Impact of world economic trends on Latin American development

Víctor L. Urquidi
El Colegio de México

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Some years ago I wrote a book which in Spanish was called *Economic viability of Latin America,* which got translated into English as *The Challenge of Development in Latin America.* I think the challenge is still here. The viability I am not as sure about anymore as I was some sixteen years ago. One must ask oneself, and I am certain you have: is "Latin America" a myth? Are we justified in speaking of Latin America as a whole? What do we mean? A geographical unit? Countries united by language and culture? This is not entirely correct, except in so far as we may consider Brazilian as a close cousin of Spanish, and French as akin; but now we have the Englishspeaking Caribbean and there are a lot of dialects there in English itself. Then, when we speak of a geographical unit we are now prone to omit Cuba, which used to be part of Latin America in all the calculations and aggregations of figures. Now it gets left out, or as the United Nations Economic Commission for Latin America puts it: Latin America, except Cuba; or sometimes, Latin America except Cuba and Venezuela; and there are other exceptions

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according to what you are trying to prove. In any case, there are not comparable data for Cuba with those of other countries and probably some of the data are not very up to date.

What about the recently independent countries? Do we include them? United Nations include them, the Caribbean Islands for example, or most of them. I do not know whether anybody has calculated the GNP and other aggregates of Antigua, but presumably it is implicit. But what about Martinique, which is a department of France and nevertheless is geographically part of the Caribbean? What about Belize, which until a few days ago was a U.K. colony and has now become an independent country? And what about the Falkland Islands (well, it is perhaps better not to talk about them)?

So we have really a very conventional concept of what is Latin America, and it keeps changing as the politics change and according to the interests of whoever happens to be looking at the area. A Peruvian writer, Luis Alberto Sánchez, once wrote a book entitled: *Existe América Latina? (Does Latin America Exist?)* and he caused quite a stir at a meeting in Canada in 1960 on Latin America - a meeting for Canadians, the first meeting they ever had to discuss Latin Amreica. The Latin Americans there, most of us, pounced upon him, declaring very clearly our faith in the concept of "Latin America". But he gave abundant historical, cultural and political reasons for doubting the overall concept in terms of the great inequalities, the cultural differences, the political differences; the fact that even under the Spanish regime, the Spanish part of Latin America was never considered as a whole. There were viceroyalities and other political divisions here and there, and certainly one tends to forget about Brazil, or sometimes one thinks it was also part of the Spanish Empire, which it was not of course; it almost became part of the Dutch Empire at the beginning.

But in any case, we have a very sturdy source of data on Latin America, which is the U.N. Economic Commission for Latin America in Santiago, with offices in the Caribbean and in Mexico, and I think in Brazil also, and Washington. And this is a United Nations definition: if you want to add or substract, you have to get a resolution from the UN General Assembly, and I am sure there has been one this Autumn saying that Belize is now officially part of Latin America. Well, my own view, and in that I have not modified what I said sixteen years ago, is that it is very useful to consider Latin America, plus-minus one or two territories, as an overall concept. There are the other vague concepts that we have such as North America, which sometimes includes Canada and sometimes does not; Western Europe, Eastern Europe, Asia, Africa, etc. So you know we are talking about a large group of countries with, as you know, over 300 million inhabitants today,

with a very large territory, with at least certain fundamental similarities in the economic field, but many differences in the cultural, social and political areas.

What are the main similarities? With obvious exceptions, there is still a very high percentage of the labor force in rural activities, as high as 80% in Haiti and some of the Central American and Caribbean countries, and maybe as low as 20 to 30% in Argentina. It is declining in many other countries such as Brazil and even Mexico. We are now in Mexico 55% urban, on a precise definition of urban meaning that any locality with less than 15,000 inhabitants we count as rural for analytical purposes, although the census does it differently. Anyhow there is a high percentage of population and of the labor force in primary activities, not as high as in Africa, maybe parts of Asia, but certainly higher than what you are accustomed to consider in the Western industrialized countries or in Japan.

