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INDUSTRIAL DEVELOPMENT STRATEGY AND POLICIES: THE EXPERIENCE OF URUGUAY, 1950-1972 1/

by

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1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.

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URUGUAY

BASIC DATA

Area:	Approximately 177,508 Km^2
Population:	(1972) 2,950 million inhabitants Growth rate: 1.2 per cent
Mortality rate:	8.7 per cent
Life expectancy at birth:	70 years
Active population:	(1970) 1,095 million persons
Illiteracy rate:	(1972) 7 per cent
Per capita income:	(1970) US$606
Growth of GDP:	1965-1970: 1.4 per cent
Projected under the Plan:	1973-1977: 4 per cent (estimated)
Structure of product:	(1970)
Agriculture and fisheries	14.8 per cent
Manufacturing industry and construction	27.3 per cent
Services	57.9 per cent

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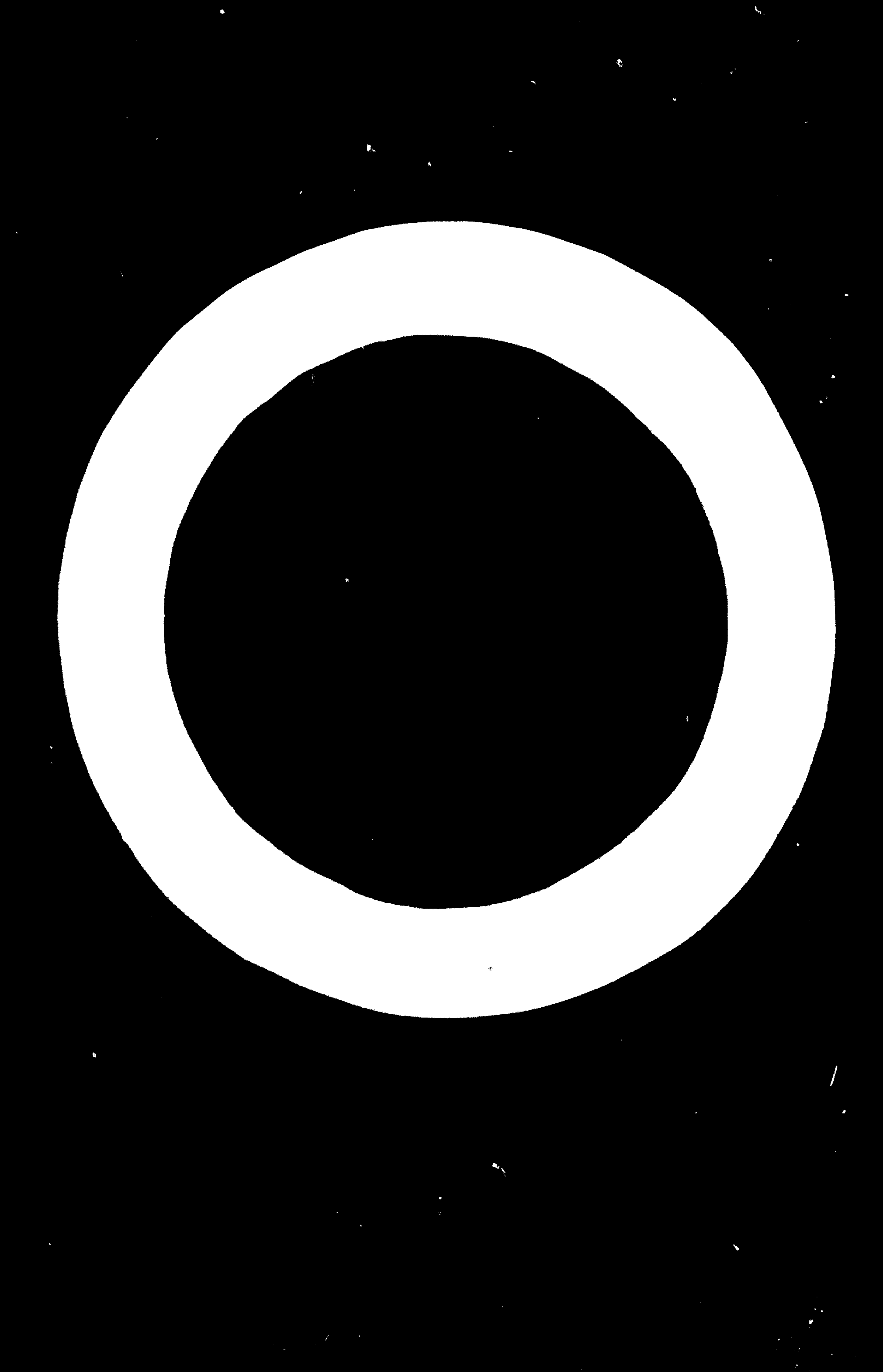

INTRODUCTION

This paper develops a thesis on the development of the industrial sector and also attempts to explain development in general in Uruguay.

In the case of Uruguay, identifying a strategy designed to promote industrial growth practically amounts to an identification of the country's overall development strategy.

Industrialization based on import substitution is limited by an inability to finance industrial growth with foreign earnings, which in turn is determined by characteristics peculiar to the country (income, population and their relative growth rates).

One of the basic features of this policy is the transfer of income from comparatively successful sectors to relatively inefficient sectors. This serves to discourage export activities, resulting in the stagnation or retrocession of exports.

The other instrument is protection: in the case of Uruguay, the high levels and permanency of protective barriers, taken in conjunction with market limitations, have rendered industry impervious to any stimulus which might have made it more efficient.

If the prices which the final consumer pays as a result of import substitution are compared with the prices prevailing on the world market, it can be seen that economic growth can only occur at all with difficulty.

The policy of import substitution implies a gradual retrenchment of the economy, accompanied domestically by increased State intervention. As a result, no price of any significance is now fixed by market mechanisms.

To give a fresh impetus to economic progress, the economy must be opened up so that relatively strong sectors can direct the growth process.

Within this strategy, the industrial sector has an important role to play by increasing the added value of agricultural commodities.

Some progress has been made: for example, uncured hides and skins are no longer exported. However, there must be a rapid changeover from semi-treated leather to treated leather and thence to finished articles: footwear, clothing, etc.

Bearing existing structures and prevailing cultural patterns in mind, these changes would have far-reaching social repercussions.

It is, however, the authors' view that it is precisely an "outward-looking" strategy, based first and foremost on efficiency, which will permit economic growth with minimum social upheaval.

According to this point of view, nothing is more costly than stagnation.

The review period selected for the Meeting (1950-1972) is not the most representative of industrial development in Uruguay.

In fact, accelerated industrial growth began in 1945 and entered a crucial stage in 1957.

Nevertheless, keeping the purpose of the meeting in mind, the period 1950-1972 has been adhered to where possible. By the same token, the suggested outline circulated by UNIDO has been respected strictly in the development of the various chapters.

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I. PRE-CONDITIONS FOR INDUSTRIALIZATION

A. The market

1. Taking into account the data on the country - population, overall GDP and average international efficiency - it is evident that the Uruguayan market on its own is not a dynamic factor in the industrialization process.

Nevertheless, between 1945 and 1967, the industrial product increased rapidly and this stimulated the growth of the GDP as a whole.

I.1 Cumulative annual rates of growth (in %)[a]

	Industrial GDP[b]	Total GDP[b]
1935-1944	0.4	1.5
1945-1957	7.0	3.7
1958-1970	1.2	1.2

a/ 1961 weights

b/ At factor cost

Source: National Accounts, Central Bank

For this process to take place, a strategy based on import substitution had to be adopted.[1] The strategy was implemented by means of various policies: exchange, external trade, price, income, public expenditure.

These policies involved the transfer of income from comparatively advantaged sectors (stock-rearing) to less efficient sectors (certain agricultural activities and manufacturing).[2]

The industrial prices resulting from the industrialization strategy were well above world prices, the difference being absorbed by the consumers. From this viewpoint the possibility of growth is unlikely.

1/ Although the substitution process is basically industrial, it also operated in respect of agricultural imports (wheat, sugar, oils and fats).

2/ This point is dealt with more extensively in chapter IV.

The strain placed on the livestock sector drastically reduced its profitability at the enterprise level, leading to reduced production in the sector, the stagnation of exports and, lastly, an inability to obtain financial backing in foreign exchange for industrial development and for the growth of the GDP as a whole.

I.2 Development of livestock production 1935-1964 (in %)

	Cumulative annual rate	Per capita cumulative annual rate
Beef	- 0.10	- 1.42
Lamb	- 0.39	- 1.66
Pork	0.92	- 0.34
Wool	1.71	0.39
TOTAL	1.00	- 0.30

Source: Economics Institute

Furthermore, the growth strategy selected and applied led to the development of a system of relative prices based on import substitution which did not properly reflect the productivity of the various sectors, and this in turn precluded any possibility of this system functioning as an efficient mechanism in the allocation of resources.

2. In addition, the substitution of industrial imports was practised only in respect of activities with small scales of production (as the result of limited demand). This fact alone demonstrates the impossibility of accelerated industrial growth being sustained over a long period.

Lastly, since 1957 market limitations have been compounded by economic stagnation.

I.3 Cumulative annual growth rates of certain economic sectors (in %)[a]

	Agricultural sector	Industrial sector	Construction	Total GDP[b]
1935-1941	1.5	- 0.4	11.6	1.6
1942-1957	4.4	6.3	7.7	4.5
1958-1970	0.7	1.2	- 2.3	1.2

a/ 1961 weights

b/ At factor cost

Source: Central Bank, National Accounts

3. It is, thus, clear that stimulus for the economic growth of the country must be sought elsewhere than in import substitution.

In view of the size of the domestic market, this stimulus should be provided through the development of sectors which are doing comparatively well. This does not mean that the industrial sector should be pushed aside, but rather that it should be re-structured: protected industry should be replaced by an industrial sector which can maximize the value of agricultural and live-stock products at international prices and which is primarily oriented towards the international market. Maximum use should also be made of national resources in order to benefit from international trade.

The situation is, then, as follows: the process of import substitution has more or less run its course. Raw materials, intermediate goods and capital goods which are not available or which need to be produced on a scale which far exceeds the capacity of the domestic market have to be imported.

Thus, Uruguayan society is faced with the challenge of changing its model of economic growth.[3/] This means changing the patterns which form the basis for the current production structure in order to achieve an efficient economy which is capable of competing on the international market. Nevertheless, the measures needed to effect this change involve a substantial redistribution of income and an opening up to the international market which would have considerable social repercussions, if one takes into account prevailing cultural patterns and the distribution of authority.

B. Transport

Bearing in mind the size and topography of the country, the population and income concentrated in the capital port of Montevideo constitute a pole of attraction for industry, thus facilitating distribution.

I.4 Indicators of the concentration of activities in the Department of Montevideo (as a percentage of the total)

	1961
Active population	41.5
Total GDP	55.25

Source: National Accounts, Central Bank, Planning and Budget Office.

3/ The National Development Plan for 1973-1977 envisages the promotion of sectors with substantial comparative advantages and a more outward-looking policy.

As Table I.5 shows, the road network has not acted as a constraint on industrialization in the period under review.

I.5 Development of national road network (in kilometres)

1910	83
1920	332
1930	1,062
1935	2,309
1940	3,110
1950	7,538
1960	8,763
1972	9,751

Source: Ministry of Public Works

To these figures should be added 2,998 kilometres of railway.4/

This infrastructure conforms to the pattern established in the late nineteenth and early twentieth centuries, for the purpose of supplying the livestock sector and subsequently exporting its products.

C. Power and water

1. The availability of power and drinking water has not acted as a constraint on the industrialization process.

Furthermore, the fact that the market is concentrated in the capital enables these utilities to be distributed at reasonable cost.

2. The country has no known fossil fuels or sources of nuclear energy; on the other hand, there are several waterways which could be exploited for electric power.

The Rio Negro, a river which crosses the country from east to west, has been exploited since the late thirties; two power stations with a capacity of 210,000 kW are currently functioning there.

