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America are totally unprepared to accept the sacrifices and innovations without which effective reform and development policies cannot be implemented, and large sections of the poor and backward population are insufficiently enlightened and incapable of any active participation in such a policy.

To sum up, there are two conclusions which derive from our analysis of the current situation in Latin America about development aid from Western industrial countries, in particular the aid to Latin American countries from the Federal German Republic.

The view sometimes voiced in Germany that the Latin-American countries are already capable of further developing their economies by their own efforts, so that foreign development aid can be cut down gradually and ended altogether before long, is wrong. The exact opposite is true: the Latin-American population "explosion", which has nowhere near reached its peak, means that economic and social development problems in Latin America will become more acute only in the next decades. Most Latin-American countries will therefore become ever more dependent upon foreign co-operation for the solution

of their development problems. The Federal German authorities concerned with development aid problems should already be aware of this.

The development which has to be achieved in Latin America under pressure will involve a fundamental change in the economic and social structure. Such a change in structure demands that traditional values and customs be set aside and may necessitate the drastic control by the State of the free play of natural forces. In all probability, this will not be a harmonious process; certainly it will be impossible to avoid some reverses and occasional radical revolutionary tendencies. But if development aid to Latin America is to be a success, it must not be influenced by such factors and continuity must be maintained as far as possible. Any development policy in favour of Latin America which reacted to a disturbance of the political or economic climate of the recipient country by cutting down the flow of funds would only create an element of insecurity and would impede progress, quite apart from the inherent elements of uncertainty and inconsistency prevailing in Latin-American countries.

Latin America's Export Structure Needing Reform

By Dr. Werner K. Tillmann, Bogotá

Latin America's share in world exports is declining. While in 1950 its exports still amounted to 12.8% of total world exports, they decreased to 7.9% until 1963. In contrast with the exports of all countries increasing by 153% between 1950 and 1962, Latin America's exports have grown by 59% only. The subcontinent's annual growth rate of exports is similar, i.e. from 1953 to 1963 it amounted to 2.8% only as compared with a 5% one of the other developing countries and one of 6.2% of world exports.

These figures are quite worrying as the Latin American countries—being more or less on their way to economic development—are very much depending on their exports. To a certain extent the permanent deficits in their trade and payments balances and with that the frequently slow economic progress are explained by these adverse figures. Latin America simply must risk the "jump ahead" and pay increasing attention to its non-traditional exports in order to escape the dilemma between a rising demand for imports, caused by its rapidly growing population, and exports increasing but slowly. This implies that its export structure which in the main is based still on one product only (e.g. single-crop farming) has to be changed into a diversified one and that exports of industrial products must be promoted. The following contribution which is partly based on the report of a Special Committee of the Inter-American Economic and Social Council (CIES: Consejo Interamericano Económico y Social) on chances, problems and expansion of exports of Latin American industrial products is to provide a short outline of the development

of the Latin American countries' exports and explain the reasons for the low share of industrial products in total exports.¹ The concluding paragraph contains some recommendations worked out by CIES and aiming at an intensified diversification through a growing share of industrial products in total exports.

Raw and Basic Materials Dominating

Latin America's structure of exports now as before is characterised by an excessively high share of raw- and basic materials (primary products). In 1955 it was approximately 86% and has even increased to 90% up to 1960. These figures apply to the total of all primary products. A comparison with other developing countries shows that a gradual change to semi-finished and finished products has started there and that the share of raw- and basic materials has declined. On the international level the share of primary products has decreased between 1955 and 1962, for in the former year it still amounted to about half of all exports while in 1962 it was no more than 42% roughly. A look at the growth rates shows that world exports of industrial products rose by 74% and those of Latin America by a mere 17%. It appears from these figures that Latin America did not succeed in diversifying its exports in a degree worth mentioning although first starts cannot be overlooked.