Secondly, we all share a rather low stage of industrialization. I know this statement may bother some people who think of the modern industries in Brazil, Argentina, Mexico and a few others here and there; but the overall is still not very high. To give an example: in Mexico only 34% of the labor force is employed in manufacturing and this includes a great deal of minuscule workshops, bakeries etc. The stage of industrialization in most Latin American countries varies from what we might call a semi-industrialized stage of development to one of very incipient industrialization, despite high rates of growth in the last 10-15 years. So we are not part of the industrialized world. I think that is what we mean by this expression, with again the nuances in this or that country. This carries with it also a concept of technology. We are not developing technology autonomously except in a few areas and we are depending technologically on the highly industrialized countries, because we have not done much over the last century or this century about basic science, research (*R* and *D*) and so on.

Thirdly, we are considered an area of abundant resources. This means land, arable land also, it means areas for livestock development, it means forests, especially in Brazil, Mexico, Chile and a few others, even Central America. These resources on the whole are underutilized. They are really underdeveloped and not only is that a bad thing, but also we are destroying our resources at an alarming rate. This is a very contradictory situation, but the way we treat natural resources is epitomized by what happens in mining, where you take out what is there and you cannot replace it. We destroy forest, we destroy land, and we destroy fisheries, and so on, through improper kinds of development. I call that underdevelopment or maldevelopment, because we should have a sustained growth policy for natural resources.

Another similarity among most of the Latin American countries and which in a sense distinguishes Latin America from other underdeveloped areas is the pattern of population growth. With the exception of three or four countries, the rate of population growth is really quite high. It is declining in most countries; for instance, already Brazil, as I have seen from an article on the recent census results, even without much family planning, at least official family planning. It is falling very rapidly in Mexico as a result to a large extent of official family planning programs, and in some of the other countries there are declines, Costa Rica, Colombia, and so on. Two or three countries have had traditionally low population growth rates, especially Argentina and Uruguay, which have followed almost a European pattern. Chile does not have a very high rate of population growth, and Cuba has reduced its population growth rate in the last 15 to 20 years. These trends are discernible in a number of countries now. But even the average for Latin America as a whole of about 2.6-2.5 per cent per year is quite high. In Mexico, with the decline that is taking place, our population is still growing, in my own estimate, at about 2.5, the rate having been as high as 3.6 per cent only eight years ago. All this has a tremendous implication not only for each country with high growth rates but also for the area as a whole and it is manifested in many ways, which I will refer to a little later.

Finally, I think that, with the exception of Cuba – I keep reminding myself that Cuba exists – we have a liberal, mixed-economy society situation in Latin America. Most of our constitutions are patterned on liberal European nineteenth century constitutions and on that of the US, with modifications. Some countries have had quite a number of new constitutions. But in most countries there is, if not by law, in effect, a mixed economy in the sense that the State undertakes production of certain commodities or provision of services to a much larger extent that you would expect in Western Europe or the United States, although I think there is, in these discussions, always an exaggeration by saying that there is no state enterprise or no state intervention in the United States, while instead there is a lot in Latin America. Actually both extremes are exaggerated. However, we are moving in that direction certainly in Mexico, and Brazil, where basic industries are state-owned, in Argentina, in Venezuela, but maybe not any more in Chile where everything seems to be moving in the opposite direction. This means that government policy is not just a matter of regulation more or less, but is a matter of direct participation in investment and in determining the direction of private investment. Whether this will lead, or has led, to something called "planning" or "programming", is still hard to say because I do not think that any country has a proper planning setup in Latin America, again with the exception of Cuba.

Now, these are similarities, but what one immediately has to remind oneself of is that there are great differences. The differences are in stages of development: you cannot compare Haiti with Brazil, and you cannot compare Bolivia with Mexico. And there are differences in rates of population growth because of the policies adopted in a number of countries and certain declines, with all their implications. Of course, some countries are very poor in resources. El Salvador, which once thought that it had an area of 34,000 square kilometers, 25 years ago suddenly discovered that it only had 20,000, as a result of a survey by the U. S. Navy or an oceanographic organization, and that was quite a shock to that country. When you realize that only half that area is arable land, and you have 5 million people there, then you can begin to understand something about what happens in that country: they just do not have enough resources, enough land to start with. This is true of countries like Jamaica. It is true of a few other countries: they do not have minerals, or certainly energy or fuel resources. Whereas Argentina, Brazil, Mexico, Venezuela, Colombia perhaps, have abundant resources of many kinds. So we have to start distinguishing all these conditions before making any simple generalizations.