The generating capacity has been complemented by thermal power stations. Throughout the period, imported fuel has received preferential import treatment.

4/ Municipal and country roads, which are facilitated by an uneventful geography should also be taken into account.

I.6 Start-up of electricity generating stations (in MW)[a]

	Increase	Total
Existing capacity in 1950		203
1955 - thermal power station	50	253
1957 - thermal power station	45	298
1960 - hydraulic power station	96	394
1965 - Thermal power station	10	404
1968 - thermal power station	20	424
1969 - hydraulic power station	12	436
1970 - thermal power station	39	475

a/ Excluding diesel generation

Source: Planning and Budget Office

Much of the country is linked up to the hydraulic-thermal power system. There are still some population centres with locally generated diesel, but power programmes envisage the progressive linking-up of the entire country to the system.

During the forties and fifties electric power was in abundant supply. In subsequent decades, the necessary investment was not forthcoming and this has been reflected in the electric power system by a lack of generating reserves.

I.7 Maximum loads and generating capacity (in MW)

	Maximum loads	Generating capacity	Ratio (in %)
1971	483	532	90.8
1972	489	532	91.9

Source: Planning and Budget Office

3. Some enterprises generate their own electric power. These are enterprises whose location is determined by supplies of raw materials and which are able, by using a particular technique, to generate power at costs which are economical for them (and for the country). For example, sugar refineries use bagasse as fuel. Pulp and paper mills are a similar case.

4. The country has excellent water resources, both surface and underground.

The system for supplying drinking water to the city of Montevideo was established in 1872: since the end of the century, the water and sewage system has been expanded to cover the entire country.

I.8 Development of sanitation services

	Drinking water				Sewage			
	Network (km)		Population served (%)		Network (km)		Population served (%)	
	Mont.	Int.	Mont.	Int.	Mont.	Int.	Mont.	Int.
1935	319	a/	71.0	15.5	a/	145	a/	a/
1950	1,238	1,128	84.1	31.3	a/	707	63.9	16.2
1960	1,344	2,285	80.3	41.7	1,451	784	67.6	19.9
1971	1,640	2,010	96.0	57.9	1,536	878	80.0	a/

a/ Not available

Source: Planning and Budget Office

D. Industrial sites

1. The location of industry, which, as already noted, was geared to supply the domestic market during the period under review, is to a large extent determined by population and income distribution in the country.

It should be borne in mind that almost 50 per cent of the population and more than 75 per cent of industrial activity is concentrated in the Department of Montevideo, which covers 1 per cent of the area of the country; the city is also the foreign port of the country. There is, thus, a natural incentive for any new industry oriented towards the domestic market and requiring manpower and/or imported raw materials to establish itself in the area.

I.9 Industrial concentration in the Department of Montevideo in 1960 (in %)

		Participation of the branch in the formation of the GDP	Participation in formation of industrial GDP
20	Food products	65.02	17.64
21	Beverages	76.00	5.29
22	Tobacco	100.00	1.87
23	Textiles	75.72	13.54
24	Clothing and textile goods	95.64	4.39
25	Timber products	74.82	1.07
26	Furniture industry	94.64	1.06
27	Paper and cardboard	36.69	0.91
28	Printing	97.07	2.32
29	Leather industry	67.42	0.89
30	Rubber industry	95.65	2.20
31	Chemical industry	93.80	5.30
32	Petroleum and coal by-products	96.09	7.39
33	Building materials	72.69	2.37
34	Metal casting and rolling	92.46	1.35
35	Metallurgy	94.68	2.67
36	Metalworking	93.33	1.40
37	Electrical engineering	96.87	3.10
38	Transport	79.80	2.41
39	Miscellaneous	72.53	1.40
Total			78.57

Source: Planning and Budget Office

2. In view of the availability of plots, public services and financial facilities, etc., Montevideo could be considered as a large industrial estate. The city is surrounded by open spaces and has a full road network and a substantial service infrastructure; land prices are moderate to reasonable. Thus, there has been no need to establish industrial estates.

It should be borne in mind that industrialization during the fifties was taking place in a country which was already at a fairly advanced stage of development.

I.10 Indicators of economic and social development in Uruguay - 1950

Actual per capita income (US$ - 1960 prices)	664.2
Births per thousand inhabitants	23
Deaths per thousand inhabitants	9
Life expectancy at birth	68 years
Urban population (%)	78.6
Literacy rate of population over 15 years of age (%)	80-85
Primary enrolments from 7-12 years (%)	89.3
Secondary enrolments from 13-18 years	12.0
Higher education enrolments from 19-22 years	8.6
Daily per capita caloric consumption [a]	2,960
Doctors per 10,000 inhabitants [a]	11.3
Hospital beds per 1,000 inhabitants [a]	3.9

a/ 1959 figures

Source: ECLA

3. During the period under review, however, 2 poles of industrial concentration were developed within the country (Paysandú and Colonia). These cities offer services similar to the capital.

The availability of surpluses in the agricultural sector and the efforts of private promoters have led to the development, during this period, of a nucleus of large enterprises which have access to abundant raw materials in the area.

E. Local raw materials

1. Most of the enterprises established during the period under review were based on the processing of raw materials from the agricultural sector.

A clear example of this is industries established for the processing of by-products of the refrigeration industry.

The process of substitution stimulated the local production of agricultural commodities: wheat, oils and fats and sugar products.

I.11 Production of certain crops (in annual averages and thousands of tonnes)

	Wheat	Sunflowers	Peanuts	Flax
1935-37	452.1	1.1	800	79.8
1947-49	464.7	97.6	8,205	95.7
1950-52	530.2	169.1	5,304	102.1
1953-55	677.8	168.6	[illegible],831	78.7
1956-58	752.6	195.3	6,294	65.2

Source: Ministry of Agriculture and Cattle-Rearing

The production of Portland cement warrants special mention. Although production of cement, which is widely used, was started before the period under consideration, there was a shortage of supply during the fifties which stimulated the installation of new plants, there being abundant deposits of good quality limestone.

I.12 Supply of cement, 1930-1959
(five-yearly averages in thousands of tonnes)

	Domestic	Imported	Total
1930-34	160.6	9.3	169.9
1935-39	134.5	6.5	141.0
1940-44	152.5	-	152.5
1945-49	258.8	-	258.8
1950-54	294.2	44.5	338.7
1955-59	379.6	36.1	415.7

Source: Planning and Budget Office

2. As far as the availability of foreign inputs is concerned, the review period should be divided into two stages.

During the first period, from the beginning of the process up to 1957, the country had access to large international reserves as a result of the surplus of the balance of payments during the war and the boom in international prices caused by the Korean war.

Thus, imports were to some extent unaffected by exports.

I.13 Balance of trade and increase in net reserves (in millions of dollars at current prices)

	Balance of trade a/	Increase in net reserves b/c/
1946-1950	- 43.3	10.7
1951-1955	- 205.3	- 176.7
1956-1960	- 259.5	- 50.0
1961-1965	- 104.0	- 33.0
1966-1970	33.1	- 25.3

a/ Five-yearly balances

b/ Five-yearly increases

c/ Gold and net foreign exchange reserves (assets and liabilities) of the Republican Bank and the Central Bank.

Source: Central Bank.

Thus, imported intermediate and capital goods were in regular supply during this period.

In 1957, there was a dramatic decrease in international wool prices, at a time when the country's international reserves were depleted.[6] This situation was compounded by the fact that the income distribution envisaged in the industrialization strategy had discouraged livestock production[7] by transferring income belonging to this sector through the mechanism of multiple exchange or export duty. The country did not change its economic strategy; in order to finance its protected industry it continued to deplete its reserves and incurred external indebtedness.

6/ The exchange market was temporarily closed in 1967.

7/ Table I.3.

I.14 Increase in external indebtedness, 1962-1967
(in millions of dollars)

Public sector	80.9
Private banks	43.8
Private enterprises	23.6
	148.3

Source: Economics Institute

During the sixties, the reduction of export prices 8/ and the stagnation of livestock production were compounded by the outflow of capital. This phenomenon can be explained by the over-valuation of local currency and the negative rate of interest caused by administrative measures which levelled off the bank rate under the pressure of inflation.

I.15 Outflow of capital 1962-1967
(in millions of dollars)

1962	54.6
1963	0.6
1964	61.0
1965	89.8
1966	40.4
1967	0.0
	264.4

Source: Economics Institute

To boost exports of livestock products, the sector has to be made more economically efficient. This implies a redistribution of national income and a relaxation of industrial protection.

8/ Meat prices began to rise at the end of the decade.

The following figures give an indication of the transfer of resources which form the agricultural sector:

I.16 Actual rate of exchange of certain imports as a percentage of the free rate of exchange (in %)

	August 1963	September 1964	September 1965
Unprocessed wool	66	58	27
Beef	90	66	27
Cured cattle hides	72	49	21
Cured sheepskin	78	58	31

Source: World Bank

F. Human skills

The Uruguayan population is highly educated.[9] Since the beginning of the century, higher education has been available in a variety of scientific disciplines which can be compared with the advanced countries (engineering, agronomy, chemistry, veterinary science), with fairly advanced curricula.

Two further facts should be taken into consideration: immigration has provided manpower skilled in various crafts; furthermore, for many enterprises the process of industrialization has meant the development from workshops to small or medium-sized enterprises.

Furthermore, as shown in the table, the new products are within the limits of known technology and are relatively uncomplex; this means that labour can be trained on the job.

A further factor to be taken into account is that the industrialization process is occurring at the expense of high protection which has never been reduced. This fact, taken in conjunction with the monopoly process common to small markets has prevented competition from encouraging entrepreneurs to improve processes or technologies which require the skills of managers, middle-level personnel and workers.

9/ Table I.10.

Furthermore, the war encouraged the migration of entrepreneurs who associated themselves with national capitalists offering entrepreneurial know-how. This association led to the establishment of extremely large enterprises.

In view of the good educational basis of the country, it can be concluded that the availability of manpower, in the broadest sense of the term, has not acted as a constraint on the industrialization process.

The proximity of Argentina and Brazil, providing a large skill market, should also be taken into account.

G. Available financing

1. When the process of industrialization began in 1945, the country had a fairly developed capital market, based on traditional short-term banking operations.

The institutes which direct the monetary and capital markets were established in the late nineteenth and early twentieth century: Bolsa de Valores de Montevideo (Montevideo Stock Exchange) (1867); Banco de la República (Republican Bank) (1896); Banco Hipotecario (Mortgage Bank) (1892); Banco de Seguros (Assurance Bank) (1911).

The transactions conducted on the Stock Exchange were very substantial.

I.17 Capital handled on the Stock Exchange 1946-1957 (in millions of 1961 dollars)

	Public securities	Private holdings	Total
1946	186.4	199.1	385.5
1947	158.0	171.6	329.6
1948	152.5	160.3	312.8
1949	136.4	142.3	278.7
1950	142.4	134.7	277.1
1951	126.7	134.5	261.2
1952	102.7	110.1	212.8
1953	91.2	98.0	194.2
1954	84.9	90.2	175.1
1955	73.5	77.5	151.0
1956	67.0	64.6	131.6
1957	57.5	54.4	111.9

Source: Planning and Budget Office

Monetary stability permitted relatively high positive interest rates.

Financial capital was provided by surpluses in the agricultural sector and by import and export business in Montevideo.

From 1946, shares and bonds of limited companies began to be handled on the Stock Exchange on a large scale. It is practically certain that there was a transfer of government securities to private securities.

There is also a holdings law which permits foreign capital to be placed in the country. This was made possible by Uruguay's traditional financial stability, which prevailed from 1890 to 1950.

This market began to lose momentum as inflation increased and new forms of taxation appeared. Both these factors reduced interest rates to a negative level.

I.18. Transactions on the Stock Exchange 1958-1970
(in millions of 1961 pesos)

	Public securities	Private holdings	Total	Cost of living index
1958	542	477	1,019	100.0
1960	279	285	564	191.0
1965	69	50	119	686.9
1970	7	6	13	7,443.7

Source: Planning and Budget Office. Directorate-General of Statistics.

