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Economic Progress in Latin America

Interview with Felipe Herrera, President of the Inter-American Development Bank, Washington, D.C.

QUESTION: Mr Herrera, the economic development of Latin America has not been as encouraging as it ought to have been. The cause for this is often seen in the high population growth of the continent. Do you consider this to be the actual explanation for the rather slow economic development?

ANSWER: The question raises two points: one of economic growth and the other of population growth, in which the latter is one of the factors affecting the former. In regard to the first point, I think if one looks back over the last two decades, one will find that Latin America's development is not as discouraging as it is often painted. Since 1950 the region as a whole has maintained a growth rate approaching 5 p.c. a year. This rate compares favourably with that of many industrialised countries which have larger resources and greater potential for accelerated expansion. The region's current per capita gross domestic product amounts to \$350, or roughly one-third the average in the countries of Western Europe

and one-tenth that of the United States, but three times that recorded by Africa and Asia.

In regard to population, the region has been growing in the past at a rate of about 3 p.c. a year. The population expansion in Latin America, as in other developing areas, is more the result of a sharp reduction in mortality rates owing to improvements in health, than of higher birth rates, since the latter have remained practically unchanged. Fortunately, Latin America is not faced with a „Malthusian crisis“ since the rate of production of foodstuffs, which has increased at an average 4 p.c. yearly, has been higher than the population growth rate. We are all familiar with examples of positive and negative effects of population growth on economic development, both through the supply of labour and the demand for goods and services, which are easily found in the histories of the developing countries and the present-day industrialised countries, which themselves were once in the developing stage. I think it is a

question of balance. There are many today who say that Latin America, with its 250 mn people, is underpopulated relative to its size, its natural resources and economic potential. I think in Latin America today, as in other developing regions, population control cannot be a substitute for policies of international financial cooperation to accelerate development. Over the longer term, however, it is certainly necessary to take population growth into account among the factors that affect the development objectives of each nation.

Results of IDB-Help

QUESTION: The Inter-American Development Bank (IDB) has lent \$2,797 mn in the past eight years of operation to Latin America, mainly for agricultural and industrialisation projects. Can you tell us something about the overall result obtained so far by this massive help?

ANSWER: In terms of material accomplishments, as of December 31, 1968, our loans for

agricultural projects were helping to improve or bring under production more than 2.1 mn hectares of arable land, and nearly 600,000 individual credits had been extended to small and medium-scale farmers from our loans to help them purchase machinery, equipment, seeds, fertiliser and other agricultural inputs, make on-farm improvements and develop cattle herds.

In the industrial sector, the Bank was helping to build or expand 49 industrial plants through direct loans to specific enterprises, and was improving thousands of other small-and medium-scale industrial enterprises through 3,400 credits channelled through Latin American development banks.

I should also mention that we are participating in two major mining improvement programs. One of these is rehabilitating Bolivia's tin mining industry under a „triangular arrangement“ in which the United States and Germany have joined with the Bank in a three-stage program of modernisation, which has already demonstrated success. The other involves a vast expansion program for Brazil's largest iron ore producer and exporter, to which we have devoted about \$ 39 mn in loans.

Just as important as the Bank's contribution to the expansion of the productive capacity has been its action in helping to develop institutions in the Latin American countries to enable them to meet more effectively the requirements for industrial and agricultural credit. We have done this through our technical assistance program, under which we provide advisory services to such agencies for preparing and carrying out projects and improving their efficiency.

QUESTION: Would you say that the planning and control methods used by the Bank are optimal today, or could the methods be improved e.g.

through the more intensive application of the cost-benefit-analysis and profit and loss accounts?

Improved Planning and Control Methods

ANSWER: It naturally goes without saying that one of the key elements in our appraisal of a loan application is the cost-benefit-analysis of a project and the profit and loss statements of a prospective borrower. However, as a financial institution entrusted with resources from virtually all corners of the world, we are particularly concerned with the safety of our operations since our future depends on the confidence placed in us by our own creditors. To ensure this safety, we not only engage in the usual analysis of the financial, technical and economic feasibility of a project and then provide the technical assistance designed to ensure the success of a project but we also carry out a system of inspection and control at the scene of the project through our resident and project engineers and financial analysts.

In terms of the overall planning of our activities, the Bank has a special Program Advisor's Office devoted to formulating the Bank's operational strategy, studying the Bank's performance in given fields, investigating the possibilities for lending in new sectors and reviewing existing policies and criteria.