Finally, I think we must take much more account today of the fact that the political systems are considerably different in the Latin American countries. There are a number of authoritarian governments of various kinds, some military, where human rights are not respected; there are, of course, also some of the old fashioned kind of strong government traditions in many countries. Mexico itself has a dominant party system but it is a rather flexible and open system, which allows dissent and a free press, and now has a particular program which allows for the registration and participation of other political parties on a much larger scale than before. One has to ask oneself: what is democracy in Latin America? It is defined variously according to who is in power, but there is a differing trend in many countries which makes it difficult to treat Latin America as something homogenous. I shall not go into details of that, but it is relevant.

Thus it is understandably difficult to speak of the future of Latin America in global terms. However, let me just mention a few trends which one should pay attention to, and I am not going to fill you in with a lot of figures, but just do it qualitatively. Latin America shows at present a moderate rate of growth, of the order of 5% a year. Now, again, this means near stagnation in some countries, even in Argentina for many years in fact. This year Brazil and Venezuela have achieved zero growth in GNP and some Central American countries negative growth. But there is very rapid growth today in Mexico, higher than the average of the last 40 years, 7.5 to 8% versus 6% in the past. There was previously a high rate

in Brazil, although it started slowing down from the famous »miracle« period of 10% per year. All this averages out to a moderate rate of growth of 5%. However, in today's terms of European and United States economic growth, maybe other areas, 5% is not bad. So we have a certain momentum, at least in some of the leading countries in Latin America. Nevertheless, with few exceptions, we have large unemployment and, of course, an unmeasurable amount of underemployment, which nobody seems to agree on exactly as to what it represents; it depends how it is defined. But to give you an example of my own country, which I know best, even today with the high economic growth rate of the last three years we have an open unemployment rate of close to 7 or 8% of the labor force, and behind that we have perhaps an equivalent amount of man/woman-years unutilized through underemployment, that is, people who work only part of the year or have occasional jobs, or very low-productivity jobs, selling things on the streets, or people who are in and out of jobs almost continually through lack of skills and all kinds of factors. Paradoxically, we have now in Mexico a scarcity of skilled and technical labor but still an overabundance of unskilled labor which is reflected, as you know, in the movement of undocumented migrants into the United States.

Technology, which has been incorporated rapidly into modern industry, and partially into agriculture and services, has not created the sort of employment or the amount of employment that we would have needed from a purely demographic point of view. Mexico's high population growth means – to give you the best illustrative figure – that every woman in childbearing age, discounting mortality, was being replaced seven years ago by 2.7 new little girls who would become mothers. In the United States the ratio is one to one, almost mere replacement of population. So with that kind of fertility patterns in the last 15-20 years, the impact now of the increase in the labor force is many times what the baby boom lead to in the United States and Western Europe. This means that the Latin American economies would have to grow at 8 to 10% or more to absorb in due time the increases in the labor force resulting merely from the fact that fertility has been high, mortality is declining and therefore the number of entrants into the working ages is increasing very rapidly, more than the average growth of population. Now technology tends to replace labor and as wage bills rise you cannot blame the individual business man for making his calculations and deciding that he needs labor-saving equipment or technology. However, the impact of that is to prevent many people from entering the employed labor force. There is thus a sort of dilemma for the future: technology vs. employment. Who is going to win? We do not know, but I think that the prospects are difficult as we keep on incorporating such technology – and that is bound to happen because all

the economic signals are in favor of labor-saving equipment and there are other institutional reasons. The impact of modern technology is part of the talk here and there about the opposite, in other words, employment-creating technology. But we will continue to have underemployment for many years to come and even open unemployment in most countries. This can be remedied, of course, by expansion in the educational system, by retaining more people in the schools, and by upgrading skills with training programs. It will take a long time to achieve that, but again, with a few exceptions the average educational level, as to the number of years of schooling, is not very high in Latin America, especially among the rural population, so that when people migrate to the cities they do not have the skills, even the ability to be functionally literate, in other words, to be able to read a letter or an instruction, or to write something, in order to get adequate employment.