Since no measures were taken to support the real value of savings, these were converted into foreign currency.10/

2. At the beginning of the sixties, as a result of the Alliance for Progress, the country acquired resources from multilateral international organizations.

The fact that the country had no experience in areas which qualified for such funds (feasibility studies, projects, financial studies) meant that they moved extremely slowly. It should be added that the banking system was slow to grasp the new problems posed by the new methods.

10/ Table I.13.

The lack of dynamism in production which began in 1957 is manifested in a lack of investment opportunities.

I.19 Volume and rate of investment (at 1969 prices)

	Volume of investment (1955 = 100)	Rate of investment (in %) a/
1955	100.0	14.2
1960	89.5	12.7
1965	56.0	7.7
1970	76.9	9.5

a/ Total investment as a percentage of GDP at factor cost.

Source: Planning and Budget Office

4. Policy measures concerning the import of machinery and equipment are closely related to the availability of funds.

It can be said that up to 1957 and between 1959 and 1963, financing for such purposes was readily available. During the rest of the period, it has been limited by the amount of foreign exchange available.

I.20 Imports and international reserves 1963-1970

	Value index 1963 = 100	International reserves
1963	100.0	41.4
1964	112.1	20.4
1965	85.2	50.1
1966	92.8	- 8.2
1967	96.9	5.3
1968	89.9	40.6
1969	111.3	52.6
1970	130.0	24.8

Source: Central Bank

Intervention in the field of imports takes a variety of forms:

(a) Exchange control (up to 1957);

(b) Export duty (since 1959);

(c) Import tariffs;

(d) Embargo.

H. Entrepreneurial initiative

1. As already noted on several occasions, a co-ordinated set of policies has oriented the manufacturing sector towards import substitution.

A large group of entrepreneurs has emerged from the group of importers who were adversely affected by the lack of imports during the war or by protective measures.

The importer establishes an industry, channels capital to small enterprises already in business or forms links with small entrepreneurs or artisans who are making the goods which he imports.

In addition to capital, he provides organization and marketing outlets.

2. There are fundamental reasons why the group of entrepreneurs has not expanded: stagnation and inflation.11/ The latter leads qualified people to turn to speculative activities which yield rapid results.

11/ The authors do not subscribe to the view (although still held in Latin America) that inflation has its origin in the physical economy.

On the contrary, they feel that monetary theories of inflation are nearer the truth.

In Uruguay, the poor handling of fiscal and monetary policy is directly related to the power structure; the political group has attempted to resolve social controversies through compromise. The expression which best defines the situation is "social stalemate".

II. INDUSTRIALIZATION ACHIEVEMENTS IN THE PERIOD 1950-1972

A. A brief review

1. Table 1 at the end of this paper lists the twenty-five major industrial projects established during the period.

The projects established in the late forties and during the fifties were practically all oriented towards domestic demand.

Nevertheless, during the sixties, this trend was reversed. The country as a whole became aware of the need to gain a footing in the international market. This led to a concentration of investment in export-oriented activities; frozen meat,[1/] treated leather, tinned fish, leather apparel, textile materials, etc.

At the end of the decade, there was a large allocation of investment resources to activities linked to LAFTA complementarity agreements. These concerned the motor vehicle industry and took the form of the installation of plants for the assembly of automobiles, trucks and very recently agricultural tractors.

These trends support the hypothesis advanced in this paper.

2. Using the traditional method of dividing the manufacturing sector in relation to the economic use of goods (consumer goods, intermediate goods and capital goods industries), the development has been as follows:

II.1 Development of the industrial structure
(as a percentage of the total industrial product)

	1936	1960	1970
Consumer goods	70.2	51.7	56.5
Intermediate goods	15.7	29.2	27.2
Capital goods	14.1	19.1	16.3

Source: Planning and Budget Office

In other words, Uruguayan industry, which has not been able to expand, still has a relatively simple structure and organization.

1/ The adoption of technology linked to new scales of production and the relocation of old refrigeration plants is particularly important in this sector.

3. As already noted in the Introduction, the period under consideration is not the most representative for Uruguay. The industrialization process, which started in the thirties, was closely linked to import substitution. Between 1945 and 1957, this process was consolidated and its possibilities more or less exhausted. Furthermore, given the abundance of natural resources (in relation to the size of the population), the industrialization of the country was oriented towards the processing of raw materials from the agricultural sector, which consistently accounted for more than 50 per cent of the industrial product throughout this period (see table II.2).

II.2 Agriculture-based industries as a percentage of the total industrial product (in millions of 1961 pesos)

	1955	1960	1970
Industrial product	4,109	4,203	5,014
Mineral and agriculture-based activities[a]	2,348	2,176	2,840
Ratio (percentage)	57.1	51.8	65.6

a/ Including the following groups: food, beverages, textiles, ready-made articles and clothing and non-metallic mineral products.

Source: National Accounts

This table shows the structural preponderance of "light" industries.

4. During this period, construction-related industries expanded considerably (table II.3): the index of physical volume increased from 90.1 in 1955 to 155.6 in 1970. However, this growth is due not to an increase in the physical volume of the construction sector, but to the substitution of imported Portland cement by domestic production and the export of certain materials from the sixties onwards.[2]

2/ Factors of production which would permit a better use of inputs per finished construction unit are not available.

II.3 Development of the physical volume of production of non-metallic minerals a/

(Base 1961 = 100.0)

	1955	1960	1970
Production of non-metallic minerals	90.1	135.7	155.6
Proportion of the industrial product (percentage)	5.5	8.0	7.7
Construction	108.8	109.7	80.6

a/ 1961 weights

Source: National Accounts, Central Bank.

5. With a few exceptions, new industries established or existing ones expanded have been geared towards import substitution. This is a result of the equal balance of supply and demand in the sector and the way in which imports have developed (tables II.4 and II.5).

It may be worth taking time to examine the period 1945-1956; 3/ this is a period during which the industrial sector was able to be financed almost normally in foreign currency.

3/ For statistical reasons, information up to 1970 is not available.

II.4 Availability of goods and import substitution
(at constant 1961 prices)

Year	P	M	X	G	a	b
1942	4,318	1,061	763	4,616	2.36	23.0
1943	4,421	805	1,196	4,030	2.03	20.0
1944	4,749	935	1,039	4,645	2.31	20.1
1945	4,790	1,166	1,252	4,704	2.31	24.8
1946	5,734	1.672	1,219	6,187	3.00	27.0
1947	5,888	2,238	827	7,299	3.49	30.7
1948	6,062	2,242	915	7,389	3.48	30.3
1949	6,780	2,074	990	7,864	3.66	26.4
1950	7,170	2,531	1,074	8,627	3.96	29.3
1951	8,022	3,346	943	10,425	4.72	32.1
1952	8,073	2,293	1,020	9,346	4.17	24.5
1953	9,417	1,908	1,193	10,132	4.46	18.8
1954	10,012	2,981	1,231	11,762	5.10	25.3
1955	9,991	2,277	845	11,423	4.89	19.9
1956	10,525	1,904	403	12,026	5.08	15.8
1957	10,627	2,341	789	12,179	5.08	19.2
1958	10,545	1,072	735	10,882	4.48	9.9
1959	10,281	1,489	724	11,146	4.53	13.4
1960	10,391	1,869	888	11,372	4.56	16.4
1961	10,258	2,069	948	11,381	4.51	18.2

P = Industrial production (millions of pesos).

M = Imports of manufactures (millions of pesos).

X = Exports of manufactures (millions of pesos).

G = Total availability of goods = P + M - X (millions of pesos).

a = Total availability of goods per capita (thousands of pesos).

b = Coefficient of import = $\frac{M}{G}$ (%).

Source: Planning and Budget Office

II.5 Process of import substitution

Branch of industry	1947–49			1953–55			1959–61		
	G	I	b	G	I	b	G	I	b
Food products	6,059.5	769.5	0.1270	7,486.5	646.9	0.0864	6,683.1	479.8	0.0718
Beverages	1,723.5	75.5	0.0438	2,607.6	199.1	0.0764	2,125.5	58.3	0.0274
Tobacco	557.8	11.2	0.0201	649.1	14.8	0.0228	673.1	22.9	0.0340
Textiles	3,368.3	1,083.4	0.3216	6,999.0	671.9	0.0960	6,275.2	281.5	0.0449
Apparel and ready-to-wear clothing	1,173.6	28.7	0.0245	1,645.2	22.0	0.0134	1,530.9	8.4	0.0055
Timber products	642.6	239.7	0.3730	969.1	391.0	0.4035	630.5	193.9	0.3075
Paper and cardboard	590.8	336.6	0.5697	747.0	356.3	0.4743	1,031.4	321.1	0.3113
Printing	683.3	1.0	0.0015	1,033.9	1.6	0.0015	726.6	0.9	0.0012
Rubber industry	265.1	58.9	0.2222	463.2	24.0	0.0518	657.0	4.4	0.0067
Chemical industry	578.3	543.2	0.9393	1,618.8	782.5	0.4834	2,432.9	813.3	0.3343
Petroleum and coal by-products	1,138.9	250.2	0.2196	2,097.2	224.8	0.1072	2,308.5	261.8	0.1134
Building materials	831.0	190.0	0.2286	1,073.6	194.0	0.1807	1,106.4	51.0	0.0461
Metal castings and rolling	1,005.5	879.1	0.8743	987.1	769.2	0.7793	1,142.2	732.6	0.6414
Metallurgy	939.1	238.9	0.2544	953.7	202.3	0.2121	878.2	78.3	0.0891
Metalworking	1,655.6	1,408.9	0.8510	2,114.6	1,669.3	0.7894	1,496.7	901.0	0.6020
Electronics	634.3	355.7	0.5608	860.4	591.9	0.6869	1,214.2	355.1	0.2925
Transport and communications	1,410.0	1,005.5	0.7131	1,806.6	952.3	0.5271	1,653.0	744.6	0.4019

G = Domestic availability of goods in the respective three-year period (figures in millions of pesos at 1961 prices).

I = Imports (in millions of pesos at 1961 prices).

b = Coefficient of import in the respective branch and period.

Source: Planning and Budget Office.

If triennial progressive averages are taken, the development of the coefficient of import (imports of industrial goods as a percentage of total industrial goods available) is as follows:

II.6 Development of the coefficient of import (triennial progressive averages) (in %)

1945	
1946	
1947	27.5
1948	29.3
1949	29.1
1950	28.7
1951	29.3
1952	28.6
1953	25.1
1954	22.9
1955	21.3
1956	20.2

3/ Due to a lack of statistics, information up to 1970 is not available. See tables II.4-II.5.

The coefficient of import (table II.6) behaved erratically between 1947 and 1950 and began to decline steadily after 1951. This coincided with the gradual retrenchment of the economy.

II.7 Degree of opening up of the economy[a/]
(in units of physical volume of GDP)

Average 1950/1951	3.71
1952	3.15
1953	3.00
1954	3.11
1955	2.47
1956	2.45
1957	2.22
1958	1.76

a/ Trade (imports + exports) as against the index of physical volume of the GDP (1961 = 100) (using 1961 weights).

Source: Planning and Budget Office.

In order to calculate substitution between 1945 and 1956, the two three-year periods 1945-1947 and 1954-1956 are used:

II.8 Computation of substitution
(in millions of 1961 pesos)

	Gross availability of goods	Imports	Rate of import (in percentage)
1945-1947	18,190	5,076	27.9
1954-1956	35,211	7,162	20.3

Source: Table II.4.

If the rate of import (27.9 per cent) (Table II.8) had been maintained, imports would have totalled 9,824 million pesos.

Thus, the rate of substitution in effect was 27.1 per cent.

