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Latin American Exports, Growth and Stability
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When we look at Latin America today, we see a mixed picture. We see countries with high rates of economic growth and countries with little growth. We see countries with stable prices and countries with considerable inflation. We see countries with fully convertible currencies and countries with exchange controls. We see countries with balance of payments surpluses and rising gold and foreign exchange reserves and countries with balance of payments deficits and an ever increasing foreign debt. We see countries seriously engaged in developing an integrated regional market and countries which up to now have preferred to remain outside of any regional market. Under the circumstances, it is impossible to generalize about Latin America. Moreover, in the time available this morning, it is impossible to cover more than a few aspects of the Latin American scene.

Let me begin by drawing your attention to a few figures. In 1950, 2/ seven countries accounted for about 56 per cent of the total exports of Latin America, not including Cuba. The remaining twelve countries accounted for the remaining 44 per cent. In 1962, the seven countries in the first group were exporting $145 million less than in 1950, a 4 per cent decline, while the twelve countries in the second group were exporting $2,800 million more, somewhat more than twice as much as in 1950. By comparison, total exports of the free world in 1962 were also a little more than double the 1950 level. (See Table 1.)

It seems to me that these figures show that Latin America cannot be said to have failed to participate in the growth of world trade. Twelve of the Latin American countries participated in this growth to a very satisfactory extent. Only the other seven countries have legitimate grounds for wondering why they did not share in it. They are Argentina, Colombia and Haiti, whose exports rose very little, Paraguay, whose exports were unchanged, and Bolivia, Brazil and Uruguay, whose exports fell.

The failure of Haiti's exports to rise is due to many causes, only some of which are economic in nature. The well known social and political conditions of the country make of it a special case which I would prefer not to discuss.

Bolivia is, likewise, a special case. The difficulties which have afflicted its tin production are well known. The price of tin today is about 20 per cent higher than in 1950. Yet, Bolivia today is exporting 31 per cent less tin (by volume) than it did then.

This leaves the three countries whose trade is through the River Plate (Argentina, Uruguay and Paraguay) and the two biggest coffee producers (Brazil and Colombia). I want to be the first one to recognize that the decline in coffee prices since 1954 has played an important role in the failure of Brazil and Colombia

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1/ Talk given before the trainees from the Center for Latin American Monetary Studies, September 5, 1963.

2/ The year 1950 was chosen as being fairly representative of the period 1948-52. The results would be substantially the same if the average of 1948-52 were used as the base.

to share in the expansion of world trade. But I think it is only fair to add that there are twelve other Latin American countries which produce coffee and all of them managed to expand their exports, some of them in a very spectacular way, in spite of the drop in coffee prices. Several of these countries even managed to expand their coffee exports, taking advantage of the Brazilian and Colombian policies which undertook to limit exports so as to slow down the decline in prices. Most of them also diversified their production and expanded their exports of such products as cotton, cocoa, and bananas. Brazil and Colombia also produce some of these commodities, but failed to increase their exports of them. Why? Clearly the drop in coffee prices is not the full explanation.

The countries of the River Plate area mainly export the products of temperate agriculture, meat, hides and skins, wool, wheat and corn. While it is true that some of the markets for these products, notably in Europe, have tended to be difficult to enter, this is not a satisfactory explanation, especially when one considers that wheat, for example, has frequently not been available in sufficient quantities to supply some of the neighboring Latin American countries.

I think that all five countries, the two coffee countries and the three countries of the River Plate area, all have suffered from the same ailment, inflation coupled with policies designed to repress its effects. I do not want to discuss the causes of inflation in these five countries. I wish only to point out that, in each case, except for relatively brief periods, the rate of exchange applicable to trade transactions has not been permitted to reflect currently the real value of the currency as it shrank under the impact of inflation. Instead the rate of exchange has generally been depreciated with a considerable lag in these countries so that most of the time the currency has been overvalued.

Now, it is well known that an overvalued currency discourages exports. If I am correct in my judgment that the currencies of the five countries under discussion have been overvalued much of the time in the last thirteen years, then we need look no further for an explanation of why they have not shared in the growth of world trade.

Today, the five countries are still suffering from inflationary pressures. This is particularly true of Brazil and Argentina where the budget deficit exceeds 30 per cent of total government expenditures. However, we must note that in Argentina, at least, there is a completely free foreign exchange market with a single rate for all types of transactions, a market in which the exchange rate has been allowed to fluctuate without official support for nearly 18 months. Such a policy means that Argentine exporters, whether they wish to sell the traditional agricultural products of Argentina or any new export, manufactured or of any other type, no longer have to face the obstacle of a penalty exchange rate.