We have a very difficult situation with energy in Latin America. There are a few exporting countries, essentially Mexico, Venezuela and Ecuador; there are a few countries that produce oil, though not enough, typically Brazil and Argentina, maybe Colombia. (Colombia and Peru are borderline cases.) Undoubtedly, in addition to the massive imports of Brazil and a few other countries, a very serious problem is that of the smaller countries in the Caribbean (except Trinidad) and Central America that have to import practically all their energy. Colombia has some prospects with coal; maybe Brazil and Mexico also to some extent; there will be nuclear energy in a few countries, in the foreseeable future. But what is the fate, as regards energy, of the smaller countries, except to try to get it on concessional terms from the exporters, mainly Venezuela and Mexico? The trends in energy supply, and the fact that consumption is increasing rapidly, associated with urbanization, mean that here is a source of great difficulty for many countries in Latin America. However, the Latin American oil surplus countries are going to have an easier time, as I will try to explain briefly in connection with Mexico, although development problems will not be rapidly worked out.

We have a similar situation with food, but in many cases with the opposite signs. Some of the oil exporters are large food importers (e.g. Mexico and Venezuela). We have neglected agriculture, or we maintain overvalued currencies, so that it does not become profitable to grow food. On the other hand, Brazil has the possibility of becoming a large food surplus country and Argentina certainly could do much more than it has done so far. So again, the fact that food production does not increase on the average very quickly in Latin America, that the demand for food is expanding with rising incomes in the cities, especially with rapid urbanization, and that there is a shift towards animal proteins, means that there is a difficult food supply problem in many countries.

At the present moment most Latin American countries have serious balance-of-payments problems, if we measure this by their current account deficits, with an increasing debt service problem and, of course, growing indebtedness. In Brazil external indebtedness is in the 60 billion range, in Mexico in the 50 million range and they keep rising.

We have also extraordinary trends in educational development, health, housing and so on, but never enough to keep up with population growth and with social demand.

I would venture to say, with all the qualifications necessary, that in Latin America economic conditions and trends are not very different from what they were when a group of Latin American economists proposed to J. F. Kennedy the Alliance for Progress. There has been some progress and there has been a larger transfer of capital through international lending and foreign investment to Latin America, but basic conditions twenty years later are not as different as you might think.

Now a fact of which we have to keep reminding ourselves is that political change still tends to be rather violent in Latin America, and we have had many examples of that in the last 15-20 years. Or it is held back by violence, as I mentioned earlier in speaking of the military dictatorships.

What are the prospects? I have mentioned some of the issues, but what can we see as prospects? I won't venture to speak of the area as a whole, in other words, to treat it as a whole. Let me just take a few cases or examples. I think it is obvious that Mexico has very good development prospects; in other words, Mexico is likely to sustain high rates of growth, and is likely to reduce eventually its balance-of-payments problem to manageable terms because of the large oil income. In spite of indebtedness and in spite of the very large demand for imports, Mexico might in due course become a surplus country (although this is hard to specify). Meanwhile Mexico's problem is: what is it do with the "oil surplus"? By surplus I mean the foreign exchange coming in and the income accruing to the petroleum industry, which is partly reinvested and partly goes out as payments to the rest of the economy, and which is also partly transferred to the government as taxes, since the oil industry is totally State-owned. This means that the Mexican government has, for the first time in the last 100 years, a chance to allocate resources more liberally from the fiscal side, from tax revenues, for many economic and social purposes, one of them certainly being to do something about the gross inequalities that still exist in Mexico. For roughly 10% of the population earns 40% of the income and the lowest 40% earns 10% of the income. The income differentials between rich and poor, or between cities and countries, are of the

order of 40 to 1. This is an expression of very low productivity in most farm areas in Mexico, as compared with the small minority of good farmers on irrigated land in the Northwest and other parts who obtain very high yields. We have not only millionaire farmers on small plots of irrigated land, but also millionaire peasants growing, for instance, strawberries and onions. There should be a chance to do something about farming inequalities, in other words, to channel resources into raising productivity in the rural areas and improving rural conditions. You do not have to go very far from Mexico City to find places with no water supply, very low hygiene and poor nutrition, housing, etc. This means, of course, not that the central government should hand out large sums of money, but that it has to organize the whole society, at various levels, in order to make people more self-reliant and responsive to support.

