción, September-October 1965), at which the subject was dealt with exhaustively. At the appropriate time ALAMAR presented its views to ALALC, which accepted most of them.

In accordance with another resolution of the Fourth Conference of the Contracting Parties, ALALC held a Meeting of Ministers for Foreign Affairs of the ALALC countries in November 1965, preceded by a Preparatory Technical Conference. Both meetings adopted, without amendment, the declaration of ALALC policy concerning maritime, river and lake transport drafted by the Government Meeting on Waterborne Transport. At the same time the Meeting of Ministers decided to ask the Transport and Communications Council to present to the Standing Executive Committee of ALALC, as

soon as possible, a draft ALALC agreement on water-borne transport.

(h) *Improvement of shipping procedures*

In 1965 further steps were taken to facilitate maritime, river and lake transport. There were meetings of the Group of Experts on the Facilitation of Water-borne Traffic, and the Permanent Technical Committee on Ports of the OAS (Lima, April 1965), when the draft Annex to the Mar del Plata Agreement was adopted. This draft annex, once ratified by the Special Inter-American Ports and Harbours Conference which is to meet in April 1966, will permit the Agreement to be put into effect; this represents a very important step in simplifying formalities and reducing the documentation now required for ships, passengers and cargoes.

In addition, a study on consular formalities in shipping was prepared, proposing the reduction, rationalization and eventual elimination of such formalities and of the corresponding fees, and a preliminary study on shipping charges was prepared giving details of the different taxes that add to the costs of water-borne trade in the Area.

Another important question was that of establishing some system or machinery for consultation between shippers' associations and shipping lines and conferences. This question was the subject of recommendations by the United Nations Conference on Trade and Development (UNCTAD) (March-June 1964) and by the ECLA Trade Committee at its fourth session (Santiago, Chile, 9-13 November 1964).

There does not exist in any Latin American country, even in the most rudimentary form, any such system of consultation, or shippers' associations or councils, to permit examination of the whole complex of shippers' problems and interests, and the representation and defence of those interests in some system of consultation with the Shipping Conferences. The first imperative step was therefore to establish direct contact between the existing associations of entrepreneurs in trade, industry, agriculture, mining, etc., in Latin America, especially those concerned with intra-regional and world trade, in order to draw their attention to the nature and importance of the problem and the need to establish shippers' councils on which the various interested bodies are represented, or in which they can participate.

The first step was taken in 1965, with the help of a United Nations technical assistance expert, during the year a Shippers' Committee was organized in Chile, and it was agreed to form other committees in Argentina, Brazil and Uruguay, while preliminary negotiations were under-

taken in Colombia, Ecuador, Mexico, Peru and Venezuela.

Experience to date confirms that as a general rule the shippers are not organized to deal with maritime transport problems, and that the ship-owners' conferences have shown a certain reluctance regarding the establishment of the proposed shippers' councils and consultation machinery. Nevertheless, the strong support given to the setting-up of these bodies by the bulk of the trade associations and interested parties in the trade and production sectors seems to augur substantial progress in the near future.

5. AIR TRANSPORT⁷

(a) *General*

In the Latin American region, geographical and economic conditions have hindered the construction of an adequate system of surface transport. In the past, therefore, many parts of the region relied heavily, wherever possible, on sea and river transport. Since 1945, however, the situation has been changing rapidly as a result of the large-scale introduction of air transport services, first domestic and then international. Industrialization has given rise to a growing volume of intra-regional trade, to higher per capita incomes, to a growing demand for transport services, both passenger and freight, and to a greater need for regional co-ordination and integration. At the same time air transport, being relatively unaffected by terrain and climate, and having more moderate capital requirements than surface transport, has provided a means for penetration into the hinterland and for establishing frequent and regular connexions between all population centres. Because of the evident advantages of using air transport in Latin America, air transport, and particularly air freight, has been more highly developed than in most other areas of the world.

The demand for air transport in Latin America was about 520 million ton-kilometres in 1954, and 1,200 million ton-kilometres in 1964. These figures are an estimate of all traffic (passenger, cargo and mail, international and domestic) carried on the scheduled services of the airlines registered in Latin America. Passenger traffic constituted about 68 per cent of the total (3,100 million passenger-kilometres) in 1954 and about 72 per cent (9,800 million passenger-kilometres) in 1964.

Table 318 shows the passenger traffic on

⁷ The aim of the present section, which is based on data supplied by the International Civil Aviation Organization (ICAO), is to give a broad picture of the present situation of civil aviation in Latin America.

Table 318. Latin America: Traffic and capacity of scheduled air transport services,^a 1954-64

Year	Millions of ton-kilometres performed				Load factor ^b (percentage)
	Passengers (including excess baggage)	Freight	Mail	Total	
<i>Total international and domestic traffic</i>					
1954 . . .	354	154	13	521	60.4
1955 . . .	375	165	14	553	57.8
1956 . . .	459	186	14	659	60.8
1957 . . .	531	202	15	748	61.2
1958 . . .	560	215	18	793	57.1
1959 . . .	604	223	19	846	56.4
1960 . . .	690	236	17	943	58.2
1961 . . .	682	245	18	945	55.1
1962 . . .	719	262	16	997	55.9
1963 . . .	771	281	19	1,071	55.8
1964 . . .	864	316	20	1,200	56.6
<i>International traffic</i>					
1954 . . .	95	30	7	132	54.3
1955 . . .	106	31	7	144	51.2
1956 . . .	134	41	7	182	55.3
1957 . . .	154	48	8	210	54.9
1958 . . .	181	58	10	249	49.8
1959 . . .	212	61	11	284	52.3
1960 . . .	282	67	9	358	55.5
1961 . . .	295	85	9	389	51.9
1962 . . .	310	85	10	405	53.4
1963 . . .	329	105	11	445	52.4
1964 . . .	395	120	12	527	53.7
<i>Domestic traffic</i>					
1954 . . .	259	123	6	388	62.8
1955 . . .	269	133	7	409	60.5
1956 . . .	325	145	7	477	63.2
1957 . . .	377	154	7	538	64.1
1958 . . .	379	158	7	544	61.1
1959 . . .	392	161	9	562	58.7
1960 . . .	408	169	8	585	59.9
1961 . . .	387	161	8	556	57.7
1962 . . .	409	176	7	592	57.7
1963 . . .	442	176	7	625	52.4
1964 . . .	470	196	8	674	59.2

Source: International Civil Aviation Organization (ICAO), Department of Economics and Statistics.