Table II.5 shows that during the period 1947-1961 the coefficient of imports decreased the most in the following branches (in ascending order):

I. Rubber industry
II. Textiles
III. Building materials
IV. Apparel and ready-to-wear clothing
V. Metallurgy
VI. Chemical industry

It may be noted from table II.4 that the total availability of goods per capita rose almost uninterruptedly from 1945-1956, beginning to fall off in 1958. This is a further indication on the industrial crisis which began in the late fifties.

In 1959, economic policy underwent a major change with the approval of the Exchange and Monetary Reform Act. This replaced the system of exchange control and import quotas by a single exchange system complemented by selected import and export duties.

In a word, this policy meant a reorganization of the system of relative prices to the detriment of the industrial sector, taking into account the situation prevailing up to that time.

As can be seen from tables II.9 and II.10, relative prices strongly favoured the agricultural sector during the years 1959 and 1960 (as against the 1957/58 average): agricultural and livestock prices deflated by industrial prices rose 44.7 per cent; real agricultural prices rose by 38.5 per cent; and real livestock prices by 35.3 per cent.

II.9 Indicators of agricultural (including livestock) and industrial prices (1957/1958 averages = 100)

	Agricultural and livestock prices	Industrial prices	Agricultural and livestock prices in relation to industrial prices	Variation in the relation between agricultural and livestock prices and industrial prices (in %)
Average 1957/1958	100.0	100.0	100.0	
1959	185.9	168.8	110.1	10.1
1960	313.9	216.9	144.7	31.4
1961	278.9	283.0	98.5	- 31.9
1962	300.4	301.3	99.7	1.2

Source: Ministry of Agriculture and Cattle-Rearing

II.10 Indices of real agricultural and livestock prices[a]
1935/37 = 100

	Real agricultural prices	Increase over previous year	Real livestock prices	Increase over previous year
Average 1957/1958	136.9		159.0	
1959	153.2	11.9	193.0	21.3
1960	189.0	23.4	215.2	11.5
1961	147.7	- 21.9	164.2	- 23.7
1962	144.5	- 2.1	145.9	- 11.1

a/ Agricultural and livestock prices as against the cost of living index.

Source: Ministry of Agriculture and Cattle-Rearing

However, the situation changed radically in 1961: agricultural and livestock prices deflated by industrial prices fell by 31.9 per cent; real agricultural prices decreased by 21.9 per cent; real livestock prices fell by 23.7 per cent.

This lack of continuity in the price policy, with fluctuating variables, is typical of the economic administration of the last 15 years.

The new strategy introduced with the Monetary and Exchange Reform Act was cancelled out by the inefficient exchange policy followed from 1961 and throughout 1962.

II.11 Rate of exchange and domestic prices

	Free rate of exchange a/	Import rate of exchange b/	Index of the import exchange rate 1960 = 100	Domestic price index 1960 = 100 b/
1955	3.39	1.96		
1956	4.04	2.33		
1957	4.11	3.03		
1958	7.09	3.01		
1959	10.07	3.58		
1960	11.29	11.30	100.0	100.0
1961	11.04	11.01	97.4	122.5
1962	11.07	10.98	97.2	135.9

a/ Uruguayan pesos per United States dollar

b/ Cost of living index

Source: Planning and Budget Office

The figures on the rate of exchange were not reflected in quotations on the free market as the Central Bank, by selling foreign exchange, did not allow it to rise. It thus significantly reduced the country's international reserves.

II.12 Fluctuations in international reserves[a/]
(in millions of current dollars)

	Annual status	Variation with respect to the previous year
1958	142	
1959	111	- 31
1960	83	- 28
1961	118	35
1962	45	- 73

a/ Foreign currency assets less liabilities including holdings of foreign residents.

Source: Central Bank

6. Uruguay has been exporting meat products since the end of the last century. Up to the end of the first decade of this century, these exports were in the form of salted carcasses. With the introduction of refrigeration as a means of preservation, the installation of large refrigeration plants began.

Up to the late thirties, these were the country's main industrial exports. From time to time and during the two world wars, woollen goods were exported.

In the mid-forties, external demand prompted the installation of industrial plants for the processing of new agricultural commodities.

This period saw the establishment of the linseed oil extraction industry, almost all the oil being exported, and new textile plants (mainly combings), the production of which is oriented towards the international market. The export of some textile products is rather inefficient. If the international value of the wool contained in the products is subtracted from the FOB values, a value well below the aggregate domestic value is obtained. Thus, staff engaged in this sector are not economically employed.

Table II.13 illustrates the development of exports of manufactures in relation to total exports.

II.13 Exports of manufactures and total exports
(in millions of current dollars)

	Exports of manufactures	Exports of manufactures	Total exports	Proportion of total exports Total manufactures	Proportion of total exports Manufactures excluding meat
1955	103.4	97.5	183.0	56.5	53.3
1960	94.4	66.5	129.4	73.0	51.4
1965	118.9	67.1	191.2	62.2	35.1
1970	178.3	96.1	232.7	76.6	41.3

Source: Central Bank

The high proportion of exports of manufactures should be viewed in light of the fact that the principal exports (meat, wool, combings and linseed oil) have low rates of added value.

It should also be noted that the export of goods other than meat products has been made possible through a domestic price system which involved the transfer of income from the agricultural and livestock sector to the industrial sector, with a view to increasing urban employment through industrialization.

However, in the medium-term, the result of this policy was to discourage agricultural and livestock production and jeopardize the industrial employment which it was endeavouring to promote.

The results have been: decreased availability of agricultural products and thus a stagnation of exports, which in the final analysis has hindered the financing of domestic industrialization with foreign currency.

8. Since the fifties, the world has tended to become grouped into large economic units. Confronted by this situation, Latin America, which has been "balkanized" since its independence, launched the experiment of economic integration. Its practical embodiment was the Montevideo Treaty, signed on 18 February 1960; as a first step towards the establishment of a common market, the Treaty provided for a free trade area with the gradual abolition of tariffs over a period of 12 years.

The economic philosophy set forth in the Treaty is that of import substitution (now operating at the regional level in view of its failure at the country level), as a long-term dynamic force in the indus rial sector.

For Uruguay, the practical effects of the Treaty have been:

(a) To introduce inefficiency by replacing the country's traditional suppliers of imports, leading to increased prices and poorer quality;

(b) Since there is not a heavy demand for the country's traditional exports in the area, exports have not increased;

(c) There has been no benefit from new investments, since the mechanisms of the Treaty have not removed the strong attraction exerted by the size of domestic markets.

II.14 Indicators of the importance of IAFTA in Uruguay's international trade (Weighted averages as a percentage of total figures, in current dollars) (in %)

	Exports	Imports	Trade a/
1940-1949	25.1	8.3	31.8
1950-1959	18.3	9.7	25.7
1960-1970	18.6	9.6	27.0

a/ Principal exports

Source: "Uruguay in IAFTA", Ministry of External Relations.

One benefit of the Treaty is that certain industries, which were under-utilized on the domestic market have been able to expand their capacity by exporting to the area. These exports are financed through marginal cost price fixing which ultimately means subsidizing them through the domestic price.

Eventually, new investments were made to tap the emerging possibilities provided by industrial complementarity agreements, particularly in the automobile sub-sector. Since these have been in effect only a short time, no final opinion can be expressed on their long-term results. The immediate effect has been the loss of tax revenue; there has been no reduction in the discrepancy between domestic and international prices and substantial international added value has not been generated (current exports and imports).

B. Statistical indicators of industrial development progress

1. The contribution of the manufacturing sector to the overall product is shown in table II.15.

II.15 Gross manufacturing output and gross domestic product
(At 1961 constant factor costs)

	Gross manufacturing output	GDP	Contribution (in %)
1935	1,502	8,015	18.7
1940	1,373	8,324	16.5
1945	1,574	9,392	16.8
1950	2,355	12,208	18.3
1955	3,303	15,045	21.9
1960	3,464	15,005	23.1
1965	3,645	15,672	23.3
1970	4,030	17,211	23.4

Source: National Accounts, Central Bank

This table shows that during the period under review, the gross domestic product increased at a cumulative annual rate of 1.7 per cent, while the industrial product had a cumulative annual growth rate of 2 7 per cent; thus, the process of industrialization during the period 1950-1970 = 1.59.4/

It thus corroborates what has already been stated: namely that in Uruguay the process of industrial development has been at a standstill since the mid-fifties.

These conclusions are reaffirmed in table II.16.

4/ Industrialization process = $\frac{\text{growth rate of industrial product}}{\text{growth rate of total GDP}}$

II.16 Industrialization process (in %)

	Cumulative annual growth rate of industrial product	Cumulative annual growth of GDP	Process of industrialization
1935-1945	0.6	2.74	0.22
1945-1957	7.1	4.38	1.62
1957-1968	- 0.5	- 0.5	1.0

Source: J. J. Anichini: The industrial sector (1969).

2. The statistical indicators used are based on the National Accounts of Uruguay prepared by the Central Bank. They are supported by the 1936 Census, the Industrial Registry of the Ministry of Industry for the period 1955-1961; the 1953 poll, and the 1968 Census of Economic Activities.

This information is complemented by annual, half-yearly and quarterly surveys carried out by the Central Bank.

3. Manufacturing output in relation to the size of enterprises, expressed in terms of employment, is given in table II.17.

On the basis of the data available, only figures for 1960 and 1968 can be given.

II.17 Gross value of manufacturing output and number of persons employed

	Number of persons employed			
	1960		1968	
	1-49 persons	50 or more persons	1-49 persons	50 or more persons
Gross value of production as a percentage of the total	43.4	56.6	37.36	62.64
Number of establishments as a percentage of the total	98.4	1.6	98.58	1.42

Source: CIDE and Directorate General for Statistics and Censuses.

4. **The** bulk of manufacturing output in 1970 was generated in the private sector (92 per cent) and the rest in publicly-owned enterprises. The fact that the production of petroleum derivatives, which is a State monopoly, accounts for approximately 5 per cent of industrial output illustrates the limited degree of State participation in the manufacturing sector.

As far as employment is concerned, State enterprises employ 8 per cent of the industrial labour force, which shows that productivity per employee is equivalent to the industrial average.

II.18 Gross manufacturing output generated in the public sector
(as a percentage of total gross manufacturing output)

1955	9.6
1960	8.3
1965	7.7
1970	8.0

Source: National Accounts, Central Bank

5. The question of employment is one of Uruguay's most important problems. Various factors contribute to this situation:

II.19 Population, active population, employment

	Total population	Active population	Employment	Unemployment rate
1955	-	-	853	-
1957	2,400	-	881	-
1961	-	-	920	-
1963	2,649	-	913	-
1966	2,749	1,050	945	10.0
1967	2,783	1,060	942	11.1
1968	2,817	1,072	933	13.0
1969	2,852	1,084	960	11.4
1970	2,866	1,096	981	11.5
1971	2,921	1,108	991	11.6

Source: Planning and Budget Office

Faced by the need to produce goods which can compete on the international market, the livestock sector is creating jobs at a rate too slow to keep pace with the increase in the rural population. Consequently, each year the urban sectors have to absorb, in addition to the manpower which would in any event continually be entering industry, that expelled by the primary sector.

This problem is compounded by difficulties deriving from the deficient structure of the industrial sector as a result of the selection of a development model (import substitution backed up by strongly protective legislation) which relieved the domestic system of production of the need to keep up with international standards of efficiency. Consequently, at least some of the human resources assigned during the period of industrial growth is employed inefficiently, i.e. under-employed.

II.20 Structure of employment by economic sectors (in %)

	1963	1966	1970
Productive sectors	46.9	48.1	47.2
Agriculture	19.4	18.8	17.9
Manufacturing industry	23.0	24.2	24.4
Construction	4.5	5.2	4.9
Services	51.9	50.6	52.2
Electricity, gas, water, sanitation	1.9	2.8	2.0
Trade, banks, insurance	14.0	14.3	14.0
Transport, housing, communications	6.4	7.1	6.6
Other services	29.6	27.2	29.6
Miscellaneous activities	1.2	1.3	0.6
Total	100.0	100.0	100.0

Furthermore, investment has been falling off since 1957; as a result, annual increases in the active population cannot be employed productively and this causes under-employment in the tertiary sectors -- basically in State-controlled activities.