One could say the same for education in general, for higher education, for research and for technical education. The situation is similar for low-cost housing. There is an enormous backlog of housing in Mexico. At least 3 million units in the cities alone, and a growing backlog because the housing units constructed are below the increase in the number of families needing housing and the deterioration of existing housing. Every census shows a large ratio of people per room in housing units in the cities.

A lot of this expenditure may be considered as unproductive by many people, but I think that if we are envisaging a growth of the economy of 7 to 8% per year and do nothing about redressing the inequalities, then we are heading for real trouble in 20 years time, or sooner.

Of course, the other aspect, a more directly productive one, of the use of the oil surplus is to channel it into good farming and into industrial development through various financial mechanisms that exist in Mexico, and to keep maintaining encouraging conditions for private investment, that is Mexican private investment, and also for foreign collaboration through direct investment in association with Mexican capital. Here is a chance to become more industrialized, to fill in gaps in the industrial structure, to make industry more efficient, more competitive internationally, and to strenghten the export side of the Mexican economy, and not make Mexico so dependent merely on oil products for its foreign exchange income. Today over 60% of exports are petroleum products.

So there is a good prospect but it is not automatic and what I would like to say to my friends abroad is that "not by oil alone" will Mexico continue to develop. It needs many, many other things, and needs a reallocation of priorities, and some form of overall planning, budgeting, and so on. The Mexican Government has issued an overall plan for 1980-1982, and there are many sectoral plans. They have

to be continually revised and updated, and there has to be a clear determination on the part of the government and the public sector in general, and of course an understanding on the part of the private sector, that certain goals are essential to avoid further distortions in our economy, despite all the oil wealth and the oil surplus coming in. So Mexico stands at a sort of crossroads, with a good chance that we might take the right direction, but we must not dismiss the possibility that serious mistakes could be made, and I think there is hardly an oil-exporting country in the world that has not made them.

I am a little pessimistic about Brazil, simply because of its energy problem, in spite of the hydroelectric potential, in spite of its much vaunted possibility of developing gasohol from plants, to substitute gasoline; or in spite of the nuclear program, which of course has slipped quite a bit. If Brazil has to depend on imported oil at the rate at which it has had to depend in the last three years, this is inevitably going to slowdown Brazilian development, - there are clear signs of it already - and we might find that by the end of the century Brazil no longer will have one of the highest per capita incomes in Latin America; in fact it may grow very little. Brazil will of course continue to industrialize. But there is an enormous question which is getting ever larger: what about the Northeast of Brazil? There is a kind of "Northeast of Brazil" in Mexico but these are small areas and less people are involved. The Brazilian Northeast, with over 30 million people, with still a high population growth rate, still very high mortality, very little chance of becoming industrialized, and with unfavorable agricultural conditions, is a vast question mark in Brazil's future. There is also the question of the Amazon; it is too big a question, but we must think about it.

Now, I see very good prospects for Argentina, both in its agriculture and in industry, if it could get itself politically organized. What is striking about Argentina is that nobody seems to agree on what to do on the political system, and the present situation is not conducive to rapid economic growth. Industrial output today is no higher than in 1970. Argentina is now exporting brains at a high rate to the rest of Latin America, which is of course the worst kind of disinvestment that any country can do. Monetary policy followed in the last five years has ended by destroying a part of the industrial structure, discouraging investment and giving rise to unemployment. Nevertheless I am not overly pessimistic about the prospects for Argentina, once suitable short-term policies are worked out.

What can I say about Venezuela? Venezuela is running into serious trouble because they are unable to keep up their rate of exports of oil. Mexico now produces more oil than Venezuela, and will soon overtake Venezuelan exports.