^a Total traffic on each airline included in the region in which the line is registered.

^b Ratio of ton-kilometres available to those performed.

scheduled services in the period 1954-64, as well as the annual increases in the total ton-kilometres performed.

However, the growth of scheduled air traffic in Latin America over the past decade has varied considerably from one category to another with the result that the structure of this traffic changed appreciably between 1954 and 1964. The average annual rate of growth for all traffic (passenger, cargo and mail) during that period was 8.8 per cent for Latin American airlines, which was substantially lower than the world average of 13 per cent. Further examination of the figures reveals that this lag has been caused entirely by the slow development of domestic traffic (6 per cent) since international traffic increased almost as rapidly in Latin America (15 per cent) as the world average (16.6 per cent).

(b) *Classification of traffic: international and domestic, passenger and freight*

The proportion of total traffic carried on the scheduled international flights of Latin American airlines grew from about 25 per cent in 1954 to about 44 per cent in 1964. The latter figure is lower than the percentage for the world (48 per cent), for Africa (78 per cent) and for Europe (89 per cent), but higher than for the United States and Canada. The reason for these differences with other regions lies in the importance of domestic air transport operations in some of the Latin American countries.

A glance at the structure of the traffic carried by Latin American airlines will show that, considered as a percentage of all air traffic, passenger traffic increased from 68 per cent to 72 per cent in all services in the decade 1954-64, with an increase of 72 per cent to 75 per cent in

Table 319. Latin America: Air traffic on scheduled services, 1959 and 1963
(Millions of ton-kilometres)

Country	Total traffic				Domestic traffic			
	Passengers, freight and mail		Freight		Passengers, freight and mail		Freight	
	1959	1963	1959	1963	1959	1963	1959	1963
Mexico	124.2 ^a	147.3 ^a	24.2 ^a	26.3 ^a	85.1 ^a	78.9 ^a	18.3 ^a	20.0 ^a
Costa Rica	7.7 ^b	14.8 ^b	4.1 ^a	8.2 ^b	1.9 ^a	2.6	0.6 ^a	1.2
El Salvador	7.4 ^a	11.4 ^a	2.5 ^a	4.8 ^a				
Guatemala	5.3 ^a	5.6 ^a	2.1 ^a	2.7 ^a	2.5 ^a	1.6 ^a	0.6 ^a	0.5 ^a
Honduras	8.9 ^a	8.0	5.0 ^a	4.4	3.7 ^a	2.2	1.7 ^a	1.0
Nicaragua	4.4 ^c	4.5	3.3 ^c	1.6	2.3	1.0	1.8	0.4
Panama	5.0 ^a	8.0 ^a	0.6 ^a	2.1 ^a	1.0 ^a	1.1 ^a	0.1	0.2 ^a
Cuba	39.0 ^b	22.2	13.3 ^b	4.2	7.1 ^b	9.8	0.8 ^b	1.0
Dominican Republic	1.2 ^a	1.0 ^a	0.2 ^a	0.2 ^a	0.6 ^a	0.5	0.1 ^a	0.1 ^a
Others	24.7	48.9	1.4	4.8	4.4	6.3	0.3	0.2
SUB-TOTAL	227.9	271.7	56.7	59.3	108.6	104.0	24.3	24.7
Argentina	73.3	92.5	7.8	7.7	33.2	42.5	3.4	3.4
Bolivia	5.9 ^c	4.5	2.6 ^a	1.8	5.4 ^{ac}	3.0	2.3 ^{ac}	1.3
Brazil	311.8 ^a	370.9 ^b	85.0 ^a	101.6 ^a	261.7	277.8 ^a	78.3 ^a	81.6 ^a
Chile	35.9	56.0	4.9	20.1	20.4	41.4	3.6	16.3
Colombia	112.7	149.1	45.0	45.1	84.6 ^c	112.9	37.0 ^{ac}	36.5
Ecuador	4.4	4.7 ^a	0.9	1.0 ^a	2.7 ^b	2.9 ^a	0.6 ^b	0.7 ^a
Paraguay	1.6	2.2 ^a	0.6 ^a	0.7 ^a	1.6	1.5 ^b	0.6 ^a	0.6 ^a
Peru	18.7 ^{ac}	24.4 ^{ac}	6.5 ^a	5.8 ^{ac}	15.5 ^c	13.8 ^{ac}	6.0 ^c	4.9 ^{ac}
Uruguay	5.3	5.5 ^a	0.3	0.6 ^a	1.4	1.4 ^a	0.2	0.1
Venezuela	48.0	78.6	12.4 ^a	35.5	26.3 ^b	22.2	4.7 ^a	5.2
Others	0.8	1.3	0.5	0.7	0.7	1.3	0.5	0.7
SUB-TOTAL	618.4	789.7	166.5	220.6	453.5	520.7	137.3	151.3
TOTAL	846.3	1,061.4	223.2	279.9	562.1	624.7	161.6	176.0

Source: ICAO, Department of Economics and Statistics, December 1964.

^a Estimates.

^b Provisional figures.

