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THE ROLE OF THE WORLD BANK IN LATIN AMERICA

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The World Bank in Latin America *

I. Introduction

I should like to discuss with you this morning the role of the World Bank in Latin America and the Caribbean Region. My remarks will primarily focus on some of the recent changes in the Bank's activities and how they relate to its efforts in Latin America and the Caribbean.

I believe that this topic is of particular interest to the distinguished audience of financial and industrial leaders gathered here today. However, before embarking on my main theme, I should like to present the essential backdrop of the profound changes which have taken place in the region's economic position and what they portend for the future.

Thus, I shall first briefly summarize the main features of the region's economic development in recent years and the role played in this development by the flows of external capital -- both private and public.

II. Latin America's Economic Strength

Momentous changes have taken place in Latin American countries propelling the region to a new plane in the world economy. With your indulgence I should like to cite a few figures which throw light on what has been happening in recent years.

First and foremost, export earnings in real terms during 1970-74 grew at a rate more than double that of the $960's. In a number of instances dramatic increases occurred in exports of manufactures. In Brazil, Mexico and Colombia, industrial exports reached significant proportions of total exports.

Brazil increased her exports of manufactures to US$ 2 billion in 1974 and these accounted for 30 percent of her total exports. Mexico's industrial exports grew annually by 20 percent in real terms during 1970-74. In Colombia, where the share of "non-traditional" exports has doubled, exports of manufactures constitute 20 percent of total exports.

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* The writer is expressing his own views and not those of the Bank Group

This phenomenal growth in exports served as the engine of accelerated economic growth. Although the region's export growth was quite dramatic, its share in major foreign markets has remained relatively small. The potential for further increases in exports is excellent.

To help realize this potential we appeal to the advanced industrial countries not to close their markets to imports from developing countries.

A number of factors have been responsible for this export explosion. Among them, two may be singled out as dominant:

(1) The growing maturity of the industrial complex and its management; and
(2) the shift in balance of payments policies from exclusive reliance on import substitution to one of stimulating exports.

Needless to say, policy improvements have been more marked in some countries than in others. A number of the countries could still take significant steps to strengthen their economic and financial management.

On the whole, however, balance of payments policies in several key countries have become a positive element in development and hence less of a constraint on growth. As a consequence, business and government leaders can concentrate more effectively on the main issues of growth.

These include expansion of the productive base and improved productivity of management and labor.

The Latin American countries constitute together the only area in the world which has a combination of three basic real resource endowments: an abundance of mineral resources, self-sufficiency in energy, both petroleum and hydropower, and a surplus of foodstuffs with potential for further substantial increases. The countries in the region are growing closer together, they are becoming bigger customers of one another, and as is evident in the actions of Venezuela, are providing increasing assistance to their neighbors.

Trade within the region is assuming a fundamental new role in the growth of the area. The Andean Common Market estimates that trade among its member countries increased from

$ 173 million at the time of its inception in 1970 to over $ 800 million last year. Colombia's exports to the Andean Group Countries consitute its most rapidly growing foreign trade segment and it now ships over 30% of its exports to Latin America.

More than one-half of Brazil's growing capital goods' exports are destined to other Latin American countries. These events are the true substance and not merely symbols of regional integration.

The realities of expanding foreign exchange earnings and the real resource endowment make Latin America and the Caribbean a highly attractive region for capital investment, both domestic and foreign.

The resource strength and growing domestic and external markets offer an abundance of attractive investment opportunities. The rapid export growth and diversification provide the essential underpinning for the absorption and servicing capacity of substantial amounts of equity capital and external loans.

By way of illustration, only one or two decades ago a coffee frost of this year's proportions would have severely affected Brazil's short-term external financial situation.

Today the frost does not fundamentally alter the country's external credit standing because of the effective economic management, the greater resilience of its economy and, last but not least, because coffee now accounts for only 12 percent of exports against more than one-half in 1960.

I should also like to note that these favorable aspects of the area must be viewed within the context of very significant improvements in human resources. Countries of the region have a deep-rooted historical base in their cultural and scientific association with Europe.

With the assistance of the industrial world, during the past two decades, they have greatly improved the quality of management in business and government and have trained a highly skilled and competent labor force.

In many Latin American countries the techniques of business management and of government economic policy management match the sophistication of the industrial countries.

Indeed, in matters relating to techniques for coping with double-digit inflation through monetary correction, Latin American economists are advising both European and Americans.

We are all too well aware of the staggering problems which have beset the world economy: Double-digit inflation, recession in the industrial countries, quadrupling of petroleum prices and the pressing need to adjust to these events.

These changes are bringing about profound shifts in international economic relations with a distinct impact on money and capital markets and on conditions for business investment.

The recent Special Session of the U.N. General Assembly reflected an awareness of these changes and expressed a more positive attitude towards such deep-seated problems as the stabilization of commodity prices, transfer of resources and technology and access to capital markets.

Two years ago when changes on the international economic scene became pronounced and abrupt, Latin America already found itself in a greatly strengthened position and ready, in several fundamental respects, to assume its place in the world economy.