The only solution to this problem is integration within an expanded international market which does not brook inefficiency and which is bound to require the utilization of capital-intensive technology in some sectors.

As a first stage, we might consider a combination of, on the one hand, highly efficient sectors which would direct the process and, on the other, backward sectors oriented to the domestic market which will retain existing inefficient methods for a longer period. This situation will be maintained until the inherent dynamism of sustained growth leads to the gradual modernization of backward sectors.

Furthermore, the country has a tertiary infrastructure which, as it gradually regains the political and financial stability of past decades, could become a natural supplier of services to the subregion.

It should also be pointed out that the low rate of population growth detracts from the urgency of this problem.

III. THE STRATEGY OF INDUSTRIALIZATION, 1950-1972

A. Selection of priority industries

1. It was in the early sixties that the country put into effect a national system of economic planning.

In 1961, the Investment and Economic Development Commission (CIDE) was established and given the task of diagnosing Uruguay's economic problems determining future economic prospects.1/

The Technical Secretariat of CIDE is structurally-oriented. It is particularly concerned with the problem of agricultural production.2/

These activities have developed within the framework of the Alliance for Progress, the objective of which is to achieve significantly greater economic growth in Latin America.

The initiators of the programme were well aware of the need for certain industrial, financial and administrative reforms.

Thus, the main objective of medium-term economic plans is to implement the reforms required to boost economic progress.

Once it had completed its identification of the problems (1963), CIDE drew up a medium-term plan which was approved in 1965. Its diagnosis maintained that, under the strategy selected, the growth of Uruguayan industry was severely inhibited by the size of the market and the low growth rate of the population. Thus, the objectives of the Industrial Plan were:

(a) The export of manufactures with a view to increasing the added value of traditionally exported agricultural commodities (meat, leather, wool);

(b) Self-sufficiency in certain widely used consumer goods, which entailed complementing the process of import substitution;

1/ The 1967 Constitution, currently in force, institutionalized CIDE as a Planning Office in the Office of the President of the Republic.

2/ Stagnation in the agricultural sector is attributed mainly to so-called "structural problems". Two categories have been identified: problems of scale and problems of tenure. As an example, it may be noted that the "Economic survey of Uruguay" makes not a single reference in its chapter on the agricultural sector to the term "profitability".

The authors hold another view: namely that agricultural stagnation is due mainly to transfers made from this sector to "finance" the process of import substitution.

(c) The introduction of new activities with comparative advantages offered by highly skilled labour, to be developed within the framework of LAFTA complementarity agreements (light engineering, electronics, basic chemistry, etc.).

In quantitative terms, the objectives were the following:

(i) With regard to production, a cumulative annual growth rate of 6.2 per cent in the industrial GDP during the period 1965-1974, representing 5 per cent of the increase targeted for the economy as a whole (based on anticipated growth in the productivity of the various productive sectors), with a view to meeting the needs of balanced growth;

(ii) A 12 per cent cumulative annual increase in investment (as compared with 1963 figures).

The new investments were also designed to make better use of existing infrastructure, through a combination of the more effective utilization of idle capacity, the gradual modernization of equipment and a reasonable increase in the productivity of priority activities.

Nevertheless, the Industrial Plan set no clear objectives with regard to protection.

The difficulty of identifying and implementing specific projects impeded the effective administration of the Plan.

The implementation of the Industrial Plan was not satisfactory. The growth of industrial investment and production was hindered by a series of negative factors which arose simultaneously and were closely related to industrial growth:

(a) The stagnation of the agricultural sector, as a result of which the anticipated volume of materials intended for industrial processing was not forthcoming;

(b) The stagnation of exports which are a key factor in the financing of inputs and capital goods in the sector;

(c) The lack of growth in per capita income, which failed to stimulate demand for industrial products;

(d) Import substitution had almost reached the limits of its possibilities; thus, opportunities for investment in domestically-oriented activities had practically been exhausted.

III.1 Development of certain factors related to industrial production

	Physical volume of the gross product of the agricultural sector a/ 1965 = 100	Exports (in millions of current dollars)	Per capita GDP a/ 1965 = 100
1965	100.0	191	100.0
1966	109.3	185	102.1
1967	88.3	159	95.8
1968	87.1	179	95.9
1969	101.9	200 b/	100.6
1970	102.5	233	104.0

a/ Based on 1961 weights.

b/ Meat prices began to increase.

Source: National Accounts, Central Bank

In addition to these medium factors, short-term policy management militated against the development of the sector. An essential feature of outward-looking growth is the establishment of realistic exchange rates which reflect the growth of domestic costs and maintain the exporter's real income.

The exchange policies in force during the sixties were haphazard and at many points the exchange rate undervalued the price of foreign exchange, thus discouraging exports.

III.2 Development of exchange rate and domestic prices
(Annual averages)

	Free rate of exchange a/	Import rate of exchange a/	Cost of living index 1960 = 100.0
1960	11.29	11.30	100.0
1961	11.04	11.01	122.5
1962	11.07	10.98	135.9
1963	14.87	14.30	163.8
1964	21.01	16.64	234.6
1965	50.06	30.76	367.2
1966	68.52	64.49	637.1
1967	100.45	105.78	1205.9
1968	234.23	233.85	2717.4
1969	253.50	250.00	3285.1
1970	261.27	250.00	3824.5

a/ Uruguayan pesos per United States dollar.

Source: Planning and Budget Office

2. The major projects established during the fifties were based on the processing of agricultural commodities formerly exported in a natural or semi-processed state; thus, projects were established in areas related to the processing of wool, skins, and oils and fats. This stage is merely a continuation of tho process initiated during the forties and is closely linked to import substitution and the prevailing protective philosophy.

In addition, the development during this decade of a large number of small and medium-scale establishments was no more than the transformation of artisan or semi-industrial workshops into enterprises to replace imported manufactures by technologically simple substitutes.

The projects which developed during the sixties were, on the one hand, of the same type as during the previous decade - i.e. designed to increase the efficiency of the traditional export sector or, on the other, industrial complementarity arrangements within the framework of the regional market.

In the first case, new guidelines were introduced governing the technology and size of establishments of the refrigeration industry. In the second case, certain projects were established in areas related to the automobile industry, for the purpose of complementing activities in neighbouring countries.

In general, these projects met the criteria set forth in the Plan, i.e. they increased the added value of local raw materials and/or generated new sources of employment.

3. Although the priority criteria are clear, and bearing in mind that Uruguay has a mixed economy, in general, the private sector channells its resources through the market and deviations come about inasmuch as the system of relative prices does not properly reflect social priorities. In other words, short-term policies (prices and income, exchange and foreign trade, taxation and public expenditure, monetary and tariff) are not sound. The problem is clearly illustrated by the fact that in 1968 conditions conducive to improved profitability in the meat goods exporting sector were created, and resources were rapidly re-allocated to livestock production and refrigeration.

4. Industrial projects have been submitted to cost-benefit analysis when enterprises have used medium-term credits and/or requested tax exemptions and/or tariff protection.

In general, the social criteria used have been the impact of a new project on employment and/or the balance of payments. These criteria do not take into account social evaluation criteria and should therefore be revised in the future.3/

5. Consequently, projects have not been evaluated in accordance with the criteria of social costs and benefits, nor have mechanisms been fixed which would provide for a gradual decrease in the incentives granted.

These procedures are being revised with a view to introducing incentives designed to bring about improved efficiency and productivity in line with the requirements of the international market in which it is hoped to gain a footing.

3/ The development of a procedure for the social evaluation of projects is a comple[x] task, bearing in mind the disparities of the system of relative prices.

B. Implementation of industrial projects

1. During the fifties, the State retained control of industrial activities which by their nature (security, low profitability, *de facto* monopolies) is felt it could develop with advantage. This was the case with the distillation of petroleum and alcohol.

The Development Plan stipulated that the State should participate in the exploitation of the iron and steel industry which might develop in the future on the basis of known deposits of mineral resources in the country. On the other hand, no stipulations were made regarding the nationality of investors.

So far as the implementation of projects in the private sector is concerned, the Plan makes no discrimination in respect of the nationality of the investor, thus upholding the country's tradition of treating domestic and foreign capital alike. The provisions in force are designed to establish equal status before the law and the courts.

2. During the fifties, industrial development was administered on the basis of isolated policy measures which were designed to tackle specific problems. As already noted, it was in 1965 that the country first drew up an over-all development plan, including an Industrial Plan.

Although the Industrial Plan contained detailed measures and investment projects and was approved by the Executive, it has never been followed through. For example, it was planned to formulate an investment promotion law and establish an Industrial Development Bank, but neither of these measures was approved. One established the mechanisms to ascertain the national interest in the development of specific activities and assign them corresponding priority. The other, on the basis of these priorities, was designed to facilitate the financing of new projects or the modernization of existing industries, in accordance with promotion criteria based first and foremost on technical and financial soundness, as opposed to the problems arising from the investor's patrimonial responsibility.

These instruments are reaffirmed in the Development Plan drawn up by the present Government for the five-year period 1973-1977 and are in the process of being implemented.

3. As already stated in this document, with the exception of certain isolated years, the period under review was characterized by a deficit in the balance of payments. Up to 1957, it was possible to finance the industrialization process in foreign currency by drawing on reserves. This fact resulted from the application of two closely related policies: the channelling of income from the livestock sector and the undervaluation of the exchange rate. Urgent measures thus had to be taken to restore effective protection for the industrial sector. At some points, a ban on imports was introduced.

There was an increase in constant prices throughout the review period, with the rate clearly accelerating towards the end.

III.3 Increase in prices 1950-1970

(Cumulative annual rates as a percentage of annual indices) (in %)

1950/70	29.6
1950/60	16.8
1960/70	44.0
1950/55	11.1
1955/60	22.7
1960/65	29.7
1965/70	59.7

Source: Directorate General of Statistics

The economic policy applied proved incapable of combating inflation or establishing conditions which would have made it possible to alleviate the most adverse effects of this phenomenon by means of:

(a) An exchange policy which is designed to keep relative position of exporters constant;

(b) Positive rates of interest which would stimulate savings through institutional channels.

Frequent changes would have been required in the rate of exchange to reflect increased domestic costs. Since this policy has not been adopted, the exchange policy operates erratically, stimulating or discouraging relations between the economy and the international market.

The exchange policy, thus, has tended to discourage the export of both traditional goods and new manufactures. It is, however, also clear that the restoration of the competitiveness of the agricultural sector on the external market means that a wide range of urban activities will lose protection. Protection has been provided by taxation and/or the price system.4/

As already indicated, during this period a domestically-oriented policy was in effect;5/ this policy implied a restriction of the income of comparatively advantaged sectors through the redistribution of earnings to sectors which were relatively less efficient in international terms. Later, this strategy became incompatible with increased exports.

The situation deteriorated when inflationary pressures began to make themselves felt and when direct administrative measures were taken on fixed prices ("freezing of prices").6/

Thus, conditions are not such as to encourage entrepreneurs to plan their investments on a long-term basis, secure in the knowledge that the policy will be maintained through the interplay of the different variables (exchange rate, wages, interest rates, taxes).7/

4. Throughout the period under review, State participation in the manufacturing output has remained unchanged; the main thrust has come from local private initiative, although there is some direct foreign investment. During the period,

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4/ A very clear case is provided by linseed oil. Because its industrial sector operates inefficiently, Uruguay is unable to export linseed oil. However, the domestic price of seed has been reduced by means of a levy on the export value; the levy enables the domestic market to compete with exported seed.

The medium-term effect of this policy is to discourage the production of linseed oil.

5/ It should be noted that the import substitution strategy was designed fairly coherently. Multiple exchanges and later levies on livestock products "financed" protected industries, but also reduced the consumption of the urban population.

6/ These "freezing" measures were accompanied by direct controls on imports. In June 1968, with an annual rate of inflation of 183 per cent, an anti-inflation policy officially known as the "freeze" was brought into effect. Nevertheless, exchange, tax and monetary measures were taken. This policy proved effective. It was rescinded in 1970 (pre-election year).