Venezuela's proven oil reserves are limited. There is a great prospect south of the Orinoco, though still much into the future. Meanwhile, what has Venezuela done with all its oil surplus? It is a beautiful example for some other countries not to follow. Venezuela also has a permanently overvalued currency which makes it extremely difficult to make industry or agriculture internationally competitive. So that with growing urbanization the prospects for Venezuela are much less favorable that one would have thought, and also they are heavy food importers, although there is a potential there. The striking thing about Venezuela, nevertheless, is that they do have a democratic system of government and alternating parties in power. It seems to be respected and that, at least, gives a possibility for the kind of social and political change that we think is necessary for development.

Central America, which I am sure is on your mind, shows prospects that are extremely dim. Not only do they have an energy problem, except for whatever new discoveries can be made in Guatemala and maybe Belize, but they are in great turmoil. What strikes one about Central America is that in 30 years of some ferment, some change, in those countries - and I assure you I know them pretty well - nothing at all has been learnt by the ruling groups about the strategy of development and social change followed in Mexico, their close neighbor. The countries of Central America among themselves have not learnt anything either from the experience of Costa Rica, which is a democratic country and which has done great progress in many fields. If this rigidity continues in Central America, you will have explosions as you have had in the last few years and the question is: can these explosions be understood by the U.S.? You know the Mexican Revolution was never understood by the United States. A few American scholars, Frank Tannenbaum being one of them, managed to convey something, through books, articles and lectures, about the Mexican Revolution and what it meant. But it was not really understood, as it is very difficult for the U.S. public to understand what has happened in Nicaragua and how to help that process develop democratically. In any event the economic prospects are very difficult, at least in the short term and in the medium term, because of disorganization and because of lack of internal consensus as to how to run and organize those economies. They are very vulnerable of course because, in spite of intra-Central American trade, especially in manufactures in the last 15-20 years, which has grown very much, those countries are essentially dependent on a few basic export commodities with very little capacity for export of manufactures (again with few exceptions, such as the special case of Panama with its free trade zone and so on).

Another country which is of concern is Bolivia, which is a "cornered" economy. It is an economy that has not been allowed, even by its neighbors, to develop and

grow. In addition to its purely domestic factors - the 150 coups d'état since Independence and the enormous internal divisions which are geographical, social and political, Bolivia still relies heavily on one commodity for exports. There is also the fact that everybody around Bolivia is trying to grab its oil and its gas, so what all this can mean for real improvement in living conditions and economic well-being in Bolivia is not at all clear, and it is still very doubtful that Bolivia can take off and assure itself of a steady rate of growth. Peru, Ecuador and Trinidad-Tobago - the latter with some oil - have not succeeded in organizing their economies for development, despite some growth in the export sector. One could also mention the troubles of Jamaica, Haiti, Barbados, Guyana, Paraguay, all derived from resource or financial problems.

Some years ago in the Economic Commission for Latin America the idea of Latin American economic integration was conceived not as a mere copy of European Common Market schemes, but in a broader sense, especially in industrial products, with some sort of ideal locations, because of the difficulty of putting up large enough plants in many of the individual markets of the Latin American countries. Through LAFTA there was a preferential trade scheme, there were some arrangements for industrial cooperation and much trade developed spontaneously among the Latin American countries even in ordinary manufactures, equipment and so on. But large schemes have never got off the ground and that again, I think, is a reflection of the fact that Latin American countries and nations do not have their own concept of themselves as something large and important in the world, and as an area where, through cooperation and self-help, we could counter some of the disadvantages of being highly dependent economies in world trade and a few basic products. At this moment all the integration schemes have collapsed or are having very meager results. LAFTA is being superseded by a new organization with emphasizes only trade; the Andean Pact has broken down more or less; the Central American Common Market is at the moment not operating; and even the Caribbean CARIFTA arrangements are in difficulty. What can be learned from all this? Years ago a British economist (Andrew Shonfield) said that he did not believe in all these treaties and schemes, that he thought that the Latin American countries would have to find among themselves many kinds of *ad hoc* arrangements - two countries, three countries, four countries, this industry, that industry, free trade in this and that and the other - but not try to go into any of the big common market schemes which simply would not work politically and not even economically. Again, we just laughed at him and said "this is nonsense and against the interests of Latin America". He argued for a breaking down of the problems into small issues, without losing sight