Nonetheless, the region did not escape the repercussions of the recent world economic turbulence and has had to slow down somewhat its growth, hopefully only temporarily. Latin America's penetration of world markets for industrial goods has significantly increased her integration with the rest of the world economy.

Now more than ever, Latin America is interested in a stable and growing world economy and in attracting investment capital for its own expanding and diversifying economies.

III. Flows of External Capital to Latin America and the Caribbean

External capital inflows have played a crucial role in the region's accelerated growth process. Once again, with your indulgence, I should like to cite a few figures. Gross foreign capital inflows rose from US$ 5.3 billion in 1971 to US$ 13 billion last year.

During this period the share of private capital increased from approximately US$ 3.7 billion to US$ 11.2 billion. This increasing participation of private finance is indicative of the area's growing integration with the industrial world.

It also reflects the recognition by the industrialized nations of the sound monetary and fiscal policies being pursued by many of the Latin American nations and of their continuing credit worthiness.

A total in excess of US$ 30 billion of private capital flowed into the region between 1971 and 1974. However, the magnetism for foreign private capital was limited to a relatively small number of countries. Brazil, Mexico and Peru were the major recipients, attracting over 50% of the total inflow.

Venezuela -- which herself exported close to US$ 2 billion last year of capital from its petroleum surplus -- continues to be an important market for private foreign investment.

Several other Latin American countries are now in a position to absorb and service significantly larger amounts of external capital than previously. Moveover, we estimate that the region's capital requirements will increase substantially in the years ahead.

This year, world inflation, reduced demand in the industrial countries, lower prices for some of the region's major products (such as copper, sugar, and meat) and higher petroleum prices have raised the region's demand for capital above the already high level of 1974.

At the same time, access to international private capital has become more difficult and terms of borrowing have hardened. Our preliminary estimates indicate that despite these difficulties capital inflows into the region will remain at approximately the same level as last year.

It should be emphasized that Latin American governments are adopting measures to meet the challenge posed by the changed external conditions. These include efforts to reduce imports and to channel investments into the most productive sectors, particularly industry, mining and food production.

The external reserves of the Latin American countries (excluding Venezuela) which had reached the high level of almost US$ 12 billion at the end of 1973 have since fallen by some US$ 2 billion. Nevertheless, the reserve position of most of the countries continues to be strong and substantial standby resources remain available.

Consequently, there should be no doubt that a large group of the Latin American and the Caribbean countries will be able to continue to offer attractive and favorable conditions for foreign investment and loan capital.

Approximately how much foreign capital will Latin America and the Caribbean require in the years immediately ahead?

Attempting to predict the future is at best a risky undertaking, but in a world replete with projections, it is an indispensable task. Looking ahead to the end of the decade, we estimate that the external capital needs of the region will rise from the current level of US$ 17 or US$ 18 billion to at least US$ 27 billion in 1980.

In real terms, such an increase would represent a continued high, but stable, level of capital inflows. This projection is based on three fundamental assumptions:

(i) First, it is anticipated that the region's growth rates will recover rapidly from the lows experienced this year and projected for 1976. As we saw earlier, the early seventies were a period of dramatic growth for Latin America.

Gross domestic product increased at rates consistently above 6%. The performance of some countries -- notably Brazil, the Dominican Republic, Ecuador and Panama -- was even more spectacular.

Unfortunately, the current year has seen a sharp drop in the region's growth. A few countries may even show a net decline in gross national product. However, according to our projections, a marked upturn should occur by the late seventies. and growth rates are expected to return to the 6 to 7 percent level.

Although growth rates of this magnitude may seem high by OECD standards, the region's ability to attain and sustain this rhythm of development was clearly demonstrated in the early seventies.

Another reason for our confidence in the rapid recovery of the Latin American and the Caribbean countries is the fact that, with their much lower living standards, these nations will find it difficult to sustain for long, without adverse social consequences, the cyclycal lows now being experienced in several industrial countries.

We therefore assume that they will take positive action to reverse the present slow-down in growth. We also assume that this action will receive the full support of the international community.

(ii) Secondly, it is expected that the terms of external loans from private sources, which hardened significantly last year, will become more liberal, and that maturities will be extended to 10 or more years.

(iii) lastly, it is assumed that Latin America will continue to utilize its resources efficiently and finance with its own savings an increasing proportion of its investment. In recent years approximately 90% of the region's investment has been financed by domestic resources and, assuming the continuation of sound economic policies, this share should grow over the coming years.

The continued strengthening of the region's economies will also require sound fiscal management, dynamic export growth, and efficient import substitution. It is encouraging to note that measures required to achieve the foregoing objectives are already underway in most countries and are providing opportunities for close cooperation between national and external capital.

IV. The Role of the World Bank Group

The World Bank Group's lending activities in Latin America and the Caribbean have been on a stadily rising scale in 1970-75 -- reaching a total of $ 5.6 billion in these six years and $ 1.3 billion in the fiscal year ending June 1975.

We expect that our lending -- all with long maturities and maintaining our present high standards of creditworthiness and project appraisal -- will continue to increase substantially in the next 5 years.