7/ In 1972, a very important change took place. A "crawling peg" exchange policy was introduced in an effort to recover fluctuations in domestic prices and import prices. The last might discourage the adoption of anti-inflation measures which are always costly in social terms, it at least maintains the position of the exporting sector.

there has been foreign participation in the holdings of certain existing enterprises, bringing in addition to capital, "know-how" and external markets. In general, these corporations are established basically to orient production towards the external market.

C. Promoting exports of manufactured goods

1. While it is agreed that the best incentive for export is a realistic exchange policy which guarantees the exporter a real fixed income over a period of time, it must be concluded, from what has been said in Section A of this chapter, that such a policy was not operating during the sixties.

However, for a developing country such as Uruguay, realistic exchange policies are not enough. The protective barriers put up by the developed countries must also be broken down. Furthermore, a knowledge of marketing outlets, technologies in use and domestic taxation require the establishment of other mechanisms (apart from an exchange policy) designed to improve the efficiency of the exporting manufacturing sector.

To this end, the country drew up in 1964 a strategy designed to improve the profitability of enterprises exporting non-traditional manufactures; this strategy was based on the concept of "not exporting taxes". It consisted of a refund of taxes, applied as a percentage of the FOB export value, in relation to the proportion of the national added value.

The efficiency of this measure is clearly shown by figures for the export of manufactures given in Table III.4.

III.4 Exports of manufactures with refund, 1965-1971
(in millions of US dollars FOB)

	1965	1966	1967	1968	1969	1970	1971
Leather and pigskin	-	1,515	5,428	4,155.3	18,979.7	17,683.6	14,876.
Agricultural and livestock production	-	505.3	483.2	196.4	1,305	6,569.5	4,513.
Mining industries	77.6	20.9	184.9	1,295.4	1,247.7	915.3	560.
Chemical products for industry	22.4	98.4	119.5	235.9	673.2	972	1,293.

III.4 Exports of manufactures with refund, 1965-1971 (continued)

	1965	1966	1967	1968	1969	1970	1971
Miscellaneous industries	1,100.4	2,956.2	2,138.3	2,526.9	8,374.3	10,632.2	9,906.7
Textile and allied enterprises	-	-	282.8	705.6	7,987.2	6,894.3	25,349.4
Meat and by-products	-	-	195.1	6.6	235.6	125.9	159.8
Ice - Gas	-	25.8	-	-	-	-	-
Miscellaneous	9.1	-	-	-	-	70.4	38.5
TOTAL	1,203.5	5,121.6	8,831.9	9,124.1	38,802.7	43,863.3	56,698.8

Source: Central Bank

It should be noted that the effect of this mechanism has also been distorted, in certain years of the review period, by a lack of continuity. When the exchange rate was increased substantially in order to correct gross undervaluations of local currency, the instrument was deemed unnecessary[8] and this brought about a decline in the export sector.

2. During the sixties, the authorities unanimously agreed on the need to increase the added value of manufactures of primary products previously exported in a natural state or with limited processing. Various provisions were accordingly passed with a view to reducing the cost of capital goods at the plant level, in order to encourage the modernization of equipment in activities such as: finishing of cured hides; production of leather goods (shoes and leather articles); textiles; textile products; equipment for agro-industrial complexes; the treatment of non-metallic minerals (marble, granite, dolomite). The mechanism applied consisted of the exemption of imports from all forms of taxation, provided that a value equivalent to the equipment imported was exported over a period of three years.

8/ If the exchange is not undervalued, are refunds or a similar system necessary? The authors think so; they believe that the main disrupting influences in international trade are imposed by the developed countries.

The export of manufactures from developing countries should overcome the tariff barriers erected by rich nations and the numerous incentives granted to their exports.

D. Promoting employment

1. One of the main effects of the policy of import substitution was to increase employment in the industrial sector.

Nevertheless, as already noted, the stimulus to industry provided by this policy was short-lived. When industrial production ceased to expand in 1957, the sector was unable to create the job opportunities needed to employ the new contingents of workers joining the market.

Instead, these persons were employed by the State and in other activities of the tertiary sector.[9] The increase in public expenditure which such a policy required was severely inhibited by the growth of economy as a whole.

The redistribution of Uruguayan society is the main cause of the relatively high cost of labour. In fact, the wages policy takes into account only the purchasing power of a worker, without relating it to increases in the productivity of labour. In addition, legislation is being adopted designed to increase the social security benefits granted to various groups of the population, by the increased costs to be financed by direct taxation on labour costs.

The indirect result of this policy has been to stimulate the replacement of labour by capital.

This policy has been undergoing revision in recent years, for the purpose of regulating wage increases, while at the same time contributions to the social security system have been reduced.[10]

E. Location of industries in new centres and rural areas

1. The Department of Montevideo, with more than 50 per cent of the population and 70 per cent of the national income, acts as a natural magnet for industrial production. It is difficult to imagine conditions more conducive to the location of industries oriented towards the domestic market and/or manpower.

9/ The distribution of the active population in Uruguay is similar to that in the developed countries. Nevertheless, in the latter, distribution is determined by the different growth rates of productivity in various sectors and the saturation of certain requirements. In Uruguay, under-employment in the tertiary sector can be explained by the fact that investment in productive sectors has been insufficient to employ the small increase in the active population.

10/ The difference is made up by the central Government. Bearing in mind that tax pressure is severely limited by the stagnation of production, it is to be hoped that the average benefits granted to non-contributors will be reduced.

In a sense, inflation places workers on the defensive in the face of the onslaught of the high costs of social security.

In addition, the area has the best system of connecting services with the exterior (port, airport, financial services, etc.).

In any event, the Government has no specific policy for breaking Montevideo's *de facto* monopoly. Furthermore, it is clear that a policy of decentralization could be put into effect only at high social cost. This situation is incompatible with the chronic stagnation of over-all income from which the country is suffering.

As noted in Chapter I, private investors with no State support have established two small poles of development in the departments of Colonia and Paysandú.

There are some small industries whose location is determined by supplies of raw materials (to prevent spoilage or to keep import costs down). This is the case with agricultural products.

Aside from any political decision, a process is under way for the relocation of refrigeration plants which hitherto have always been built near the port of Montevideo. This relocation is based on technological considerations which are enabling plants of the size needed to provide subregional markets with livestock products to operate on an economically sound basis.

F. Development of manufacturing technology

1. In Uruguay, the adoption or import of technology is conditioned by the existence of a free market. Thus, the entrepreneur trades knowledge on the basis of its profitability and his decisions are based on that consideration.

There are no mechanisms for controlling the sums paid as royalties, but foreign transfers are usually limited by balance of payments problems; they are thus subject to the quotas periodically imposed on imports.

In view of the complexity of the industrial market and of information problems, the country has decided to set up a flexible information system designed to help the entrepreneur in his decision-making. It is aware that this first step should be backed up by the establishment of institutes studying the adaptation of available technology to domestic conditions.

It is true that entrepreneurs are using technologies unsuited to the country, but this should be attributed to the fact that the price system does not properly reflect the relative availability of resources and the mechanisms in effect do not allow for the phasing out of inefficient enterprises.

G. Training of local labour and management

1. It should be reiterated here that in view of the cultural tradition of Uruguayan society, the training of human resources has not been a constraint on industrialization.

The country has, however, developed training programmes for local staff at all levels, using at the same time the many programmes offered by industrial or bilateral organizations. The country thus benefits from all United Nations technical assistance programmes, including fellowship programmes at all levels which the Government makes available to the public and private sectors.

IV. INDUSTRIAL POLICIES AND MEASURES, 1950-1972

1. In the period under consideration, two industrial projects having to do with the production of Portland cement were undertaken in the public sector.

The technical soundness of the projects was established by means of a study carried out by the previously existing enterprise, with the aid of inter-disciplinary teams.

As regards their commercial soundness, in view of the fact that the public corporation has to complete with private firms, it was promised the custom of the public sector.[1]

As far as petroleum and alcohol are concerned, public industrial separations on any considerable scale are conducted on a monopoly basis.

2. As indicated in the introduction to this paper, the process of industrialization was given strong impetus, following the capitalist crisis in 1929, by the measures taken to establish a closed economy and develop an inward-looking growth model, replacing imports by domestic output.

The establishment of a closed economy meant adopting protectionist policies to safeguard the new activities and enterprises thus brought into being from international competition and so ensure their survival.

The whole period is thus characterized by an economic policy which is highly protectionist, the main aim being import substituion.

1/ This decision is a good example of a certain kind of attitude towards the market machinery in Uruguay.

The public corporation is partly insulated by means of a monopoly. It is thus "protected" from exogenous factors that could affect its efficiency.

Productivity per capita is three times greater in private enterprise than in the public sector.

In addition, the public corporation is an industrial agglomerate. Apart from cement, it also has a monopoly of the distillation of petroleum and alcohol. There can be no doubt that the large profits from petroleum refining subsidize the losses incurred in the production of cement.

Furthermore, it should be noted that the price of cement is fixed by the State. For some years, the real price of cement has been somewhat depressed. At the present time, only the public corporation has plans for expansion.

Nevertheless, three quite different stages can be distinguished during this period:

(a) Up to the Act of 10 January 1941

The protective measures adopted were the traditional ones, i.e. tariffs.

(b) From the Act of 10 January 1941 to the Act of 17 December 1959

During this period the main responsibility for protection shifted to the exchange machinery.

The most important measures were differential exchange rates and import quotas. Through the former, a number of important benefits could be obtained:2/

(i) Financial resources for subsidizing consumption and/or production;

(ii) More favourable rates for certain exports, in relation to the rate for activities with a comparative advantage;

(iii) Lower rates for certain imports, in relation to normal imports.

Quotas make it possible to limit imports of goods which compete with domestic output.

(c) Since the Act of 17 December 1959

Import quotas came to an end, but differential exchange rates continued - in the case of imports, through surcharges3/, and in the case of exports, through levies.4/

This policy has two aims, to protect existing industry and to secure a good source of revenue.

There is, however, one important difference from the previous situation: the free exchange rate at which all manufacturing raw materials and capital goods are imported is at the same time a ceiling for the export exchange rates.

2/ In order to give a complete account of the results of a multiple exchange rate policy, it is necessary to know where the equilibrium rate lies between the different import and exchange rates.

3/ These are taxes on the value CIF of goods imported. They may amount to up to 300 per cent of the value CIF.

4/ These are sums withheld from the value FOB of exports. The scale for each product exported may vary between 5 to 50 per cent of the value FOB.

The revenue from surcharges and levies was intended for the following purposes:

(a) Reducing the prices of mass consumption goods;

(b) Protection and assistance to basic industry;

(c) Construction and improvement of public works;

(d) Financing of the national budget.

This financing aspect became so important that at some periods exchange policy was usbordinate to fiscal policy. Devaluations were made in order to finance the budget.

It should be said that the 1959 Act system was established as a transitional stage between the system of multiple rates and the introduction of a free exchange market. This aim was never achieved, however, and through the regulations issued by the Central Bank, still stricter control was exercised over the operation of the financia market and some imports (e.g. capital goods).

With this new machinery, tariffs become less important, because generally speaking the duty was fixed in terms of percentages of appraised value. An international prices rise, the duty loses importance, because the surcharge system is elastic with respect to import values CIF and thus maintains effective protection with the passage of time.

It is interesting to see how protection has operated under the new system.

By a decree of 29 December 1960, the Executive established the following surcharges:

(a) For protective purposes: 40 per cent and 75 per cent for imports competing with domestic goods;

(b) For revenue purposes: 150 per cent for goods considered to be "dispensable" or "luxury".

It may be noted that the manufacturers' organizations are calling for a surcharge of 150 per cent on imports competing with domestic goods.