In Colombia, courageous steps have been taken to reduce the budget deficit this year following the devaluation of last November, particularly the adoption last month of a law under which a significant tax reform is now taking place. Nevertheless, the price increases which followed the devaluation may have once more priced some of Colombia's potential exports out of the market. Uruguay has also devalued its currency in recent months and attempted to place its exports in a competitive position in world markets.

The stagnation of the exports of the countries we have been discussing has done much to retard the economic growth of these countries. This is ironic, at least in the case of Argentina, where the traditional agricultural exports were for many years made to pay the cost of a policy of forced industrialization. The fact is, however, that without a rise in exports, Argentina could not pay for the rising volume of exports which her industrialization required. In other words, the economy was being strangled. Argentine imports increased only 14 per cent between 1950 and 1962, the lowest rate of increase of all the Latin American countries in this period. The effect on production is equally marked. Argentine industrial production rose only 13 per cent in twelve years and the Gross National Product rose on the average only 2.4 per cent per year between 1953 and 1961.

As for Brazil, the adverse effect on growth is no less real, even if it is better masked. Brazil increased its imports by about 34 per cent from 1950 to 1962. In fact, only Argentina, Uruguay and Haiti had smaller increases. Most of the other Latin American countries had increases in imports of at least 80 per cent, which provided them with many of the means for further economic growth. Note also that the increase in Brazilian imports occurred in the face of lower exports. In other words, the trade balance worsened and Brazil was forced to accumulate an ever increasing foreign debt.

The Brazilian statistics indicate that GNP rose on the average by more than 6 per cent a year in real terms between 1953 and 1962. This seems a satisfactory growth rate, if the statistics can be relied upon. There is a serious question, however, whether the usual defects of GNP statistics in less developed countries were not magnified in Brazil because of the severe inflation. Even if the figures are reliable, the question arises as to how long such rapid rates of growth can be sustained. The Brazilian inflation is clearly retarding exports and the growing foreign debt is forcing an increasing burden of interest and amortization on the balance of payments. It is obvious that there must come a time when additional borrowing abroad will be impossible. Slower growth may then be inevitable. Moreover, inflation discourages savings and diverts investment into speculative activities and away from more genuinely productive undertakings. Who knows how much more rapid the Brazilian economic growth would have been with relatively stable prices and a free foreign exchange system?

So much for the countries which did not share in the growth of world trade. Let us now talk about the countries which did. Time does not allow me to discuss them all, so permit me to mention just two.

Consider first the case of Mexico. This is a country which has had a 78 per cent increase in exports from 1950 to 1962, not the biggest, by far, in Latin America. This is an average of more than 5 per cent per year. Notice that the years 1957-60 were bad years for Mexican exports, with a 16 per cent drop in 1957 and little recovery in the next three years. But 1961 and 1962 (and, it would seem, also 1963) have witnessed an average rise of 10 per cent per year, not far from the average rise of 14.5 per cent recorded in 1954-56, but more impressive than this earlier period because it did not follow a devaluation as did the 1954-56 expansion.

This export rise is impressive also because of its composition. The traditional Mexican exports, cotton, coffee, copper, lead, and zinc, which accounted for 60 per cent of total exports in 1953, represented only 40 per cent of the total in 1962. New products including certain manufactures were the chief reason for the rise in exports. There were also increases in exports of cattle, meat, shrimp and sugar. This rise in exports has been an important force behind Mexican economic growth. It made possible a doubling of the level of imports between 1950 and 1962 without causing balance of payments difficulties. These imports provided important resources to sustain the growth of domestic production. From 1953 to 1962, the Mexican GNP in real terms rose on the average by more than 6 per cent per year, with only two years in which it rose less than 4.5 per cent. Allowing for the growth of population, this places the average rate of growth per capita well above the 2-1/2 per cent set as the target in the Charter of Punta del Este. Only in 1959 did Mexico experience a small decline in per capita income.

This very satisfactory growth record has taken place with a rise in the cost of living of slightly less than 6 per cent per year between 1953 and 1962. In only three years did the cost of living rise more than 10 per cent and two of these years, 1954 and 1955, were the first two years after the last devaluation of the Mexican peso. Since 1956, the average rate of increase of the cost of living has been only 3.6 per cent per year. In two years, the cost of living fell slightly and in two others it rose less than 1.5 per cent.