For such continued lending to be possible, the Bank will have to obtain an increase in its own capital -- such an increase has been supported by recent decisions in the Development Committee of the Bank and the IMF and appropriate proposals are being worked out by the Bank's management.

In the period prior to 1970 about 80% of all commitments were concentrated in power and transportation. By way of contrast these two sectors account for only 40% of commitments today.

While the Bank Group continues to give considerable weight to infrastructure as an important element within the strategy of development, a major part of its activity now relates to the financing of agriculture and industry as well as such important social sectors as education.

The broader range of Bank Group operatons reflects a clearer understanding of development as an integrated social and economic process.

Bank Group assistance may serve many purposes. It is a vehicle for resource transfer which is designed to achieve several specific developmental objectives.

These objectives may include the alleviation of foreign exchange constraints to growth in income and employment by expanding exports; the removal of domestic bottlenecks to growth by expanding the output of goods and services in short supply; the easing of administrative constrains to growth by establishing new institutions and improving the performance of existing institutions; the support of rational pricing policies in public enterprises conducive to the efficient use of resources; and, increasingly, direct and effective action to raise the incomes of low-income groups.

In this latter respect attention in the recent years has focussed particularly upon the rural sector. The agricultural workers who own or rent small plots of land and farm them on a subsistence basis are amongst the poorest groups in Latin America, and assistance to the small-farm sector is an essential element in any strategy to alleviate rural poverty.

The efforts of the Bank Group in this direction are well illustrated by two recent loans to Mexico totalling US$ 110 million which are expected to benefit about 1,250,000 people in some of the poorest parts of the country. Both are amongst the most complex projects with which the Bank has ever been associated.

They will help raise family incomes and expand food production through the provision of credit and technical services. They will also create permanent jobs and improve living conditions in poor villages by bringing to them drinking water, electricity, primary school classrooms, workshop facilities and community centers.

In short, they aim at providing an integrated package of assistance that will help the farmer in all aspects of his productive efforts. Similar rural integrated development projects are receiving assistance from the Bank or from IDA in Northeast Brazil, Colombia, Bolivia and Paraguay.

The increasing emphasis being given by the Bank Group to the rural sector is demonstrated by the exceptional growth in lending to that sector. In fiscal year 1970-75 over $ 1 billion dollars were committed to agricultural projects in Latin America. It is planned, moreover, to increase lending for agriculture further in the future.

Although particular attention is being given to the needs of the rural areas, the Bank and IDA are also well aware of the problems arising from the rapid urbanization in Latin America. Already the continent is predominantly urban in its structure, and continued rapid migration from rural to urban areas threatens to place overwhelming demands upon the infrastructure of many cities.

A serious problem in this respect is the pressure which urban growth has put upon the supply of low-cost housing, and one form of response with which the Bank has been associated, involves the provision of urban "sites and services".

In El Salvador, for example, a US$ 2.5 million Bank loan, together with a US$ 6 million IDA credit, will help finance the construction of about 7,000 dwellings for families earning between US$ 40 and US$ $20 per month. This project is intended as a model for replication throughout the country. A private organization is acting as the executing agency and is providing additonal financial resources for the project.

Closely related to the needs of an urbanizing society is the development of industry, and this is all the more important when viewed within the context of widespread unemployment which continues to afflict many Latin American countries despite rapid economic growth.

Industrialization offers the prospect of increasing employment. At the same time, when promoted along efficient lines, it also holds out the possibility of easing balance of payments problems through efficient import substitution and export promotion. In this area, the Bank's role is frequently complementary to that of other lenders and, in many cases, the Bank has sought to combine its loans with those of other institutions.

One aspect of Bank operations in industry is illustrated by a loan program in support of the Brazilian Government's steel expansion for which we have made thus far 5 loans totalling US$ 347 million.

The program which will help sustain the process of economic import substitution, has also been supported by the IDB. and it involves total investments of more than US$ 5,000 million. Now in its third stage, the program will substantially increase the basic iron and stell making, rolling, and finishing capacities of the three government-controlled companies which account for the bulk of Brazil's output of flat-rolled products.

The interest of the Bank Group in promoting industrial development is not confined to major industrial projects such as the Brazilian iron and steel complex, however. The Bank is aware that medium and small-scale industry also has a tremendous potential for mobilizing private capital and entrepreneurial resources to productive ends.

Later on I shall refer specifically to the activities of the IFC in this field. The bank itself is also active in promoting medium and small-scale industry through the provision of credit and technical assistance.

In this respect, it has frequently found that a development finance company provides an excellent conduit for Bank lending.

These companies -- founded with public and private capital jointly -- are becoming increasingly important as key institutions in the industrial development of Latin America and have received some US$ 200 million of Bank funds for on-lending. It has been decided to increase substantially our lending through these institutions.

A major objective of these loans to the DFC's is to strengthen the performance of export industries through assistance in finance management, marketing and technical know-how. Frequently, another major objective is to encourage the dispersion of industrial development to medium-sized cities and thereby combat the mono-centric urban structure which characterizes some Latin American countries.