The protection machinery for domestic goods using imported raw materials operated as follows:

2. 9. 74

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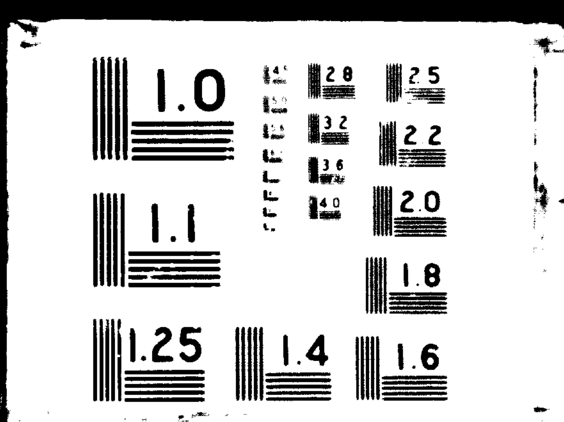


$IP = M + V$

where IP = international price per unit

M = imported inputs per unit

V = value added per unit

$DP = IP\ (1 + S)$

where DP = maximum domestic price per unit

S = taxes (surcharges) per unit

$$E = \frac{DP - M}{IP - M} - 1 = \frac{IP - S}{V}$$

where E = effective protection of domestic value added.

This method of protection has a result which runs counter to the aims of the policy: the protection decreases as the value added increases.

The surcharge levels fixed gave very strong proctection to domestic value added: with surcharge levels of 40 per cent and 75 per cent and a value added of 50 per cent above the international price, the effective protection is 80 per cent and 150 per cent respectively.

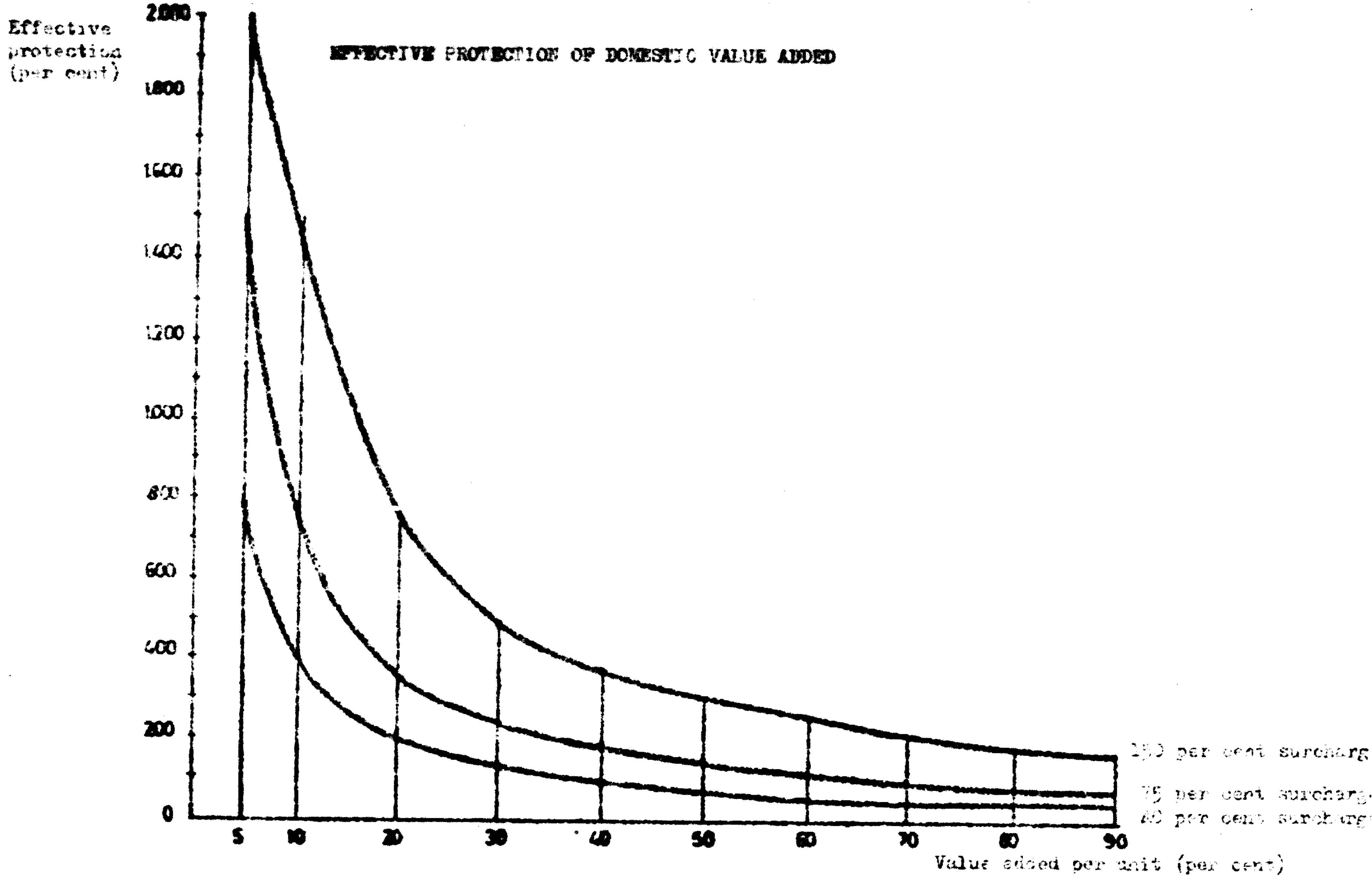
3. From what was said in the last section, it is evident that the protective barrier has risen with time and has become a real obstacle to greater domestic efficiency. The country has become aware of the problem, and also of the enormous social cost that would be involved if protection were simply abolished outright. The answer, as recognized in the development plan for 1973-1977, is the adoption of a cautious but persistent policy of reducing the level of protection, as a stimulus to general efficiency in the economy.

4. Under the tariff system in force, special concessions are granted for imports of machinery and equipment, parts and raw materials.

The legislation begins with Act No. 9398 of 14 August 1935, which provides for the refunding of customs duties on imports of machinery, accessories, spare parts, instruments and appliances which are needed for industrial operations and are not manufactured in the country. The system has been steadily improved over the years by means of decrees, but a general condition for exemption has always been that the goods imported should not be made in the country.

Graph 1

EFFECTIVE PROTECTION OF DOMESTIC VALUE ADDED



The Act is supplemented by specific provisions benefiting specific activities. The following may be cited as examples: the sugar industry, shipyards, dockyards and drydocks, industries based on forestry, footwear, leather, wool textiles, marble and granite, export refrigeration.

As regards raw materials, the legislation begins with Act No. 4268 of 1 October 1912, under which they may be wholly or partially exempted from duty, depending on the degree of industrial processing they will undergo in Uruguay.

It is probably not the case, however, that the legislation has discouraged the development of local industries. Given the size of the domestic market, the production of certain raw materials and intermediate goods locally would be uneconomic.

Similar considerations apply to capital goods.

Nevertheless, it has proved possible to develop a sizable nucleus of firms producing these types of goods, on internationally competitive terms. This has been possible because it was decided to produce capital goods that were not normally produced in series. On that basis, local production can compete effectively with foreign production.

5. It is a feature of the Uruguayan tax system that it depends heavily on indirect taxation. An income tax was introduced in the early 1960s.

Direct taxation, however, still accounted for only a modest share of the central Government's total resources.

Indirect taxation affects commercial and industrial activities. At present the main source of tax revenue is the income tax, which follows the pattern of a value added tax.

Indirect taxes represent a cost to the enterprise and are therefore reflected in the price. The high level of public expenditure explains the high rate of taxation, which reduces purchasing power.

It should be noted that taxation for social security represents a very considerable cost to the enterprise. On the average, the various elements that enter into this form of taxation (pensions, sickness insurance, accident insurance, unemployment insurance, holidays with pay, thirteenth month bonus) are equal to 100 per cent of the direct cost of labour.

IV.1 Current revenue of the Central Government
(Percentage of total at current prices)

	Revenue from own property and enterprises	Indirect taxes	Direct taxes	Social security contributions	Total
1955	0.7	54.8	12.8	31.7	100.0
1966	0.7	52.5	14.6	32.2	100.0
1957	0.8	47.4	15.4	36.4	100.0
1958	0.7	41.9	17.1	40.3	100.0
1959	0.6	41.4	16.2	41.8	100.0
1960	0.5	49.8	13.6	36.1	100.0
1961	0.4	50.4	11.1	38.1	100.0
1962	0.4	42.6	10.1	46.9	100.0
1963	0.4	41.3	8.5	49.8	100.0
1964	0.8	44.4	8.1	46.7	100.0
1965	0.7	47.2	7.6	44.5	100.0
1966	0.3	53.7	7.0	39.0	100.0
1967	0.9	50.2	8.5	40.4	100.0

Source: National Accounts, Central Bank

Social security thus acts as a high tax on labour, which encourages capital-intensive production and various forms of evasion. Clandestine activites are set up which give licit enterprises unfair competition.

There is a tradition in Uruguay of using fiscal tools to promote industrial activity. Reference has been made in the previous section to the Act of 12 October 1912 for promoting industry by means of customs exemption for imported raw materials and to the Act of 1935, which reduces the cost of capital goods by granting them similar exemptions.

The legislation implicitly pursues the aim set by the development model adopted during the 1930s. At the same time, it introduces changes, to the extent that balance-of-payment difficulties hinder the financing of domestic industry and indicate the need for a more open policy towards the rest of the world. Act No. 12569 of 23 October 1958 promotes exports of domestic products by exempting them from all the taxes on manufacturing.

After the passage of this Act, although industrial activities are in no way exempted from domestic tax, the emphasis will be placed on tax privileges designed to make exports of manufactures more competitive.

No detailed studies have been made in Uruguay on the effects of fiscal policy on entrepreneurs' decisions to invest. However, if we bear in mind the erratic variations in exchange policy, the lack of consistency in the various policies followed over extended periods, the stagnation of the economy and the progressive deterioration in political and social stability, there may be good reason to have reservations about its effectiveness.

It has also to be considered that tax incentives have helped to overcome the protective barriers of developed countries that are potential importers of Uruguayan manufactures and to offset the advantages that such countries give their exports in various ways.

6. Traditionally, Uruguay does not discriminate with regard to the origin of capital. Domestic and foreign investors have equal rights and obligations before the law.

There is freedom to transfer profits and repayments of principle on foreign investment, although this freedom has become somewhat relative as a result of the balance-of-payments difficulties the country is encountering and has encountered in the past.5/

The country does not possess known natural resources such as would justify sizable enclaves of foreign investment. Nevertheless, in view of its geographical location between the two most important markets in the area, there is justification for establishing a special status for the foreign investor so as to attract capital taking advantage of the regional integration system to which the country belongs (LAFTA).

7. Throughout this paper it has been maintained that the persistent stagnation of the economy has been the main check on new investment. It has also been argued that the production model adopted was based on the development of production for the domestic market.

5/ In the authors' opinion, the crises have been aggravated because direct controls are adopted in preference to general and impersonal instruments which would make for consistency in the exchange policy and interest rate levels.

This system was bound to reach a limit at the end of a certain period, because of the limited size of the domestic market and the low natural rate of growth of the population. In addition, the country's natural resource endowment and the difficulty of achieving the minimum scale of production in certain branches of activity represented obstacles to the establishment of an industry capable of giving sustained impetus to the sector and consequently to the economy as a whole.

The market for which industrial output was intended thus placed inevitable limitations on the process.

Accordingly, with the failure of the development strategy, the effectiveness of incentives becomes a secondary problem.

The problem becomes still worse when one considers that during the 1960s social tension, caused in part by the long stagnation and the acceleration of the inflationary process, created a political and social climate that helped to discourage long-term investment still further.

Once again, the need for the country to review its economic growth strategy is evident. A good strategy is not enough, however, to stimulate investment. It must be backed up by a short-term policy for restoring stability to the economic system and establishing a political and social climate which will offer the investor sufficient guarantees.6/

6/ The authors conceive of the economic growth strategy as the framework establishing the context for short-term policies. The most important function of the strategy is to map out the future course of the economy. This it does through education and public investment.