In order to arrive at an approximately accurate statement on the development of exports of primary prod-

¹ Estudio de las Perspectivas y de algunos Problemas que enfrenta América Latina para la Expansión de sus Exportaciones de Manufacturas, CIES, Washington, D. C. 12. 3. 1965.

ucts it is necessary to inquire briefly into separate subgroups of this category. The result is that shiftings have occurred here at the expense of foodstuffs of vegetable and animal origin. Although during the period under review in absolute terms they did not show any changes worth mentioning, their share in total exports of primary products, however, has declined from 48.6% to 41.2%. Their previous position as the main export goods they have lost therewith to other groups of primary products. We may take it for granted that this decline is a result of increasing home consumption of the rapidly growing population together with an insufficient intensification of agriculture—apart from decreased demand in the international markets and occasional import restrictions of the most important purchasing countries. This assumption is even more emphasised by the fact that already now Latin America is forced to import agricultural products to the amount of approximately \$ 600 million annually in order to fill the gap in its foodstuff supply. In future a further decline in exports of foodstuffs of vegetable and animal origin must probably be anticipated.

However, a change has taken place in the group of vegetable and animal oils and fats as well as in the case of minerals. From 1955 on exports of these products started increasing and their share in total exports of raw- and basic materials rose from 22.64 to 25.3% in 1963. Exports of mineral oil and derivatives, a third subgroup, showed an even more pronounced increase. Their export has risen both in absolute terms and relatively. During the years mentioned above they participated in the total increase of exports with approximately 60% and in 1962 comprised one third of all exports, i.e. their share rose from 28.8% to 32.5%.

The increase in exports, particularly of the two last mentioned subgroups, may be taken as indicating the fact that there has started a structural change in exports towards primary products for industrial purposes. It looks as though the demand for foodstuffs by the industrial countries—the main importers of Latin American exports of all kinds—has reached a certain point of saturation while their demand for other raw- and basic materials may very well increase still owing to the economic expansion prevailing there.

Share of Semi-finished and Finished Products Unchanged

During the last two years in the international markets improvements in terms of value have taken place for almost all Latin American raw- and basic materials. In 1963 this applied to sugar, cocoa, wool, lead, and zinc. While the upward trend for the above mentioned products declined last year, improvements for coffee, beef, wheat, linseed-oil, copper, and zinc took their place. The favourable trend continued for wool, lead and zinc. With the exception of wheat, as the only foodstuff, and copper, lead and zinc, all of which showed increases—in the case of wheat as a result of Soviet purchases—the quantities of the other raw- and basic materials remained almost unchanged.

Semi-finished and finished goods (industrial products) are making up but the smallest part of Latin Amer-

ican exports. One tenth of exports only falls to their share. As already mentioned raw- and basic materials are still dominating. Although from 1955 to 1962 exports in this group of goods have increased in absolute terms by \$ 120 million—i.e. from \$ 718 million to \$ 838 million—, total exports have grown, too, during this period, namely from \$ 7,400 million to \$ 8,600 million (excluding mineral oil) so that the percentage of increase remained unchanged. The bulk of exports of semi-finished and finished products is made up by the subgroup of processed metallic minerals. In 1955 68% fell to the share of metallic minerals, in 1962 it was 66.3% still. Then come chemical products showing an increase from 11.6% (1955) to 13% (1962), followed by machinery and transport equipments which were able to improve their share as well, namely from 1.4% to 3%. The comparatively high share of the group of "miscellaneous products"—which in 1955 at 19% was still referred to as one entity, but already in 1962 shows a first subdivision into textiles at 7% while the rest amounts to 10.8%—besides consists of foodstuffs, alcoholic liquids, tobacco, paper and paper products as well as of non-metal products.

The development of exports of semi-finished and finished goods seems to lead to a gradual decline of the share of metallic minerals. Even though the increase of chemical products and of machinery and transport equipments is small as yet, it nevertheless is already pointing at the future trend of the export development of semi-finished and finished articles, which to an increasing extent should shift more to finished products proper. In view of the specific features in the economic development of Latin America, whose share in the industrial production of all developing countries after all amounts to two fifths, no definite conclusions can be drawn as to the degree in which exports of this kind will rise in the next years. It is certain, however, that their share will increase as soon as the necessary prerequisites have been provided.