A major obstacle to economic, and especially industrial, growth in many countries of Latin America is that the size of markets is limited. The limitations are particularly severe in the smaller countries: the small size of national markets limits production and lowers industrial efficiency by precluding the use of plants large enough to achieve economies of scale.

Diversification and expansion of exports can be accelerated by more rapid integration of national and regional markets.

The increased market size resulting from integration would eventually be reflected in lower manufacturing costs, increased exports to countries outside the region, higher rates of investment, and more efficient use of resources through fuller utilization of industrial capacity.

Regional integration is thus an increasingly important topic in Latin America and the Caribbean, and a major Bank study of the English-speaking states of the Caribbean completed during the year illustrates the Bank's role in fostering this process.

The findings of the study also indicate the need for an expansion of the role of regional institutions, notably the Caribbean Development Bank. The study identifies a number of projects suitable for external financing in the transportation, education, agriculture, and tourism sectors, but argues that coordination between sources of external aid must be improved if such efforts are to be fruitful.

In their development activities in the region, the Bank and IDA themselves continue to coordinate efforts with governments and international institutions which provide assistance to Latin American and Caribbean countries.

This coordinating activity is carried out mainly through the Bank's very close collaboration with the Inter-American Development Bank, the Organization of the American States and the United Nations. Development Programme, for which the Bank is executing agency for several projects.

In the cases of Colombia and Peru an important instrument of financial coordination continues to be the consultative Group which, under Bank leadership, draws several European governments, the United States, Canada, Japan and a number of international agencies.

Within this forum the financial needs for a select group of countries can be reviewed systematically, and the assistance programs of international and bi-lateral agencies can be effectively interrelated.

Although the loans and credits of the World Bank Group to Latin America and the Caribbean account for a small fraction of the total capital flows to the region, we attempt to formulate our lending programs in a manner most appropriate to increasing productivity, improving income distribution and laying the foundation for domestic and foreign private investment.

I shall now turn to a discussion of this subject.

V. <u>The World Bank and the Private Sector</u>

The private sector in Latin America and the Caribbean has been greatly strengthened by the important changes in government policies which have occurred over the past decade.

Greater freedom of exchange and capital transactions, improved policies in dealing with inflation, more realistic pricing of public services and reduced protection of import substitution industries have combined to fortify the base of the region's economy, and have rendered private enterprise more competitive.

These same developments have significantly increased the availability of capital and transferred banking resources from the financing of public deficits to private investment.

The strengthening of the private sector in industry and agriculture, as well as in banking and commerce, has also been spurred by the expansion of the regions's domestic and external markets.

Of course, some countries have been more responsive than others in giving scope to the private sector and, through policy changes, in adjusting to the major shifts in their external environment. But, taking the continent as a whole, the trends in Latin America contrast favorably with events in many other parts of the world.

The World Bank is active in both the public and the private sector. Its loans and technical assistance help vitalize private enterprise in several ways. In industry, as I have already mentioned, we have helped to establish development finance companies whose resources are going predominantly to private industry.

Our increased lending for agricultural credit, production and rural development also has had the effect of supporting the private sector. Many governments are paying more attention to the rural sector, providing technical help, credit, imported inputs and, in most countries, turning the internal terms of trade in favor of the agricultural sector.

However, the vast majority of agricultural resources continue to be managed by private individuals -- and in a real sense the Bank's lending serves to enhance their ability to become more productive in the modern economy.

The International Finance Corporation is playing an active role in mobilizing external capital for the private sector of the Latin American region.

This has taken place in two ways: by associating private direct investment in the projects in which IFC has made a financial contribution, and by the sale of participation in the loans actually made by the Corporation itself.

The volume of investment from all sources associated with IFC financings in the last four fiscal years was about six times the actual amount of IFC commitments.

As regards participations, during the same four-year period, $ 129 million or about 40% of the funds disbursed in Latin America were made available through the sale of participations to international financial institutions or through the sale of part of the existing portfolio.

The Corporation has for several years been an active participant in the business of syndicating loans in cases where it could play a role as a catalyst for market funds.

The Corporation is at present seeking an increase in its capital so that it can expand both its equity investments and lending activities. The largest part of IFC financing has been for the manufacturing industry, especially basic industries such as iron and steel, chemicals and cement.

A new area which is receiving special attention is that of financial and technical assistance for the development of domestic capital market institutions. This assistance is not limited to well-established channels such as development finance companies; it is also available to institutions which engage in underwriting and other forms of capital market development.

Most of the resources needed for the expansion of private production must necessarily be mobilized domestically. But financial and technical requirements are so large that external capital will continue to play an essential role.

The Bank's own resources -- even if they are augmented over the next few years -- will remain small in relation to total requirements. We have therefore intensified our efforts to continue our own lending in conjunction with private investment finance.

ADELA has, as you know, been the most successful private regional finance company, and has worked in close colaboration with the World Bank Group during the past years. We look forward with great interest to maintain these very good relationships.

In the past years, we have encouraged participations in our loans and have used various techniques of parallel financing from the major countries providing capital goods to projects assisted by the World Bank.