^c Including unscheduled flights.

international and 67 per cent to 70 per cent in domestic services. During the same decade, freight decreased from 30 per cent to 26 per cent in all services, but remained practically unchanged in international services (23 per cent) while dropping from 32 per cent to 29 per cent on domestic services.

A comparison of domestic and international services reveals that in the same period 1954-64 the proportion of passengers using international services increased from 27 per cent to 46 per cent, while the proportion of freight moved on international airlines almost doubled from 20 per cent to 38 per cent. It is worth while noting that freight absorbs a relatively larger share of total on the airlines of Latin America than those of other regions—26 per cent for all services in 1964 as opposed to a world average of 19 per cent, and 20 per cent for Africa or Europe in the same year (see table 319, on page 393, for information on total and domestic operations by country in 1959 and 1963).

(c) *Air transport operators*

There is a very large number of air transport operators in the Latin American region, most of which carry both cargo and passengers. In 1964, the total was 291, of which 127 were scheduled and 164 non-scheduled operators. Of these 291, however, only 115 use aircraft of more than 10,000 kilogrammes maximum take-off weight.

Operators using aircraft over 10,000 kg maximum take-off weight, 1964

	Total	International	Domestic
Scheduled	71	41	30
Non-scheduled	44	14	30
TOTAL	115	55	60

The majority of the 115 operators work on a very small scale. In fact, 94 of them use less than 10 aircraft, while 60 per cent of all civil air transport in the region is operated by 20 scheduled airlines.

(d) *Air transport fleet registered in Latin America*

Figures for 1964 indicate that there are about 950 transport aircraft in service in Latin America that are registered in some country of the region. Of this large number (over three times as many as are registered in Africa) only 38 are jet aircraft (about the same number as in Africa), and 68 are turbo-props. Of the jets, over half are Comets and Caravelles, and half of the turbo-

props in use are Viscounts. The remainder, almost 90 per cent of the total fleet, are piston-engined aircraft, and nearly 30 per cent of them are twin-engined. The 4-engined type are predominantly DC-4s and DC-6s and the 2-engine type are DC-3s, C-46s and Convairs. Indeed, well over half of all the transport aircraft in service in the region are obsolescent fully depreciated DC-3s and C-46s.

There are no modern freight aircraft registered in the region, all-freight services being operated mainly with DC-3s, C-46s, DC-4s, DC-6s and L-1049s.

As to the distribution of aircraft, about 37 per cent of these 950 aircraft are registered in Brazil and another 35 per cent in Venezuela, Colombia, Argentina and Mexico. Jet-powered aircraft are used by the airlines of only seven countries, on international and domestic services in the cases of Argentina, Brazil and Chile, and on international services only in the cases of Colombia, Mexico, Peru and Venezuela. About half of the 38 jets in service are registered in Brazil. Turbo-props are more widely used (in eleven countries) but about 37 per cent of them are registered in Brazil.

(e) *Traffic carried by different types of aircraft*

An analysis of the fleet that dealt only with the numbers of various types of aircraft in service would, of course, be incomplete and misleading. Because of the great differences in pay load, cruising speed and normal utilization, the proportion of traffic carried by each type bears no resemblance to the numerical proportion. Production capacity is a function of pay load, speed and utilization and, as a result, a modern 4-engine jet under optimum conditions can carry, in terms of ton-kilometres per hour, three to four times as much traffic as one of the later 4-engine piston types and twenty times as much as an aircraft such as the DC-3. A summary of the proportions of the traffic of Latin American airlines carried by the various types of aircraft is given below.

Proportion of scheduled traffic by type of aircraft, December 1963

Type	International	Domestic	Total
Jet	71	13	40
Turbo-prop	3	18	11
Piston, post-1950	13	9	10
Piston, pre-1951	13	60	39
	100	100	100

The outstanding fact revealed by this summary is the difference between international and domestic operations. Over 70 per cent of international traffic is carried in jets whereas in the domestic sector 60 per cent of the traffic is carried in piston-engine aircraft that entered into service prior to 1951. Of the 30 per cent of domestic traffic carried in jets and turbo-props, by far the greater part was accounted for by Argentina and Brazil.

(f) *Route network*

The international routes within the region provide reasonable links between all major cities in Latin America and between each of these and other American and Western Europe cities. Connecting routes also provide links with the other regions of the world.

The domestic route networks provided by the scheduled operators of the Latin American region provide most of the countries in the region with fairly comprehensive domestic networks. This means that almost any important population centre can be reached by air. These networks also contain domestic scheduled all-freight services in Argentina, Brazil, Chile, Colombia, Cuba, Mexico and Venezuela.

(g) *Load factors*

The over-all weight load factor for all traffic—passengers, freight and mail, international and domestic—of the scheduled carriers in the Latin American region was about 57 per cent in 1964. This figure was well above the world average of 51 per cent and the average for other American carriers of 48 per cent.

In 1964 the average load factor for the scheduled passenger traffic of Latin American carriers, was 55 per cent, which was lower than the world average (56 per cent). The average for domestic passenger traffic (57 per cent) was higher than for international traffic (52 per cent). As to scheduled freight traffic the average load factor was 59 per cent. An analysis of the components of this figure shows that the average was higher for domestic than for international freight traffic—63 per cent against 54 per cent—and the average for both domestic and international all-freight services was considerably above that for freight on mixed services—72 per cent against 58 per cent.

These load factors suggest that, over the region as a whole, the volume of air transport capacity provided for both passengers and freight matches real demand reasonably well under current market conditions. On the other

hand, a study of the load factors within each country shows wide variations with some indication that there are individual cases both of excess and of insufficient capacity.

(h) *Aircraft utilization*

The adequacy of the existing fleet, from the standpoint of its potential capacity, is obscured by the question of aircraft utilization. The actual capacity offered is, of course, roughly related by the operators to the volume of demand over a given period, with the objective of keeping load factors above the break-even level but not so high as to impair the quality of the service.