This record of satisfactory growth with relative price stability can be simply explained by the careful management of the country's finances. The Government's budget deficit has been held quite consistently below 10 per cent of total expenditures (and has often been much less than this), that is to say at a level which could be financed more or less from the savings of the economy. At the same time, the Bank of Mexico has judiciously conducted its monetary policy so as to prevent an excessive expansion of credit, while encouraging the commercial banks by means of selective credit regulations to make productive loans and other desirable investments.

These policies have been instrumental in holding the growth of imports within the limits set by the rise in foreign exchange earnings from exports, tourist receipts, and other factors, and by the inflow of private capital. As a result, the Mexican trade balance was virtually the same in 1962 as in 1953 and the Mexican peso remained fully convertible throughout the period. In the last few years, the Mexican external position has been so strong that Mexico has been able to purchase all of the electric power companies from their foreign owners and to redeem in advance a substantial foreign debt dating back many years, without creating undue difficulty for the reserves of gold and foreign exchange. The confidence which such a situation inspires, augmented by a long record of political stability, has even made it possible for Mexico to begin floating securities in the private financial market in New York.

Consider now the case of Peru, which is just as impressive. Since 1950, Peru's exports have nearly tripled. In the last nine years, the average rate of increase in exports exceeded 10 per cent per year. Seven of these nine years had increases of more than 8 per cent. Only one year, 1958, showed a decline in exports.

This export expansion resulted mainly from the spectacular development of the fishmeal industry which, last year, had become Peru's leading earner of foreign exchange and accounted for 22 per cent of total exports. It resulted also from the opening up of a new copper mine at Toquepala, thanks to which copper accounted for 17 per cent of 1962 exports. These two products together earned only a little over 10 per cent of the 1953 exports. With the dynamic performance of copper and fishmeal, even the large increases shown by most of the traditional exports (cotton, sugar, lead, zinc, silver and petroleum) could not prevent their share of the total from falling from about 70 per cent to about 32 per cent.

This rapid expansion of Peru's exports made possible a tripling of imports from 1950 to 1962. However, the Peruvian authorities were not quite as successful as the Mexicans in holding imports in each year to the limits set by the foreign exchange earnings. The government budget deficit, in particular, was allowed in some years to exceed the level which could safely be financed from savings. As a result, the level of imports tended to be excessive in 1952 and 1953, and again in 1957 and 1958. Very large trade deficits developed in these years and the Peruvian foreign exchange reserves declined dangerously. In these circumstances, the Peruvian authorities stopped supplying exchange at the existing exchange rate and allowed a new level to be established in the foreign exchange market. This policy had the advantage of not interferring with the growth of exports, as would have occurred if they had chosen instead to adopt exchange controls and hold the exchange rate at its former level.

Since 1959, the management of Peru's finances has been excellent. The Government has stopped borrowing from the central bank and the central bank has used the instruments of monetary policy at its command, primarily changes in reserve requirements but also discount policy, to prevent an excessive expansion of credit to the private sector. The cost of living has risen only about 4.5 per cent a year in the last three years and domestic production has grown rapidly.

Indeed, over the last 10 years, the Peruvian GNP has risen on the average more than 5 per cent per year in real terms. On a per capita basis, the average rate of growth is nearly as high as the 2-1/2 per cent objective of the Charter of Punta del Este. Even with the two currency devaluations which have taken place in this period, the cost of living has risen on the average less than 7 per cent a year, and in only one year was the rise in excess of 10 per cent.

The financial policies followed since 1959 have had their effect on the balance of payments. The gold and foreign exchange reserves, which were only about $29 million in June 1959, reached $114 million at the end of July 1963. The strength of the external position enabled Peru, in 1960, to eliminate all remaining exchange restrictions and to join the few large European countries in moving to make its currency fully convertible by adhering to Article 8 of the IMF's articles of agreement.

I wish there were time to discuss a few more of your countries, particularly those in Central America which have so well maintained the stability of internal prices and the convertibility of their currencies while achieving reasonably satisfactory rates of economic growth. If I did so, I would have a chance to tell you also of the remarkable progress made towards the establishment of the

Central American Common Market. Tariffs and other charges on trade among the Central American countries have already been in large part eliminated and the rest is being eliminated under a rigid schedule so that virtually all trade within Central America will be entirely free by 1966. A common external tariff is rapidly being put in place. A clearing house has been created to facilitate payments among the countries of the region and, only last month, the Bank of Mexico joined the five Central American central banks in an arrangement to facilitate payments between Mexico and Central America. But there is no time for this.