of the large ones. Perhaps he was right: we now have to reconsider the whole issue of integration in Latin America. Certainly some of the larger countries have not been terribly interested and that is one of the problems. Brazil, Mexico and Argentina have not put their full weight into integration. Small countries have been probably suspicious of the intentions of the larger industrialized or semi-industrialized countries of Latin America. Nevertheless, as population is growing, as incomes have risen, as there is much wealth, in some countries, you might think that more attention could be paid within Latin America to cooperation and integration than there has been in the past. There was even a very interesting scheme put forth by a Brazilian political scientist and former businessman to set up a Latin American system of supply of industrial equipment among certain countries, for which a small sum was needed to carry out the necessary preliminary studies. The Inter-American Development Bank turned the whole idea down.

Now, what are the external prospects? At this moment they are very difficult. You are fully aware of slow growth rates in industrialized countries, even in Japan, where GNP grows only at 4%. You are aware of the balance-of-payments problems of some of the less affluent industrial countries because of their dependence on energy. You are aware also of protectionist trends in many countries, in the common market in Europe, in the United States, and of course the traditional Japanese reluctance to import some manufactures from any part of the world. So that the dynamic impulse that Latin American trade could expect as, in the past, from industrialized countries, at least for manufactures, is rather weak and the prospects of some of the basic commodities are perhaps not as brilliant as they were a few years ago – in fact, in some cases, rather poor. Again this will be reflected in that the oil producing countries in Latin America and a few other countries which have food surpluses, because food is a valuable commodity in the world, will fare much better that so many other countries in the region. But we now see a weakening of the oil market, so that countries like Mexico and Venezuela will have to learn to live out of a stable foreign exchange income – perhaps a declining one in real terms, unless they are able to develop exports of manufactures and new basic or other natural products, or something catastrophic happens in the Middle East. Both face a rapidly rising external debt, and Mexico has adopted a sliding exchange rate policy. Many analysts believe that Mexico's rate of depreciation is too small in view of current 30% inflation.

The prospect in most Latin American countries is for increased external financial requirements, especially for concessional money. World trends do not seem to favor this process. There is need for increasing access to the markets of the developed

countries - but protectionism is increasing. Foreign direct investment can be of only limited help, mainly through technology rather than through transfer of capital. The central issue to underline is that if demand for imports in the LDCs (including Latin America) is not maintained, the economy of the DCs may worsen.

The growth in foreign investment in Latin America over the last 20 years has been in manufacturing. The nature of that kind of foreign investment in many countries is changing and will continue to change in the sense that there will be policies requiring joint ventures or sharing of technological experience much more than in the past, and, therefore, there is that factor to consider. Now one would have to try to foresee what is the degree of industrialization that is bound to take place in some of the Latin American countries, and there is no question that the growing markets for equipment - I do not mean refrigerators and color TV and things which can be produced internally and maybe produced more and more without any technological assistance - are certainly good prospects in the countries that are able to industrialize quickly, and that includes Mexico, Brazil, Argentina, Venezuela, to some extent Colombia, and so on. The older kind of foreign investment in basic commodities and even in oil - because most oil resources have been nationalized - is probably on its way out.

So that the next question is to find out if industrialization can be sustained in the Latin American countries. How much will the domestic markets absorb of the production of industrial commodities and at what point can this process only continue if there is access to international markets? If we look at the world as a whole, there has been a rise in the proportion of total industrial output produced in the developing countries, and there has been probably a rise in the volume of exports and manufactures of developing countries to developed countries, and I do not mean only the cases of Hong Kong, Singapore, Korea, and so on, but others as well. But if the industrialized countries, because of their slowdown, because of their fears about the future, because of new technological developments such as the introduction of microprocessing into industries that were thought to be no longer competitive, are not able to let in products from the developing countries, then it will not be long before many of the Latin American countries reach some kind of a limit, unless they can produce the basic transformations internally that will create the large domestic market that they do not have. In most Latin American countries this means raising the income of the farm population so they may become a strong domestic market, and reduce exclusive reliance on the urban middle class market.