With the changing conditions in capital markets and the increased availability of medium-term financial credits, we have recently introduced the technique of co-financing projects jointly with private banks and institutional investors. Under this new arrangement the private external lender benefits from our technical and economic studies of the project and the economy, and joins with the Bank in a financial and lending partnership.

We expect that this new facility will make additional private investment finance available for high-priority projects on terms and conditions which are more attractive to borrowers and lenders than would be possible without this form of partnership between the World Bank and private investors.

The changes in conditions in the Euro-credit market and the long-term capital markets necessarily give renewed importance to the terms on which private capital is provided to Latin America and the Caribbean. I have already observed that the expansion of production and exports and related elements have strengthened the creditworthiness of many countries in the region.

At the same time, the increased capital needs make it undesirable that the maturities of external loans be too short. Maturity structure has gained even greater significance as the role being played by private financial credits has increased. The shortening of maturities of private loans will make it difficult to maintain the net flow of resources at the currently required level.

In this connection, I wish to draw special attention to long-term bonds, placed privately or publicly, which have become an important source of the external financing of certain countries. Since 1960 they have provided a total of approximately US$ 1.8 billion, mainly to Brazil, Mexico and Venezuela.

With the increased economic strength and relatively favorable external debt positions in several other countries, long-term bond Capital could make an increasing contribution over the years to come. We in the Bank would welcome a lengthening of private maturities, including an increase in long-term bond capital.

Both improved terms for private financial credits and greater access to capital markets will depend upon a more positive attitude on the part of authorities of the more advanced countries. We are confident that this attitude will prevail when the short-term difficulties of today are seen in a broader context and from a longer range perspective.

Conclusion

The economies of Latin America and the Caribbean are emerging with renewed vigor from the problems they have encountered as a result of inflation and recession in the industrial world. It is obvious from the record of the past decade that, as in other parts of the world, differences in the quality of economic management exist among countries in the region.

Most of them have, however, responded with alacrity and incisiveness to the economic challenges facing them and have taken measures that were necessary in the economic sphere even when these were politically unpopular. It is my hope that the other countries in the region will follow their lead.

To be realistic, however, one must expect that some countries may experience serious difficulties in adjusting to the new world economic conditions with the speed required to minimize the adverse effects on their own economies.

The balance of payments viablility of several countries in Latin America and the Caribbean still remains highly dependent on a few primary products, but the region as a whole is now better equipped to cope with a deterioration in the terms of trade such as occurred during the last two years.

Provided that markets in industrial countries are kept open and solutions can be worked out to dampen the more violent fluctuations in prices of some of its primary commodities, the region will be in a position to continue diversifying its economies and expanding its exports.

It has the capacity to maintain a vigorous growth rate and to simultaneously improve the living standards of broad segments of the population. The private sectors of these modern semi-industrialized economies are expanding and can provide the necessary leadership for stimulating further growth.

This prospect for a continuation of diversified growth is one of the brightest spots on the world economic horizon today. In its realization, external capital and technology have a crucial role to play. The investment opportunities and substantial creditworthiness margins provide a sound basis for increased external investment.

Concurrently, international investors as well as business and government leaders in industrial countries can play positive roles in expanding markets for Latin American and Caribbean exports.

We in the World Bank will do our share, both by increasing our lending and by continuing to work closely with other public agencies, private financial institutions, managements and technical experts. Together we face a monumental and exciting task.

Speech Box

LATIN AMERICA

Economic Position and Prospects

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Boston University
Center for Latin American
Development Studies

LATIN AMERICA

Economic Position and Prospects*

Introduction

It is a great pleasure for me to speak to you today on the subject of Latin America's economic position and prospects, especially since many of you will be playing significant roles in the future development of this vast and diverse continent. Gifted with natural resources and relative economic advancement, Latin America stands on the threshold of burgeoning growth and immense change.

The goals shared by most developing countries of healthy economic growth and the equitable distribution of its benefits are thus particularly relevant to Latin America at the present time. Most of us have come to realize today that the full realization of these goals requires the participation and cooperation of the industrialized nations.

These considerations will underly my discussion of Latin America's recent economic development and her place in the new world economic order. My portrayal of the continent will focus on two main topics: an overview of the region's most salient features and its growth performance prior to the recent world economic recession. I would then like to discuss the ways in which this recession jolted the economic achievements of the beginning of the decade and how Latin America has coped with its recent external economic constraints.

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* The views and opinions expressed here are the author's and not necessarily those of the World Bank.

In this age of model-building and projections, no sophisticated audience would be content solely with a recital of what has transpired. I shall, therefore, assess the economic prospects for the region during the remainder of the decade.

Overview of the Region

Latin America's true strength lies in its rich and varied natural resource endowment, consisting of an overall self-sufficiency in energy, and abundance of mineral resources, and a surplus of foodstuffs. Complementing these resources is a population of over 300 million endowed with a variety of skills essential to modern technology. With 60% of the populations living in cities, the region is highly urbanized, and possesses large manpower pools readily available for absorption into productive employment.