Development of Infrastructure

QUESTION: In order to accelerate the industrialisation process, special efforts must be made to overcome the geographical handicaps of Latin America. The development of an efficient infrastructure (roads, ports, etc.) is an urgent task to be solved as soon as possible. What efforts have up to now been made by the IDB in this direction?

ANSWER: Both industrial and agricultural development impose

growing requirements for the expansion of infrastructure in Latin America. Seeking to answer these requirements the Inter-American Bank has devoted one quarter of all its lending to the development of the transportation, communications and electric power sectors of Latin America as a supplement to its support for the directly productive sectors of industry and agriculture. The Bank's loans are helping to expand installed electric power capacity by nearly 6 mn kilowatts, to build 4,960 kilometers of main highways and 17,070 kilometers of feeder roads, to modernise seven major ports, and to build grain elevators in another six. The Bank is also helping to improve telecommunications systems in seven nations, and is promoting the establishment of an Inter-American Communications Network to improve intraregional communications through terrestrial and satellite means, as well as to link the region with the rest of the world.

In the future the Bank expects to devote increasing attention to these fields, particularly to intraregional transportation and communications and to joint use of such resources as rivers and common geographic zones of neighbouring countries.

Bank of Latin American University

QUESTION: Financial means to increase and modernise the agricultural and industrial production have, as you have often stated, to be accompanied by an educational and science program for Latin America. How has the IDB contributed towards the training of manpower and improvement of technological know-how in Latin America, both indispensable for industrialisation?

ANSWER: Our Bank, as a result of its support of the region's centers of higher education, is often called „the Bank of the Latin American University“. In effect, our financial support is

making possible the improvement of 171 learning centers, with a combined enrollment of 384,000 students.

Our investment strategy in the field of education is based on the view that higher education must be strengthened if the required number of trained professionals are to be available in the strategic fields of social and economic growth. This policy recognises that teaching and research reinforce each other and that the rapid evolution of scientific and technical knowledge, and the limited human and financial resources available to the region, require that the Bank selects as primary targets those universities which show a potential for growth which will enable them to serve not only as national but as regional training centers also. At the same time, we are stressing the importance of increasing the output and improving the quality of subprofessional and technical manpower by improving technical training institutions below the university level.

Progress of Economic Integration

QUESTION: Together with the Alliance for Progress, the IDB has prepared a five-year plan of action for physical integration projects. How much progress is the economic integration of Latin America actually making?

ANSWER: I think that the economic integration process of Latin America is making substantial headway, but the road ahead to achieve a Latin American Common Market is still marked with problems.

That the process is going forward is reflected, among other advances, in the gains made in intra-regional trade. Central American trade under that area's common market arrangement expanded from \$37 mn in 1961 to \$214 mn in 1967, which represents an increase from 8 to 23 p.c. of the total trade of that region.

In the case of the Latin American Free Trade Association (LAFTA), which embraces Mexico and South America, intra-regional trade expanded from \$300 mn in 1961 to \$636 mn in 1967, or from 6 p.c. of its members' total trade to 10 p.c.

Along with this advance, progress has been made in intra-regional payments, in industrial complementation agreements, and on the identification, preparation and financing of projects of regional interest. This progress is in line with the Latin American nations' recognition in recent years of the fact that the problem of regional integration extends beyond liberalisation of the tariff structure. The very creation of a climate favourable to more intensive trade depends not merely on liberalisation of tariffs but also on the application of complementary measures, including coordination of investments at the regional level.

In this latter area, the Bank is playing an important role by financing projects whose impact extends to more than one country. Examples are a highway project in Colombia that will improve road links with Venezuela; a highway in southern Brazil which will provide Paraguay with a first-class road to the Atlantic; and complementary projects in Argentina and Chile to modernise the Trans-Andean Highway linking them across the Andes. I have already referred to our efforts in the field of telecommunications and the joint development of common geographical areas. We also have a program to finance intra-regional exports of capital goods to promote higher levels of trade and at the same time stimulate the capital goods industry. We are also supporting various regional agencies in the preparation of studies in order to define the criteria for a better orientation of investments that can benefit more than one country.