The average rates of aircraft utilization achieved by operators in Latin America are frequently well below the optimum. In other words, under more favourable conditions, better use could be made of the capacity of the existing fleet than at present. The most important factor contributing to this general under-utilization of equipment is the low traffic density on many of the routes operated. Another factor is the relatively small scale of operations of many of the carriers which tends to limit operational flexibility and the possibility of a satisfactory route network. The use of obsolescent equipment is also a contributing factor since the time required for maintenance and overhaul is greater. Moreover, with new and expensive equipment there is considerable pressure to achieve high rates of utilization, because of the effects of depreciation, amortization and insurance on operating costs, whereas this incentive is weaker in the case of the older, fully depreciated equipment that is widely used in Latin American domestic operations. These older aircraft also tend to have relatively high direct operating costs and their widespread use increases the difficulty of making the reductions in rates and fares that would be the most effective means of increasing demand and hence of making fuller utilization of the equipment.

(i) *Airline operating costs and revenues*

For eighteen Latin American airlines from which ICAO received financial statistics for the year 1963 (the latest available), total operating expenses amounted to 23.1 cents per ton-kilometre available (20 per cent above the world average of 19.3 cents), composed of 12.6 cents for direct operating costs⁸ and 10.5 cents for

⁸ Flight operations (including crew, fuel and oil, flight equipment insurance and rental), maintenance and overhaul, and depreciation and amortization costs under the head of flight operations (mainly crew, fuel and oil) were 38 per cent above the world average.

indirect costs.⁹ It should be emphasized that these data are averages, as both direct and indirect operating costs of aircraft and airlines vary substantially according to a number of factors.

To relate operating expenses to the fares and rates charged, it is necessary to convert them into cost per unit of traffic carried by applying the load factor. The average load factor for the eighteen airlines in question was about 61 per cent, and the resulting cost figure 37.7 cents per ton-kilometre performed; this was very close to the world average of 37.4 cents, because of the higher Latin American load factor.

Average operating revenues for the eighteen Latin American carriers per ton-kilometre, were as follows:

General average: 34.6 cents (11.7 per cent below the world average);

Passengers (scheduled services): 34.5 cents (22 per cent below the world average);

Freight (scheduled services): 19.9 cents (5 per cent above the world average);

Mail (scheduled services): 86.9 cents (118 per cent above the world average).

As a result these same airlines suffered a total operating loss of 3.1 cents per ton-kilometre performed, while the world airlines as a whole showed a profit of 1.8 cents.

(j) *Air freight*

ICAO carried out a study on air freight in Latin America which was published in June 1965 (ICAO Doc 8487-AT/720). Since air freight services are an important tool for the economic development of Latin America it is of interest to indicate the following major conclusions to be drawn from the ICAO study:

Statistics and market research: There is a general shortage of comparable statistical information on air transport and, in particular, on air freight operations in the region. Statistical programmes should therefore be expanded in many countries to provide data for the necessary research.

Air transport fleet. The fleet now operated by the carriers of the Latin American region contains a very large proportion of obsolescent aircraft with high direct operating costs, which is a contributing factor in the unfavourable financial balance of many of the region's carriers. Conse-

⁹ Station and ground costs (including landing fees), passenger service costs, ticketing, sales and promotion, and administration overheads. The level of indirect costs tends on an average to be about 80 per cent of direct cost; in the case of the eighteen Latin American carriers considered, this proportion amounted to 83 per cent.

quently, it is necessary to modernize the fleet as far as resources and traffic potential permit.

Airports. There are many airports in the region that are not capable of handling aircraft larger than the DC-3.

Routes and services. There appears to be a shortage of regional freight services in the area south of the Amazon, reliance being placed on the capacity offered by the long-haul trunk carriers. Because of the lower operating costs of all-freight services, it may be found desirable to encourage this type of operation when a sufficient traffic potential exists.

Demand for air freight and the rate structure. The pattern of air freight shows manufactured and semi-manufactured articles moving from Europe and the United States to the cities of the region and from the cities to the smaller towns. The return flow is made up largely of perishable goods such as fresh fruit and vegetables, fresh meat and fish and live animals. This latter category constitutes a much smaller volume than the former with the result that there is a serious imbalance in the traffic flow on many routes. Some improvement in this situation may be expected as industrialization proceeds and more manufactured articles are exported. Also improved packing and handling methods may increase the flow of perishable goods. However, the directional freight rates now widely used will continue to be required, and the levels of these rates, as well as other special promotional rates, call for regular review based on market research to ensure that they are really encouraging the growth of freight traffic.

Commercial services. In many countries of the region there is a shortage of air freight agents and forwarders. Where they do exist these organizations perform many of the essential commercial services, particularly in connexion with international freight transport. Perhaps their most important function from the airline's point of view is the promotion of air freight services, which is not nearly enough in many parts of the region at the present time.

Facilities. The growth of air freight transport is seriously hampered in many Latin American countries by the inadequacy of ground handling facilities, including warehouses for storage and customs clearance and machinery for lifting and moving the freight; extremely complicated and restrictive import and export regulations; and inefficient freight clearance procedures.

(k) *Ground facilities and air navigation services*

The safe, regular and efficient operation of air services requires adequate airports, radio

navigational aids and air traffic communications and meteorological facilities and services, which must be supplemented by aeronautical information publications, charts, and search and rescue services. ICAO establishes international standards, recommends practices and procedures and specifies the characteristics of the facilities and the manner in which the services must be organized and provided. In addition to this world-wide standardization, ICAO formulates regional plans with details of the individual facilities and services that must be provided in each region for the purposes of international air navigation.