Latin America has also trained a large supply of managers and skilled workers over the past two decades. In many instances this process was facilitated by inflows of external capital and technology, as well as by the close historical and cultural association of Latin America with the United States and Europe. As a result, management skills and technical expertise in the private sector frequently match the sophistication of these areas in the industrialized countries.

The region's output consists of basic raw materials of vital importance to international trade, such as copper, tin, bauxite, iron ore, grains, and wool, as well as a variety of manufactured goods. The composition of Latin

America's gross domestic product has become increasingly diversified as the region has become more and more industrialized. At present, almost two-fifths of the region's GDP is generated by manufacturing and construction activities.

Although bound by a common cultural heritage, great variations exist among the 20 countries of the region in size as well as degree of affluence. Populations range from more than 100 million in Brazil to under 2 million in several Central American countries, and incomes per capita vary from US$2,000 in Venezuela to US$315 in Bolivia. Underlying this diversity are wide differences between countries in resource endowment, in the stages of economic development and in the capacity to manage and to implement sound economic policies effectively.

Another feature indicative of the region's ever-increasing economic strength is the on-going process of integration of the Latin American countries and their growing interdependence and cooperation. The countries in the region are growing closer together, are becoming bigger customers of each other and are providing increasing assistance to one another.

For instance, more than one-half of Brazil's exports of capital goods has recently gone to other Latin American countries. The Andean Common Market estimates that trade among its member countries, which included Ecuador, Venezuela, Colombia, Peru and Chile, increased from US$173 million in 1970 to over US$800 million in 1974. Colombia, for example, ships 30% of its exports to the Andean Group countries. Such mutual support will further the economic growth and sustained viability of the entire region.

Recent Economic Growth

The strong natural resource base and growing integration which Latin America enjoys manifested themselves in an average 7% growth rate of aggregate GDP during 1968-74. During this period, Latin America's real output increased 125%, surpassing real output growth on the part of the industrialized countries by 30%. Moreover, the growth rate of Latin America accelerated annually over this period. Latin America is the only continent in the world in recent history to have shown such consistent high growth, doubling its average per capita income in less than 20 years.

One of the main reasons for this rapid economic growth was the sizeable growth of export earnings in the 1960s and early 1970s, due primarily to the shift in varying degrees by Latin American Governments, notably Argentina, Brazil, Colombia and Mexico, away from inward-oriented and frequently inefficient import-substitution policies to an aggressive promotion of export growth, especially of manufactures and other non-traditional products.

This was accomplished through the introduction of realistic exchange rate policies, the provision of incentives to exporters, and inflows of external capital and technology. At the same time, the increasing extent to which the countries of the region serve as markets for each other provided another stimulus to export growth.

As a result, aggregate export earnings in real terms grew from 1970 to 1974 twice as fast as during the 1960s. Moreover, this expansion was in most cases concentrated on manufactures. In Colombia, where the share of non-traditional exports had doubled since 1970, manufactures now constitute over 20% of total exports.

The manufactured exports of Argentina, Brazil, Colombia and Mexico have together risen over ten times from US$650 million in 1965 to about US$7 billion today. This diversified export growth has improved the region's economic viability and capacity for sustained growth by decreasing its vulnerability to the vagaries of world commodity markets. Despite its record export growth performance, however, the region's share in major foreign markets is still relatively small. Hence, the potential for continued strong export growth should be excellent.

Latin America's strong export performance permitted accumulations of record levels of external reserves, which by 1973 amounted to US$12 billion, even excluding Venezuela. Though reserves have since fallen by more than US$2 billion due to the world recession and deterioration in the terms of trade, the positions of most countries in the region remain strong, with substantial standby resources still available.

The export explosion has also been accompanied by increasing demand for a variety of imports. As income per capita increased, Latin America purchased more consumer goods. At the same time, as the emphasis of production shifted from agriculture and raw materials to industry and manufacturing, capital goods imports were subject to increasing demand.

As a result, from 1960 to 1974 the value of Latin American imports from industrial countries grew at a rate of 12% per annum, reaching a level of about US$33 billion in 1974.

Another key factor contributing to Latin America's growth acceleration in recent years has been the increasingly large amount of gross domestic investment. With the assistance of increasing external capital inflows, gross domestic investment in constant prices grew at an average annual rate of about 12% during 1968-74, as compared to less than 5% in the preceding seven years. Especially striking in this respect was the performance of Brazil, Ecuador and the Dominican Republic, whose gross domestic investment grew by about 20% annually over the same period. Gross domestic investment averaged 20% of GDP over 1970-74 for the region, which compares favorably with many parts of the industrial world.

External capital has played an important role in the acceleration of investment growth. For instance, external capital inflows more than doubled from about US$5 billion in 1971 to US$13 billion in 1974. During the same period, the contribution of private capital more than trebled from US$3.7 billion to US$11.2 billion. This constitutes an increase in the private share of total new external capital inflows from 70 to 80%. These figures reflect Latin America's growing integration with the international financial community.