I think it is clear from what I have said, however, that the countries which have had a rapid expansion in exports have also been those which have had the most satisfactory record of domestic economic growth and the greatest amount of success in avoiding price inflation and balance of payments crises. There are, of course, exceptions to this. But I think that they can probably be explained by special circumstances which would not be applicable to other countries.

What this means, in my opinion, is that the most desirable policy for economic development is likely to be one which concentrates on promoting exports and on producing the economic, political, and social environment in which exports can grow rapidly. I recognize that there often are difficulties in doing this over which exporting countries have little or no control, for instance declining world prices of the products which form the backbone of a country's exports. But let us admit also that prices may fall not only because of market developments abroad but also because of overproduction in the exporting countries. And let us not forget that, generally, prices do not all move the same way for all products at the same time, so that a policy of diversification of exports can go a long way toward absorbing the shocks which may occur in the market for any one of them. In this respect, the diversification of the exports of such countries as Mexico, Peru, Ecuador, and the Central American countries is worth noting.

Notice also that the policies which I am suggesting do not preclude the growth of industrial enterprises. If new industries can be made efficient enough to begin exporting their products they will contribute to the healthy growth of a country and this type of industry should be encouraged. The danger lies in forced industrialization, that is the creation of inefficient industries which cannot compete in foreign markets. Such industries require tariff or other protection to survive even at home. Their prices are higher than those of the products formerly imported and this contributes to domestic inflation. The incomes they create are in part used to buy increased quantities of products and if these are foreign products, imports rise even though the new industry was meant to substitute domestic for foreign products and thereby reduce imports. Since inefficient industries cannot export, this rise in imports aggravates the balance of payments difficulties which were to be solved through these industries.

I recognize that no one knows for certain whether a new industry will or will not be efficient enough to sell its products abroad. I recognize also that, even if an industry is efficient enough to export, it may be prevented from doing so by a variety of factors, including protectionist policies in the countries which might import its products. But, to me, this is no excuse for deliberately promoting industries which are well known in advance to have no chance of ever becoming efficient enough to compete in foreign markets. There are enough alternatives, I think, and little enough capital for the necessary financing, to choose instead of those which have a good chance of exporting.

I recognize also that new enterprises require time to reach peak efficiency, and that the techniques and knowhow to ensure efficient operation are not acquired overnight. This might appear to justify some protection for a strictly limited period of time coupled with a careful program to make its elimination possible, including measures to acquire the necessary knowhow and incentives to reach peak efficiency. However, there can be no reasonable certainty that this protection would not become permanent. I have grave doubts about the possibility of removing protection from any industry which has once enjoyed it. I think that there are other ways to promote efficient industries, such as tax incentives, which may be more effective and less dangerous than tariff or other protection.

If, as I have suggested, export promotion is the best policy for economic development, what concrete measures does this require? Here, I would put at the top of the list the maintenance of a realistic exchange rate, that is, one which does not overvalue the currency. This implies a willingness to let the exchange rate seek a new level in a free exchange market whenever domestic inflation threatens to push the level of internal costs and prices out of line with world costs and prices. It implies also a determination to avoid exchange controls and quantitative import restrictions. No one wants to see a constantly depreciating currency. If this is to be avoided, however, without at the same time ending up with an overvalued currency, there is no alternative but to follow policies which will as far as possible avoid inflation. This, I think, is what most of the Latin American countries have been trying to do in recent years, some with more success than others. It is not always a popular course, but I think that the experience of many of your countries demonstrates its wisdom, not for its own sake, but as an essential part of a program aimed at achieving rapid economic growth on a sustained basis.

TABLE 1

Latin American Trade in 1962
as a Percentage of 1950

	Exports (1950 = 100)	Imports (1950 = 100)
Nicaragua	303.7	337.9
Peru	284.6	305.7
Venezuela	223.4	195.8
El Salvador	200.0	260.4
Dominican Republic	197.7	284.0
Chile	189.3	209.7
Ecuador	187.8	222.0
Mexico	178.3	205.6
Costa Rica	151.8	247.8
Panama	150.0	228.6
Guatemala	144.3	192.9
Honduras	143.6	205.1
Colombia	116.9	147.9
Haiti	107.7	118.4
Argentina	103.2	114.3
Paraguay	100.0	190.5
Brazil	90.1	134.3
Bolivia	76.0	145.3
Uruguay	60.2	115.0

Source: International Monetary Fund, International Financial Statistics.