(l) *Aerodromes and visual aids*

In the last decade a considerable effort was made by the Latin American countries to provide the required aerodromes and, in particular, runways of sufficient length and strength and terminal buildings. About 90 aerodromes for regular international use are included in the ICAO Regional Plans and 20 for use as alternates. Generally speaking runway length or strength is satisfactory and, in the few cases where it is not so, improvements are under way. Implementation leaves more to be desired in the case of marking and lighting at aerodromes, as only about two-thirds of the requirements have been satisfied up to now.

(m) *Air traffic services*

Since the beginning of international civil aviation in Latin America and for a long time thereafter, the airlines depended on flight information provided by their own services and facilities, which came up to the level of requirements only because of the very limited volume of air traffic. With the introduction in the fairly recent past of more airlines and the consequent increase in operation density this type of service is no longer adequate.

The ICAO Regional Plans call for flight information services over the entire Latin American region. This kind of service consists of the transmission to the aircraft in flight of meteorological information, advice on the serviceability of navigational aids, and on the condition of aerodromes and associated facilities, notification of other air traffic in the vicinity (to the extent that it is known to the flight information centre) and other information pertinent to safety. The Plans also call for area control service over a substantial part of Latin America. All the Flight Information Regions contemplated in the Plans have been established, with the exception of the Bolivian (La Paz) FIR and UIR, and flight information service is provided with

reasonable efficiency. Area control service is still unsatisfactory in some countries, but approach and aerodrome control services are quite good.

The ICAO Regional Plans include AFTN (Aeronautical Fixed Telecommunications Network) and aeromobile services. The former mainly requires radio teletypewriter circuits and many of them have not yet been established. In the case of the aeromobile service, provision of VHF en route installations is necessary and steady progress has been made, as in the case of the AFTN. With regard to radio navigational aids, the ICAO Plans call for about 260 NDBs (non-directional radio beacons) and most of them are being provided although in many cases they do not have the specified range. As for VOR (VHF omni-directional radio beacon), about 140 are included in the plan but only one-third of them has been installed. Finally, 13 ILS (instrument landing system) are required and only four are at present operating.

During the last three or four years plans for major development of COM facilities have been adopted by several of the States and it seems that as a result of the programmes in progress an integrated and modern system of communications facilities and radionavigation aids will be available by the end of 1966 along the west coast of South America from Balboa to Santiago. With the implementation of the Venezuelan programme, the situation along the northern coast of South America should be also satisfactory by the end of 1968, or earlier. On the other hand, it is doubtful that programmes for implementation of, or extensive improvements to, the communications facilities on the east coast of South America required in accordance with the ICAO Plan, will be completed by the time similar programmes covering facilities on the west coast are completed.

(n) *Meteorological services*

In most of the Latin American countries very little progress has been made in establishing meteorological services in general, i.e., for other than aeronautical purposes.

The basic meteorological network of stations in the majority of countries does not yet include stations other than those established primarily for domestic and international aeronautical purposes. Furthermore the regular collection and dissemination of basic MET information, even in those countries that have a more developed basic network of MET stations, is limited almost exclusively to the information provided by the aeronautical MET stations or disseminated over aeronautical fixed circuits. This has obviously

had an adverse effect on the quality of forecasts. The solution to these problems is primarily the responsibility of administrations in other than aeronautical fields and the rate of progress is still slow.

(o) *Air legislation*

All the Latin American countries are parties to the Convention on International Civil Aviation (Chicago, 1944) and therefore members of the ICAO. Under the auspices of ICAO the following international conventions on air law have been prepared:

- (1) Convention on International Recognition of Rights in Aircraft (Geneva, 1948).
- (2) Convention on Damage Caused by Foreign Aircraft to Third Parties on the Surface (Rome, 1952).
- (3) Protocol to Amend the Convention for the Unification of Certain Rules relating to International Carriage by Air signed at Warsaw on 12 October 1929 (The Hague, 1955).
- (4) Convention, Supplementary to the Warsaw

Convention, for the Unification of Certain Rules relating to International Carriage by Air Performed by a Person Other than the Contracting Carrier (Guadalajara, 1961).

Table 320 indicates the extent of the participation by Latin American countries in these Conventions, as well as in the Warsaw Convention on Unification of Certain Rules Relating to International Carriage by Air (Warsaw, 1929) and in the International Air Services Transit Agreement (Chicago, 1944).

6. TRANSPORT FINANCING AND POLICY

This concluding section gives a brief account of the main facts relating to the recent financing and external technical assistance furnished to the transport sector, and a detailed description of the transport policy adopted by Brazil which has some aspects that merit special attention.

(a) *External financing and technical assistance*

The difficulty experienced by the Latin American countries in financing transport investment

Table 320. Latin America: States parties to international air transport conventions

Country	Chicago Agreement, 1944	Warsaw Convention		Guadalajara Convention (supplementary to the Warsaw Convention), 1961	Geneva Convention, 1948	Rome Convention, 1952
		Warsaw, 1929	Protocol of The Hague, 1955			
Argentina .	×	×			×	
Bolivia .	×					
Brazil .		×	×		×	×
Chile .					×	
Colombia .						
Costa Rica .	×					
Cuba .	×	×			×	×
Dominican Republic						
Ecuador .					×	×
El Salvador	×		×		×	
Guatemala	×					
Haiti .					×	×
Honduras .	×					×
Jamaica .	×	×		×		
Mexico .	×	×	×	×	×	
Nicaragua .	×					
Panama .						
Paraguay .	×					
Peru .						
Trinidad and Tobago .	×	×				
Uruguay .						
Venezuela .	×	×	×			

Source: ICAO.

has continued to be one of the main obstacles not only to the implementation of fairly large-scale programmes but to the indispensable work of repair and modernization and, in some cases, to the proper maintenance of the infrastructure and equipment. In order to remedy this difficulty to some extent, the countries obtained further external loans in 1965 to finance imports and to cover some of their expenditure in local currency.