To be sure, the distribution of external capital flows has been skewed toward a few countries. Between 1971 and 1974, Brazil, Mexico and Peru together attracted over 50% of the total capital inflow. Nonetheless, several other Latin American countries, notably Argentina and Chile, are now capable of absorbing and servicing significantly larger amounts of external capital. Further, as I shall discuss later on, the region's capital requirements should be expected to expand substantially in the years ahead if it is to realize its potential during this decade.

Recession and Recovery

Latin America's rapid integration with the world economy has made it more vulnerable to its fluctuations, and the region's consistently strong growth performance in the early 1970s was interrupted by the petroleum crisis and the accompanying world recession in 1974-75. The price of imported oil quadrupled, while at the same time the reduced demand of industrialized countries for major export commodities such as copper, beef, cotton, sugar and soybeans depressed both their export volume and their prices, diminishing export receipts.

Export prices of manufactures were especially hard hit, in particular in Colombia, Mexico and Peru. At the same time, prices of imports other than oil rose steadily as inflation soared in the industrial countries, and steep increases in the price of investment goods hampered investment activity and constrained growth. The combination of falling export receipts and climbing import bills caused the current account deficit of the balance of payments (excluding Venezuela) to rise from US$12.6 billion in 1974 to US$16 billion in 1975.

As a result of these factors, Latin America's GDP fell from its previous average growth rate of 7% per annum to 3% in 1975. Most severely affected by the recession were the copper-exporting countries, and those countries which had established close ties with industrial countries through diversifying and expanding industrial exports. Brazil's rate of economic growth was down from 9.6% in 1974 to about 4.2% in 1975. Colombia's GDP growth dropped from 5.9% to about 4% and Peru's from 6.6% to 3.9% in the same period. In contrast, countries like Bolivia, the Dominican Republic and Paraguay managed to maintain growth rates of 5% or more, while the economies of petroleum exporting countries prospered. The non-petroleum output of Venezuela, for example, grew by 8%.

In response to the world economic recession, external borrowing was stepped up and the larger countries, with few exceptions, dipped into their foreign exchange reserves. External capital flows increased considerably in 1974 and continued to rise in 1975. Private credits supplied some 80% of net external capital requirements, albeit on relatively hard terms. At the same time, Venezuela assisted the Central American countries by extending credits through its special oil facility, whose function was to compensate these countries for part of the increase in the cost of petroleum. In turn, Venezuela's large import requirements and the flourishing of interregional trade enabled a number of countries within the region to counterbalance somewhat the adverse effects of the recession.

The Governments of Latin America also responded to the exigencies of the situation by implementing a broad range of economic and financial policies. Some countries improved agricultural output and exports by increasing the prices of selected commodities. Brazil's raising of coffee prices in late 1975 and the price increases for bananas by Central America and Colombia are cases in point. In some instances, the general deterioration in the external economic environment necessitated cutbacks in spendable resources for investment and development.

Other measures included removal of price subsidies or an increase in taxes and prices for public services, in order to reduce public and private consumption. Colombia implemented far-reaching fiscal reforms to strengthen her stabilization efforts. Petroleum-importing countries adjusted domestic petroleum prices to bring them in line with international prices. Several countries continued to emphasize export promotion policies and containment of import demand, whereas others were able to undertake investments to expand available energy supplies, including large hydroelectric projects.

Notwithstanding these efforts, some countries were less fortunate than others in weathering the recession. It can be confidently said, however, that achievements of the preceding years have given the region as a whole a greatly strengthened economic base. Latin America has successfully demonstrated a resilience in the face of the adversities of 1974-75 and is set to embark on a path of renewed economic growth pari passu with recovery of the industrialized nations.

Future Prospects

As Latin America emerges from the doldrums of the petroleum and post petroleum crisis, her prospects for continued strong economic growth are excellent. The region's aggregate GDP will probably increase by 4-1/2% this year as it emerges from the recession, and by 6 to 7% annually from 1977 to 1980. Latin America's exports should continue growing by about 9% per year in volume, and by 14% annually in terms of real dollar value. These growth rates are, of course, predicated both upon the return of the industrialized world to high levels of output, employment and growth, and upon the implementation by Latin American countries of sound domestic policies which are responsive to their internal needs and to economic trends in the rest of the world.

Such rapid growth will also require large amounts of external capital inflows, especially in light of the increasing sophistication of Latin American production. The total amount of investment required to maintain the above growth rates will be in excess of 20% during the next four years. Despite the fact that the share of investment financed by domestic savings is expected to increase from the 1971 level of 90 to 95% over the next five years, external capital requirements for the ten largest economies in the region will rise from an average of US$16 billion in 1975 to over US$20 billion by 1980.

Even discounting for future inflation, these are indeed very large sums. Nevertheless, since external capital inflows already increased from

US$4.6 billion to US$12.7 billion between 1970 and 1974, the projected rates of increase in external capital requirements are moderate in comparison with the actual growth achieved during the past five years.