However, it must be remembered that economic policy is made day by day, through decisions which ought to maintain a minimum of consistency.

To ensure good administration is part of reforming the system.

V. INSTITUTIONS AND INDUSTRIALIZATION, 1950-1972

1. The body responsible for formulating industrial policy in Uruguay was the Ministry of Industry and Labour. Up until the midfifties it concentrated on promoting industrialization. When development slackened, from 1957 onwards, and the sector could no longer provide growing employment opportunities, the Ministry found itself overwhelmed with labour problems.

The picture changes after 1967. A constitutional reform limited the Secretariat of Industry and Trade to those fields, and at the same time the Ministry of Labour and Social Security was set up.

An event worthy of note was the establishment in 1961, by decision of the Executive, of the Commission on Investment and Economic Development (CIDE), which was entrusted with the task, firstly, of making a general analysis of the economy and its main sectors and, secondly, of drawing up a ten-year development plan, which it did for the period 1965-1974. In 1967, the Commission was given more permanent status and became the Planning and Budget Office.

For the adoption of new projects, the way the system operated during the first decade of the period was for the entrepreneur to submit a request to the Ministry of Industry, explaining the item to be produced, the labour to be employed, the capital to be invested and the facilities requested.

The Ministry analysed the application from the technical standpoint, disregarding the economic and financial feasibility of the project and adopting as its basic criterion the impact on employment and the direct saving in currency.

2. As far as the public sector is concerned, State enterprises are set up with status of autonomous corporations. This status is supposed to give them complete independence in the execution of their programmes and projects. In view of their size, however, they have generally called upon the services of foreign consultants for the execution of new projects, which has provided a sure guarantee that the investments are sound.

3. The Uruguayan legal system protects the private investor, without regard to his nationality or the origin of his capital. As regards the responsibility for granting incentives, although that is specifically a task of the Ministry of Industry, it has

had to be shared with the Ministry of Economic and Financial Affairs, in view of the fact that promotional measures affect tax revenues. This is done through the appointment of joint commissions, with representatives of both ministries, who advise the ministers on the decisions to be taken.

The system operates, however, extremely slowly. Apart from the existence of the joint commissions, there is inevitable red tape in the various departments of state that have to be gone through.

Some progress would be made in this area with the adoption of the Industrial Promotion Act at present in the course of approval, under which a centralized board consisting of the Ministers of Industry and Economic Affairs and the Director of Planning, would grant, in a single administrative process, all such incentives in the fields of tariffs, taxation, credit and technical assistance as might be appropriate.

4. No specialized financial institutions were developed during the 1950s to channel resources to industry. Credit lines were available from the State bank for financing machinery and equipment and industrial premises.

There was, as stated in chapter I, a fair-sized capital market in Uruguay, which is deteriorating as the process of inflation gets worse.

Private companies made much use of this market between 1945 and 1955.

When the market dried up, the country sought to tap the flow of external resources through international organizations.

In view of the requirements that these organizations lay down for financing projects, a special credit division was set up in one of the State banks. This division, which has been in operation since 1962, has not fulfilled the purposes for which it was set up. Members of the Bank's technical staff have been trained in supervised credit operations and project appraisal techniques. Nevertheless, the mere fact of continuing to be part of an institution whose main concern is with current banking operations has prevented it from discharging its promotional role effectively.

In order to deal with this situation, the Government has a plan for the establishment of a development bank, which is in the process of approval. It will be a specialized body, operating solely in the area of promotional financing.

Once it is established, all promotional activities undertaken by other government agencies will be transferred to it. Its machinery will be completed by a project identification, preparation and promotion division, which the country at present lacks.

It will be responsible for the administration of all international credit available to the country and for the application of some of the instruments provided for in the Industrial Promotion Act.

It will operate on a strictly promotional basis, simplifying all the administrative processes as far as possible and delegating to its management the broad powers of a private promotor.

5. It has been said previously, in chapter I, that in the 1950s the country already had an educational system which provided a steady supply of skilled labour. During the decade there was a substantial expansion in the range of activities of the Technical University, which is responsible for training skilled workers and intermediate-grade personnel.

We can say once again, therefore, that generally speaking, the training of the labour force has not placed any restrictions on the process of industrialization in Uruguay.

Private organizations were also established during this period to improve management training. Under the auspices of the Chamber of Industry and with the support of the Government, bodies such as COMCORDE (Development Co-ordination Commission), the Productivity Centre of Uruguay and the Christian Businessmen's Association concern themselves with the organization of research and courses to improve the training of managerial personnel.

6. To promote exports of manufactured goods, the Honorary Refund Board was set up in 1964. It is an advisory board to the Ministry of Industry, consisting of representatives of private enterprise as well as government representatives. Its task is to advise, giving a quick decision, on the desirability of creating incentives for exports of manufactured goods. The incentives take the form of a refund (a percentage of the export value f.o.b.) to be made by the National Treasury for the payment of national taxes.1/

1/ The philosophy behind the machinery is based on the principle of not exporting taxes.

At the same time, a private body, the Exporters' Union, was set up by exporters of non-traditional manufactures to defend their interests.

In 1967, the Directorate of Foreign Trade was also established, as a body coming under the Ministry of Industry and Trade. Its main functions have to do with the establishment of a wide-ranging information system for exporters on the opportunities for placing goods on the international market.

7. With regard to the import of technology in the broad sense, including the selection of processes, machinery and equipment, product design etc., the country does not apply restrictions of any kind except those arising from the shortage of foreign exchange and from the use of credit lines tied to particular sources of supply. It has, however, joined in a multinational programme sponsored by OAS, the aim of which is to establish an information system on available technology. The intention is that the National Council for Scientific and Technical Research, which comes under the Ministry of Culture, should act as a centre for information on the technology internationally available and channel it to national business circles.

This project will obviously have to be supplemented in due course by a programme for adapting foreign technology to the country's resources.

8. For purposes of quality control over export goods, an Analysis and Testing Laboratory has been set up under the Ministry of Industry, its main task being to standardize and check the properties of goods exported, in accordance with the requirements of international demand.

Although the laboratory has not been in operation long, the experiment is definitely promising. It has gradually been including in its standardization programme the products that account for the greatest volume of exports, and in the course of its brief existence has achieved success in its work, correcting faults which in the past had been bad for the country's reputation abroad.

9. From what has been said above, the lack of a centralized organization for promoting the industrialization process is evident. The actual structure of the Ministry of Industry is being reviewed in the light of present requirements. It is not enough to

draw up an industrial development strategy; it is also necessary to establish the agency responsible for sectoral programming and its implementation in specific programmes and projects.

This is the view taken by the Government, which has allocated budgetary resources to set up a Technical Unit on Industrial Planning for this purpose, under the Ministry of Industry. To give it support, it has obtained UNDP approval for a technical assistance project with UNIDO as the specialized agency, which is being carried out.

It will also have the support of the Industrial Technology Centre, a body which will be concerned with technological surveys at the enterprise level.

Finally, adoption of the Industrial Promotion Act will make it possible to centralize the responsibility for development promotion decisions in a Joint Board.

The actual composition of the Board - the Ministers of Industry and Economic Affairs and the Director of Planning and the Budget - will ensure the co-ordination of decision-making at the highest level.

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Table 1

The twenty-five major industrial enterprises established since 1950

Product manufactured by the enterprise	ISIC classification	Date established	Capital invested (1970)	Annual sales (1970)	Cost of imported/inputs (1970)	Tariff protection Per cent
			millions of pesos	millions of pesos	millions of pesos	
Slaughtering, preparation and preserving of meat	201	1962	1,148	3,978	.	1/
"	201	1963	135	278	.	1/
"	201	1965	643	3,008	.	1/
"	201	1965	374	1,599	.	1/
"	201	1965	433	1,395	.	1/
"	201	1965	320	739	.	1/
"	201	1967	131	1,179	.	1/
"	201	1967	643	3,008	.	1/
"	201	1967	402	1,956	.	1/
Sugar	207	1970	1,872	1,709	18	2/
"	207	1970	2,829	1,829	.	2/
Textiles, woollen	231	1947	592	4,122	833	1/
Textiles, various	231	1947	182	569	30	225
Textiles	231	1965	731	935	.	
Textiles	232	1970	744	173	1.3	1/
Footwear insoles	241	1964	288	500	91	1/
Fabric and leather wearing apparel	243-5	1950 3/	42	455	.	1/
Leather	291	1949	605	1,944	412	1/
Fertilizers	311	1953	264	805	299	0
Starch and derivatives	313	1958	224	654	38	92
Pharmaceutical products	316	1956	53	172	71	110

Table 1 (continued)

Product manufactured by the enterprise	ISIC classification	Date established	Capital invested (1970)	Annual sales (1970)	Cost of imported inputs (1970)	Tariff protection Per cent
			millions of pesos	millions of pesos	millions of pesos	
Portland cement	334	1957 first phase 1964 second phase	2,612	1,126	53.8	68
Assembly of motor vehicles	383	1970	28	650	17.9	53
"	383	1970	162	647	402	53
"	383	1970	232	1,940	786	53

1/ Industries producing for export

2/ Full quota system

3/ Exporting began in 1969

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Table 2

Composition of gross domestic product

In millions of 1961 pesos

	1950	1960	1970	1972 1/	Growth rates 1950-1960	1960-1970	1970-1972
Agriculture	2,142	2,130	2,535	2,481	- 0.6	19.0	- 2.1
Manufacturing 2/	2,376	3,464	4,030	3,982	45.8	16.3	- 1.2
Other sectors	7,674	9,411	10,646	10,662	22.6	13.1	0.2
Total gross domestic product	12,192	15,005	17,211	17,125	23.1	14.7	- 0.5
Gross domestic product (millions of 1961 US$)	1,108	1,364	1,565	1,557	23.1	14.7	- 0.5
Population (millions)	2.2	2.5	2.8	2.9	13.6	12.0	3.5
Gross domestic product per capita (pesos)	5,542	6,002	5,589	5,905	8.3	- 6.9	5.7

1/ Preliminary figures

2/ Including quarries and mines

Source: National Accounts, Central Bank of Uruguay.

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Table 3

Foreign trande balance

	1950	1960	1970	1972
Exports	234.3	129.4	232.7	214.1
Imports	210.6	215.1	230.9	200.3
Trade balance	+43.7	-85.7	+ 1.8	+13.8
Exports of manufactures	92.6	82.3	172.0	178.2
Imports of manufactures	186.8	144.1	136.3	147.2
Rate of exchange 1/ (Pesos to the United States dollar)	1.90	11.03	250	717.71

1/ Import rate on 31 December of the current year.

Table 4

Number of persons actively employed in the country as a whole

	1955[2]	1961[2]	1963[3]	1970[4]
Agriculture	226.0	204.0	177.0	175.0
Manufacturing[1]	206.0	248.0	251.0	287.0
Other sectors	421.0	268.0	485.0	519.0
Total for the economy as a whole	853.0	920.0	913.0	981.0

1/ **Includes construction.**

Source:

2/ Commission on Investment and Economic Development.

3/ 1963 census.

4/ Planning and Budget Office.

Table 5

Number of persons employed in manufacturing

	1936 census[1]	Industrial register of May 1960 [2]	1968 census[3]
Enterprises employing more than 100 persons			
Enterprises	64	204	208
Persons employed	23,982	78,421	61,208
Enterprises employing between 10 and 100 persons			
Enterprises	-	2,241	1,278
Persons employed	-	64,771	37,965
Enterprises employing less than 10 persons			
Enterprises		23,917	27,884
Persons employed		56,071	69,450
Total			
ENTERPRISES	10,286	26,362	29,370
PERSONS EMPLOYED	57,733	199,163	168,623

1/ Directorate of Economic Affairs, Ministry of Industry. The data available do not lend themselves to further breakdown and do not include petroleum by-products.

2/ Bank of the Eastern Republic of Uruguay

3/ Directorate General of Statistics and Censuses.

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