Table 321 lists the loans still outstanding at the end of 1965 granted to Latin America by four lending agencies—the International Bank for Reconstruction and Development (IBRD) and its subsidiary the International Development Association (IDA); the Agency for International Development (AID) of the United States Government; the Inter-American Development

Bank (IDB) and the Export-Import Bank (Eximbank).¹⁰

The sum total of the loans granted by the four agencies in 1965 is only 6 per cent more than in 1964, as the rate of growth prevailing in 1960–63 slowed down.

Each agency's contribution to the total varied greatly from 1964 to 1965. IBRD and IDA expanded their share from 19.3 to 27.3 per cent, and thereby recovered some of the ground they had lost. AID's contribution, on the other hand, shrank from 50.1 per cent in 1964 to 14.8 per cent in 1965, which is much the same figure as

¹⁰ Nearly all the loans given in 1965 have been listed, together with 30 million dollars authorized in January 1966.

Table 321. Latin America: External loans to the transport sector, by financing agency,^a up to 1965
(Millions of dollars)

	Railways	Highways	Motor vehicle transport	Airports and aviation	Ports	Total	Percentages
<i>IBRD and IDA</i>							
Prior to 1960	127.5	137.8	—	—	25.3	290.6	35.8
1960–63	48.6	328.6	—	—	—	377.2	53.4
1964	—	49.2	—	—	3.1	52.3	19.3
1965	—	80.0	—	—	2.7	82.7	27.3
<i>AID</i>							
Prior to 1960	—	17.4	—	1.6	—	19.0	2.3
1960–63	—	86.1	—	21.0	—	107.7	15.3
1964	—	125.9	—	3.3	7.0	136.2	50.1
1965	—	44.5 ^b	—	—	0.3	44.8	14.8
<i>IDB</i>							
Prior to 1960	—	—	—	—	—	—	—
1960–63	—	8.2	—	—	10.0	18.2	2.6
1964	4.9	10.5	—	—	1.5	16.9	6.2
1965	—	100.1	—	—	13.6	113.7	37.5
<i>Eximbank</i>							
Prior to 1960	361.4	102.3	—	13.8	25.0	502.5	61.9
1960–63	81.5	84.3	7.2	26.6	2.4	202.0	28.7
1964	26.0	26.5	—	9.2	4.6	66.3	24.4
1965	13.0	9.8	—	38.5 ^c	—	61.3	20.2
<i>Total</i>							
Prior to 1960	488.9	257.5	—	15.4	50.3	812.1	100.0
1960–63	130.1	507.2	7.2	47.6	12.4	704.5	100.0
1964	30.9	212.1	—	12.5	16.2	271.7	100.0
1965	13.0	234.4	—	38.5	16.6	303.0	100.0

Sources: Annual reports, bulletins and press releases of the credit agencies concerned.

^a Loans authorized and in force at 31 December 1965 from IBRD and IDA; at 30 September 1965 from AID; at 31 December 1965 from IDB; at 30 June 1965, and subse-

quent incomplete loans from Eximbank.

^b Includes a loan of 5 million dollars granted to Bolivia in January 1966.

^c Includes a loan of 25 million dollars granted to Argentina in January 1966.

in 1960-63. IDB, which had been playing a small part up to 1964, carried more weight in 1965 when it accounted for 37.5 per cent of the loans. Lastly, Eximbank, which only gives short and medium term loans for purchases in the United States, continued to reduce its share of the total from 61.9 per cent before 1960 to 20.2 per cent in 1965.

Among the different means of transport, road building and, in some cases, reconstruction and maintenance, continue to be given preference by credit agencies, especially those which grant long-term loans. In 1965 as in 1964, loans for these purposes accounted for nearly 78 per cent of the total and for 94 per cent if Eximbank is excluded. In the last two years, no loans have been granted for railways, except 4.9 million dollars granted by IDB to facilitate exports of iron ore from Valle to Rio Doce in Brazil and 39 million for the Mexican railways to finance purchases of equipment. Credits for air transport were given on a larger scale in 1965, but consisted of two Eximbank operations only, one of 25 million to Argentina and another of 13.5 million to Mexico for the purchase of jet aircraft. In 1964 and 1965 only 2.7 million were given to Brazil and 0.6 million to Bolivia for airport investment. Credits for port facilities in 1965 were as low as usual, and consisted almost entirely of three loans granted by IDB to Brazil, Colombia and El Salvador.

An analysis can be made of external loans classified by countries and means of transport, on the basis of table 322. Of the countries that were given long-term loans in 1964 and 1965 (except by Eximbank), Brazil ranks first with 30.8 per cent, followed by Mexico (19.6 per cent), Peru (11.5 per cent), Bolivia (8.8 per cent) and Ecuador (8.3 per cent), while no loans were granted to Argentina, the Dominican Republic, Guatemala, Haiti or Uruguay.

Delays in using loans continued to be a problem in several countries in 1965, possibly because national agencies, and, in particular, those concerned with road transport, have a low operational capacity. In some cases, difficulties have also been caused through the intervention of the lending agencies on the technical and accounting side of the projects in course of execution.

Side by side with their lending operations, the international and foreign financing agencies have been helping the Latin American countries by giving them technical assistance to improve economic and technical feasibility studies for projects that the institutions are prepared to back financially and for general transport programming. In 1964, IDB earmarked nearly 30 million dollars for this purpose and AID 7.5

million for studies and advisory assistance. These figures have not been included in the tables because it was impossible to determine the allocated amounts to the transport sector, although a certain proportion is almost certain to have been earmarked for it.