A large percentage of Latin America's external capital requirements will have to be met by the private sector. In recent years, private loans have often constituted over one-half of total net inflows. In the future, direct private foreign investment and private bank loans will continue to be crucial to the financing of long-term development. In addition, the role of foreign investment as a source of technological advances as well as of capital will become more important than ever in the next few years as governments continue to encourage more sophisticated technology and diversification of production into non-traditional exports.

Latin America seems to have now passed from a situation of confrontation, which characterized the relations between many developing countries and private foreign investors, to a dialogue of cooperation. Developing countries have quickly learned how to negotiate with foreign investors and have made strides toward establishing clear "rules of the game", while foreign investors, on their part, have demonstrated a spirit of accommodation to the developing countries. These are auspicious signs that foreign investment will accept its tendered role for the benefit of Latin American development, for the benefit of investors and, in a broader context, for the good of the growing collaboration between capital exporters and developing nations.

The World Bank has participated in this collaboration. Last year it provided US$1-1/2 billion in loans to the region, representing a four-fold increase in the last ten years. At the same time, in keeping with the Bank's changing role in development, its activities in the region have experienced a shift in emphasis from infrastructure to projects integrating economic and social aspects of development. Prior to 1970, about 80% of all commitments were concentrated in power and transportation. Today, these two sectors account for less than 40% of commitments. Loans in the transportation sector are increasingly oriented towards the maintenance of existing transport systems and smaller projects such as feeder roads rather than urban and suburban highway construction.

At the same time, loans to the agricultural sector have increased by a factor of 10 over the past five years, and the character of these loans has changed substantially. In FY70, for example, all five agricultural loans were channeled toward livestock and commercial agriculture, while in FY76, 85% of agricultural lending was directed at meeting the needs of small farmers. The industrial sector has experienced similar changes. The percentage of lending devoted to this sector has quadrupled in the last five years, accompanied by a sizeable growth in small project loans as well as increased emphasis on labor-intensive and export-oriented industries.

A change in lending direction is particularly apparent in the growing importance of loans for social sector projects. Average annual lending for water supply and sewerage during 1974-76 was roughly $50 million as compared with an average annual lending rate in this sector of only $12 million during previous years. Lending for education during 1973-76 of $171 million exceeded the total amount of lending in this sector during all the preceding years. Whereas before 1973 urban development lending was practically nonexistent, over the next three years $65 million was allocated to this sector. In the area of rural development, two recent loans to Mexico totalling $110 million are expected to benefit about one and one-quarter million people in some of the poorest parts of the country.

These integrated projects have the multiple objectives of creating permanent jobs, raising family incomes by expanding food production through the provision of credit and technical services, and improving living conditions in poor villages by supplying drinking water, electricity, primary schooling and community services. Similar integrated rural projects in Northeast Brazil, Colombia, Bolivia, and Paraguay have received our assistance. Particular attention has also been given to the problems arising from rapid urban growth in the region and the mounting pressures on the supply of low-cost housing, leading to sites and services projects in El Salvador and in Jamaica which provide housing to low-income people through self-help programs.

A further example of the shift in emphasis in our lending is the increasing importance of loans to development finance corporations. Such lending amounted to $280 million in FY76, more than the total amount lent to such institutions in the previous five years. Concentrated in the industrial sector, these loans are an effective vehicle for transferring Bank funds to small and medium labor-intensive and export-oriented manufacturing industries.

World Bank loans are only a fraction of the region's total external capital requirements, and the Bank has played a catalytic role in the mobilization of external capital inflows to the region. It has done so by encouraging participation in its loans and by employing various techniques of parallel and joint financing with the major countries supplying capital goods to Bank-financed projects. The Bank is presently seeking an increase in its capital in order to expand both its direct lending and its role as a catalyst for external capital flows.

The International Finance Corporation has also assumed an active role in mobilizing capital for the private sector in Latin America, both by associating private direct investment in the projects to which IFC has contributed financially and by actually selling participations in loans made by IFC itself. As a result, over the last four years the volume of investment in Latin America from all sources associated with IFC financing was about six times the actual amount of IFC commitments and amounted to approximately US$1.8 billion.

Latin America has historically had limited access to world capital markets, but its creditworthiness has improved and should continue to improve as production and exports expand and the external debt burden decreases relative to output. These circumstances hold out hopes for greater future access by Latin America to world capital markets. Although at present privately or publicly placed long-term bonds represent only a small fraction of external capital inflows, their role in the future may be greatly increased. The problem of obtaining maturities of external loans long enough to maintain a net flow of resources at the currently required levels has assumed greater significance with the growing share of private financial credits. Long-term bond capital offers at least a partial solution. Both improved terms for private financial credits and greater access to capital markets will, however, require a more responsive attitude on the part of authorities and the private sector of the industrialized world.

In sum, Latin America is a fast developing region that combines vast exploitable reserves of energy, minerals, other raw materials and foodstuffs with a relatively advanced labor force. After a decade of sustained development, it is my fervent hope that the Latin American countries will continue to pursue policies and take measures essential for their sound economic growth and will enjoy strong support from the industrialized countries. I believe that such support will foster renewed dynamic growth and serve the best interests of both the developed and the developing regions of the world.