The already mentioned comparatively high degree of Latin America's industrialisation as compared with other developing regions so far has not yet affected the composition of the subcontinent's exports to any extent worth mentioning. It seems as though its exports remained prevailingly confined to primary products. However, the reasons for the insignificant participation of industrial products in Latin American exports are manifold and closely connected with the individual countries' economic conceptions. Thus the CIES report states that hitherto it has been the aim of most Latin American countries to accelerate industrialisation above all with regard to substitution of imports. This way the almost chronic balance of payments deficits were intended to be overcome. Or to put it in other words, Latin America's industrialisation has been directed towards the home market, and exports of industrial manufactures have been neglected. The fact that trade in these products developed best with other industrial countries, i.e. the United States and Western Europe, is also interesting. Of particular importance, however, would be the fact that for the time being Latin American industrial products are not sufficiently competitive in the world market. The costs falling upon an individual product, among other things caused by a comparatively low

output, are too high to enable it to successfully compete with other countries' offers. Here the problem of hitherto very small exports of industrial manufactures is all too distinctly illuminated—a policy of economic self-sufficiency at all costs, although probably with the target of improving the dependency on imports, and high protective tariffs connected with this policy have kept Latin America's industry away from any international competition and have enabled it to gain a kind of monopoly position in the domestic markets leading to more than proportional profits. Low quality and excessive prices are often an expression of this phenomenon. It is therefore quite obvious that industrialists show but little interest exporting their products because this would force them to renounce high profit margins. The existence of macro-economic thought has to be denied in most instances.

Better Conditions for Increasing Exports of Industrial Products

In comparison it can be observed that the development of exports of primary products is subject to rules different from those for industrial manufactures. This is already shown by the fact that their composition is limited to a few products which are available, however, in big quantities, while industrial products are more manifold but offered in small quantities only. And in addition products of almost the same quantity, in the first line agricultural produce (e.g. sugar, cocoa, bananas, coffee, etc.) but also mineral basic materials (e.g. mineral oil and different ores) are being traded by a multitude of countries, therefore quality competition is excluded from the very beginning. For the very reason that competition is almost unexceptionably switched over to prices, it will become ruinous in most instances. Thus international agreements on raw materials were but a logical conclusion. Although these agreements do not exist for all products, for the majority of them it holds good that their value resulting from their price and quality has been fixed practically from the very first without the producer countries exercising any major influence. In this connection cyclical fluctuations are playing a role not to be underestimated, while at the same time the influence of technical inventions substituting traditional raw materials (e.g. synthetic materials replacing leather) cannot be ignored.

Owing to the world-wide validity of these agreements the dependency of primary products on ex-

ternal factors beyond these countries' influence is unavoidable to a large extent. Alternative possibilities as regards other markets are rarely available. Also countries in general relying on exports of one product only (e.g. single-crop farming) in times of adverse business trends in the world market have no chance to compensate for declining exports of one product by increased sales of another more favoured one. Most Latin American countries have to face this situation and for this reason the shifting to exports of industrial goods must needs offer itself as a way out, all the more so since a saturation of import substitution is beginning to show by now.

Exports of industrial manufactures are subjected to external factors not to the same extent as those of primary products. Quantities and prices are being regulated supra-regionally in the smallest number of cases only, but much more frequently they are ruled by supply and demand, although here, too, perfect competition is certainly out of the question as international supplies are often distorted by subsidies or similar price interventions. Nonetheless greater chances are offered here to achieve export increases, last but not least as demand for industrial manufactures is showing a worldwide growth. In their case thus competition is possible both as regards prices and qualities. So the initial position for the export of Latin American industrial products has to be considered a favourable one.

On the basis of these perceptions CIES has carried through the already mentioned investigation the results of which find shape in a number of recommendations to the individual Latin American governments.² It is above all the export chances found out for the various industrial products that are interesting, besides pointers at a simplification of administrative regulations, improvement of the competitive power of industrial products in international markets, problems of financing these exports, etc. According to these results there are existing, on principle, chances for all kinds of semi-finished and finished goods to be sold better than before on foreign markets, although there are certain differentiations as e.g. is the case with all goods produced for the purpose of import substitution. In some countries there are idle capacities urging for exports while in others the production can be absorbed by the domestic market itself for the time being. The report is pointing out that these cases of disequilibrium imply regional

² Comercio Exterior, published by Banco Nacional de Comercio Exterior S. A. Mexico, D. F., May 1965, p. 354 ff.