The technical assistance provided by IBRD took the form of special expert missions sent to evaluate the countries' economic resources and to determine each one's particular needs and problems in order to be able to advise them on the lines to be followed by their development programmes. Among the studies financed by IBRD, special mention should be made of the project for modernizing and improving the transport system, which was negotiated with the Government of Brazil at the end of 1965, and is the biggest undertaken so far in Latin America.

This study will cost 5.5 million dollars, of which 1.5 million will be contributed by IBRD to defray half the cost in foreign exchange. It will deal with only part of Brazil's transport system as the first stage in a comprehensive plan and four foreign firms are to be contracted to carry it out: one in the United States for railways and general co-ordination, one French firm for highways in Minas Gerais, one Danish concern for highways in Parana, Santa Catarina and Rio Grande do Sul, and a Dutch firm for waterborne traffic and a study of the ports of Santos, Rio de Janeiro and Recife.

With the aid of this external co-operation, the countries are finding it easier to surmount their difficulties in obtaining credit for projects whose economic feasibility had not been properly assessed. Similarly, technical assistance has enabled more intensive studies to be undertaken of development programmes for transport as a whole and its co-ordination with other economic sectors in over-all economic development programmes. On the other side of the balance-sheet, such assistance has tended to be given in a piecemeal fashion which has detracted from the effectiveness of the investments made.¹¹

(b) *Transport policy in Brazil*

The new transport policy launched by the Government of Brazil was one of the main events of 1965. The Government concentrated on reducing or eliminating the operational deficit in transport, which had to be covered by means of subsidies. It is thus hoped to shift the burden of the costs to the users through the application for higher freight rates and the

¹¹ See *El transporte en América Latina* (United Nations publication, Sales No.: 65.II.G.7), p. 300.

Table 322. Latin America: External loans to the transport sector, by country,^a up to 1965
(Millions of dollars)

	Railways	Highways	Motor vehicle transport	Airports and aviation	Ports	Total
<i>Argentina</i>						
Prior to 1960	85.0	2.8	—	—	—	87.8
1960-63	—	106.1	0.3	0.1	0.1	106.6
1964	—	—	—	—	—	—
1965	—	—	—	25.0 ^b	—	25.0
<i>Bolivia</i>						
Prior to 1960	—	33.4	—	1.5	—	34.9
1960-63	—	9.4	0.1	3.3	—	12.8
1964	—	33.2	—	0.6	—	33.8
1965	—	5.0 ^c	—	—	—	5.0
<i>Brazil</i>						
Prior to 1960	172.6	5.9	—	11.0	25.0	214.5
1960-63	19.8	—	—	13.8	—	33.6
1964	4.9	64.9	—	2.7	1.5	74.0
1965	—	55.0	—	—	5.9	60.9
<i>Chile</i>						
Prior to 1960	2.7	—	—	1.6	—	4.3
1960-63	20.0	25.0	0.2	13.7	—	58.9
1964	—	—	—	—	7.0	7.0
1965	—	—	—	—	—	—
<i>Colombia</i>						
Prior to 1960	40.9	47.3	—	—	—	88.2
1960-63	35.4	39.0	1.5	9.5	10.0	95.4
1964	—	—	—	—	—	—
1965	—	—	—	—	5.0	5.0
<i>Costa Rica</i>						
Prior to 1960	—	21.5	—	—	—	21.5
1960-63	—	16.3	—	—	—	16.3
1964	—	4.0	—	—	—	4.0
1965	—	7.0	—	—	—	7.0
<i>Dominican Republic</i>						
Prior to 1960	—	—	—	—	—	—
1960-63	—	4.0	—	—	—	4.0
1964	—	—	—	—	—	—
1965	—	—	—	—	—	—
<i>Ecuador</i>						
Prior to 1960	2.1	51.1	—	—	13.0	66.2
1960-63	—	2.7	0.2	—	—	2.9
1964	—	36.3	—	—	—	36.3
1965	—	—	—	—	—	—
<i>El Salvador</i>						
Prior to 1960	—	16.1	—	—	—	16.1
1960-63	—	8.0	0.2	5.2	0.8	14.2
1964	—	—	—	—	—	—
1965	—	—	—	—	3.0	3.0
<i>Guatemala</i>						
Prior to 1960	—	18.2	—	—	—	18.2
1960-63	—	18.0	0.5	—	—	18.5
1964	—	—	—	—	4.6	4.6
1965	—	—	—	—	—	—

[continued overleaf]

Table 322. (continued)

	Railways	Highways	Motor vehicle transport	Airports and aviation	Ports	Total
<i>Haiti</i>						
Prior to 1960	—	2.6	—	—	—	2.6
1960-63	—	0.7	—	—	—	0.7
1964	—	—	—	—	—	—
1965	—	—	—	—	—	—
<i>Honduras</i>						
Prior to 1960	—	16.3	—	—	—	16.3
1960-63	—	12.8	—	—	—	12.8
1964	—	0.5	—	—	—	0.5
1965	—	19.6	—	—	—	19.6
<i>Mexico</i>						
Prior to 1960	184.1	7.1	—	—	—	191.2
1960-63	35.5	98.2	4.0	—	—	137.7
1964	26.0	—	—	9.2	—	35.2
1965	13.0	86.0	—	—	—	99.0
<i>Nicaragua</i>						
Prior to 1960	—	9.0	—	—	3.2	12.2
1960-63	—	10.0	—	1.6	—	11.6
1964	—	—	—	—	—	—
1965	—	14.8	—	—	—	14.8
<i>Panama</i>						
Prior to 1960	—	18.7	—	0.2	—	18.9
1960-63	—	14.3	—	—	—	14.3
1964	—	3.5	—	—	—	3.5
1965	—	—	—	—	—	—
<i>Paraguay</i>						
Prior to 1960	—	2.5	—	1.1	—	3.6
1960-63	—	13.1	—	—	—	13.1
1964	—	2.2	—	—	—	2.2
1965	—	—	—	—	2.7	2.7
<i>Peru</i>						
Prior to 1960	1.5	5.0	—	—	9.1	15.6
1960-63	19.4	43.4	0.2	0.4	1.5	64.9
1964	—	37.5	—	—	3.1	40.6
1965	—	37.0	—	—	—	37.0
<i>Uruguay</i>						
Prior to 1960	—	—	—	—	—	—
1960-63	—	22.6	—	—	—	22.6
1964	—	—	—	—	—	—
1965	—	—	—	—	—	—
<i>Venezuela</i>						
1960-63	—	63.6	—	—	—	63.6
1964	—	30.0	—	—	—	30.0
1965	—	—	—	13.5	—	13.5
TOTAL						
Prior to 1960	488.9	257.5	—	15.4	50.3	812.1
1960-63	130.1	507.2	7.2	47.6	12.4	704.5
1964	30.9	212.1	—	12.5	16.2	271.7
1965	13.0	234.4 ^d	—	38.5	16.6	303.0