What the integration process now requires are decisions at the highest political level in order to examine the possibility of negotiating a general treaty of economic integration, taking into account the wealth of experience gathered since the creation of the two existing trade arrangements and the actual capacity of the countries to arrive at the establishment of such a market. This would be in line with the decision adopted in 1967 by the Presidents of America, who pledged to work toward the creation of such a market over a period of 15 years. I think that a common market is inevitable owing to the growing momentum of forces tending toward it.

Strides Toward Inflation Control

QUESTION: Most Latin American national economies have had to put up with one major problem: inflation. Has the IDB been asked by troubled economies to work out a stabilisation program in order to overcome the difficulties derived from inflation?

ANSWER: As I have indicated earlier, the Bank is primarily a development financing agency. It does not provide financing for budgetary or balance of payments deficits, or advise its member countries on fiscal and monetary policy. It does, however, through its activities, exert a certain degree of suasion on the need to maintain fiscal and monetary policies that are conducive to economic growth. I think that on the whole the financial leaders of Latin America have clearly come to understand the need to control inflation if the development goals are to be attained, and in the past few years great strides have been made in containing inflationary pressures in most of the countries.

QUESTION: Besides the IDB there are many other international organisations, whose task it is to improve the economic development of Latin America.

Do you think that the cooperation between these institutions could be improved in the future?

Cooperation in Aid

ANSWER: I think that cooperation, close in the past, is constantly improving. One manifestation of this cooperation is the participation of the agencies concerned in the deliberations of the Inter-American Committee on the Alliance for Progress (CIAP), to which I have already referred. Under the aegis of CIAP, an annual review of the planning efforts and the problems and prospects of the various Latin American economies is held, with the participation of international financial institutions, technical assistance agencies and observers of major capital-exporting countries. The growing Latin American experience in development planning, and the country reviews of CIAP, have thus enabled the Bank and other agencies to prepare priority recommendations as to the fields in which they should participate in each country, and of an operational strategy based on existing or possible projects.

QUESTION: Some politicians and economic experts have propagated the thesis that Europe should take over the responsibility for the development of Africa and that the USA should concentrate on the aid to Latin America. Do you agree with this concept of international division of labour?

ANSWER: As a firm believer in multilateralism, I think that the trend toward regionalisation which is noticeable throughout the world today is not an end

in itself, but rather a transitional means in the irreversible process of internationalisation in the relations of man-kind. Given the flow of trade and investment currents in the world at large, I do not believe that from a practical standpoint it is in the interest of the capital exporting countries to artificially proceed to allocate aid according to a geographical criterion to the exclusion of all other factors.

Links between IDB and European Countries

QUESTION: Has the financial and technical cooperation between the European nations been to the complete satisfaction of the IDB?

ANSWER: In its eight years of operations, the Bank has developed many links with the European countries which I think have been to our mutual advantage. Of the \$400 mn in financial arrangements we have worked out with non-member countries, 90 p.c. has been supplied by Europe, as follows: Germany, \$90 mn; Italy, \$72 mn; the Netherlands, \$23 mn; the United Kingdom, \$22 mn; Switzerland, \$25 mn; Spain, \$20 mn; Sweden, \$15 mn; Finland, \$11 mn; Belgium, \$6 mn, and Austria, \$6 mn.

These arrangements involve bond issues and loans, as in the case of Germany; parallel financing agreements, as in the case of part of the Netherlands arrangement, and purchase of participations in Bank loans, as in the case of part of the Spanish arrangement.

It is interesting that the Vatican has also placed an initial

\$1 mn, the Populorum Progressio Fund, under our administration to finance social development projects in Latin America.

But in spite of the great success the Bank has had in raising funds in Western European countries, we believe that the amounts obtained are still small in comparison to the financial needs of Latin America and the economic potential of the European countries. We feel in particular that Latin America's share in the flow of public resources from Western Europe has been extremely limited. Resources of this kind would, unquestionably, make it possible to finance development projects in Latin America under more suitable terms, and, thus we hope that the European countries, in cooperation with those of Latin America, will continue to work with the Bank in the search for formulas that can lead to an increase in the financial assistance to our region. Two such formulas we have proposed on several occasions have been to establish cooperative arrangements with the European Investment Bank, and to create a European investment fund for Latin America, similar to the development fund established within the European Economic Community for the associated countries of Africa. In the past, Western Europe has been a much more important center for the mobilisation of resources for Latin America than it is at present. In view of the tremendous economic growth Western Europe has experienced in recent years there are grounds for hoping that this position will be regained.

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