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integration and co-operation, and that is why the Alliance for Progress and the Latin American Free Trade Area (ALALC) would have the task of taking corresponding measures.

Export chances are being assessed very favourably for those capital goods which for instance the three countries leading in industrial development, the Argentine, Brazil and Mexico, but also the comparatively industrially less advanced countries, Chile, Columbia and Peru, produce already now. Important in this connection is the comparative cost advantage that Latin America is enjoying vis-à-vis other economic regions of similar character owing to its relatively cheap labour. Favourable chances are also existing for consumer goods to which among others pharmaceutical products and processed foodstuffs belong. The same applies to semi-finished goods, textiles, paper products, chemical basic materials, ironware, etc.

Concessions of Importing Countries and Own Efforts Required

Recommendations made, it is true, are not meant for the Latin American countries alone. Trade can be done between partners only. This explains why the countries importing Latin American goods are also being included into considerations aiming at increased exports of industrial products. What is partic-

ularly involved is a better appreciation of the Latin American countries' wishes, and that is why preferences should be granted for industrial products they are to export and technical aid as such should be secured. Last year's Geneva Conference on Trade and Development proved that the industrial countries absorbing the bulk of these exports are quite open-minded as regards these demands. In spite of the helpfulness the highly developed countries announced on principle and without which Latin American efforts necessarily remain unsuccessful, even greater endeavours must be made by the Latin American countries themselves. The existing problems can hardly be solved by appeals and demands frequently lacking any real basis whatsoever. It simply must not happen that, on the one hand, technical aid in its various forms is requested while, on the other, it cannot be utilised efficiently since the respective countries' own performance required is lacking.

In view of the urgent need for diversification of Latin American exports in order to finally enable the sub-continent to acquire more foreign exchange, the creation of purposeful prerequisites is inevitable. However, the consciousness of their necessity must not be restricted to the great supra-regional organisations as e.g. the Alliance for Progress and the ALALC, but must penetrate the individual industrial sectors themselves. Only this way will it be possible to successfully overcome the presently still existing dilemma of Latin America's foreign trade.

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World Business Trends

Industrial Expansion Continuing in Western Europe

The slowing down of economic growth in Western Europe in 1965 is most clearly shown by developments in industry, the most important sector of the economy. The volume of industrial production (excluding construction and power) rose by approx. 4% as compared with the previous year, after in 1964 the growth rate had reached about 7%. A considerable portion of this growth resulted from the comparatively vigorous expansion during the months around the turn of the year 1964/1965. Later the upward trend of industrial production levelled off noticeably and did not correspond to the mentioned rate of 4%.

The development in all important industrial branches—according to the results achieved during the first three quarters—has contributed to the slowing down of last year's production increase in Western

Europe. Thus e.g. the chemical industry, it is true, increased its production far above average by more than 9% as compared with the previous year's corresponding period, but at a lower rate than in 1964 (+ 11%). Simultaneously the growth rate in metal production decreased from 11% to 7-8% and in metal processing from 6% to 4%. Output declined by 3% and 1%, respectively, in the textile-, clothing- and shoe-industries as well as in mining, after in 1964 each of these branches had still shown an increase by a bare 3%. Only the food processing industry with 3% was able to expand at almost the same rate as before.

Last year's development of West European industrial production was characterised by remarkable changes of regional business trends. By a comparison of the individual countries' annual growth rates they are

not yet revealed. Thus e.g. in 1965 the volume of industrial production increased most—by almost 6%—in the Federal Republic of Germany, while Italy and Britain followed with about 4.5% and 3.5%, respectively, and finally France with 1.2%. However, short-term inspection applying data adjusted for seasonal variations clearly shows that Germany and Britain as countries leading in industrial expansion until then had been replaced by Italy and France by early summer 1965 after the process of economic recovery had started there.

At present everything seems to indicate that these tendencies will continue for the time being. Therefore in 1966 industrial production will grow considerably more in Italy and in France than in Germany and Britain. However, the slowing down of the production increase will not intensify much more in the latter countries. Under these conditions the stimulation in Italy