Sources: Annual reports, bulletins and press releases of the credit agencies concerned.

^a As in table 321.

^b Represents a loan from Eximbank, authorized in January 1966, for the purchase of four jet aircraft.

^c Represents a loan from AID authorized in January 1966.

^d Includes an IBRD loan of 5.5 million dollars to Jamaica, and a loan of 4.5 million dollars granted by AID to the Central American Bank for Economic Integration for the Central American highway network.

abolition of fiscal contributions for the building and upkeep of the infrastructure. In accordance with this policy, transport subsidies were cut sharply in 1965. Information supplied by the Ministry of Planning indicates that these subsidies which had been increasing every year in real terms up to 1963, began to decline in 1964 (see table 323).

The results obtained have exceeded the forecasts made in the Government Programme of Economic Action (PAEG), the Budget of the Union and the subsidies approved by the National Transport Council (CNT) (see table 324).

The measures taken to reduce the deficit were tailored to suit the particular characteristics of each type of transport and its organization. They were usually for short periods and aimed at obtaining immediate results. Expenditure and income were reduced by wage stabilization and, in some cases, by reduced purchases of equipment. In few instances was there any attempt to cut down on expenditure by raising the productivity of the services and personnel (i.e., through an administrative reorganization). As far as

income is concerned, heavy increases in rates transferred the bulk of the cost of the services to the users.

In 1965, the operational deficit of the Federal railways was reduced by about 25 per cent.

The results are a little contradictory as regards the merchant fleet. By the end of 1964, all subsidies had been stopped to private coastal transport in which 90 per cent of the freight was carried. It proved impossible, however, to abolish all the subsidies granted to independent State enterprises, which received 63,000 million cruzeiros altogether in 1965.

The only port to be allocated a subsidy in the Union budget is Rio de Janeiro, which, in 1965, was given 13,000 million cruzeiros instead of the estimated total of 31,000 million. The improvement in the financial situation of the port of Rio de Janeiro was mainly due to the increase in productivity obtained as a result of the internal administrative reorganization. As regards the domestic network of ports, the Government also adopted various measures to eliminate the effect of certain legal provisions considered to impair the efficiency of port activities.

Table 323. Brazil: Operational subsidies for transport, 1960-65
(Thousands of millions of cruzeiros at 1965 prices)

	1960	1961	1962	1963	1964	1965
Railways	185.1	280.1	377.4	472.7	491.2	296.8
Maritime transport	98.1	149.6	125.9	120.4	94.4	65.0
Ports	0.3	5.0	21.2	16.1	38.4	12.4
Air transport	7.9	18.9	53.6	31.6	27.9	12.0
TOTAL	291.4	453.5	578.1	640.8	651.9	386.2

Source: Ministry of Planning.

Table 324. Brazil: Subsidies for the transport sector, 1965
(Thousands of millions of cruzeiros)

	Federal rail network	Merchant fleet	Ports	Aviation	Total	Index
Estimates in PAEG	407.3	49.9	73.0	27.7	557.9	100.0
Union Budget appropriation	290.0	78.0	31.7	12.1	411.9	73.8
Approved by CNT	285.0	67.0	18.5	12.1 ^a	382.6	68.6
Actual disbursements ^b	296.8	65.0	12.4	12.0	386.2	69.2

Source: As for table 323.

^a Commercial aviation was not taken into account by the CNT.

^b For aviation, the total for the year was estimated on the basis of January to September, and for the other sectors January to November.

The air transport enterprises continued to be financed by government subsidies. The most important development in 1965 was the liquidation of the *Empresa Panair do Brasil*, its international flights being taken over by VARIG and the internal service by *Cruzeiro do Sul*.

The national road sector dispensed with budget subsidies in 1965, using only the funds obtained from the single tax on fuels and lubricants. In other words, the total investment and expenditure in respect of roads were transferred to the users, inasmuch as they paid the tax.

Concurrently with its efforts to eliminate the transport agencies' financial deficits, government action has been directed at the integration of transport policy. Specific measures were adopted to that effect towards the end of 1964, chief among them being the establishment of the

National Transport Council (Act No. 4566) and the consolidation of the National Transport Plan (Act No. 4952). The Executive Group for the Integration of Transport Policy (*Grupo Ejecutivo de Integración de la Política de Transportes—GEIPOT*) was set up in October 1965, by virtue of Presidential Decree No. 57,003 for the purpose of providing data on the basis of which decisions concerning Brazil's transport strategy could be adopted at the ministerial level. The establishment of this agency was decided by common agreement of the Brazilian Government and IBRD. The requirement that there should be a plan for the integrated expansion of the transport system was laid down by IBRD as a condition for granting credit to this sector. The Bank undertook to contribute half the cost in foreign exchange of preparing the necessary studies, the total cost being 5.5 million dollars.